



AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT



DEBT RESTRUCTURING UNDER THE G20 COMMON FRAMEWORK AND ALTERNATIVE POLICY SOLUTIONS

LIST OF ABBREVIATIONS

AfA	African Financial Asset
AfDF	African Development Fund
AFRODAD	African Forum and Network on Debt and Development
ATB	African Treasury Bank
CDS	Credit Default Swaps
CGD	Center for Global Development
Covid-19	Coronavirus Disease 2019
CoT	Comparability of Treatment
DDE	Distress Debt Exchange
DMF	Debt Management Facility
DSF	Debt Sustainability Framework
DLP	Debt Limit Policy
DSSI	Debt Service Suspension Initiative
ESAF	Enhanced Structural Adjustment Facility
EURODAD	The European Network on Debt and Development.
GDP	Gross Domestic Product
GDRM	Government Debt and Risk Management
GNI	Gross National Income
GNP	Gross National Product
G20 CF	G20 Common Framework
HIPC	Highly Indebted Poor Country
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
IDA	International Development Association
IFIs	International Financial Institutions
IMF	International Monetary Fund
LIC	Low-Income Countries
LIBOR	London Inter-Bank Offered Rate
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NCBP	Non-Concessionary Borrowing Policy
NPV	Net Present Value
PAPSS	Pan-African Payment and Settlement Systems
PPE	Personal Protective Equipment
PPG	Public and Publicly Guaranteed
PRGF	Poverty Reduction and Growth Facility
SAP	Structural Adjustment Programme
SBP	Sustainable Borrowing Policy
SDR	Special Drawing Rights
SDGs	Sustainable Development Goals
SOEs	State Owned Enterprises
SSA	Sub-Saharan Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WB	World Bank

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ABSTRACT

Restructuring is typically the last resort used to deal with unsustainable sovereign debt. It can be an extension of maturity, a reduction in coupon payments, discounting the face value of debt, and/or a mixture of these, notably to free up fiscal space for sustained growth and development. Over the past three decades, the Multilateral Development Banks (MDBs) and the International Financial Institutions (IFIs) have applied one or a combination of these tools to restructure the external debts of developing and low-income countries through the Heavily Indebted Poor Countries (HIPC) Initiative, Multilateral Debt Relief Initiative (MDRI), and the Debt Service Suspension Initiative (DSSI). The newest debt restructuring scheme, the G20 Common Framework (G20 CF or Common Framework for short), is the subject matter of this paper, among others. Eligible countries must show evidence of debt distress under the joint World Bank and IMF debt sustainability analysis framework. The debtor must commit to transparency about its debt obligations while respecting commercially sensitive information. Comparability of treatment enshrined in the Paris Club lending charter is essential. While restructuring parameters cover changes in debt service terms, there are no write-offs and cancellations. Only public and publicly guaranteed debts with an original maturity of more than one year qualify for treatment.

An assessment of the data and empirical evaluation of debt restructuring schemes reveals the following patterns:

- a. The past and current sovereign debt crisis cannot be solved with the same debt restructuring mechanisms and levels of consciousness that created it. In the past three decades, no country has successfully graduated from the debt relief experiments of the MDBs and IFIs. Debt relief vehicles such as HIPC, MDRI, and DSSI give minimal debt relief on the one hand and create more new debt on the other through binge lending.
- b. The G20 CF has not successfully taken off, among others, due to a lack of creditor coordination and disagreements on key terms of debt restructuring, such as lack of transparency among official bilateral creditors and opaque disclosure among debtors; limited debt relief compared to outstanding sovereign debt; free rider problem and political economy questions surrounding participation of private creditors and other lenders.
- c. The past and current debt crises and the policies advocated by the IFIs and MDBs are meant to enhance and perpetuate sovereign debt accruals in developing countries.

To improve the existing paradigm, the G20 CF should incentivise the different creditors to encourage participation and ensure that the burden of debt restructuring is equally distributed. The preferred creditor status of MDBs should be discarded, and a new mechanism that facilitates fairer restructuring should be adopted. Robust treatment that offers debt freeze for distressed countries in the short run and outright cancellation in the medium to long term would be consistent with the tenets of sustainable development. Permanent solutions to Africa's indebtedness beyond the G20 CF require the implementation of a pan-African instrument for debt financing through the African financial Asset (AfA), debtor coalitions, repudiation and non-participation of debtors, and restoration of balance and democratic governance in the imbalanced north-centric global financial architecture. African countries should raise domestic revenue from natural resource rents and manage their fiscal positions in line with the stipulations of the African Borrowing Charter.

Keywords: G20 Common Framework; Sovereign debt; Debt restructuring; Multilateral development banks; African financial Asset (AfA); African countries.

JEL Classification: O1; H6; P34, H63

1. INTRODUCTION

Africa's external debt stock reached \$1.3 trillion, and the cost of servicing it amounted to \$22 billion in 2022 (AfDB, 2023). Regionally, Sub-Saharan Africa's total external debt stock was estimated at \$702.4 billion, compared to \$380.9 billion in 2012, which is nearly a two-fold increase by 2022 (WEO, 2023). In the past five years, external public debt in North Africa ballooned from \$246 billion in 2018 to \$315 billion in 2023. In just one year, the public debt stock shot up by \$30 billion, from \$272 billion in 2019 to \$303 billion in 2020, driven mainly by the need for immediate finance to stave off the ravages of the pandemic. The rising public debt stocks in Africa have mirrored increases in debt to GDP ratios, which in the period 2019 to 2023, averaged 86% in Egypt, 198%, 83%, and 70% in Sudan, Tunisia, and Morocco, respectively, and over 100% in DRC, Zambia, and Mozambique (WEO, 2023). The composition of this external debt includes 32% owed to multilateral organisations, about 28% to bilateral partners, and international bonds account for 27%, while commercial paper accounts for around 12%. Overall, Africa's portfolio of private creditors accounts for just about 1% of total external debt (see IDS, 2022).

Not only is the debt stock rising, but the cost of debt servicing consumes a significant amount of public resources with attendant ramifications for public investment, economic growth, and sustainable development. For instance, Egypt spent about 32% of export earnings on debt service in 2020, Sudan spent around 50% in 2021, and Angola 66.1% in 2022¹. These amounts exceed the combined total spent on health and education for the three countries. A higher debt-to-GDP ratio, all things being equal, amplifies the risk of debt default. This occurrence correlates with low output growth, financial market panic, and magnifying poverty and inequalities as more domestic resources are channelled to service an insatiable global debt machine. As explained by Grennes et al. (2013), countries with debt-to-GDP ratios far above 77% for prolonged periods experience significant slowdowns in economic growth. More importantly, every percentage point of debt above this level costs countries 0.017 percentage points in economic growth. This phenomenon is even more pronounced in emerging markets, where each additional percentage point of debt over 64% annually slows growth by 0.02%.



¹ Angola: 2022 Article IV Consultation-Press Release, IMF Country Report 23/100, March, 2023.

The worrying impact of high public debt on economic growth prompted the international donor community, the multilateral development banks, and the Paris Club, creditors to alleviate the debt burden of developing countries. The Heavily Indebted Poor Country (HIPC) initiative's first large-scale intervention was launched in 1996. It was further enhanced and followed by the Multilateral Debt Relief Initiative (MDRI) in 2005, which released resources to fund economic development through the World Bank's International Development Association (IDA) concessional loans. This was preconditioned on the eligible countries successfully fulfilling a pre-qualification decision point of macroeconomic and stabilisation programmes of the World Bank and International Monetary Fund (WB/IMF).

At the completion point, funds were disbursed through the Poverty Reduction and Growth Trust to fund the programmes outlined in the Poverty Reduction Strategy Papers (PRGP) of host countries. According to the World Bank (2023), HIPC/MDRI relieved 372 participating countries, of which 31 were in Africa with more than \$100 billion in external debt. In some countries, multilateral creditors and the Paris Club supplied over 90% of their HIPC debt relief at the completion point. A critical analysis of the debt management patterns reveals that while total HIPC debt relief amounted to \$33 billion, new borrowing was \$41 billion during the same period (see Easterly, 2002).

At the height of the COVID-19 pandemic, a new sovereign debt mechanism, the Debt Service Suspension Initiative (DSSI), was implemented to delay interest and principal repayments due to creditor nations. This allowed low-income countries to concentrate on dealing with the immediate needs of containing the health and economic shocks stimulated by the pandemic. The DSSI halted about \$30 billion cost for interest payments in return for over \$100 billion in new lending and emergency funding. At expiration in 2021, the G20 CF was launched to expand on the DSSI and to offer a speedy and more rigorous debt treatment for low-income countries. This debt architecture was based on information sharing, comparability of treatment, and solidarity on the part of creditors. A debt-laden country must first express interest to be treated after a debt sustainability analysis shows evidence of debt distress. Only low-income countries' debt can be accordingly treated.

Full disclosure of debtor's obligations and respect for confidentiality in debt contracts are required for participation. The programme parameters treat only government liabilities, and unlike HIPC/MDRI, no outright cancellations or write-offs are offered. Under the G20 CF, the principles of information sharing are key to the successful implementation of debt restructuring and sustainability commitments, and bilateral decisions are based on the unique situation of debtor countries. The G20 CF decision-making processes do not permit debt conclusions and financial commitment without a consensus among the participating and non-participating creditor countries. This gives a holistic overview of the management and sustainability of debt relief. With the institution of conditionalities, member countries can implement what the financial commitment is meant for within the stipulated timelines. The debtor country receives debt restructuring based on a strict description of its financial situation and economic resources. The case-by-case element is helpful as the sovereign specificity of debtor countries and their resources differ.

The comparability of treatment principle ensures that a debtor country that signs an agreement with its Paris Club creditors should not accept from its non-Paris Club commercial and bilateral creditors terms of treatment of its debt less favourable to the debtor than those agreed with the Paris Club³. This implies that the G20 CF would provide the best debtor solution regarding commitment to financial liabilities, debt restructuring, scheduling, and debt cancellation. The framework offers both the creditor and debtor countries a re-evaluation mechanism for existing alliances as well as building cooperation to reform current institutional arrangements.

² The non-African countries are Afghanistan, Guyana, Haiti, Cambodia, Nicaragua, Bolivia, Honduras. African countries: Benin, Burkina Faso, Burundi, Central African Republic, Cameroon, Chad, Comoros, Republic of Congo, Democratic Republic of Congo, Cote d'Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Somalia, Sierra Leone, Senegal, Sao Tome and Principe, Tanzania, Togo, Uganda, Zambia.

³ <https://clubdeparis.org/en/communications/page/the-six-principles>.

The DSSI and the G20 CF are a rehash of the Classic Terms, with modifications⁴. The scope of the G20 CF has been limited, and until now, there is no clarity on the actual terms of debt restructuring. Consequently, only Chad, Ethiopia, Ghana, and Zambia have requested treatment under it, with inconclusive results. After a series of downgrades from the rating agencies, Ghana backed down, and its debt to China turned out to be out of step with the stipulations of the G20 CF. Zambia and Chad have not reached final deals owing to the complicated nature of their debts, which involve a large private sector and a large chunk of Chinese loans. These are difficult to restructure under the current framework, while Ethiopia's civil war has derailed talks on debt restructuring. The signals of downgrades embedded in the G20 CF have discouraged many distressed countries from expressing interest.

Despite the plethora of initiatives to address the debt of developing countries, there is no resolution in sight. The alarming rise in sovereign debt with no debt sustainability warrants scrutiny of the debt management policies of multilateral development banks and creditor nations. This is to properly understand their *modus operandi* and proffer lasting solutions to the debilitating debt disease in Africa. The overriding goal of this research is to rekindle policy debate on the essential need to move beyond the conventional approaches to debt management consistent with the needs of African economies. This is particularly important in the geopolitical and global economic climate of multiple crises of the aftershocks of the COVID-19 pandemic, the Ukraine-Russia war, and climate-related problems. Among others, the paper assesses the scope of debt management policies of the International Financial Institutions (IFIs) and Multilateral Development Banks (MDBs) before, during, and after multiple crises in Africa; identifies gaps in the debt management policies used by IFIs and MDBs while cushioning enhanced debt, amid numerous crises. It further examines the effect of debt management policies with a specific focus on HIPC/MDRI, DSSI, and the G20 Common Framework and fashions incremental and fundamental reforms for resolving the debt crisis.

Section two discusses the data sources and the analytical framework. Section three provides an overview of the debt management policies used by IFIs and MDBs before, during, and after the crisis experienced in Africa. Section four focuses on the G20 CF, while section 5 presents a critique of debt management policies through rigorous data analysis and presentation of facts and evidence on the evolution of Africa's public debt. The sixth section presents policies for transcending the sovereign debt crisis in Africa.

⁴Classic Terms: these are the standard lending terms applied to a debtor country coming to the Paris Club for a loan. A country must have an appropriate IMF program and shows the need for debt relief.



2. ANALYTICAL FRAMEWORK

This analysis of the public debt management policies of IFIs and MDBs, with a focus on the G20 CF, dwells on data obtained from the World Development Indicators of the World Bank, The International Debt Reports and World Economic Outlook Database of the IMF, and published literature, including but not limited to World Bank and IMF surveys on informal firms, infrastructure, state-owned enterprises (SOEs), and capital flows. Independent sources like UNCTAD, EURODAD, AFRODAD, and other impartial information sources were consulted.

It further accommodates AfDB regional economic outlook reports as well as the anecdotal examination of the African Union themes covered by public debt officials, debt management departments, and debt sustainability analysis reports of various multilateral development banks. As stipulated, sovereign debt issues and negotiations are concealed in confidentiality clauses, and creditors' press releases often give details of the negotiation and commitment procedures. A methodological process embracing historical data gives a clue to the expected outcome and synchronised insight into events. This research inducted critical macro-economic variables that led to abstraction and significant categorisation, which explained and merged the debt delivery processes and programs.

The study sampled the most debt-distressed countries and compared their trajectories with countries at similar levels of development but without debt relief initiatives in place. This was done through the continuous concurrent configuration and connectivity of layered debt-related information and encrusted financial documents. This helps to refine the standard categorisation process through the constant comparison that led to the empirical inundation of debt management strategies. The economic and historical data enables the examination of alternative policy scenarios through conjectures derived directly from close interpolation of the empirical data. The conjectures are then integrated and designed into a policy framework that aids in constructing alternative debt management mechanisms.

A study of this nature naturally suffers from several limitations. There is selection bias, which is acutely intentional in this case. The focus on the most indebted poor countries of Africa that have simultaneously undergone Structural Adjustment Programmes and various stabilisation and macroeconomic reforms highlights the specific nature of the vicious cycle of debt distress. The processes and procurement of both bilateral financial commitments and multilateral debt obligations have been coordinated by the sole creditor groups' (Paris Club) information sharing. This is done through the synchronised sustainability debt management architecture of the multilateral development banks for debt relief, suspension, and restructuring.

Characteristics within their operation are the associated debt cancellation and re-contracting, tied to debtors' economic resources for the past three decades. This evaluation was done to transcend it with alternative policies that have so far not been considered in the more extensive discussion on Africa's sovereign debt crisis. Data on government public debt procurement for many countries is poorly reported and inconsistent; in some cases, it is non-existent and often expires with the change of government. Indicators on public and publicly (PPG) guaranteed debt and other external debt parameters are not well reported. In contrast, the maturity profile, key information on debt covenants, structured reporting of instruments, and external debt deals escape official debt databases. The lack of cross-cutting comparison of external debt issuance and reporting obscures this. Where data is available, it is fraught with reliability challenges as different databases present conflicting indicators, with the age-old problem of hidden debts, unreported transactions, and loan deals.

3. REVIEW OF DEBT RESTRUCTURING OF MULTILATERAL DEVELOPMENT BANKS



The indebtedness of the African continent to multilateral institutions and bilateral lenders is not new, and the recent debt crisis is, in fact, a resurgent of an older and existing cycle. In the last decade of 1980-1990, the continent was faced with correlated terms of trade shocks compounded by internal imbalances and poor macroeconomic management. This led to the introduction of Structural Adjustment Programmes (SAPs). African countries borrowed heavily during the 1970s, supported by high commodity prices and the eagerness of commercial lenders to off-load their US dollar surpluses. The economic slowdown of the 1980s drove many countries into stagnation, causing a reduction in industrial output. By the 1990s, many countries were debt distressed due to accumulated arrears.

The African continent's debt stock had increased from \$ 9.9 billion in 1970 to \$271.9 billion by 1990, and external debt as a percentage of GDP, which was at 13% in 1970, rose to 112.4% in 1990 (see Uka,1993). The unsustainable debt burden negatively impacted fiscal revenues and compromised domestic expenditures on vital social services and poverty reduction efforts (AfDB, 2013). At this stage, debt relief was inevitable, hence the launch of the HIPC Initiative in 1996 by the International Monetary Fund (IMF) and the World Bank. It was to address the unsustainable debt burdens of low-income economies⁵ and to 'ensure that no poor country ever faces a debt burden that it cannot manage' (World Bank, 2023). Of particular concern was debt distress of poorer countries, which by the mid-1990s were spending a large portion of foreign income and domestic revenues in servicing external debts. The initial concept set a decision point of qualifying conditions for countries spending 200–250 % of exports, 280% of fiscal revenues, and 40% of export/GDP. Following a 1999 Fund/Bank review, an Enhanced HIPC aimed at faster, broader, and deeper debt relief was birthed with a reduced qualifying window for these debt-laden countries. The enhanced criteria included a debt-to-exports of 150%, a debt-to-fiscal revenue target of 250 %, an exports-to-GDP ratio of 30%, and a fiscal revenue-to-GDP ratio of 15%.

⁵ Low-income economies have a GNI per capita of \$1,045 or less.

Under HIPC debt restructuring, the multilateral development banks and Paris Club members developed a blueprint for channelling the funds to be received by drafting Poverty Reduction Strategy Papers (PRSPs)⁶. The PRSP is a reference document to access funding from other lenders. It determines the decision point at which countries are deemed fit on macroeconomic stability and structural reforms to receive debt relief. HIPC debt relief was linked to concessional lending and the extension of credit under the Poverty Reduction and Growth Facility (PRGF) of the World Bank's International Development Association (IDA). It provided financial support aimed at supporting economic reforms, growth, and poverty reduction. A country reached completion point once it had implemented and followed its PRSP for at least one year.

The HIPC gave breathing space to African countries by cutting down on the excessive debt burden, which by the mid-1990s was choking development efforts. Although HIPC debt relief saw a decline in the debt burden in 26 African countries from a GDP-weighted average of 104% down to 27% by 2005, it did not alleviate the entire debt burden. In fact, HIPC debt relief did not bring reprieve as it instead created additional windows for new borrowing as indebted countries piled up further debt. Data from the World Bank showed that total debt forgiveness for 41 eligible HIPCs summed up to \$33 billion from 1989 to 1997, while new borrowing amounted to \$41 billion (Easterly, 2002). Thus, debt relief was met with new borrowing and tighter conditionalities.

The inability of the HIPC to alleviate Africa's debt burden was matched by concerns for development financing of the Millennium Development Goals (MDGs). In response, the multilateral development banks enhanced the HIPC with deeper and broader debt relief for ending hunger and halving global poverty. Debt relief under the HIPC and MDRI Initiatives substantially alleviated debt burdens. It enabled recipients' economies to increase their poverty-reducing expenditures while achieving some of the key targets of the MDGs. The cost of debt relief to creditors under the HIPC Initiative was estimated at US\$76.2 billion, while that owed under the MDRI was estimated at US\$43.3 billion as of 2017 (World Bank, 2021). According to the World Bank (2023), HIPC/MDRI has relieved 37 participating countries, of which 31 are in Africa with more than \$100 billion in debt. In some countries, multilateral creditors and the Paris Club provided over 90% of their HIPC debt relief to the post-completion point.

The HIPC/MDRI constituted the largest experiment at debt restructuring of the past three decades of development lending. They have had far-reaching implications for achieving some of the targets set by the MDGs and changed the face of international development finance. The HIPC/MDRI shifted the composition of external debt away from non-concessional private lending to concessional IDA and multilateral concessional financing. They jointly provided a menu of options for sovereign debt management. However, unprejudiced analysis of sovereign debt trends and economic performance both pre and post-HIPC/MDRI demonstrated that these policies have largely failed to deal with Africa's debt burden. The failure of HIPC/MDRI launched the next wave of Africa's debt crisis and new debt restructuring schemes in the 2008-2018 period.

The 2008 global financial crisis tightened credit access in international markets as overseas development assistance and concessional finance dropped, for many countries such as Zambia, Ghana, and Senegal. A re-basing of their GDP and changes in their economic classification from low to middle-income economies cut off concessional loans, hence their entry into the Eurobond market. Investors often measure a sovereign's capability to repay debt through market indicators such as bond yields, bond spreads, or Credit Default Swaps (CDS). These enabled favourable global financing conditions for low-middle-income countries to accumulate more debts through short to medium-term CDS. As shown by Tatonga and Alagidede (2021), at least \$100 billion in Eurobonds were issued by 21 countries by 2019, providing African countries with a mechanism to measure and assess sovereign credit risk. Nonetheless, the decline in commodity prices since 2014 and large fiscal financing obligations coupled with fiscal requirements that outstripped revenues made several governments turn to increased borrowing from the international markets through longer-term Eurobond instruments.

⁶ PRSP; is a policy document that describes the country's macroeconomic, structural, and social policies and programs over a three-year horizon. It is to promote broad-based growth and reduce poverty, as well as engineer associated financing needs with major sources of financial commitment.

The Eurobonds increased the fiscal envelope to fund long-term infrastructure projects for African countries and provided additional financing for budgetary deficits. The risk of venturing into the private commercial market for African countries is tremendous. Eurobond repayment is at maturity and not amortised, and this poses a major risk to African countries because, in the absence of a viable sinking fund, the debt may be unsustainable. Another risk is that foreign currency-denominated bonds carry both exchange rate and interest rate risk, where depreciation and rising world interest rates could add to the debt stock and increase the cost of the debt service. Restructuring Eurobonds with large creditor base is more tedious than traditional multilateral and bilateral lending. Access to the Eurobond market is a function of a country's credit ratings, where all things being equal, the higher the ratings a country receives, the better the terms of the Eurobond. African countries have been at the receiving end of major credit rating agencies such as Fitch, Moody's, and Standards and Poor's.

Over the years, the ratings assigned to African sovereigns have not fully reflected their entire economic fundamentals. The poor ratings assigned to African sovereigns result in borrowing costs that are substantially higher than comparative countries elsewhere. The UNDP has established that the leading credit rating agencies deliberately assign low ratings to African countries and escalate borrowing costs unnecessarily, effectively shutting them out of international capital markets. Credit ratings are based on 'less subjective assessments' and cost African countries \$75 billion. The rating agencies are persistently biased towards African countries, which puts the continent at a disadvantage. At the height of Ghana's economic crisis in 2022, all the major Western credit rating agencies downgraded the country to junk status. As the President of Ghana argued, this turned a liquidity crisis into a solvency crisis⁷. The low ratings assigned to Africa drive the cost of borrowing up, implicating the continent as a risky environment for creditors. More recently, the UN Secretary-General stated that "on average, African countries pay four times more for borrowing than the United States and eight times more than the wealthiest European economies." The burgeoning cost of Eurobond issues and rising appetite for commercial non-concessional debt characterise the debt profile of many developing countries in the post-2008 era and, most importantly, the rise of Chinese loans.

In the last decade, the debt composition of Africa has taken on increasingly copious amounts of Chinese loans. The top holders of Chinese loans include Djibouti, with 57% of its total external sovereign debt, followed by Angola (49%) and the Democratic Republic of Congo (45%). On average, African borrowing from China constitute a ratio of 5.3% to GDP. According to the Center for Global Development (CGD), the weighted mean interest rates on loans to Africa by Chinese policy banks are higher (at 4.14%) than World Bank loans (2.1%) (See CBE, 2021). This wave of Africa's debt crisis is therefore categorised by more non-concessional, and private debt compared to the 1990s. The shift in the composition of the debt also reflects the changing need for development financing, especially with respect to the Sustainable Development Goals (SDGs) and climate action at the centre of the funding needs of developing countries.

Sovereign debt management has transcended traditional debt relief to the offer of technical assistance and capacity building by multilateral development banks through the Debt Management Facility (DMF). The corresponding mitigating debt and related risks are galvanised through Government Debt and Risk Management (GDRM). These initiatives have been complemented by regional and global caps in borrowing to keep developing countries' debt levels in check. For instance, the IMF and World Bank introduced debt limits policy (DLP) and non-concessional borrowing policy (NCBP) aimed at quantitative conditionality to address debt vulnerabilities. The African Development Bank implemented the Sustainable Borrowing Policy (SBP), while think tanks such as AFRODAD have long advocated for responsible borrowing under the African borrowing charter.

⁷ Ahunna Eziakonwa, <https://myjoyonline.com/ghana-others-losing-75bn-annually-to-bias-by-credit-rating-agencies-undp-africa-chief>

The last wave is the Covid-19 debt cycle, spanning from 2020 to the most recent period. The de-facto weak infrastructure of African countries, exacerbated by debilitating debt service costs, amplified the vulnerabilities and disruptions wrought by the Covid-19 pandemic. Not only did the pandemic expose the known problems, but it also aided the total shutdown of economic activities, leading to an increased risk of social unrest and fragility (World Bank, 2020). As of December 2019, 51% of IDA countries were classified by the IMF and the World Bank as either in or at high risk of debt distress. This was considered under the joint Bank-Fund Debt Sustainability Framework for Low-income Countries (LIC DSF), several of which had benefited from comprehensive HIPC debt relief. In some IDA countries, the interest burden has already exceeded pre-HIPC levels, and debt service burdens are highest in Sub-Saharan Africa. Overall, external PPG debt-service-to-revenue ratios for IDA countries increased from 8.2% to an estimated 11.8% between 2017 and 2019. The situation deteriorated in 2020, with 54% of IDA countries in debt distress (IMF, 2021).

The DSSI came into being in April 2020 following the Covid-19 pandemic to offer a temporary holdup of bilateral debt and interest accrued payments. The World Bank estimates that the crisis pushed over 100 million people into extreme poverty, of which about one-third of these 'new poor' are in Sub-Saharan Africa⁸. Using vital resources to service debt was to consequently be channelled into responsible spending to stave off the worst effects of the pandemic. The DSSI was arranged on a case-by-case basis through either a rapid financing instrument or a rapid credit facility. Countries had to use freed-up resources to increase social, health, or economic spending in response to the pandemic. The DSSI delivered \$6 billion of relief during 2020 and a further \$7 billion in 2021 for the forty-eight countries that signed up. The IMF added \$851 million by extending its programme of debt service relief on outstanding IMF loans due from twenty-nine of the poorest countries. Overall, less than \$30 billion of interest and principal payments was suspended under DSSI, making the policy a temporary relief with negligible impact on public debt in developing countries.

Given the large chunk of private and non-concessional loans in the last decade, a sound and balanced restructuring would have included private creditors. However, the DSSI could not offer incentives for the full participation of private and official creditors. The debt suspension also raised key concerns about the risk of possible downgrades for participating countries. Consequently, eligible DSSI countries, such as Nigeria, Kenya, Ghana, and Rwanda, opted out for fear of being downgraded by credit rating agencies. This was because a DSSI status, signaled implicit default with consequences for premiums and future access to international capital markets. Of the 73 eligible debtor countries, 38 are in Africa.

As with the debt relief programmes of the past three decades, the end game is always to push more loans while the debtors are being guided to the slaughter on the altar of debt relief. By their design, debt relief calls for increasing liability with tighter constraints even as old debt is pretentiously being treated. The volume, speed, and agility of new money increase anytime a new debt restructuring programme appears. The World Bank and other multilateral development banks disbursed around \$100 billion in new lending in 2020, and the IMF added another \$52 billion. The allocation of \$650 billion in special drawing rights (SDRs), an IMF reserve asset, provided \$173 billion in liquidity to emerging and developing economies (see Ahmed and Brown, 2022).

Private creditors who have been reluctant to participate in the DSSI provided nearly \$90 billion of new lending, including \$14 billion to the DSSI countries, an amount greater than the total debt suspension under DSSI. The effect of this new debt binge sets the tone for a meltdown if global interest rates begin to rise amid the challenges of maintaining domestic price levels. The debt crisis launched a new beginning in the financial architecture of post-World War II. In 2022 alone, the US FED aggressively increased its benchmark Fed's Fund rate, sending jitters to emerging and developing countries.

⁸ <http://pubdocs.worldbank.org/en/767501596721696943/>

In Ghana, growth dipped to 3.6% in 2022 from 5.4% in 2021, weighed down by deep macroeconomic imbalances—higher inflation, a depreciating local currency, and high public debt, estimated at 91% of GDP. Africa's largest economy, Nigeria, is also experiencing deep macroeconomic imbalances, underpinned by near 20-year high inflation and foreign exchange shortages that fuelled rapid depreciation of the national currency, further eroding their citizen's purchasing power.

Had the debt relief programmes of the past three decades been notable and long-lasting, the countries that benefitted could have been out of debt, and future debt crises would be only associated with new entrants into the international debt market. However, a cursory look at the data suggests that the same set of countries have been subjected to one debt treatment after another and the cycle of rolling from one programme to another is endless. Like the previous debt management schemes, the DSSI was very limited in scope and fraught with implementation challenges. It was not designed to end debt but to hang debt service payments so that countries could consume more debt and use the relief on immediate needs. The operation of DSSI exposed various challenges, particularly with variations in the application of its terms and conditions. There was a lack of total creditor involvement, especially from key creditors like China.

With the increasing importance of commercial debt, the non-participation of private creditors limited the impact and scope of debt reform. More so, deferred prompt implementation and appeals from some creditors to enact extra conditionalities increased uncertainty and clogged the benefits accrued. The relief from debt suspension brought in much liquidity for health-related spending and research, as well as social and economic spending, which meant that the advanced economies were the prime beneficiaries of the production of vaccines and Personal Protective Equipment (PPE). The requirement for only low-income economies to benefit from debt suspension limited the scope and impact of the DSSI. It further questioned the *modus operandi* of the G20 and the multilateral development banks, especially when middle-income countries like Tunisia are saddled with unsustainable debt.



4. THE G20 COMMON FRAMEWORK OF DEBT RESTRUCTURING: THE BASICS

The G20 Common Framework for Debt Treatment beyond the DSSI came into force at the expiration of the latter in December 2021 to take up and address the imminent debt crises of low-income countries. Specifically, the G20 CF aimed to fast-track deep debt relief for low-income countries and offered cross-cutting pathways for enhanced debt management. To join the framework, a debtor country must initiate the application, after which debt sustainability analysis based on the joint World Bank and IMF DSA reveals an actual debt distress condition for looming sovereign insolvency. Like the DSSI, only public and publicly guaranteed debts are treated, and in contrast to the DSSI, private creditors can provide comparable relief on the debt owed to them. G20/Paris Club creditors must jointly agree on this through the principles of information sharing, solidarity, and consensus. Another departure from the DSSI is the invitation of official creditors such as China, the largest official creditor to many African countries, to participate in the proposed Common Framework.

As outlined in Paris Club (2020), all official bilateral creditors and all G20 and Paris Club creditors with claims on the debtor country will coordinate the debt restructuring conditions. A vital element of the G20 CF is invoking the Comparability of Treatment (CoT) principle, which assures members that their claims are not subordinate to those of private institutions or other bilateral lenders that do not belong to the group. This is assessed ex-post by the Paris Club based on one or more of the following parameters:

- a. Change in nominal debt service over the consolidation period with creditors contributing to bridging the financing gap. This must be proportionate to the maturities (principal and interest) falling due.
- b. Debt reduction in net present value (NPV) terms, with a single discount rate for all creditors to ensure comparability.
- c. Extension of the duration of the treated claims.

Unlike sovereign debt relief programmes such as MDRI and HIPC, the G20 CF does not make room for debt write-offs and outright cancellations, and like the DSSI, there is no room for middle-income debt-distressed countries. In its current framing, the G20 CF has a laudable goal of killing two birds with one stone by filling the debtor country's financing gap in the short term and restoring debt sustainability in the medium to long term. It provides yet another attempt to solve the intractable low-income debt distress problem to free up economic and social development resources. This, in turn, would enlarge fiscal space for domestic growth and more sustainable interventions. The G20 CF has moved one step ahead of the expired DSSI in providing another avenue for negotiating sovereign debt. Such an exercise is fit for purpose given that the development needs of developing countries ought to proceed while creditors also seek ways to recoup their invested capital. Although relatively new and in its third year, the Common Framework has not successfully taken off. None of the three countries that formally applied for treatment, Zambia, Chad, and Ethiopia, has reached a deal. And until now, there has been no indication of new applications to join the Common Framework. This is not entirely surprising.

4.1 Why the Common Framework has not taken off so far.

Despite its name, there is nothing shared in the Common Framework. First, it is a collection of diverse groups of creditors with contradictory objective and loss functions: The official creditors, such as China, private creditors like Glencore, and international bondholders, Paris Club, and the G20 membership all have different views.

These are based on how different countries' liabilities ought to be managed with inconsistent incentive structures. Second, the Common Framework excludes many developing countries whose sovereign debts are highly unsustainable. In addition, there is no room and strategies for distressed middle-income economies with no offers or minimal prospects for their debt reform. Third, there is a lack of transparency in the public debt sustainability analysis and credibility of the data on which international debt policies are based. Fourth, the comparability of treatment remains opaque, and the risk of downgrades lurks in the necks of debtors. For this reason, the G20 CF was doomed to failure at birth.

4.2 Diverse creditors and different objective functions

Closing the financing gap of low-income countries and achieving debt sustainability as stipulated in the G20 CF requires simultaneous coordination of all creditors and acceptance of the terms of debt treatment of official bilateral and commercial debt. As shown by Tatonga and Alagidede (2022), since 2007, African countries have attracted new sources of financing in the international bond markets, using a variety of debt instruments, to a diverse and diffuse group of creditors. This inevitably has expanded the sources of financing for the continent and provided a mechanism to measure and assess sovereign credit risk. Over the past decade and a half, more than 21 African countries have tapped into the private debt market from different jurisdictions and raised over \$100 billion in Eurobonds. According to Smith (2019), Ghana, Benin, and Egypt raised more than \$36 billion in 2019, and in Senegal, Côte d'Ivoire, Gabon, and Zambia, outstanding Eurobonds exceeded 10% of GDP in 2019. Addressing the sovereign debt crisis without tackling private debt leaves the G20 CF impotent and ineffective. China is now Africa's biggest bilateral lender, holding over \$73 billion of Africa's debt in 2020 and almost \$9 billion of private debt. More than 40% of African debt is owed to private creditors, 26.6% to bilateral creditors, and 32.5% to multilateral creditors (Harcourt and Robertson, 2023).

Understanding the incentive structure facing different creditors is necessary but it is an insufficient condition for successfully implementing the G20 CF. For instance, Chinese official creditors want to maintain both the par value of their claim and a coupon that covers the cost of their funds, akin to the commercial rates of LIBOR and the associated premiums. Official bilateral creditors, the IMF and the World Bank want debt treatment on concessional terms. Private creditors are not convinced that there are incentives for participation, as this cohort estimates that their forgone coupon payments would send a wrong signal to their shareholders. Therefore, tensions among creditors with different incentives make the Common Framework unimplementable, porous, and repugnant in its current form.



4.3 Limited debt relief and risk of downgrades

The scope of the G20 CF is skewed to governmental bilateral claims yet, about 40% of Africa's debt is held by private creditors. They are addressing only public and publicly guaranteed debt limiting both the scope and the appeal of the Common Framework to even applicants such as Chad, Ethiopia, and Zambia. These debtor countries have public debt composed of a large base of private creditors.

The lack of clarity on the incentives for private sector participation makes their involvement far-fetched as any debt relief offered under the current dispensation would be abysmal. Without deeper and more inclusive debt restructuring, the G20 CF will be a replay of the previous restructuring schemes, which have so far achieved truly little, as far as the evidence of the debt boomerang in Africa is concerned.

Another peculiar feature of the Common Framework that makes it unworkable is the typical free rider problem of sovereign debt restructuring. For the G20 CF to proceed successfully, commercial and official creditors must be on the negotiation table. And all creditors must share the cost and burden of restructuring. However, the individual creditors' interests are at odds with the interests of the collective creditor group. An ideal outcome would be one in which all creditors accept the G20 CF restructuring, share the economic burden, and ensure that the low-income countries resolve the debt drain on their growth. This could be accomplished by meeting the terms of debt service, consistent with steady-state growth, poverty reduction, and economic development as enshrined in the SDGs and touted by the IMF and the World Bank. From the analysis done so far, the different creditors are unwilling to restructure debt if they believe a first move will serve the interests of other creditors. As the temptation to free rider problem is extraordinarily strong, each player would try to benefit from the joint action without bearing the cost of restructuring.

For many low-income countries struggling to access large pools of international finance, signing up for the Common Framework will be bad news and potentially disastrous. This is because the Western-dominated credit rating agencies are likely to downgrade sovereign ratings with the attendant effects of liquidity crunch, high cost of capital, and a shut out of international capital markets. This reality is so palpable that other developing countries have so far failed to make a move, especially following the experience of Ethiopia and Ghana. Ethiopia suffered credit rating downgrades from all the major rating firms, Fitch, Moody's, and S&P Global, upon the announcement of signing up to the Common Framework. In February 2021, Fitch downgraded Ethiopia's long-term foreign currency bonds from B- to CCC following a decision to seek debt restructuring under the G20 CF, as its sovereign ratings apply to borrowing from the private sector.

The Common Framework requires debtor countries to seek treatment from the private-sector creditors at least in a favourable term as agreed by the G20/Paris Club and their official bilateral creditors. To the rating agencies, debt treatment under the Common Framework through the lens of a distressed debt exchange (DDE) constitutes a default event. This is especially so if there is a material reduction in the terms and conditionalities while the exchange is necessary to avoid a traditional payment default⁹. Moody's followed the Fitch example and downgraded Ethiopia's sovereign dollar bonds in May 2021, citing a rising risk that private creditors would incur losses as the country applied to join the G20 CF. Political tensions between the government and rebels in the Tigray region added to these risks. This situation further undermined foreign investment critical for the government's near and medium-term financing¹⁰.

⁹ Fitch (2021). Common Framework access could lead to a default. <https://www.fitchratings.com/research/sovereigns/common-framework-access-could-lead-to-sovereign-debt-default-16-02-2021>

¹⁰ Reuters (2021). Moody's downgrade over G20 common framework hits Ethiopian bonds. <https://www.reuters.com/article/ethiopia-bonds-idUSL5N2N52KD>

News of the downgrade led to a 1.3-cent drop in Ethiopia's 2024 bond yield. The punishment inflicted on Ethiopia is a deterrent to any country seeking debt treatment under the G20 CF. Ghana is a typical case. On 4th February 2022, Moody's downgraded Ghana's long-term issuer and senior unsecured bond ratings from B3 to Caa1 due to the "increasingly difficult task government faced in addressing the intertwined liquidity and debt challenges. These included the pandemic-induced revenue underperformance, tight international market funding conditions, and decreased governance and institutional strength while creating inflexibilities in the government budget support. In a clearly contradictory manner, Moody's justified a "Stable Outlook" for Ghana despite the downgrade to "Caa1". It did this by acknowledging the government's strong track record in delivering effective fiscal policies and maintaining various funding sources. Fitch also downgraded Ghana's long-term foreign currency issuer from 'CC' to 'C' and the ratings on outstanding foreign-currency debt. S&P, on the other hand, opted to maintain its B-rating with a stable outlook, indicating Ghana's solid future growth prospects (see MoF, 2022).

These contradictory ratings for Ghana's debt epitomise the fact that African countries are at the mercy of the rating agencies, the harbinger for the multilateral development banks and the vulture funds that they seek to attract. The Ministry of Finance of Ghana responded very strongly to Moody's downgrade in a statement that summarises the view of many African governments: "We are gravely concerned about what appears to be an institutionalised bias against African economies [...sic] as credit rating analysts assume highly conservative postures and low-risk tolerance for African sovereign credits. This is evidently with little regard for the adverse impact on the cost and access of financing for African Sovereigns" (MoF,2022).



The framers of the G20 CF have thus inflicted a huge cost of joining, and this explains why Ghana eventually dragged its feet after the initial expression of interest and, to a large extent, the reason for the low participation of the over 70 eligible countries. Given the bias of credit rating agencies toward African countries and the cost of downgrades, the G20 CF is a barrier rather than a facilitator of debt restructuring in Africa, and the benefits of joining are minuscule compared to the cost. As posited by Ams et al. (2020), the costs of perceived public debt defaults, including loss of market access and higher premiums, can inflict collateral damage to an economy. For instance, sovereign defaults are negatively associated with trade, investment, and firms' foreign financing, a reduction in private lending, and expensive and protracted creditor lawsuits. All of these are too expensive to pay for signing up to the Common Framework.

Failure to offer outright debt cancellation, write-offs, and the exclusion of middle-income economies for which debt sustainability analysis shows distress and the looming insolvency depicts an attempted breakdown of G20 CF at debt restructuring. Tunisia and Egypt currently have debt-to-GDP ratios above 80%. Over 30% of export revenues were spent on debt servicing in 2021 in Egypt and 21% in Tunisia. All indicators point to a crisis, but the G20 CF is not interested in addressing middle-income economies.

4.1.3. Lack of transparency in the public debt data and dodgy debt sustainability analysis.

The world of public debt is shrouded in a great deal of secrecy, even if public documents and policies suggest otherwise. Historically, external liabilities have been the target of debt restructuring and debt relief initiatives such as HIPC/MDRI, DSSI, and the G20 CF. A key part of sound public debt management is the reliability and availability of data on debt instruments and maturities. The debt covenants of MDBs and IFIs are very opaque, and the actual loan terms are not fully disclosed to debtors. On the part of debtors, the reporting and keeping of records lack rigour. According to the World Bank (2022), of the 74 IDA recipients, only Burkina Faso has transparent reporting of its debt. The insufficiency and reliability of public debt data on which the Common Framework is based are areas that need overhaul. Only when this hurdle is cleared can an actual state of solvency positions and the sensibleness and soundness of debt sustainability ratios be ascertained.

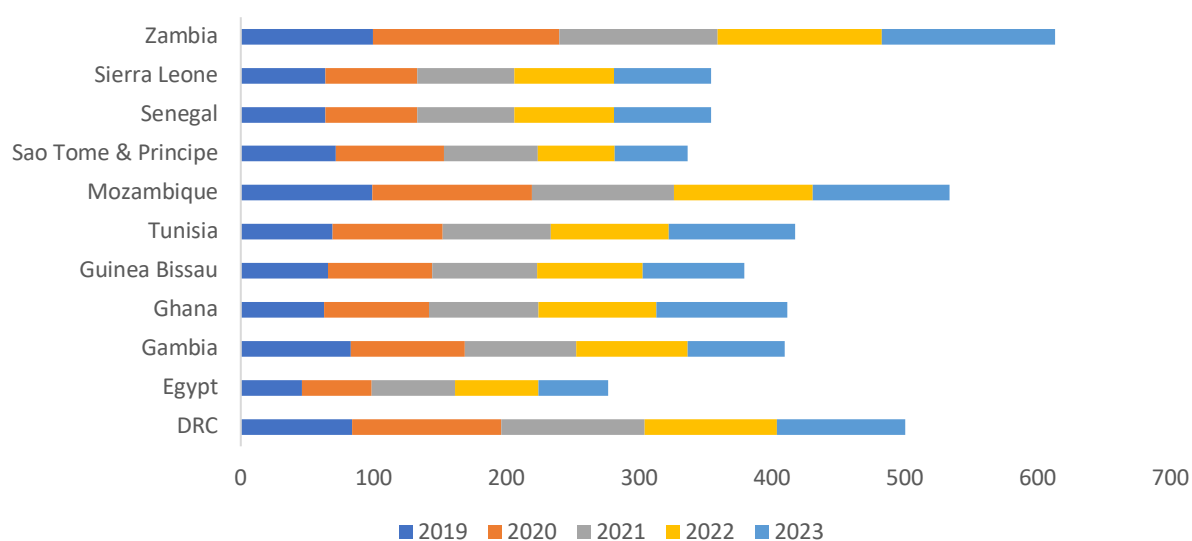
Debt sustainability indicators, such as the debt to GDP/GNI ratios, are fussy. The indicator does not account for the extent of debt distress as it weighs a dollar due today the same way it weighs a dollar owing in 50 years' time. Despite this limitation, the Joint World Bank and IMF Debt Sustainability Frameworks remain the dominant and only approach to evaluating and managing public debt in Africa and among the various member states of the Fund and the Bank.

A key drawback of the debt sustainability indicators rests with the fact that they ignore climate and climate-related risks in valuing a country's solvency position. For a continent like Africa, where climate shocks are prominent, such a missing piece raises doubt about the actual state of the public debt profile. It casts significant doubt on the steps to address impending distressed conditions. The G20 CF bears all the weakness of lopsided indicators, unrepresentative data on sovereign debt, and a falsified depiction of Africa's indebtedness. It is in these areas that critical reform is required, as captured in section 6.

5. A QUANTITATIVE CRITIQUE OF DEBT RELIEF POLICIES AND PROGRAMMES

The analysis so far shows that the G20 CF lacks consensus among the various parties, creditor groups, and debtor countries while additionally engendering a more protracted and unpredictable debt restructuring. This could be more damaging to the sovereign debt restructuring processes in many developing countries. Exploring alternative ways to improve the sovereign debt crisis requires an in-depth appreciation of the data and the patterns of the past three decades of attempts to restructure Africa's debts. This section provides an assessment through the lens of evidence-based indicators and trends in the key debt sustainability of selected HIPC/MDRI and non-HIPC/MDRI countries. It harmonises the experience of countries that benefitted from debt relief initiatives and compares the results with non-debt relief low and middle-income countries using various performance measures. These categorisations included the gross debt position as a proportion of income, GDP growth and its level per head of population and the national savings and investment. Regardless of the indicator used, the evidence shows that countries with debt relief programmes are, on average, poor performers compared to non-debt relief countries. Figure 1 illustrates the government debt to GDP ratio for the selected countries pre and post-pandemic period.

Figure 1: Government debt-to-GDP ratio of Africa's indebted countries.



Source: Authors calculation based on WEO (2023)

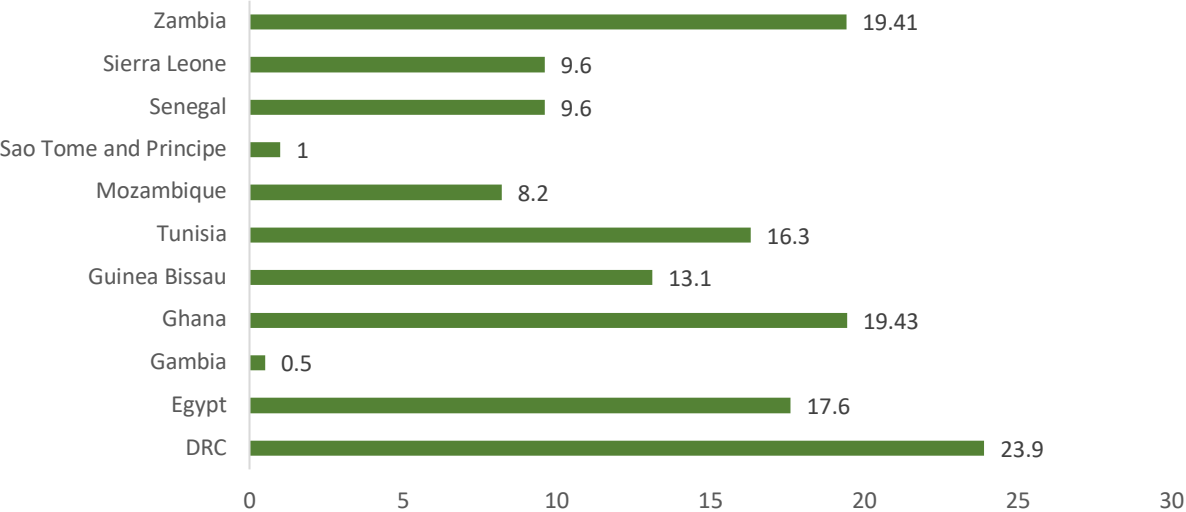
The geopolitical conditions: The pandemic and the war between Russia and Ukraine amplified the public finance strains in Africa.

Between 2019 and 2023, African countries witnessed a very sharp rise in government debt levels, averaging over 100% in DRC, Zambia, and Mozambique. Over 80% in Ghana, the Gambia, and Tunisia, and more than 70% in Sierra Leone, Senegal, and Guinea Bissau. Except for Tunisia, all the countries were HIPC/MDRI beneficiaries. Economic contraction driven by the global shutdown, unexpected and profligate pandemic spending, climate shocks, and low performance of key foreign exchange earning streams impacted the fiscal space of African countries. This intensified external borrowing in 2020/21 (AfDB, 2022). The higher public spending resulted in a sharp percentage point rise in overall public debt of 23% in Ghana and 19% in Zambia, with over 17% in Egypt (Figure 2).



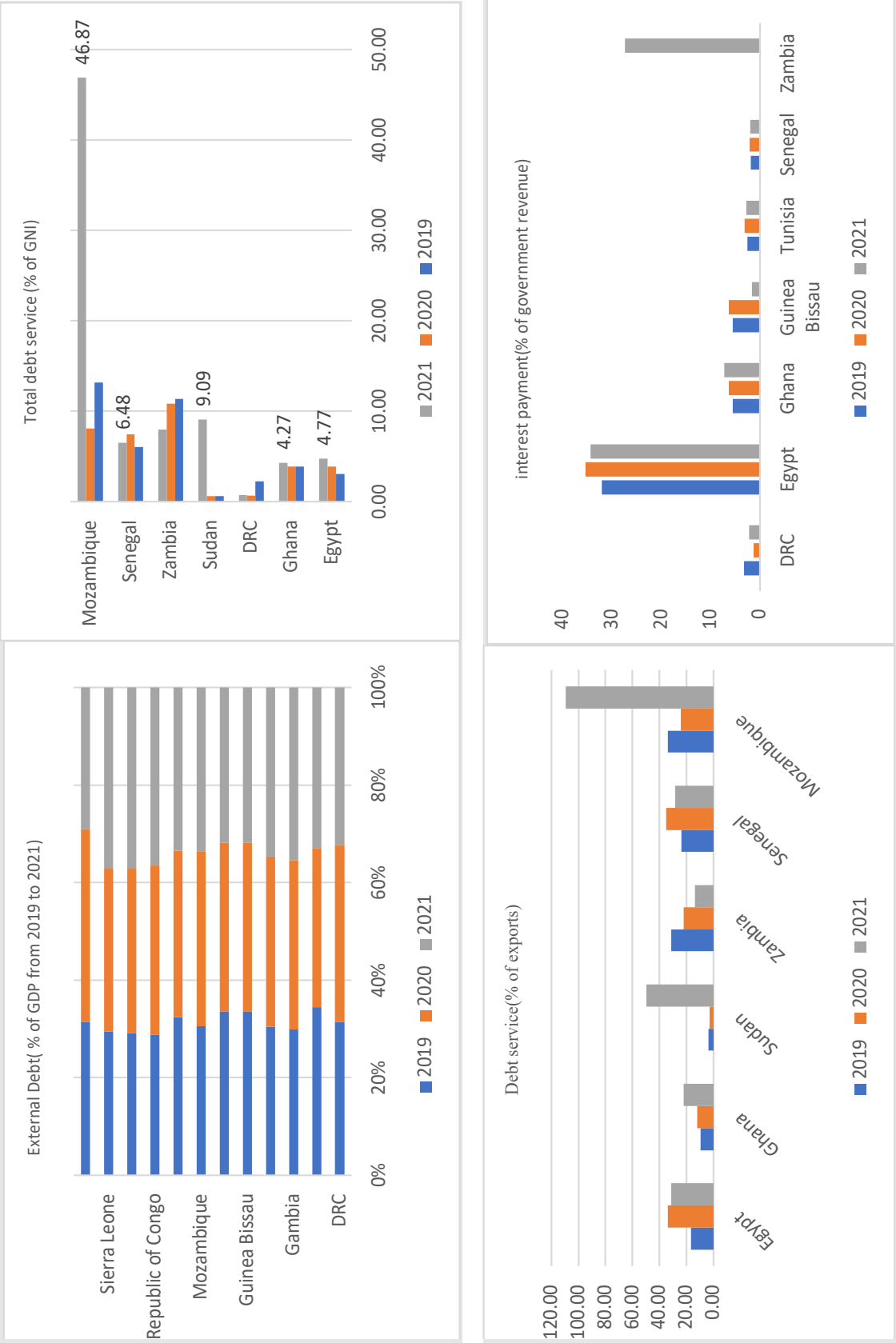
According to the World Bank (2000), HIPC was to ensure that no poor country faces an unmanageable debt burden. For African countries, the HIPC Initiative was supplemented by the MDRI, which allowed HIPC-eligible countries to receive 100% debt relief offered by the IMF, the World Bank, and the African Development Fund (ADF). The data available from both the World Bank and the IMF suggests that the stated objectives and the actual out turn of debt relief efforts are at variance with national and sustainable economic development goals. The past and current public debt levels in Africa require complete write-offs as a first step, engineering of African-centred methods of public sector finance as a second step, and home-grown solutions in individual countries as a third step.

Figure 2: Percentage point rise in government debt (2019-2023)



Source: Authors' calculation based on WEO (2023)

Figure 3: Escalating external debt service cost.



Source: World Development Indicators, 2023

To contextualise the depth of the solutions needed, further analysis is required to reach the conjectures contemplated in this paper. Using the cost of debt, external debt servicing, measured as a combination of goods and services, export revenue, together with inflows of primary income and workers' remittances, has seen significant in Africa. These have added to the risks of unsustainable debt.

According to the World Bank (2023), for the countries that received debt relief _debt service burdens and public debt in low-income countries have risen more than 1%. From our calculations in Figure 3, debt service payments (principal and interest) divert vital resources away from domestic spending and strangle Africa's development effort. Egypt spent over 32% of government revenue on debt service in 2020, far more than the combined expenditure on education (12%) and health (6%). Ghana and Guinea Bissau spent more than 5% of government revenues on debt service, and in 2021, Zambia devoted 27% of government revenue to its debt service. Mozambique spends nearly all its income on debt payments. The increasing debt servicing burden and the large external debt stock in Africa's liability portfolio shows that debt relief has not worked. More importantly, the prospects of future debt relief measures will not work for Africa under the present conditions of debt restructuring architecture.

5.1 Conjecture 1:

Multilateral and international financial institutions' debt relief correlates with weaker output performance in low-income economies.

The evidence presented by data analysis from the World Bank and IMF data (Tables 1 and 2) depicts concurrent past and present weaker growth performance for countries receiving debt relief. Non HIPC/MDRI grew averagely at 5% compared to 3% for HIPC/MDRI over the period 1990-2023. Debt relief is generally bad news for Africa as it hampers growth along several channels through regulatory bottlenecks (see Easterly, 2002). It promotes funding unproductive investments and debt recycling while the high cost of capital drains vital resources away from the domestic economy to servicing external debt. In one sense, debt relief constitutes a double-think strategy, conditioning developing countries to borrow more and directing lending programmes through multilateral development banks and international financial institutions. The IDA concessional loans, increasing public debt stocks, and service burdens depict the paradox of debt relief and multilateral lending.

In an attempt to alleviate the plight of the poor, they become worse off because debt relief creates a siphoning channel through debt service payments and perpetuates poverty and underdevelopment. It does so by pushing more loans through global debt relief initiatives. HIPC offered 12 billion in debt relief and \$42 billion in new loans. DSSI suspended less than \$50 billion in interest payments in return for over \$100 billion in new lending and emergency funding. The spate of progress and the repetitive nature of these debt cycles should now be discernible enough to offer alternative frameworks for looking at debt relief for African governments. An African-based solution that funds domestic investments on natural resource rents and the emergence of new financial assets backed by the natural wealth endowment holds the potential for qualitative change. For a resurgent African continent devoid of debt, this would end poverty and hunger, the echoes of the Agenda 2063, the Africa We Want.

Table 1: Simultaneous analysis of average GDP per capita for African countries

HEAVILY INDEBTED POOR COUNTRIES AND MULTILATERAL DEBT RELIEF INITIATIVE												
	DRC	The Congo	The Gambia	Ghana	Liberia	Madagascar	Malawi	Senegal	Sierra Leone	Zambia	Average	
1990-2000	764.76	1109.50	810.98	945.62	303.14	312.24	421.59	746.15	256.90	431.05	610.19	
2001-2010	247.90	2176.67	731.96	1209.39	359.05	406.49	434.27	1029.52	318.11	872.13	778.547	
2011-2023	531.67	3185.60	736.75	2171.15	684.29	525.04	520.58	1426.50	540.14	1436.70	1175.84	
NON-HEAVILY INDEBTED POOR COUNTRIES AND MULTILATERAL DEBT RELIEF INITIATIVE												
	Angola	Equatorial Guinea	Eswatini	Cabon	Kenya	Lesotho	Mauritius	Namibia	Nigeria	Seychelles	Average	
1990-2000	636.41	662.99	1845.47	5203.23	635.70	468.25	3527.50	2213.86	944.08	6683.21	2282.07	
2001-2010	2216.74	11528.34	2890.27	6920.38	867.01	774.97	6079.79	3582.28	1408.78	10205.28	4647.38	
2011-2023	3712.70	12870.50	4075.56	8826.44	1824.57	1188.60	10153.80	5211.38	2416.97	15592.70	6587.32	

Source: Author's calculations based on World Economic Outlook Database, April 2023. Notes: Average GDP per capita for the 1990-2023 period is \$4505 for non-HIPC compared to HIPC \$854.

Table 2: Concurrent Comparative Performance of HIPC/MDRI and non-HIPC

HEAVILY INDEBTED POOR COUNTRIES AND MULTILATERAL DEBT RELIEF INITIATIVE												
	DRC	The Congo	The Gambia	Ghana	Liberia	Madagascar	Malawi	Senegal	Sierra Leone	Zambia	Average	
Current account balance	-1.97	-2.76	-5.20	-4.25	-14.25	-6.19	-7.31	-7.04	-11.47	-1.80	-6.22	
Government debt	58.12	66.43	70.96	48.13	196.77	65.64	46.06	43.45	81.99	83.25	76	
GDP Growth	1.77	1.90	3.21	5.18	2.77	2.48	4.02	3.82	2.19	3.85	3	
Investment	17.48	37.57	12.10	27.75	0.00	21.11	9.13	20.69	11.81	35.22	19	
Savings	9.61	36.84	7.34	23.93	0.00	14.92	1.56	13.57	0.95	26.16	13.5	
NON-HEAVILY INDEBTED POOR COUNTRIES AND MULTILATERAL DEBT RELIEF INITIATIVE												
	Angola	Equatorial Guinea	Eswatini	Gabon	Kenya	Lesotho	Mauritius	Namibia	Nigeria	Seychelles	Average	
Current account balance	1.62	-16.85	0.68	5.82	-2.74	-4.47	-4.39	-1.02	3.29	-11.43	-2.95	
Government debt	63.28	50.22	20.40	58.96	45.88	53.81	63.69	32.34	33.89	111.86	53.43	
GDP Growth	5.57	17.15	3.16	2.24	3.64	2.72	3.96	3.17	4.40	3.85	4.99	
Investment	25.59	39.89	20.84	28.43	18.64	36.97	23.78	20.90	16.76	28.98	26.08	
Savings	4.62	-7.85	2.26	8.40	-1.09	0.71	-1.66	0.01	5.10	-8.05	0.25	

Source: Authors calculations based on World Economic Outlook Database April 2023. Notes: The current account balance, the government debt(gross), GDP growth, investment, and savings are all measured as a percentage of GDP for the period 1990-2023.

5.2. Contextualised thematic conjecturing based on empirical data.

Conjecture 2:

Multilateral debt relief packages perpetually hook debtor countries to the debt cycle and breed poverty.

A critical analysis of the performance of the countries that implemented Structural Adjustment Programmes in the 1980s, Poverty Reduction Strategy Papers in the 1990s, and debt reforms of the past three decades show weaker aggregate growth and deterioration in quality of life and institutions. In the interest of space, our analysis looked at only the quantitative aspects, leaving qualitative assessments such as quality of life, welfare values, economic interests, and the overall performance of other development indicators to future research.

GDP per capita for HIPC/MDRI is less than the World Bank's threshold of \$1045 for low-income economies. This averaged \$854 for over three decades, 1990-2023, compared to non-HIPC per capita income of \$4500 in the same period (Table 2). Ghana, The Congo, Senegal, and Zambia have seen per capita incomes move out of the low-income bracket partly due to national income rebasing, better accounting, and other structural changes. Yet still, the vast majority of HIPC/MDRI are substantially poor. For instance, The Congo has nearly 64.9% of its population in extreme poverty and ranked the 7th poorest, followed by Zambia at 54.4%, Senegal at 46.7%, and Ghana at 23.4%.¹¹¹²¹³¹⁴ In fact, there is no sign that it will get any better at the current growth rate, accompanied by recent debt levels and reinforced by the same set of unchanged policies.

Liberia's gross debt averaged 197% for the period 1990-2023. The Gambia, Sierra Leone, and Zambia recorded 70%, 81%, and 83%, respectively, consistently breaching the joint World Bank IMF debt sustainability ratios. Accounting for the outlier by excluding Liberia, the average debt for HIPC countries exceeded 62%. Among non-HIPC/MDRI (excluding Seychelles 111%), it gives a government gross debt/GDP of 46% and accounts for a 16%-point difference with HIPC/MDRI. The outliers overstated the government debt by over 7%. The difference between countries that accessed debt relief and those that did not is clear. Debt relief is generally bad for growth, and a high government, debt/GDP ratio, strangles growth potentials. It perpetuates low development rates through weakened investments (see conjecture three below). This, in turn, creates a dependence mentality and has made no country successfully graduate from external indebtedness over the past three decades. This calls into question the continuous pushing of the agenda of the multilateral development banks and the Paris and London Clubs.

Without a significant shift in policy direction, developing countries will continue in the same debt-poverty-low growth cycle. From the political economy point of view, the developing world's debt is one conduit through which the preservation of the vicious post-1945 financial and monetary architecture is kept alive. Countries that continue current and past IMF, World Bank, Paris Club, and standard development finance lending are one but the same group. They are not likely to graduate from low-income and underdeveloped countries from their present status.

A reform of the existing financial and monetary architecture is necessary to end the debilitating financial commitments of developing countries. Such a reform should be conditional on incentives created for ending public external debt on the part of both debtors and creditors. Debtor coalitions and repudiation will force creditors to wake up, provide better debt contracts, and set new standards for equal co-creation and non-exploitative financial transactions.

¹¹ <https://www.statista.com/statistics/1245384/number-of-people-living-in-extreme-poverty-in-ghana-by-gender/>

¹² <https://www.worldbank.org/en/country/zambia/overview#>

¹³ https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/current/Global_POVEQ_SEN.pdf

¹⁴ <https://wisevoter.com/country-rankings/poverty-rate-by-country/>



Developing countries need new leaders with fresh thinking about different possibilities, and they should devise alternative instruments for financing outside of the fiat money system, and their development policies must increasingly focus on raising revenues from natural resource rents and consumption-based taxes to promote their creditworthiness. This would aid in harnessing the natural and human resource wealth of the continent for all. Sound policies that match expenditures with revenues and keep distortions minimal will enhance Africa's role in the next global wave of development. Creditors should offer unconditional cancellation of all debts. Africa is a net creditor and has already paid up all its debts through the creditor groups' exploitation of its economic resources.

Conjecture 3: Existing debt relief programmes weaken public investments; new debt funds shoddy investments; debt sustainability data are questionable.

Comparative data shows that non-HIPC/MDRI countries do better overall in terms of public investment. Although total investment is growing in some HIPC/MDRI countries, collectively, the rate of capital accumulation through investments in infrastructure and fixed capital formation is higher in non-HIPC/MDRI (26%) compared to HIPC/MDRI (19%). Investments funded by debt relief money have lower productivity, synonymous with debt recycling, where borrowing tends to fund a large chunk of recurrent expenditure and large-scale misapplication of borrowed funds.

Throughout the continent, State Owned Enterprises (SOEs) played a significant role in public investment and accounted for 31% of infrastructure project investment in 2017 for Sub-Saharan Africa (SSA) (IMF, 2021a). The bulk of public and publicly guaranteed debt is channelled into dysfunctional SOEs. This accounts for a significant share of public sector balance sheets, with liabilities worth an average of 20% of GDP and assets of about 32% of GDP (World Bank, 2010). Several SOEs across SSA have been persistently unprofitable and face liquidity constraints, giving rise to a need for sustained and significant bailouts (IMF, 2021b). This is not unique to SSA. Many SOEs often drain public resources in most of North Africa's indebted middle-income countries, such as Egypt, Morocco, and Tunisia. Yet, the state uses multiple ways to keep them afloat (see World Bank, 2015). Public and publicly guaranteed debt reduce fiscal space for other priority spending and impose a permanent drag on the public budget. Their underperformance and inefficient use of resources directly impact public finances because of forgone revenues and fiscal costs needed to support continued operations, crowding out much-needed pro-growth and social spending.

Current debt relief and sustainability depend crucially on reliable and comprehensive debt data by debtors and creditors. This, in effect, could provide better estimates of the nature and magnitude of debt relief needed to restore sustainability for debt-distressed countries. Although responsible lending and borrowing are built on trust and transparency, the lending patterns of creditors and debtors reveal the reverse. According to the World Bank (2021x), almost 40% of low-income developing countries have never published their debt data.

There is opaque data on central government liabilities and debt data obfuscation at lower government levels. The data on public entities, including the central bank and publicly guaranteed debt taken on by wholly or partially owned state enterprises and privately owned companies, are not credible for debt sustainability analysis. The lack of accurate and credible data put a dent in existing debt sustainability frameworks for Low-Income Countries. Rivetti (2021) demonstrated that when comparing public debt data across the available sources, one may notice discrepancies of up to 30% of GDP. African countries will not escape debt using the same debt sustainability indicators, such as the debt to GDP/GNI. This indicator weighs a dollar due today the same way that it weighs a dollar in 30 years' time.

Despite this limitation, the Joint World Bank and IMF Debt Sustainability Frameworks continue to remain the dominant and only approach to the evolution and management of public debt in developing countries. Moreover, the debt sustainability indicators ignore climate and climate-related risks in valuing a country's solvency position. For a region like SSA, where climate shocks are prominent, such a missing piece raises doubt on the true state of the region's public debt profile. New measures of public debt position valued based on natural wealth and priced at fair and comparative values in the world and local markets is the way to go.

6. POLICY RECOMMENDATIONS

The preceding analysis indicates that the debt management policies of the MDBs and IFIs are not aligned with the debt surge in Africa and among debt relief recipients. The past three decades of evidence suggest that following debt relief packages drafted and supported by the Fund/Bank and Paris Club lenders are not the panacea to Africa's debt crisis but a cause for any of the debt-poverty-underdevelopment cycle. A critical and unprejudiced policy recommendation will focus on reforms of the existing paradigm of the Common Framework, light touch and piecemeal, incremental reforms that address the short to medium-term debt crisis, and fundamental debt reform and overhaul of the prevailing paradigms to cure Africa of debt distress.

6.1. Reforming the G20 Common Framework

Expand the coverage of the Common Framework and make it broad-based and inclusive. Apart from the few countries that have so far applied for debt treatment, many eligible low-income countries have simply stayed out because of the complications in the G20 CF. Even though middle-income economies such as Egypt and Tunisia are in debt distress, the framework is stuck in the income definition and categorisation of debt treatment. The coverage of only public and publicly guaranteed debt leaves a large chunk of other contingent liabilities untreated. Expansion of the G20 CF beyond these constraints requires careful redrafting of the conditions enshrined in the Paris Club (2020) and a commitment among creditors to expand the scope and coverage of the debt relief beyond the DSSI.

6.2 Create opportunities for equal distribution of debt service burdens across creditors.

The G20 should broaden the CoT to include private and non-Paris Club members who are currently outside the framework. Conceptually, this is plausible when the benefits accruing to all creditors are fully shared, and the preferred creditor status is discarded (Amegashie, 2023). Chad's largest private creditor, Glencore, the Swiss mining and commodity conglomerate, has been reluctant to offer debt restructuring because there is little financial incentive and the cost of absorbing debt restructuring payments to shareholders.

In 2020 alone, Chad paid over 85% of interest on its external debt to Glencore, amounting to \$45 million (IMF, 2020z). Standard economic logic will see this as a great loss and a significant reduction in company value for shareholders.



For private creditors with below-market interest rates, restructuring is not appealing. This can be fixed by improving the bottom-line advantage for debt restructuring for private creditors and bondholders through compensatory tax advantage equivalent to the forgone debt relief at the local level. Globally, the forgone debt service payments can be converted to financing sustainable projects in low-income countries where private creditors and bondholders invest. A reframing of the G20 CF that allows exemptions and tax breaks for private creditors could fundamentally improve participation.

6.3 Improving debt transparency is a significant step for making the G20 CF work for low-income economies.

To this end, the G20 should encourage full debt disclosure among creditors and better reporting among debtors. The disclosure of central government guarantees (including names of beneficiaries), account payables, collateralisation details, and debt-related contingent liabilities should be improved. Reporting of sub-national debt should be strengthened with digitalised systems. The maturity profile, key information on debt covenants, and structured reporting of instruments and external debt deals should be properly documented.

Debt transparency should go hand in hand with correct measures of debt sustainability.

The current debt sustainability framework is out of step with reality and does not account for the development around green growth, energy transition, and sustainability.

A freeze on Africa's debt while the key elements of the G20 CF are worked out is a necessary condition for current and future debt treatment.

There is a need to freeze interest, principal repayments, and generalised debt-service suspension. At the same time, the terms of the Common Framework are properly teased out while restructuring negotiations are going on.

6.4 Incremental reform of debt restructuring and management.

Productive use of borrowed funds should inform the borrowing policies and actions of African sovereigns since external loans come at a significant cost to African countries in terms of debt service on both the principal and interest, as well as the fundamental trade-offs between diverting public funds to debt servicing versus the provision of public goods. Given the costs involved, using loans to service existing loans and finance wage bills and recurrent expenditure should be avoided. Where spending on subsidies is unavoidable, public policy should ensure that they are properly targeted. Investments in infrastructure that are economically feasible and defensible on cost-benefit grounds can generate revenues to service public debt.

African governments have a responsibility to ensure that the principles enunciated in the African Borrowing Charter are adhered to¹⁵. These are the first steps in stepping out of the quagmire of eternal indebtedness.

The Borrowing Charter encourages African governments to borrow consciously to avoid the mechanical contraction of loans from bilateral and multilateral sources. The cost and benefits of external loans should be carefully weighed. Only loans that demonstrate large social and economic returns, without constrictions on liberty, should be contracted as transitory interventions and at fair values. The continent is awake enough to see the contradictions in the Fund/Bank policies and programmes over the past 70 years.

The last three decades have exposed the contradictions of the models' obvious traps. The cycles of HIPC, MDRI, DSSI, and G20 CF are specifically designed to keep the global South in perpetual motion of underdevelopment. This knowledge liberates leaders if they can see through the game and design policies to improve the living conditions of citizens and return the power back to the people. For Africa, such is the promise. The continent has more than 60% arable land and is littered with human and natural resource wealth to power its growth if it is productively deployed.

¹⁵ <https://afrodad.org/wp-content/uploads/2021/12/The-Harare-Declaration-2021.docx-5.pdf>

6.5 Transparent lending and borrowing:

Sound public debt management is fraught with data reliability and accuracy both from the point of view of borrowers and lenders. The key terms of loan contracts should be properly scrutinised and promptly made public. Governments should publish contract terms for those elements when loan contracts are bundled with contracts for extractive rights or trading. Parastatals should disclose payment flows for sovereign loans. Given their complex nature and importance, publicly guaranteed loans should be brought on budget, vetted by countries' finance ministries, and subject to parliamentary scrutiny (where applicable).

6.6 Fundamental reform of the sovereign debt architecture

Debtor coalition and repudiation provide a strong policy angle to negotiate the terms of Africa's sovereign debt.

The London and Paris Clubs, The OECD, the G7, and Multilateral Development Banks are cartels on the supply side. Similar clubs should be on the demand side to establish a stable equilibrium. An African debtor club will negotiate a moratorium on debt repayments for the continent by shifting the maturities and eliminating interest charges. Countries should honour these debts after a decade. Subsequently, creditor nations should unconditionally cancel all Africa's debt, and proceeds should be channelled directly to productive ventures with clear performance and evaluation of such investments. All debt payments thus saved should be anchored in national development priorities, abuse of which should be treasonable. In the event of a failure of the creditors to match the debtor club terms, debt repudiation should be invoked. There is a way out.

Africa should return to naturalness and use comparative advantage in natural resource endowments. Consumption taxes should replace all income taxes, and domestic revenues should be reverted to extracting natural resource rents. African governments should reduce the excessive waste of energy spent in looking for resources outside the continent and focus on exploiting the benefits endowed by nature.

This will unleash creativity and en-kindle the entrepreneurial spirit that has been locked down through the debt-fuelled monetary and financial system.

6.7 Reform of the international financial architecture is the sinequa non for sound global wealth creation and the achievement of the Agenda 2063 and the Sustainable Development Goals.

Minimalist reforms such as the G20 CF should be rejected for their unfair, *ad hoc*, and disordered nature, and be replaced by a new, comprehensive, fair, and effective sovereign debt restructuring mechanism based on the UN principles of sovereign debt management. This would be binding on all creditors. The major pitfalls are that the UN principles of sovereign debt management have been promulgated since 2015 with limited participation of key members such as the IMF, without any consequence. The existence of the UN principles has not prevented the recent and past debt cycles, turning the UN into a barking dog that cannot bite. The UN itself and the MDBs require reform; however, making significant changes and disturbing the status quo will not be in the interest of the existing controlling elite. So far, the UN, IFIs, and MDBS have defied reform from above, leaving external reform imposed by the exigencies of the time as the most viable option.

China's increasingly dominant role as a lender to poor countries over the past decade presents a starting point for asking the right questions, and the imbalance in the global financial system is set to be counterbalanced by the rise of the BRICS. These would introduce fresh alternatives for both developed and developing countries in the global debt market. Consequently, reforming the global financial architecture to allow greater voices is consistent with sane and balanced global development financing. The expansion of the BRICS to include top oil producers and more countries from the global South, coupled with the launch of a new currency, is set to disrupt the dominance of the post-1945 global international financial system. This would bring new opportunities for pricing debt and issuing new instruments backed by real assets.

Moreover, the faulty debt sustainability measures should give way, and the IMF and the World Bank's hold on the global financial system will wane. We see true reform of the international financial architecture driven by alternative institutions that offer better terms for developing countries.

6.8 African financial Asset (AfA), A new currency backed by pure gold should be implemented across the continent to solve the perennial monetary and financial troubles engendered by the fiat-based international financial system.

This has a powerful empirical backing given Africa's resource endowment and as a net creditor to the rest of the world. The African continent has over 30% of the earth's remaining mineral resources and over 60% of arable land. A return to gold as the natural form of money for transactions, storing wealth, and investments driven by natural resource rents should lay the foundation for a new Africa devoid of debt. The domestic strengths of resource endowment should be converted to a real asset termed the African financial Asset (AfA) backed by gold. The reversal of the trend of debt-induced underdevelopment in Africa can be stopped in its tracks through a return to the fundamental basis of economics, which is deeply rooted in natural wealth. Here is Africa's undisputed comparative advantage.

Fundamental reforms bring the entire debt crisis to a close, not by management, but by debt cure, via alternative models to the standard workhorse in public debt management.

History and present experience show that debt-fuelled development is unsustainable. AfA pegged to Africa's precious minerals, of which a guarantee from the vaults of Ghana, South Africa, Sudan, Mali, and Burkina Faso, as the leading gold-producing countries is enough to create a stable platform for continental financing. In contrast to resource-based lending, commodity back currency, supplied from the rest of the African continent, each contribution determined *pari passu* with the dominant natural resource (such as oil in oil-producing nations, cashew, and coal for cashew and coal-dependent economies and so on) hold the key to harnessing Africa's enormous wealth potential for the benefit of Africans. AfAs can be converted into cash, and vice versa, since they are the underlying assets, not derivatives. This will feed directly into the continental drive for a new instrument embedded in the Pan-African Payment and Settlement System (PA-PSS). AfA should be centrally managed and issued by the African Treasury Bank (ATB) with subsidiaries and branches throughout the continent.

In the context of the current debt crisis, AfA offers a lasting solution. Immediate funding, consistent with a country or region's needs, would be issued to cover expenditures. These could be tailored towards social services such as education, health care, the building of roads, farms, and energy infrastructure to boost production. Overriding this integration would be the free movement of factors of production and trade within the continent. AfA offers an African-grown, efficient, and reliable debt management gateway that supports the instant flow of financial resources. These would respond to real needs and reduce the inflated cost to nations of the ruinous loan contraction processes, its attendant conditionalities, and debt servicing obligations.

With AfA, the dominance of foreign currencies in Africa's debt portfolio, currently estimated at more than 60%, will disappear, and a focus on inter and intra-African trade relations will be fostered. This could be done through a common intermediary, making financial intermediation much easier while pushing vital funding to small, micro, and medium-scale enterprises, the backbone of the African economy.

7. CONCLUSIONS

After three decades of pursuing different creditor conditionalities with stunted growth and development, there is a need for radical change in the current debt management and restructuring of MDBs and IFIs. The HIPC, MDRI, DSSI, and the G20 Common Framework point to the debilitating effects of sovereign debt burden on emerging and developing African countries. Many African governments have promised their citizenry a better standard of living after ending every IMF/WB debt conditionality cycle, only to fall into deeper and deadly international contractual debt agreements again. There is no end in sight.

Therefore, a critical review of the G20 CF calls for further attention to mitigating the weaknesses embedded in the initial concept and broadening the scope and conditions for participation. At all costs, such reform should include clauses for debt write-offs and outright cancellation, especially in countries that face persistent debt distress, expand the scope beyond governmental bilateral claims, and include middle-income debt-distressed economies. This should be matched by debt transparency and the use of up-to-date debt sustainability indicators that account for climate shocks and sustainable development.

The Common Framework should create opportunities for equal distribution of debt service burdens among creditors and enlarge the comparability of treatment to rope in private creditors and non-Paris Club members.

Implementing incentive compatibility debt restructuring contracts for private and multilateral creditors will enhance the appeal of the G20 CF and pave the way for smoother negotiation.

In the short term, strengthening the safeguards of debt management and transparency should be top priorities for all sovereign African countries. With the current uncertainty for global interest and inflation rates, advanced economies seek cheaper, alternative resources to power their growth, and African natural resource market is their destination. On the other hand, African countries are hoping to develop their economies by contracting foreign capital from donor countries anchored on their vast but dwindling natural resource base. African governments' contractual obligations for infrastructure, energy, and climate change vulnerabilities need to be carefully managed even for countries where debt remains sustainable. It is important to hold the coordinators of global debt accountable and responsible for public debt transparency based on the comprehensive proposed policy recommendations above.

In the medium term, the acrimonious debates about unsustainable debt for African countries that need restructuring with tighter conditionalities, would rumble on. However, African governments must listen to civil society organisations (CSOs) like AFRODAD, who are developing homegrown solutions for individual sovereign countries. The supply side monopoly of creditor organisations replicated in different club names and forms must be marched with similar organisations from the demand side by the global south. It is time for Africa to reach out to alternative tools such as the African Financial Asset (AfA) and a range of non-distortionary natural resource-based revenue generation. The decision to make is the choice for radical debt management today or higher inequality with extreme poverty tomorrow, anchored on a lingering debt burden. The lack of action now means a painful trade-off in the future.

Consultants

Prof Imhotep Paul Alagidede And
Gloria Kafui Bob- Milliar

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