AFRODAD

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

POLICY BRIEF PAPER

Analysis of the Debt Management Policies of International Financial Institutions and Multilateral Groups Amid Multiple Crisis: Their Potential and Alternative Policies to Address Current Debt Challenges

2023

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ABBREVIATIONS

AfDB	African Development Bank
APA	Agreed Policy Actions
AU	African Union
Bn	Billions
CCRT	Catastrophe Containment and Relief Trust
CI	Compositor Index
CPIA	Country Policy and Institutional Assessment
Covid-19	Coronavirus Disease
DeMPA	Debt Management Performance Assessment
DSA	Debt Sustainability Analysis
DSEP	Debt Sustainability Enhancement Program
DSF	Debt Sustainability Framework
DSSI	Debt Service Suspension Initiative
EMDE	Emerging and Developing Economies
EAC	East African Community
ETCA	Economic and Technical Cooperation Agreement
EU	European Union
FOCAC	Forum on China-Africa Cooperation
G-20	Group of Twenty
GDP	Gross Domestic Product
GNI	Gross National Income
HIC	High Income Countries
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFI	International Finance Institutions
IMF	International Monetary Fund
Ksh	Kenyan Shillings
LIC	Low Income Country
LDC	Least Developed Countries
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
Mn	Millions
MOFCOM	Chinese Ministry of Commerce
PRGT	Poverty Reduction and Growth Trust.
RST	Resilience and Sustainability Trust
SADC	Southern African Development Community
SDR	Special Drawing Rights
US$	United States Dollars
WB/G	World Bank Group
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

Public debt has been the centre of attention for decades, which has necessitated the evolution of various debt management policies, especially by international financial institutions (International Monetary Fund- IMF, World Bank), which control world financial architecture. Africa's debt has spiralled in recent years, driven by the need to address huge investment gaps for its development objectives, and more recently, the debt sustainability risks have increased owing to COVID-19's impact on revenues and expenditures.

Utilising exploratory and comparative methods, this policy paper investigates the impact of multiple crises, including Covid-19 and the Ukraine-Russia war, on Africa's expanding debt levels. Vital direction from analysing the workings and impacts of the various debt management policies on Africa's debt profile is presented in the policy brief. These policies include the IMF Debt Sustainability Framework, The Special Drawing Rights (SDRs) Framework Sustainable Development Finance Policy, and the Debt Limits Policy, among others. The impact of the various debt management policies on attaining the African Union Agenda 2063 goals are richly considered. Finally, the policy brief highlights the potential for alternative debt initiative policies and policy adjustments that would help address Africa's debt challenges.

In the last several decades, public debt has increased significantly for African countries regardless of their income levels. Growing public debt is largely attributed to multiple global economic crises. The increase in public debt level has raised concerns over the debt management policies of the key international finance institutions and other multilateral groups and their professed contribution to managing Africa's burgeoning debt. Likewise, Africa's rising unsustainable debt level has drawn attention to the quality of public debt management and the efficiency of domestic debt markets in lowering financial vulnerability.

Over the years, however, while reducing in share, the key international finance institutions like the IMF and World Bank introduced various debt management policies. The IMF and the World Bank Debt Sustainability Framework (DSF) were introduced to manage developing countries' debt sustainability. The DSF was designed to guide the borrowing decisions of low-income countries by matching their financial need with their ability to meet current and future repayment obligations. The framework continuously requires regular debt sustainability analysis of countries' projected debt burden over the period of ten years, accompanied by the vulnerability structure of their economic policies and shocks. As a rule of thumb, the IMF has always recommended that African countries should maintain their debt different thresholds for external debt to GDP, external debt to exports, and debt service to revenue based on the debt holding capacity also reflected in the Country Policy Institutional Assessment (CPIA). China also provided Africa with minuscule zero-interest rate loans through its multilateral Banks via its Interest-Free Loan Policy.

The outcomes from the use of the different management policies of these multilateral groups, while making a positive impact, have not stopped the re-emergence of the African debt crisis and they show low levels of development. Since the first large-scale debt restructuring process (HIPC and MDRI), public debt in African countries has escalated, reaching $645bn in 2021 compared to $233bn in 2010. Africa's debt situation remains perturbing, with 23 low-income African countries in debt distress or at risk of debt distress. Zambia has public debt of approximately 120% of GDP, Angola was at 120.3% by the year 2022, Congo at 104.5% and Ghana at 86% of GDP. Zambia reached a restructuring agreement with its official creditors, which is commendable. However, the Multi-lateral debt policies remain devoid of the implicit and explicit costs associated with unsustainable debt levels, such as social security cuts and medical care cuts, among others, which further entrap economies into slow progression and dent long-term development needs encapsulated in the African Union 2063 agenda. Overall, multi-lateral public debt management policies are necessary but not sufficient. They only meet the national development objectives in part. They have not fully addressed the national governance, and institutional factors that are critical for debt management. Moreover, repayment are not explicitly considered.

- There is an urgent need to rethink and arrive at the best possible alternative solutions to these policies. Consequently, International Financial Institutions (IFIs) such as the IMF and the World Bank have increased their involvement in reviewing these policies. For instance, twenty-six countries have an IMF program, in addition to a program of lending to Rwanda under the Resilience and Sustainability Trust (RST). Multilateral Development Banks (MDBs) are also expanding their lending facilities to the region.

The Harare Declaration confirms that the current debt and financial architecture are currently not working for Africa and her citizens. Section 4 of the African Borrowing Charter provides guidance on the need for the "existence of an Autonomous debt management office" in addition to other measures for effectively managing public debt.

- IFIs debt sustainability frameworks and assessment methods should be revised to better reflect the implications of a country's debt situation on its ability to fulfil its human rights obligations, which requires fiscal space. Debt sustainability in its current context for DSAs is an objective rather than a condition, which is a faulty analytical premise. This is because for a country to meet its payment obligations, a healthy and functioning economy becomes critical. In achieving this, countries may have to borrow beyond what is considered a normal range, particularly where huge capital-intensive infrastructural projects are going on. For this reason, debt sustainability should go beyond the "payment obligation" condition to present and future earning returns from ongoing projects and asset availability like natural resources.

- Accelerated domestic revenue reforms remain a must. It is also imperative to improve the level of international tax cooperation. Presently, inadequate tax cooperation on the global front encourages tax avoidance strategies by multinational corporations and allows tax evasion by individuals and companies. Adherence to global laws that ensure that multilateral corporations do not shift profits to low-tax jurisdictions and that taxes are paid in locations where the economic activity occurred is of importance.

- There is also a need to establish an African Financial Stability Mechanism. Such a homegrown mechanism leverages funds for protection against global shocks.

- Also critical and urgent is the need for improved transparency. For instance, the terms of borrowing should be publicly disclosed in a timely manner to allow citizen engagement in debt management. The issue of transparency is even more dire given the increasingly diversified creditor base and the cases of hidden debt and resource-backed loans. Annualised public debt borrowing plans, as well as annualised public debt matrices and reports on comprehensive debt structure, composition, terms, and other liabilities, should be in place. AFRODAD will continue to advocate for increased transparency and its timeline.

1. INTRODUCTION

Since the early 1990s, there has been a consistent evolution of the IFIs' and multilateral groups' debt management structures, among them the World Bank and IMF Low Income Country (LIC) Debt Sustainability Frameworks (DSF), the IMF's Debt Limits Policy (DLP), and the World Bank's Non-Concessional Borrowing Policy (NCBP). In the late 1990s and mid-2000s, African highly indebted countries benefited from the debt restructuring process of the Highly Indebted Poor Countries Initiatives of 1996 (HIPC) and Multi-lateral Debt Relief Initiatives of 2005 (MDRI) to help return to sustainable debt levels. However, since the 2010s, Africa's public debt soured, resulting in a 'New Debt Crisis' in Africa. Currently, 23 African countries are in debt distress or at risk of debt distress. The high number of indebted African countries was exacerbated by the outbreak of the Covid-19 pandemic, which reduced economic growth and, at the same time, necessitated huge government spending, which was mainly funded through further borrowing.

The Covid-19-induced depression necessitated an injection of new liquidity to suffocate economies. The IMF, in response, approved SDRs global allocation in 2021 of SDR 456.5 billion (US$650 billion) to help vulnerable countries finance more resilient, inclusive, and sustainable economic recoveries from the pandemic. The pandemic was a health crisis with socio-economic and political impact. Since its declaration as a pandemic on 30th January 2020, many African countries have experienced declining balances of payments, increased fiscal deficits, and increasing borrowing intended to safeguard their citizens and domestic businesses. The IMF, through the Rapid Credit Facility and Rapid Financing Instrument, provided up to US$25.9 billion to sub-Saharan African countries (IMF, 2022).

Further, the international community, mainly the World Bank's Development Committee and the G20 Finance, did put forward two initiatives: the Debt Service Suspension Initiative (DSSI) in April 2020 and the Common Framework in November 2020 for countries with unsustainable debt. The DSSI relieved some countries of making debt service payments on bilateral loans, particularly loans owed to the G20 countries, until the end of 2021. Common Framework offers severely indebted countries the opportunity to reschedule the debt owed to bilateral creditors while encouraging other official creditors and private creditors to participate on comparable terms. The World Bank's Covid-19 Fast-Track Facility, alongside the AfDB's African Development Fund also provided concessional funding to the continent.

Despite the several IFIs and multilateral groups' debt management initiatives for African economies, the debt challenges are more pronounced today than two decades ago, exhibited by worsening debt stress risks and deteriorating credit rating.

This policy brief attempts to give a comprehensive analysis of the debt management policies of the IFIs and Multilateral Groups. It provides potential and alternative policies that address current debt challenges in the region. The paper is structured as follows: section 2 gives an overview of debt on the African continent, which is followed by the evolution of multi-lateral public debt management policies in Section 3 and past relief initiatives in Section 4. The impact and implications of Debt Management Policies of the Key IFIs on Agenda 2063 are presented in Section 5, while the paper concludes with alternative policy recommendations in Section 6.

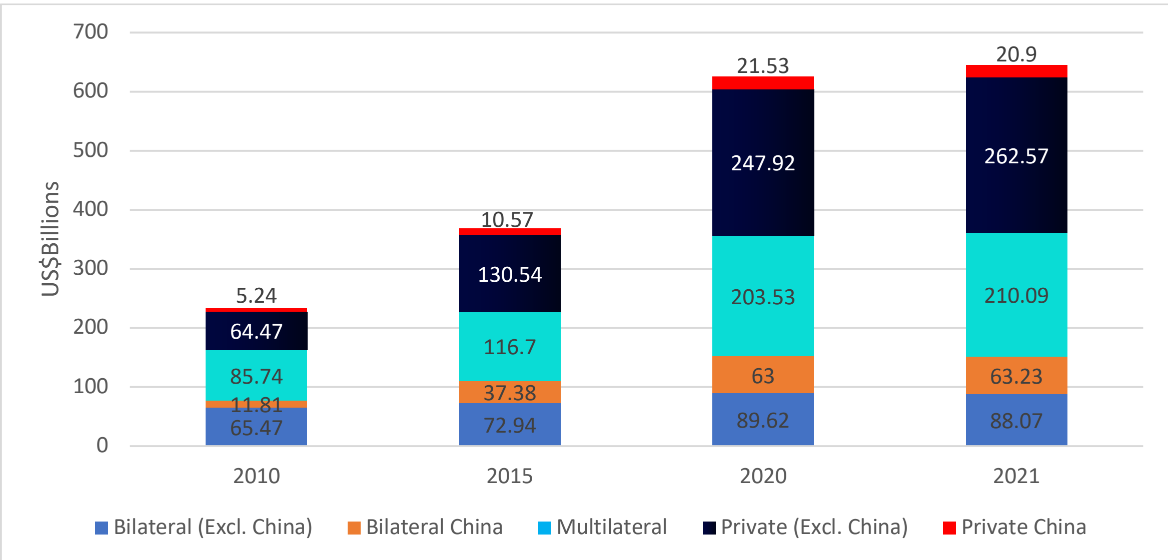
2. OVERVIEW OF THE AFRICAN DEBT

Africa's total debt stands at US$1.13 trillion, representing a 374% increase in public debt from the year 2000 to 2024[1]. Moreover, Africa's creditors composition has changed significantly from concessional loans to non-concessional loans. Private creditors dominate Africa's debt landscape. In recent years, private creditors have become key financing sources for African countries as governments can circumvent loan conditions associated with debt owed to bilateral and multilateral creditors (See Figure 1). Finance obtained without the rigorous scrutiny of official lending programmes creates an appetite for loans from private creditors. Private creditors offer higher interest rates and shorter maturity and grace periods relative to debt from other creditors. Note that private creditors have been reluctant to provide debt relief under the DSSI and have not engaged with the Common Framework. The 46 countries that participated in the DSSI still owed a large share of their debt to private creditors and were still obligated to service private creditors' debt, suggesting the use of the savings from DSSI to, in part, meet those obligations.

Chinese loans to African governments since the beginning of the millennium are estimated at US$153 billion[2]. The higher interest rates and lower maturities associated with these non-concessional sources have led to rising interest payments and higher refinancing risks. At the 2021 Forum on China-Africa Cooperation (FOCAC), the Chinese President stated that China would provide US$10 billion in trade finance to support African exports (FOCAC, 2021). China, in particular, is more flexible as both Chinese commercial and state entities lend to the continent.

There has been a huge surge in the issuance of African sovereign bonds. Between 2003 and 2019, African governments issued more than 125 Eurobond instruments worth more than US$155 billion[3]. By 2022, 15 African countries had issued 74 bonds. These outstanding bonds will attract payments projected to be $4,5 billion in 2023, $11 billion in 2024, $11 billion in 2025, and $7 billion in 2026 (AfDB, 2021).

Figure 1: Evolution of Africa's External Debt



Source: International Debt Statistics

Africa has been battling a debt crisis for only twenty years since the majority of African countries benefitted from HIPC in 1996 and MDRI of 2005. The majority of the former HIPC beneficiary countries, such as Zambia, Uganda, Congo, Malawi, Ghana, Somalia, Mozambique, and Chad, are currently, either in debt distress or at a high risk of debt distress (See Table 1).

1 https://unctad.org/publication/world-of-debt/regional-stories
2 CARI, 2021
3 AfDB, 2021

Africa's debt crisis requires an in-depth understanding of the drivers of rising debt burdens and the implications of high debt burdens. The causes of the debt crises are both internal and external to the region. The internal factors causing debt acceleration include high public infrastructure investment, weak economic performance, increased government expenditure in the context of slow revenue growth, poor governance, and corruption. External factors include the adverse effects of the global financial crisis, terms of trade shocks, currency depreciation, low global interest rates, and the search for higher yields by foreign investors. The structural weaknesses in the taxation and domestic resource mobilisation systems of African countries have increased reliance on borrowing as an alternative to mobilising revenue by African countries to finance development.

3. EVOLUTION OF DEBT MANAGEMENT POLICY ARCHITECTURE

A substantial number of debt management and debt workout mechanisms have been put forward by IFIs such as the IMF, the World Bank, and the African Development Bank. These include *inter alia* The IMF/ World Bank Debt Sustainability Framework and World Bank Debt Management Performance Assessment (DeMPA)

3.1 The IMF/ World Bank Debt Sustainability Framework

The IMF and the World Bank introduced the Debt Sustainability Framework (DSF) to guide the borrowing decisions of low-income countries in a way that matches their financial needs with their ability to meet future repayments. A country is considered to be "in debt distress" when the present value of debt to GDP and exports ratio and debt service ratios significantly breach the respective thresholds, and there are actual or impending debt restructuring negotiations and significant existence of arrears[4]. As per the latest DSA publication, May 31, 2023, nine African countries are classified as in debt distress (See Table 1).

The evolution and usage of DSAs have provided countries with an appreciation of the risk of debt distress, the potential impact of shocks on debt, and drivers of debt accumulation. Most legal frameworks (Fiscal Responsibility Laws) require governments to undertake and publish the DSA results. DSA are important because they improve fiscal discipline by requiring governments to declare and commit to a monitorable fiscal policy objective and strategy. The DSA framework is also an important tool for the development of medium-term debt strategies. However, the DSA framework, despite its relevance, has not prevented countries from going into debt crisis; in some instances, future assumptions do not accurately reflect the dynamic and detailed costing of projects, thereby leading to unreliable projections, as evidenced in comparisons of different future projections from several country DSAs.

A case in Uganda, However, over the last decade, spates of deviation of the agreed targets in the debt sustainability frameworks (of 2013, 2016, and 2019) were observed. This makes the charter of fiscal responsibility not an effective anchor for fiscal policy, even in the short term[5].

Additionally, the DSA Framework excludes a detailed scope of contingent liabilities contingent liabilities, such as government guarantees and implicit liabilities, which can also pose significant risks to a country's fiscal position. The same applies to domestic arrears as, in most cases, data is incomplete. The governance and institutional factors which are critical for debt management and repayment are not explicitly considered.

Overall, the DSA framework is necessary for prudent debt management but is not sufficient. It is also associated with negative ramifications, such as stringent austerity measures and fiscal rules[6].

4 https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf
5 IMF (2019), Uganda Article IV Consultation staff report
6 Isabel Ortiz Matthew Cummins, 2021: Global austerity alert looming budget cuts in 2021-25 and alternative pathways

Table 1: List of African LIC DSAs for PRGT-Eligible Countries as of May 31, 2023

LOW	MODERATE	HIGH	IN DEBT DISTRESS
	Benin	Burundi	Congo, Republic of
	Burkina Faso	Cameroon	Ghana
	Cabo Verde	Central African Republic	Malawi
	Congo, Dem. Rep. of the	Chad	Mozambique
	Guinea	Comoros	São Tomé and Príncipe
	Lesotho	Côte d'Ivoire	Somalia
	Liberia	Djibouti	Sudan
	Madagascar	Ethiopia	Zambia
	Mali	Gambia, The	Zimbabwe
	Niger	Guinea-Bissau	
	Rwanda	Kenya	
	Senegal	Mauritania	
	Tanzania	Sierra Leone	
	Togo	South Sudan	
	Uganda		
0	**15**	**14**	**9**

Source: https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

3.2 World Bank Debt Management Performance Assessment

The Debt Management Performance Assessment (DeMPA) is a diagnostic tool used by the World Bank to evaluate a country's debt management processes and institutions. Through a comprehensive set of indicators spanning the full range of government debt management functions, the DeMPA identifies core strengths and weaknesses.

In doing so, it helps strengthen capacity and institutions so that countries can manage their public debt effectively and sustainably. The DeMPA also helps governments that undertake debt management reforms monitor progress toward international practices (World Bank 2023)[7]

According to the World Bank DeMPA methodology, a sound legal framework for public debt management should clearly set out the following provisions: clear authorisation by the parliament or congress to the executive branch of government (to the president, cabinet or council of ministers, or directly to the minister of finance) to approve borrowing and loan guarantees on behalf of the central government; specified borrowing purposes; clear debt management objectives; and the requirement to develop a debt management strategy.

The DeMPA results are usually published together with wide-ranging recommendations for improving the country's public debt management and governance. DEMPA use in Africa also remains limited with less than half of the countries assessed. However, some countries take a long time to implement these recommendations following their assessment. Also, the DEMPA scoring and ranking system of DeMPA may incentivise countries to prioritise short-term debt management goals to improve their scores, potentially overlooking long-term debt sustainability objectives.

7 https://www.worldbank.org/en/programs/debt-toolkit/dempa

3.3 Debt Limit/Ceilings Policy

A debt ceiling is used to determine the maximum amount of debt that governments can carry and can also be encapsulated in public debt management laws. In regional blocs and monetary unions, debt limits are used as a convergence criterion. For example, the Southern African Development Community (SADC) requires its members to have a debt limit of 60 percent of Gross Domestic Product (GDP), while the West African Economic and Monetary Union (WAEMU) and East African Community (EAC) debt limits are 70 percent and 50 percent of GDP respectively[8]. Currently, most of the countries violate the fiscal deficit targets in the respective convergence criteria.

The debt limit may be established as a percentage of the aggregate, *which is the most common approach*, or as a nominal amount, such as in Kenya and Zambia. Some countries have established limits to borrowing in their primary legislation, in their constitution and in debt management laws. However, given that the procedures for constitutional and legal amendments are often more stringent than those for secondary laws, prescribing a debt ceiling in primary law makes the debt ceiling more permanent and difficult to change. While this might be desirable, it may become a challenge when governments need to increase their borrowing in cases of emergency as was the case during the Covid-19 epoch.

In Cabo Verde, Kenya, and Zambia. debt limits are approved by parliament on an annual basis, as part of approving the annual national budget and annual borrowing plans. In Kenya, Section 50(5) of the PFM Act (2012) states that "Parliament shall provide for thresholds for the borrowing entitlements of the national government and county governments and their entities".[9] In Uganda, the debt limits are set out in the Charter of Fiscal Responsibility (2021-2025). However, the main challenge remains adherence to these limits.

3.4 Non-Concessional Borrowing Policy (NCBP)

The Non-Concessional Borrowing Policy (NCBP) was the previous policy of the IDA launched in 2006, and it aimed at addressing debt situations in post-MDRI and grant-eligible IDA-only countries. It resulted from the debt relief and debt cancellation rounds for countries under the HIPC and MDRI initiatives.

8 AFRODAD 2019 - Assessment of National Financing and Investment Policies in The East Africa Community (EAC) And Southern Africa Development Community (SADC) Countries Against Regional Protocols.
9 Bopelokgale Soko June 2022 - African Debt Series Vol. 1 Debt Management and Governance in Africa)

NCBP focused on preventing more unsustainable accumulation of debt as a broader plan of debt monitoring and management. The NCBP is premised on the relevance of non-concessional borrowing as a useful complement to concessional financing for development in low-income countries. Implementation of the policy hinges on two broad strategies. These include enhancing creditor coordination and encouraging proper borrowing behaviour through disincentives. The NCPB reviews non-concessional borrowing using loan-by-loan or borrowing ceilings.[10] The NCBP ensures the conduct of periodic reviews to ensure non-concessional borrowing aligns with the NCBP. Periodic reviews also help to improve transparency around the implementation of the NCBP. In cases where there has been a breach of the NCBP, the IDA has responded by issuing non-concessional borrowing waivers, reducing allocated borrowing volumes, and giving stricter borrowing terms. Adjustments to the NCBP were made in 2008, 2010 and 2015. Due to the limitations of the NCBP, the policy was discontinued in June 2020

3.5 International Development Association- Sustainable Development Finance Policy

The World Bank through the International Development Association (IDA) lends money on concessional terms, with zero or very low interest charges and repayments spread over twenty-five to forty years. Repayments also include a grace period of five to ten years. IDA has allocation decisions based on several criteria, including each country's income level and performance record in managing their economies and ongoing IDA projects. Eligibility for funds is based on (i) the criteria of relative poverty, (proxied as a Gross National Income (GNI per capita) which should be below an established threshold (ii) lack of creditworthiness that has restricted capital market access market terms and (iii) the need for concessional resources to finance the country's development program.[11] On meeting these fundamental conditions, countries are assessed to determine their track record of implementing policies that advance economic growth and poverty reduction.[12]

Beyond providing financing, the IDA also helps countries manage their debt and has coordinated debt relief for poor countries through its debt policy called the Sustainable Development Finance Policy (SDFP).[13] The SDFP framework builds on the lessons learned during the implementation of the NCBP and adapts it to the new debt and creditor landscape. The SDFP will have a broader scope and a greater focus on addressing debt vulnerabilities. The objective of the SDFP is to incentivise countries to move towards transparent, debt sustainability, sustainable financing and coordination between IDA and other creditors. The SDFP operates under an equitable application of the policy across all IDA countries by calibrating performance and policy actions consistent with country context and capacity. Also, the SDF policy is anchored to a simple and predictable implementation framework, which includes rule-based steps by borrower countries and IDA. The incentive mechanism for borrowing countries outlined in the new policy is expected to be simple and based on rewards. The SDFP under the Debt Sustainability Enhancement Program (DSEP) requires debt risk IDA-eligible countries to implement Performance and Policy Actions (PPAs), to correct factors contributing to debt distress risks.

Where a country fails to improve its debt management performance, fiscal sustainability and debt reporting, a percentage of its allocation from the IDA is withheld from disbursement.[14]

3.6 Chinese Interest-Free Loans Policy

The significant presence of Chinese Loans in the debt profile of African countries is noteworthy. China is one of the largest creditors to Africa. Official Chinese loans provided to Africa take 3 main forms namely: (i) grant aid from the Ministry of Commerce, (ii) aid in kind and (iii) zero-interest loans. The majority of China's official loans are concessional, and the remaining Chinese financial flows are through commercial and preferential lending.[15]

10 https://documents1.worldbank.org/curated/en/816041584453016044/pdf/IDAs-Non-Concessional-Borrowing-Policy-2019-Review.pdf
11 In fiscal year 2023, this was $1,255. https://findevlab.org/wp-content/uploads/2023/05/FDL_DR_CoT_IDA_Formatted-vf.pdf
12 https://ida.worldbank.org/en/about/how-does-ida-work
13 https://thedocs.worldbank.org/en/doc/a0908d01b8edaed8b042114bf89b2dc2-0410012020/original/sdfp-at-a-glance-2020-8-14.pdf
14 https://www.cgdev.org/publication/harder-times-softer-terms-assessing-world-banks-new-sustainable-development-finance
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Interest-free loans (IFLs) as the name implies are non-guaranteed loans with zero interest provided to sovereigns- with voluntary expectation of repayments. IFLs accrue no interest and typically have a five- or ten-year grace period and a 15- or 20-year period of repayment.

Traditionally, IFLs upon inability to be repaid can be forgiven by Beijing in certain exceptional cases, unlike concessional and commercial lending whose interests should be paid in full. IFLs are unique in their purpose which is more political as diplomatic gestures in the toolbox of Chinese Foreign Diplomacy to strengthen foreign relations with African countries. The economic reasons behind IFLs remain largely unknown and do not appear to provide any real financial benefit. Previously, IFLs were administered by the Chinese Ministry of Commerce (MOFCOM) through the Economic and Technical Cooperation Agreement" (ETCA). China International Development Cooperation Agency (CIDCA) took over the administrative reins of IFL management from the MOFCOM and reclassified them as foreign aid funds.[16]

3.7 African Development Bank Non-Concessional Debt Accumulation (NCDA) Policy

The African Development Bank Non-Concessional Debt Accumulation (AfDB NCDA) Policy was approved by the Bank's Board of Directors in 2008. The NCDA policy is closely designed and aligned with the IDA NCBP to address non-concessional borrowing. Debt sustainability under the NCDA was a strong determinant in the use and allocation of the Bank's non-concessional financing and resources to the AfDB's member countries. The NCDA policy objectives were to enhance creditor coordination around the joint IMF–World Bank Debt Sustainability Framework and to discourage unrestrained non-concessional debt accumulation through compliance measures.

However, despite these measures growing debt levels continued. During the Seventh General Capital Increase (GCI-VII) and the 15th Replenishment of the African Development Fund (ADF-15), the Bank committed to revising its NCDA Policy.[17] The review of the NCDA Policy showed that the policy measures and incentives were ineffective in significantly impacting the debt-related public policies in the African Development Fund (ADF) recipient countries. This is because the ADF had alternative access to other non-concessional finances. In addition, the NCDA policy was ineffective in coordinating action from the different bands of creditors which affected its overall impact on debt level containment. In 2021, the policy was discontinued for a new policy.

3.8 African Development Bank Group Sustainable Borrowing Policy

The Sustainable Borrowing Policy (SBP) is a replacement for the defunct NCDA policy, more aligned to the new IDA broader SDFP. The SBP is an improvement of the NCDA policy and emphasises two core pillars.[18] The first pillar is debt management and transparency through agreed policy actions (APAs). To this end, the SBP aligns and implements the Operational Guidelines of the ADF-15 Resource Allocation Frame while building capacity and providing technical assistance to member countries. The second pillar is coordination and partnership, through improved coordination with multilateral institutions, development partners, lenders, and strategic partnerships. Overall, the SBP aims to ensure complementarity with existing debt management policies of the main IFIs and subsidisation of non-concessional debt with concessional debt using debt sustainability, management, and transparency.

Overall, the multi-lateral debt policies have not been successful in preventing the re-emergence of public risks and addressing the moral hazard effect of governments borrowing more while knowing that the risks will be borne by someone else. Their share of public debt in Africa has also been declining, seeing a rapid increase in non-concessional terms of borrowing. And yet transparency challenges continue to predominate as embedded in Public Expenditure Financial and Accountability (PEFA) assessments, particularly indicators P 1-13 that cover among others the scope, timeline and data requirements of recording and reporting of debt and guarantees.

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4. EVOLUTION OF PAST DEBT RELIEF INITIATIVES

4.1 The Toronto Plan - 1988

The Toronto Plan was established in 1988, by the Paris Club creditors. It aimed to lower the stock of non-concessional bilateral debt. Under this relief package, three menu options were developed. (Ezenwe, 1993), They include the following:

i. Partial write-off or cancellation of one-third of debt service due during the consolidation period, and rescheduling of the remainder at market interest rates with a 14-year maturity;
ii. Rescheduling of debt at concessional or below-market interest rates with a 14-year maturity, including a grace period of eight years; and
iii. Rescheduling of debt service due during the consolidation period at market interest rates with a 25-year maturity, including a grace period.

During 1991, 18 African countries benefited from the Toronto relief package, as they received debt rescheduling. The total amount of failed payments that were consolidated under this relief package was approximately US$6 billion. Countries that benefited from the Toronto plan included Niger, Madagascar, Togo, Central African Republic, Mali, Senegal, and Tanzania. The Paris club creditors realised that the relief package under the Toronto terms, was not sufficient enough to address the issue of the lack of debt sustainability. Hence, the need for a new and efficient debt relief[19].

4.2 The Brady Initiative - 1989

The Brady initiative was designed in 1989. It aimed to support middle-income countries by decreasing their debt stock with the provision of resources from bilateral donors and international financial institutions.

The instruments under this plan were primarily aimed at commercial lenders, hence, several African countries could not be beneficiaries of this relief package as their debt were owed to bilateral and multilateral creditors. However, some African countries were eligible under the Brady terms with Morocco taking the lead. The other countries include Côte d'Ivoire, and Nigeria[20].

4.3 The Trinidad and Tobago Plan - 1990

In 1990, the Trinidad plan was established, and it primarily focused on low-income countries with the objectives of cancelling two-thirds of their outstanding bilateral debt and rescheduling the remainder of their debt over 25 years, inclusive of a grace period of five years. It was evident that earlier proposed relief initiatives could not meet expectations in terms of repayment capacity. The terms under this initiative showed significant improvement compared to the Toronto terms. Under the Toronto terms, only one-third of the debt was cancelled by part of the creditors. Agreements under the Trinidad terms were to be applied to the debt immediately compared to the Toronto terms, which were to be applied in successive percentages[21].

4.4 Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative

The IMF and World Bank launched the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 to deal with the multilateral problem of poor countries. In 2005, to accelerate progress toward the United Nations' Sustainable Development Goals, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). This allowed countries completing the HIPC Initiative process to receive 100 percent relief on eligible debt by the IMF, the World Bank, and the AfDB.

19 Bopelokgale Soko June 2022 - African Debt Series Vol. 1 Debt Management and Governance in Africa
20 Ezenwe, U. 1993. The African Debt Crisis and the Challenge of Development
21 Ibid

However, in 1999, HIPC was comprehensively reviewed, criteria were changed, and debt relief was linked to poverty reduction. More than [30 African countries]() benefited from HIPC/MDRI[22]. However, HIPC and MDRI debt relief initiatives came with conditions. Participating countries had their public spending limited and were forced to prioritise debt service over the fulfilment of basic needs. The effect on "fiscal space" and the ability of countries to scale up public investment and spending was limited because of the tight conditionality. This exacerbated poverty and negatively impacted access to education and health care. Any conditionality that curtails public expenditure undermines development prospects.

The debt relief provided under HIPC/MDRI was not a solution to Africa's debt as over 40% of HIPC beneficiary countries are currently in debt distress or at high risk of debt distress. Only 17% are at low risk of debt distress as of May 2023 (IMF 2023). Some creditors didn't participate. Unfortunately, as successful and important as HIPC and MDRI were, we now realise that those solutions were not enough to address the problem entirely. In part, that is due to the limited sise of the relief despite substantially reducing public debt. Its access also affected the long-term creditworthiness to access finances of the international markets.

The HIPC initiative was made conditional, and countries had to adhere to certain requirements to qualify for the initiative.

HIPC included countries that faced a lack of efficient debt sustainability even after applying traditional debt relief initiatives (UNCTAD, 2004). Under this initiative, a country's debt was considered sustainable if certain debt ratios were within particular thresholds after a debt sustainability analysis (DSA) is conducted. In reducing the level of debt and lowering debt service payments, emphasis was placed on utilising the savings for social spending and pro-poor programmes which proved successful in poverty reduction. However, the HIPC process was lengthy and complex, involving multiple stages and conditions to be fulfilled by the debtor countries. This delayed the relief and recovery efforts for eligible countries.

Debt relief also tends to leverage the moral hazard effect of borrowing governments that borrow more knowing the risks will be borne by someone else[23].

4.5 Ebola Debt Relief for African Countries

In March 2014, there was an outbreak of Ebola virus disease that negatively impacted the international community and 3 West African countries Guinea, Liberia, and Sierra Leone. There was a huge public health crisis of international concern. The governments of Guinea, Liberia, and Sierra Leone were financially constrained to offer healthcare and international health agencies were slow in the mobilisation of international support. As a result of the Ebola pandemic, the economies of Guinea, Liberia, Sierra Leone, and other countries in West Africa were heavily affected. Tourism collapsed in the region, foreign direct investment fell, and trade and services were severely reduced. Because of the collapse of economic activity, the public finances of the 3 Ebola-stricken countries deteriorated abruptly. Government revenues in the three countries declined by almost 3% points of GDP on average between 2013 and 2015, with Liberia accounting for the largest drop. At the same time, governments—under pressure to deliver emergency health care services and increase containment efforts—increased public spending by almost 5 percentage points of GDP over the same period. Liberia witnessed the largest increase, at more than 9 percentage points of GDP[24].

The IMF and international donor community responded by focusing on addressing the health emergency and providing financial support. The IMF provided budget financing and policy advice to the governments of Guinea, Liberia and Sierra Leone. The financial support was meant to sustain the delivery of key government services, including health care and education.

22 https://www.imf.org/en/About/Factsheets/Sheets/2023/Debt-relief-under-the-heavily-indebted-poor-countries-initiative-HIPC
23 Easterly, W. (2002). How did heavily indebted poor countries become heavily indebted? Reviewing two decades of debt relief. World Development, 30(10), pp. 1677-1696.
24 Mehmet Cangul, Carlo Sdralevich, and Inderjit Sian – Beating Back EBOLA - Nimble action on the economic front was key to overcoming the health crisis - Finance & Development|June 2017

The Ebola crisis saw the IMF shifting its approach by financing governments directly rather than following its usual approach of providing funds to central banks to prop up international reserves. The IMF disbursed a total of $378 million, a combination of debt relief and new financing. This sum included almost $100 million in debt relief, provided through The Catastrophe Containment and Relief Trust (CCRT). The CCRT provided grant assistance to Guinea, Liberia and Sierra Leone, to immediately pay off future debt service payments totalling $100 million[25]. The funds allowed the governments to spend on measures to stem the spread of the disease and protect critical social and infrastructure spending. The grants under the CCR Trust freed up resources to respond to the crisis rather than having to assign those resources to debt service[26].

The Ebola crisis, saw the IMF cancel almost $100 million of debt owed by Guinea, Liberia and Sierra Leone, coming due over two to four years, but at the same time lent $160 million in new loans. The lending of more money saw Guinea, Liberia and Sierra Leone's debt increase. Grants were supposed to be given to these affected countries to cope with the impact of Ebola, not loanThe debt of Guinea, Liberia and Sierra Leone to the IMF increased from $410 million to $620 million over 3 years, despite this debt cancellation, due to new issued loans. The IMF has made almost $9 billion in surplus from its lending over the last three years, which is sitting unspent in its reserves[27]

4.6 COVID-19 Pandemic Debt Relief Initiatives

The Covid-19 global pandemic was a health crisis with socio-economic, and political impact. Since its declaration as a pandemic on 30th January 2020, many African countries experienced declining balance of payments, increasing fiscal deficits, and increasing borrowing. The pandemic affected debt dynamics on the African continent. International trade, tourism and external finance are key international economic channels through which the pandemic has had its impact (United Nations Committee for Development Policy, 2021). Owing largely to the disruptions in the global value chain and the general decline in the demand for commodities, particularly during the lockdown period, trade in the region experienced a significant reduction. The exports of least developed countries (LDCs), most of which are in Africa experienced a significant drop in April and May of 2020, with some LDCs not fully recovering (United Nations Committee for Development Policy, 2021).

The pandemic affected global supply chains leading to a decline in the availability of final and intermediate goods imported into the continent, with countries that are heavily integrated into global value chains more affected. Economies heavily dependent on resources faced considerable disruption with regard to trade. The decline in trade led to revenue shortfalls, thus making it more difficult to service existing debt and creating the need for new debt.

Furthermore, the restrictions on travel affected the economies of African countries, particularly tourism. A large number of countries in Africa are tourism-dependent economies. For these countries, the halt in international travel during the lockdown period led to a slowdown of economic activities and more specifically, the deterioration of the tourism sector.

The pandemic affected key financing sources such as foreign direct investment. Between 2019 and 2020, FDI inflows to sub-Saharan Africa decreased by 12% to US$30 billion as a result of mobility restrictions in the first half of 2020 (UNCTAD, 2021). Covid-19 drastically reduced African countries' government revenues while expenditures increased due to a sharp rise in health expenditures, social programmes and recovery bailouts to firms. The combined shock to both revenues and expenditures exacerbated fiscal deficits, leading to high debt. The depreciation in national currencies further amplified external debt.

25 https://www.imf.org/external/np/fin/ccr/
26 Mehmet Cangul, Carlo Sdralevich, and Inderjit Sian – Beating Back EBOLA - Nimble action on the economic front was key to overcoming the health crisis - Finance & Development|June 2017
27 https://debtjustice.org.uk/press-release/welcome-ebola-debt-relief-warning-impact-new-loans

As a response to Covid-19, the Multilateral Development Banks availed facilities, mainly focused on supporting health and sanitation. The World Bank Group (WBG) committed US$160 billion, including US$50 billion from the IDA. Many African countries benefited from the Covid-19 Fast-Track Facility such as the Democratic Republic of Congo (DRC) US$47 million; Eswatini, US$6 million; Lesotho US$7.5 million and Malawi US$37 million (IMF 2020). The IMF trebled lending capacity to US$1 trillion since the crisis and also lowered the conditionality for accessing the emergency financing facilities.

The following countries accessed these facilities and got huge sums of money, Comoros US$12.13 million; Madagascar US$165.99; Malawi US$91 million; Mozambique US$309 million Tanzania US$14.3 million; and Seychelles US$31.2 million. Other countries such as Zimbabwe were ineligible due to arrears to multilateral and bilateral creditors.

4.7 The Debt Service Suspension Initiative and G20 Common Framework

The **Debt Service Suspension Initiative (DSSI)** was endorsed by the World Bank's Development Committee and the G20 Finance in April 2020, to help poor countries manage the severe impact of Covid-19. The main goal of the DSSI was to allow poor countries to concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people. The DSSI relieved some countries of making debt service payments on bilateral loans, particularly loans owed to the G20 countries, until the end of 2021.

Under the DSSI countries committed to using freed-up resources to increase social, health, or economic spending in response to the crisis. They also committed to disclosing all public sector financial commitments, involving debt and debt-like instruments.

Countries also committed to limit their non-concessional borrowing as supported by ceilings under IMF programs and the World Bank's non-concessional borrowing policies. DSSI merely postponed the debt burden instead of stock reduction. As the health, social, and economic impacts of Covid-19 persisted, the liquidity crisis evolved into a debt crisis.

The World Bank and IMF did not participate in the DSSI put forward by G20 countries and their participation in the Common Framework is based on macroeconomic conditionalities. This is a result of the 'preferred creditor' status multilateral organisations enjoy, which implies that payment to them must be prioritised over bilateral and private creditors. Consequently, benefits from such debt relief initiatives are inundated by debt service obligations to multilateral institutions. Similarly, private creditors are not participating in debt reduction programmes. This combined with the high interest payments associated with private debt has led to the use of scarce government revenue primarily for debt servicing purposes.[28]

The G20 Common Framework offers severely indebted countries the opportunity to reschedule the debt owed to bilateral creditors while encouraging other official creditors and private creditors to participate on comparable terms. The details for a new debt relief initiative are that eligibility will be determined by debt sustainability assessments undertaken by local debt management authorities in collaboration with multilateral institutions. Eligible countries will receive debt relief on bilateral and multilateral debt, while comparative relief will be sought from private creditors.

There exists several gaps in both the DSSI and Common Framework initiatives. Both of them do not offer debt relief in the form of haircuts which is also usually associated with write-downs of the country's public debt or restructuring reducing public debt. There are no reductions in participating countries' debt stock, which implies that the core problem of unsustainability is not being addressed but rather a liquidity short-term challenge. The haircuts represent a common position between creditors and debtors but lessons from recent debt crises like Greece indicated that there is a sizeable share of creditors who hold out – refusing to negotiate.

28 Mma Amara Ekeruche June 2022

Countries have to apply to be considered for the initiatives and admission is on a case-by-case basis. Most countries wanting debt restructuring chose not to apply for fear of being punished by the capital markets. Private creditors are absent in both initiatives despite international calls for their participation. The Common Framework has no strong mechanism for private sector participation. Both initiatives exclude deserving middle-income countries with unsustainable debt burdens brought by Covid-19 from debt relief. There is a need for a new framework that builds on the existing debt relief initiatives and addresses the challenges therein.

4.8 The IMF Special Drawing Rights

Special drawing rights (SDRs, code XDR) are supplementary foreign exchange reserve assets defined and maintained by the IMF. SDRs are units of account for the IMF and not a currency. SDRs represent a claim to currency held by IMF member countries.[29] SDRs and their policy were created in 1969 to supplement a shortfall of preferred foreign exchange reserve assets, namely gold and US dollars. SDRs are drawn from a basket of currencies consisting of the following five currencies: the US dollar at 43.38%, the euro at 29.31%, the renminbi (Chinese yuan) at 12.28%, the Japanese yen at 7.59%, and the British pound sterling at 7.44%. The weights assigned to the currencies in the SDRs basket are based on their current prominence in terms of international trade level/GDP and national foreign exchange reserves.

As a result of the pandemic, the IMF in August 2021 approved the issuance of SDRs, amounting to 456.5 billion or equivalent to US$650 billion. The allocation was done to help vulnerable countries finance more resilient, inclusive and sustainable economic recoveries from the pandemic. SDRs allocations are based on members' quota shares in the IMF, which are in turn based mostly on GDP size, reflective of countries' relative economic positions in the global economy. Africa received SDRs equivalent of US$ 33billion, which is approximately 5% of the global allocation. Even at the continent level, the top 10 countries accounted for over 60% of the African allocation, with only six countries each receiving more than US $ 2 billion, and another five countries receiving SDRs allocation of US $ 1 billion (See Table 2).

Table 2: SDRs Allocation 2021 (USD Billion) of Top 10 Countries

	Country	SDR allocation (USD Billion)
	Algeria	2.66
	Egypt	2.77
	Libya	2.14
SDR allocation > US $ 1 billion	Nigeria	3.34
	South Africa	4.15
	Angola	1.01
	DRC	1.45
	Ghana	1
SDR allocation > US $ 2 billion	Morocco	1.22
	Zambia	1.33
	Total	21.07
	Share of Africa Allocation	**62.3%**

Source: Development reimagined[30]

29 https://www.imf.org/en/Topics/special-drawing-right#:~:text=The%20SDR%20is%20an%20international,provide%20a%20country%20with%20liquidity.
30 https://developmentreimagined.com/african-sdrs-how-they-are-used-distributed-and-what-needs-to-change/

The allocations have consequently been used for debt obligations, financing of the national budget, leveraging National Covid-19 responses and fiscal stimulus/palliatives, boosting reserves and reallocation of a portion of the SDRs to some Regional development finance institutions (DFI). The SDRs was not only a meagre share of the global allocation, but the amount has not been enough to meet Africa's additional financing needs. SDRs issuance provides fresh finance in hard currency and thus can help countries facing a liquidity squeeze to avoid a default on their debt payments but do not actually reduce debt levels.

SDRs holdings can be borrowed in exchange for usable currency and can be used as a direct means of payment within the SDRs arrangement.[31] The SDRs system is useful in providing further policy space to Emerging Market Economies (EMEs) and LDCs who are struggling with severe liquidity problems. Despite the pressure-easing utility of SDRs, they remain debt-bearing instruments that contribute to African countries' ballooning debt volume. Compared to high-interest rates of debt instruments like sovereign bonds, SDRs generate very low, and below-market interest rates, usually at 0.05 percent of the currency of the SDR transaction. This is very negligible compared to the advantages SDRs provide for countries, especially LIC.[32]

One of the challenges African countries face in relying on the use of SDRs as a debt management policy is the interest rate and exchange rate risks associated with borrowing usable currency through the SDRs system.

Since SDRs interests are repaid in usable currencies, fluctuating interest rates of these currencies may affect the interest amount paid. Thus, the interest rates of the SDRs currency baskets like the pound, dollar and euro rise leading to African countries paying more due to rising interest payments. Since African countries like Nigeria and South Africa are experiencing depreciating local currencies to the Euro/pound/dollar, it means they are exposed to higher exchange costs for every SDRs unit exchanged.

SDRs are channelled through the larger Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST). [33]The PRGT then provides zero-interest rate loans to low-income countries. The problem with the PRGT is that it is only available to the lowest-income countries for restricted purposes and excludes EMDEs with debt and other financing pressures. The RST applies to climate action and employs IMF conditionalities.[34] To hedge the risks associated with SDRs policy, African governments can advocate for their regular issuance, channelled through the regional MDBs (MDBs are prescribed SDRs holders) as equity capital contributions which save exchange costs of the SDRs into useable currency. The MDBs should undertake to pay the associated SDRs interest costs on behalf of African States which ensures that the SDR reaches African States' treasuries at almost zero cost.

4.9 Comprehensive Toolkit to Support Countries After Natural Disasters

Applicable in case of Natural disasters, this tool kit only announced by the World Bank in June 2022 will focus on providing:

i. Halting debt repayments
ii. Redirection of the World Bank lending to emergency needs
iii. Build advance-emergency systems
iv. Leverage the private sector to provide insurance to development projects
v. Provision of enhanced catastrophe insurance products without adding to their debt[35].

31 https://www.ineteconomics.org/perspectives/blog/special-drawing-rights-and-elasticity-in-the-international-monetary-system
32 https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733531
33 Kerezhi Sebany & Gbemisola Joel-Osoba, Special Drawing Rights, *One Data* https://data.one.org/data-dives/sdr/#:~:text=Share-,How%20can%20SDRs%20be%20channeled%3F,loans%20to%20low%2Dincome%20countries.
34 https://www.uxolo.com/articles/7192/recycling-sdrs-the-alternatives-on-the-block
35

5. IMPACT OF DEBT MANAGEMENT POLICIES OF THE KEY IFIS ON AGENDA 2063

5.1 African Union Agenda 2063: The Africa We Want and Debt Management Policies

Agenda 2063 is a 50-year transformative plan aimed at reprioritising Africa's earlier political independence agenda from colonialism to socioeconomic and political transformation. The implementation of Agenda 2063 is one of the core mandates of the African Union. The Agenda recognises domestic resource mobilisation (DRM) as a vital source of financing the Agenda's seven aspirations, which include economic prosperity founded on inclusive growth and sustainable development.[36] The Agenda recognises the negative impacts of the Bretton Woods Agenda and the implementation of Structural Adjustments on the contraction of African economies and increased debt burdens.[37]

Today, rising sovereign debt vulnerabilities present profound financial challenges to the attainment of Agenda 2063.[38] The ballooning of debt and its oppressive debt servicing costs prevents Africa from promoting inclusive growth and sustainable development driven by its people as envisaged in the Agenda 2063 Framework. Similarly, because Africa is unable to address its sovereign debt concerns without the imposition of austerity debt management policies by external actors, it is challenging for Africa to emerge in the global arena as a strong and influential global player. It is against this backdrop that the various debt management policies from the IFIs and other multilateral groups will be examined to determine their role and effectiveness in driving Africa's Agenda 2063.

36 African Union, Agenda 2063 The AFRICA We Want Framework Document 14, 125
https://au.int/sites/default/files/documents/33126-doc-framework_document_book.pdf
37 *Id* at 24.
38 AA Ademola, Real deal or an unworkable framework? Agenda 2063, SDG Goals, and the Challenges of Development in 21st Century Africa. (2022). *See also VH Mlambo, X Thusi, & SG Ndlovuand. "The African Union's Agenda 2063 For Africa's Development: Possibility Or Ruse?" (2022) 6 (3) Prizren Social Science Journal 64-74.*

5.2 Assessing the Debt Management Policies of the Key IFIs on Agenda 2063

The section provides an analysis of the debt management policies of key international and regional financial institutions to assess their impact on driving the AU Agenda 2063.

a. International Monetary Fund Debt Sustainability Framework

The IMF Debt Sustainability Framework (IMF DSF) remains the main debt management framework used by the IMF and other creditors to guide lending decisions to low-income and market-access countries by matching their financing needs with their debt repayment capacity. There are several advantages that the DSF has brought to the management of sovereign debt. The main benefit of the DSF/DSA framework is its simplicity and replicability for different countries due to its comparative debt burden threshold measures for a projection period. The IMF extols its DSF as effective in preventing excessive debt accumulation because sovereign borrowers and creditors tend to rely on debt sustainability assessments in their lending decisions. Notwithstanding, the DSF has been criticised for overlooking important indicators which impact its outcomes. DSA like all economic and statistical models is based on a set of anticipation, projections, and assumptions for an economy in question that is not always based on accurate perceptions of reality. For example, there may be fluctuations in market rates of debt instruments. Guzman and Heymann aptly capture this as the "fallibility of market expectations" which creates operational consequences for the DSA exercises.39 Along this line, one of the criticisms against the DSA is its use of present value in arriving at debt sustainability values and statuses.

39 M Guzman and D Heymann. "The IMF debt sustainability analysis: issues and problems." (2015) 6 (2) *Journal of Globalization and Development* 388.

The DSA/DSF policy ignores the varied nature of the African debt landscape, which should inform the provision and use of a weighted average of the various debt types to determine a true picture of debt sustainability.

So far, the DSF only relies on discounted concessional external debt, at a subjective discount rate of 5%. Some have challenged the constricted definition of debt sustainability and the limited indicator tools used in conducting the analyses. Small Island and Developing States (SIDS) especially have criticised its insufficient treatment of exogenic shocks analysing debt sustainability, limitations in the tools used to assess debt sustainability, and a narrow definition of debt sustainability.[40] The DSF uses internationally set benchmarks for assessing sustainability and vulnerabilities in different countries. The issue with this is that different countries have specific vulnerability indicators that should be factored in determining their debt burden capacity. These criticisms cast some doubt on the reliability and suitability of the DSF in assessing debt sustainability. It also creates uncertainties about the capacity of the IMF to manage its conflicting yet undemocratic roles as a lender, global monetary system regulator, and a de facto credit rating mechanism that informs countries' debt management policies and creditors' lending decision-making.

Rising public debt in sub-Saharan Africa remains a challenge in achieving its Agenda 2063 goals. The inadequacy of DSF as a debt management strategy contributes to this challenge. The DSF's unilateral focus on relying on debt-to-GDP ratio as a debt sustainability indicator provides a distorted picture of sovereign debt without the consideration of other factors, including interest rates, inflation, exchange rate exposures, economic growth, and fiscal and current account deficits. The DSF does not account for macroeconomic forecast uncertainty in its DSF from LICs and Market Access Countries (MACs) operation in the multi-crisis and volatile global environment in affecting debt sustainability. This includes climate change risks conflict and fragility. Short-term borrowing used to finance long-term projects that may lead to difficulty in debt servicing upon maturity is not factored in DSA, rebasing from GDP variations and domestic revenue, as well. [41] The DSF has been criticised for contributing to Africa's rising debt through an optimism bias based on erroneous fiscal forecasts and assumptions about growth, leading borrowers to keep on borrowing and lenders to keep lending based on the DSA.[42] The DSF thus has contributed to high debt burdens which impedes Africa's inclusive growth and sustainable development, leading to debt overhang, which disincentivises investment.

For African countries with high DSA thresholds, the DSF continues to limit access to concessional finance, especially because they are relied on as the holy grail of the creditworthiness of sovereigns. The DSF also increases the complexity of the IMF's concurrently conflicting roles as lenders, credit raters and monetary policy stabilisers. Granted the DSF attempts to prevent excessive borrowing and lending but in the presence of global multiple crises, the rating function of the IMF through the DSF has been instrumental in exacerbating repayment problems on balance through activating rollover hazards among private lenders. This is especially true as the IMF has no compelling debt resolution mechanism for this band of creditors, although the June 2023 restructuring Agreement reached by Zambia and its official creditor may set a precedence for subsequent restructurings.

Zambia reached a debt restructuring agreement with the Official Creditor Committee (OCC) under the G20 Common Framework on 22 June 2023, after a protracted delay.[43] The deal restructured Zambia's official debt valued at US$ 6.3bn by extending Zambia's official debt maturities to 2043.

40 A Slany, Multiple disasters and debt sustainability in Small Island Developing States, UNCTAD Research Paper No. 55 UNCTAD/SER.RP/2020/14, 13 https://unctad.org/system/files/official-document/ser-rp-2020d14_en.pdf
41 https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-112.pdf
42 M Atingi, 'Public Debt Accumulation in Africa: A Looming Debt' Paper presented at the Plenary Session during the AERC (African Economic Research Consortium) Biannual Research Workshop 2019.
43 Ministerial Statement On The Debt Restructuring Agreement With Official Bilateral Creditors By The Minister Of Finance And National Planning (Dr Musokotwane), MP https://www.parliament.gov.zm/sites/default/files/images/publication_docs/Ministerial%20Statements%20-%20Debt%20Restructuring.pdf

The agreement includes a three-year grace period on principal payments beginning from 2026 of around US$ 30million per annum until 2035 at an interest rate of 1% until 2037, after which the interest rate rises to a maximum of 2.5 percent from 2037. The agreement also contains an adjustment clause that allows an accelerated repayment schedule and higher interest rates beyond the baseline rate of 2.5 percent, if Zambia's debt-carrying capacity advances from weak to medium under the DSA.[44] Private creditors who hold most of Zambia's debt have not reached an agreement, however, it is expected that an agreement with comparable terms is reached under the Common Framework. The Zambian restructuring deal releases the withheld IMF US$ 1.3billion bailout Extended Credit Facility Arrangement, to be paid in tranches of $188million under 3 years, approved in September 2023.[45] The conditions for the tranche payments include Zambia reaching a restructuring agreement with its creditors. The IMF claims that the restructuring agreement and the bailout put Zambia on a path toward sustainable economic growth and poverty reduction, which is doubtful since the restructuring focuses on debt repayment rather than restoration of healthy economic buoyancy.

While the restructuring deal reached by Zambia with its official creditor is noteworthy after years of delay, Zambia has still not attained the healthy debt sustainability needed to meet the Agenda 2063 aspirations because it is still at the mercy of its creditors. The Zambia/OCC restructuring deal has only provided some relief from the fiscal pressure of debt distress. The restructuring has not made a positive impact on Zambia's debt volume and creditor profile. In addition, the restructuring has not achieved the most challenging part of Zambia's debt conundrum, which is restructuring with private creditors on comparable terms.[46] Although it is expected this will be done, there is no certainty on an acceptable time frame when a restructuring agreement with private creditors will be reached, given Zambia's huge private loans and bonds burden. This allows private creditors to continue to profit from Zambia's debt distress from low-priced bonds with high-interest rates. Currently, the average interest rate on Zambia's western private creditor loans is 7%, compared to official loans at 1.6% or Chinese commercial loans at 5%.[47] The restructuring of Zambia's debt in a fragmentary manner allows private creditors to make profits at the expense of the socio-economic development of Zambia. Zambia's largest bondholder, BlackRock, could make 110% profit for itself and its clients if paid in full.[48]

The terms of Zambia's restructuring agreement prioritise debt repayment and servicing over true and healthy debt sustainability via economic growth.

The adjustment clause places the interest of creditors above the well-being of Zambians and economic development than the interest of Zambia's economic development because any improvement in its DSA translates to increasing interest rates/payments and debt maturities. The impact is that it stagnates Zambia's economy because any funds realised from economic growth would be directed towards debt servicing and interest payments rather than investing in the provision of GDP-friendly social services like education and health care. This is likely to affect Zambia's economic stability in the long run. The provision of the IMF bailout also increases Zambia's debt burden with new loans and debt servicing costs down the road. New debt further reduces Zambia's control over its fiscal affairs as external interference increases. It plunges Zambia into more debt through increased debt servicing costs. For the last leg of the restructuring agreement, it is recommended that since most of Zambia's private debt is governed by English Law, the United Kingdom government should enforce the 2010 Debt Relief (Developing Countries) Act to compel Zambia's private bondholders to reach a restructuring deal with Zambia within time.

Similarly, Zambia can negotiate for a partial cancellation of its private creditor debt to achieve a healthy level.

44 Ministerial Statement
45 https://www.miragenews.com/imf-wraps-up-zambias-2023-article-iv-1046673/
46 https://debtjustice.org.uk/press-release/zambias-private-creditors-need-to-cut-debt-payments-by-more-than-50
47 https://debtjustice.org.uk/press-release/reaction-to-debt-relief-deal-for-zambia
48 id

As a credit rater, DSF risk ratings impact borrowing costs, financial flows, and exchange rates which increases the size of debt, especially in the LICs, which many African countries are classified. Consequently, the structure, assessment indicators and mandate roles of the IMF and World Bank DSF are replete with weaknesses that have continued to contribute to rising debt in Africa with slow development impact on Agenda 2063. As of 2022, the continental-level overall performance score for achieving the goal is currently at 51 %.[49] While there has been significant progress in development enabling indicators like internet access, increased participation for women in politics, and domestication of the African Continental Free Trade Area (AfCFTA) Agreement, there has been slow progress in other indicators. These include slow GDP per capita and annual GDP growth rates, unemployment, and others.

The DSF perpetuates Africa's structural dependency on external debt. DSA statuses exploit and drive the deep asymmetries in the world economy and financial access inequalities where high-income countries continue to access huge external financing at very low (almost zero) rates, African countries keep borrowing at high-interest rates due to the so-called "economic" risks. The DSF policy ensures that African countries keep being in and out of debt. This sets the groundwork for the introduction of austerity measures as a mechanism to manage debt, where reducing debt is ferociously rapid to achieve debt sustainability. IMF austerity advice on public sector wage bills had adverse implications for public sector workers due to cuts in some African countries between 2016 and 2021. Liberia with a wage bill to GDP of 10.1%, Ghana at 8.7%, Brazil at 4.6%, Uganda at 3.5% and Nigeria at 1.9 % were advised to cut wage bills, despite its low percentage to GDP value.[50] Indeed, the Greek, Irish and Portuguese debt crises reveal that austerity-inspired DSAs in the long run drive economic recession, and unemployment, and threaten political stability among others.[51]

b. Chinese Interest-Free Loans Policy.

In response to the Covid-19 pandemic, China and the G20 announced debt relief for 77 countries, including 40 in sub-Saharan Africa. The debt relief from China was under interest-free loans[52] which make up a tiny share of China's loan portfolio in Africa and as such have no meaningful impact on much of the Chinese larger commercial and concessional obligations. This is because based on their new reclassification as foreign aid funds, IFLs are not accounted for in the government accounting books and accrue no interest. In 2021, China announced a plan that China may have cancelled between US$45 million and US$610 million in debt when it announced a plan to waive 23 interest-free loans maturing by the end of 2021 for 17 African countries.[53] However, for Africa, the IFLs forgiveness is nothing compared to the total loan commitment value of $159.98 billion.[54] In addition, China's interest-free loan policy has been condemned for being a smoke screen for China's debt-trap diplomacy, similar to Western countries' aid diplomacy.[55]

49 AU-NEPAD Second Continental Report On The Implementation Of Agenda 2063 (2022) 101-150. https://au.int/sites/default/files/documents/41480-doc 2nd_Continental_Progress_Report_on_Agenda_2063_English.pdf
50 Coping With Austerity Amid Multiple Crises Facing African Countries, 15
51 M Nikiforos,"Crisis, austerity, and fiscal expenditure in Greece: Recent experience and future prospects in the post-COVID-19 era." (2021) 1 *European Journal of Economics and Economic Policies*: *Intervention* (2021): 1-18.
52 https://www.voanews.com/a/china-cancels-23-loans-to-africa-amid-debt-trap-debate-/6716397.html
53 https://www.scmp.com/news/china/diplomacy/article/3192369/how-much-debt-will-china-cancel-its-write-plan-interest-free and
https://chinaglobalsouth.com/analysis/understanding-the-significance-of-chinas-interest-free-loans-cancelation/
54 The Chinese Loans to Africa (CLA) Database, managed by the Boston University Global Development Policy Center
55 https://issafrica.org/iss-today/is-covid-19-enabling-debt-trap-diplomacy

So far, Chin loaned debt of over US$ 159bn to African governments and state-owned enterprises between 2000 and 2020. The overall impact of excessive credit introduced through interest-free loans is that it increases China's political leverage. Political leverage provides an opportunity for China to extract and exploit economic or political concessions when African countries are unable to meet their repayment obligations. Chinese occupation of the southern port of Hambantota in Sri Lanka on a 99-year lease for failure to repay its debts serves as a case in point regarding political and economic leveraging of China's debt policy.[56] IFLs policy as a purveyor of Chinese commercial loans may affect the rapid implementation of Agenda 2063 aspirations by eroding African agency, autonomy, and sovereignty. African countries in debt distress have lower overall scores on achieving Agenda 2063 aspirations. Zambia, for instance, has an overall score of 27%.[57] However, the IFLs policy in itself has a minuscule impact in containing debt level escalation or restructuring. As a diplomatic financing tool, the impact of the IFLs policy on driving Africa's Agenda 2063 aspirations is insignificant. Instead, the IFLs policy works more in China's overall economic and political interests from its artful value in creating more bilateral opportunities for increased commercial lending to Africa.

c. IMF and World Bank Heavily Indebted Poor Countries Initiative

The IMF and World Bank launched the HIPC Initiative in 1996 to reduce the impact of the unsustainable debt burden on poor countries through multilateral debt cancellation. Several African countries have benefited from the HIPC initiative, and many are at the post-completion stage. These include Benin, Ghana, Niger, Guinea, Rwanda, Burkina Faso, Guinea-Bissau among others. One of the initial benefits of the HIPC was its contribution to reducing debt service payments by about 1.5% points of GDP between 2001 and 2015. The HIPC has also been useful as a platform for organising creditors to restructure debt in poor countries. In this way, it has contributed to Africa's Agenda 2063 by facilitating the channelling of debt servicing payments to projects that fund inclusive development.

However, as debt levels post-HIPC continue to grow into unsustainability, the HIPC initiative does not add much value to Agenda 2063 because the IMF's inability to make meaningful contribution to obligating creditors' participation in the HIPC Initiative is voluntary beyond voluntary participation.

The impact is ballooning debt from increased debt servicing costs. In addition, the focus of mandating debtor countries to undergo structural reforms in their economy to be eligible for concessional loans from the IMF and the World Bank while arranging for financing flow rescheduling through seeking comparable debt terms from private and bilateral creditors outside the Paris Club makes the HIPC an initiative that keeps countries permanently stuck in the circle of debt restructuring and economic structural adjustments with austerity measures that are counterproductive to the Agenda 2063. Using debt relief as a force for deep structural reforms through neoliberal policies like privatisation, tax increments and others is deeply damaging as the SAP programmes of the 1980s show.

So far, the HIPCs have derogated the across-board debt sustainability by excluding countries with pressing debt issues. There are still countries which have exited the HIPC due to the inappropriate consideration of the criteria. For instance, countries like Nigeria and Equatorial Guinea were HIPCs at first but were later excluded as they were not considered IDA-only eligible countries.[58] The HIPC initiative's narrow debt-to-export and debt-to-revenue criteria excluded many poor African countries from debt relief because their debt were deemed to be sustainable.

56 https://www.ft.com/content/e150ef0c-de37-11e7-a8a4-0a1e63a52f9c
57 *Supra* note 36.
58 BG Gunter, "What's Wrong with the HIPC Initiative and What's Next?." (2002) 20 (1) *Development Policy Review* 5-24.

For example, Nigeria which was highly indebted then and had a debt-to-export ratio of 188%, 38% higher than what is eligible under the HIPC and with a debt servicing costs of US$ 3.4 billion (2003-2005) was excluded from the HIPC debt relief.[59] The reason for exclusion was Nigeria's oil earnings (without considering its population size against the earnings). However, Ghana whose debt-to-exports ratio was 157 % with an average debt servicing cost of less than US$ 300million was eligible for debt relief.[60] The HIPC criteria of cancelling debt on reaching completion point, added to the ballooning debt levels from the pressure of debt payments while dealing with the economic growth contraction from instituting decision point GDP structural reforms.

Furthermore, the enhanced HIPC has been ineffective in achieving debt sustainability due to the framing of debt relief around poverty reduction expressed in the Poverty Reduction Strategy Papers (PRSPs). The PRSP requirements were onerous and delayed HIPC assistance country ownership and civil society participation. As a policy debt policy, the HIPC has not aided African development through the Agenda 2063 goals. Africa's achievement of a High Standard of Living, Quality of Life and well-being measured by GDP Per Capita and employment rates have an indexed priority value of 0%. The poverty rate was at a high of 30 % in 2021.[61]

d. Multilateral Debt Relief Initiative

Debt relief under the HIPC and MDRI Initiatives has substantially alleviated debt burdens in recipient countries and has enabled them to increase their poverty-reducing expenditures. The MDRI was quite successful in ensuring strong creditor participation among the multilateral and Paris Club creditors. As a result, based on 2014 debt relief estimates, MDRI creditors provided over US$74 billion worth of relief.[62] This relief was instrumental in the achievement of Agenda 2063 by providing breathing space for African Governments to focus on achieving the envisaged UN SDGs, as intended.

However, recent data post-2016 indicate that an upward rise in debt service burden is contributing to the expansion of debt levels. One reason is that the MDRI was not successful in developing a mechanism that ensures participation from other creditor groups, especially private creditors who hold a large portion of sovereign debt in Africa. Furthermore, since the MDRI relied largely on debt sustainability in determining eligibility and access to MDRI debt relief, the impact of multiple crises like climate change risks, fragility and conflicts and the global Covid-19 pandemic did not factor in arriving at a fair sustainability assessment. MDRI debt relief did not really increase the overall resources available to poor countries because compared to the amount of Africa's debt and debt servicing cost, the amount of debt relief provided by MDRI was small. Furthermore, since the debt relief provided by the MDRI focused more on concessional loans and debt overhang conditions, it encouraged borrowing for consumption rather than an investment towards growth to qualify and increase eligibility for concessional assistance.[63]

In all, the MDRI has not done much to stimulate African MDRI country's investment and growth towards the attainment of Agenda 2023. Instead, the MDRI has provided negligible short-term relief and long-term opportunities for debt-level expansion during multiple crises. The only beneficiaries of the MDRI are its creditors who can claim that they "helped" Africa.

59 https://www.socialwatch.org/node/10988#:~:text=Nigeria%20was%20denied%20debt%20relief,oil%20exports%20and%20its%20population Nigeria's debt servicing cost caused the debt to rise from US$ 36bn to US$ 40bn the next fiscal year. N

60 https://www.bog.gov.gh/wp-content/uploads/2019/07/HIPC-Paper2005-final-main.pdf a 10-15

61 *Supra* note 36.

62 https://documents.worldbank.org/en/publication/documents-reports/documentdetail/123261467999692988/heavily-indebted-poor-countries-hipc-initiative-and-multilateral-debt-relief-initiative-mdri-statistical-update. See also https://www.brookings.edu/articles/debt-relief/

63 T Moss, "Will Debt Relief Make a Difference? Impact and Expectations of the Multilateral Debt Relief Initiative," (2006) 88 Center for Global Development Working Paper. 15 African HIPCs, on average paid $19 million in debt service to the World Bank in 2004. That same year, they received $197 million in new World Bank aid and $946 million in total aid.

e. International Development Association- Sustainable Development Finance Policy

The Sustainable Development Finance Policy (SDFP) framework builds on the lessons learned during the implementation of the NCBP and adapts it to the new debt and creditor landscape. The SDFP will have a broader scope and a greater focus on addressing debt vulnerabilities. The objective of the SDFP is to incentivise countries to move towards transparent, debt sustainability, sustainable financing and coordination between IDA and other creditors. The SDFP operates under an equitable application of the policy across all IDA countries by calibrating performance and policy actions consistent with country context and capacity.

The SDFP is advantageous because it has a clearer recognition of the linkages between sustainable financing, economic growth, and fiscal policy to improve debt sustainability, compared to the previous debt policy.

For example, an IDA-supported $100 million development policy financing grant includes a key reform on improving debt transparency and governance for state-owned enterprises to support sustainable, robust, and inclusive growth in the country.[64] The SDFP has wider coverage and eligibility by including countries that are beyond the strict IDA classification, to include gap and blend IDA countries for debt relief. It approaches evaluating debt management capacity beyond using debt portfolio assessment.[65] However, the SDFP does not include clear benchmarks or primary indicators for assessing debt management, fiscal policy, and debt transparency in determining debt sustainability. This may affect the transparency of the policy in achieving its intension.[66] Likewise, the SDPF may not contribute to Agenda 2063 because it may encourage unsustainable borrowing that contributes to debt increment through the DSF "low risk" assessment which may ignore important vulnerabilities not considered.[67] It is also not clear whether the SDPF will ensure the long-awaited coordination between all classes of creditors. Although it is still early to judge its progress in this area, given the track record of the previous programmes, it may at best have average outcomes in exerting pressure on private lenders to contribute to the debt management processes.[68]

f. Non-Concessional Borrowing Policy

The Non-Concessional Borrowing Policy (NCBP) is premised on the relevance of non-concessional borrowing as a useful complement to concessional financing for development in low-income countries. Implementation of the policy hinges on two broad strategies. The NCBP ensures the conduct of periodic reviews to ensure non-concessional borrowing aligns with the NCBP. Periodic reviews also help to improve transparency around the implementation of the NCBP.-Regardless of its discontinuation, the NCBP had a constructive but limited impact in helping African countries reduce debt vulnerabilities. The policy was beneficial in providing a flexible framework to assess the impact of non-concessional borrowing on countries' debt profiles. For example, Mozambique between 2009 and 2014 contracted with no disclosure of non-concessional loans of US$1.3 billion by issuing guarantees to state-controlled companies and through direct borrowing from lenders.[69] The NCBP has been useful in complementing other IDAs while guiding countries' efforts for alternative sources of concessional financing. The NCBP however had its drawbacks in reducing debt weaknesses. The NCBP had a very limited country and debt coverage, as it only applied to non-gap and blend eligible IDA countries and focused on non-concessional borrowing.

The policy excluded debt relief to "gap and blend" IDA countries while ignoring the reality that many gaps and blend IDA-eligible countries like Nigeria were in debt distress or had high unsustainable debt.

64 https://aif.bancomundial.org/en/topics/cross-cutting/debt
65 https://ida.worldbank.org/en/financing/debt/sustainable-development-finance-policy
66 https://odi.org/en/insights/four-ways-to-improve-the-world-banks-proposal-for-a-sustainable-development-finance-policy/
67 https://ieg.worldbankgroup.org/blog/will-world-banks-sustainable-development-finance-policy-lower-risk-debt-distress
68 https://ieg.worldbankgroup.org/blog/will-world-banks-sustainable-development-finance-policy-lower-risk-debt-distress
https://ieg.worldbankgroup.org/evaluations/international-development-associations-sustainable-development-finance-policy
69 id

Excluding these countries impacted their prudent lending decisions which may have contributed to the increase of the current- debt level, remarkably during the pandemic as sideline countries sought alternative finances from the capital markets. Although the capital markets provide accessible financing on the one hand, on the other hand, it increases the controlling hold and influence of the role of non-official bilateral and private lenders on sovereign debt management. This brand of lenders provides costlier and riskier non-concessional funding to African IDA-eligible states. Combined with the inadequate debt management structures and capacities in many IDA countries, rising debt levels have resulted. Implementation of the NCBP contributed to hampering access to sustainable sources of development finance necessary to progress towards the attainment of Agenda 2063.

g. African Development Bank Non-Concessional Debt Accumulation Policy.

The AfDB Non-Concessional Debt Accumulation (NCDA) Policy was approved by the Bank's Board of Directors in 2008. The NCDA policy objectives were to enhance creditor coordination around the joint IMF–World Bank Debt Sustainability Framework and to discourage unrestrained non-concessional debt accumulation through compliance measures. The review of the NCDA Policy showed that the policy measures and incentives were ineffective in significantly impacting the debt-related public policies in African Development Fund (ADF) recipient countries.[70] This is because the AfDB member countries had alternative access to other non-concessional finances. In addition, the NCDA policy was ineffective in coordinating action from the different bands of creditors which affected its overall impact on debt level containment. In 2021, the policy was discontinued for a new policy.

The NCDA Policy was instrumental in achieving some positive partnerships, coordination, and capacity building around DSA assessments by the Bretton Woods Institution, especially in adopting the DSF as a standard approach to concessional loans. The NCDA policy produced positive outcomes in improving the quantum and quality of debt recording and data. Nonetheless, the NCDA did not achieve its aim nor was it instrumental in helping the AfDB regional member countries in meeting the Agenda 2063 goals. The policy despite its partnerships, did not achieve joint action across creditors-perhaps due to the diverse creditor landscape. There is also the challenge of inconsistent application of financial disincentives for breaking the policy conditions across development partners like the MDBs. Since the success of the NCDA rested on consistent debt transparency, member countries did not always report new non-concessional borrowing from non-official and private creditors. Consequently, complicated record-keeping and debt opacity emerged. Its excessive focus on non-concessional borrowing, failure to incentivise debt transparency, enforcement policy disincentives based on DSA status, and insufficient allocation of non-concessional financing to member states, altogether contributed to pushing its low-income member countries to source and use large volumes of non-concessional financing. As a result, available funds earmarked for development instead are channelled to servicing debts and increasing debt levels.

h. African Development Bank Group Sustainable Borrowing Policy

The Sustainable Borrowing Policy (SPB) is a replacement for the defunct NCDA policy, more aligned to the new IDA broader Sustainable Development Finance Policy (SDFP). The first pillar is debt management and transparency through agreed policy actions (APAs).

To this end, the SBP aligns and implements the Operational Guidelines of the ADF-15 Resource Allocation Frame while building capacity and providing technical assistance to member countries. Overall, the SBP aims to ensure complementarity with existing debt management policies of the main IFIs.

70 https://idev.afdb.org/sites/default/files/documents/files/NonConcessional%20Debt%20Accumulation%20Policy%20%28En%29.pdf

While it is still early days to strongly assess the impact of the SBP, its framework and operation encourage assessment of its impact on Africa's development goals. The SBP adoption of incentivised transparency mainly through its APAs as a pillar may contribute greatly towards helping the AfDB member states in achieving sound debt management for prudent debt decisions. In addition, as the SBP facilitate synergies with more policy-based lending- it may help move sound debt management dialogue to the national level where better implementation can occur. The SBP through its pillar of strategic partnership and improved multilateral coordination with the broad array of lenders in Africa has the right step to engaging diverse creditors to promote debt sustainability.

However, like the NCDA policy, the SBP must adopt its alignment with the IFI policies to suit its own regional realities on the nuances of the African debt burden and its primary contributors. At this stage, it should rise above emulating other debt management policies. Some of the major contributors to the African debt level are global force majeure like pandemics, conflicts like the Russian-Ukraine wars, structural deficiencies in economic governance architecture, and climate risks. Incorporating these, especially economic fragility from conflicts and climate vulnerabilities in a systemic manner into debt management policies and DSAs may be relevant in the context of sustainable debt relief. These debt contributors have a strong negative impact on the cost of sovereign debt, especially bond yields.[71] Finally, SPF adopts the application of general policy measures using a case-by-case analysis through specific country APAs. While this measure increased monitoring of debt transparency and sound management in individual countries, it runs the risk of promoting discriminatory treatment across countries owing to the absence of a set of rules beyond principles, to ensure consistency and equity in treatment across countries.

i. The IMF Debt Limits Policy

The Debt Limits Policy (DLP) provides a framework for using quantitative conditionality to address public debt risks in IMF-supported programs.[72] A public debt ceiling is a legally required upper limit on the stock of public debt of a country. emerging and developing economies to maintain debt sustainability directed towards a debt limit of no more than 64% of GDP.[73] IMF directs debt ceiling to be no more than 60% of GDP. This limit ensures that debt to GDP limits do not exceed levels that might regress economic growth. In October 2020, the IMF revised the DLP after the IDA's new SDFP. The newly revised DLP allows for debt conditionality for countries that rely on concessional financing and have also been accessing the international financial market for non-concessional financing. The revised DLP provides more flexibility to countries to manage their debt while placing safeguards to ensure debt sustainability. The new policy also encourages more debt disclosure to the IMF. The DLP at its basic level is using debt conditionality for different countries based on risks identified in the DSA and a country's financing circumstances.[74]

71 https://www.cgdev.org/sites/default/files/Morris-WB-SDFP-Covid.pdf
72 Guidance Note On Implementing The Debt Limits Policy In Fund Supported Programs
73 https://documents1.worldbank.org/curated/en/509771468337915456/pdf/WPS5391.pdf
74 https://www.imf.org/en/Topics/sovereign-debt/debt-limits-policy

One of the drawbacks of the DLP for African countries is its use of debt ceilings as a proxy for introducing tight policy implementation in countries relying on concessional financing with a moderate risk of debt distress. Also, the policy allows for excessive interference of IMF conditions with national policies, where the IMF directly or indirectly owns the policy reforms and implementation. The policy as such does not align well with traditionally concessional-dependent countries with newer access to markets, where the IMF issues conditions with national policies.[75] The new DLP ensures stricter debt transparency more generally, including on the terms and conditions of loans. The tougher transparency demands on the surface appear to help towards debt sustainability.

However, there are strong assertions, especially by Asian countries that the DLP is used by the IMF to pressure borrowers to disclose more information on the terms and conditions of their Chinese Belt and Road Loan contracts, which may increase difficulty in making coordinated debt restructuring with other creditors more difficult down the line.[76] Additionally, the DLP regardless of the level of revision still uses the same spiel as the IMF claiming that poverty reduction and monetary stabilisation is its mission, yet studies indicate that IMF borrower countries including African countries experience higher rates of poverty. This is because many of the IMF loan agreements and policies contain structural reforms that claim to ensure debt sustainability but contribute to countries' poverty cycle. Usually, these so-called structural reforms involve intense and comprehensive changes that tend to raise unemployment, lower government revenue by restructuring tax collection, and increase costs of basic services, and social services.

The IMF DLP which has been incorporated in most African countries in championing the debt ceiling anchor has been violated. Recently, Kenya's parliament changed its Public Finance Management Act to allow for a 55% debt ceiling anchor. The primary purpose was to create legal space to borrow to fund an economic plan, effectively raising Kenya's public debt ceiling to KSh10 trillion (US$100 billion), against the EAC debt limit convergence ratio of 50 percent.[77] The breaching of debt limits, especially for countries with high debt levels negatively affects healthy debt sustainability. It encourages States to spend beyond their current means and adds to ballooning unsustainable debt levels. In time, it could result in debt defaults, bringing economic sabotage through high debt burdens, increased debt servicing costs, debt restructuring, and the imposition of austerity measures that regress economic growth. Also, the ease and flexibility of the government's adjusting the borrowing limit may foster corruption and fiscal mismanagement by negligent administrations. Eventually, the debt burden is passed to future generations through higher taxes and social spending cuts, thus limiting the achievement of Agenda 2063.

IMF conditions have different effects on poverty, especially where these reforms are on external debt, labour, privatisation of SOE and trade. So far, regardless of the debt policy adopted, 65,894 policy reforms have been mandated by the IMF between 1980 and 2019.[78] In Nigeria, there have been 121 reforms, in Kenya there have been 648 reforms, South Africa- 11 reforms. However, the most reforms in Africa have been in Ghana, with over 1000 reforms.[79] Similarly, stabilisation reforms (reforms using quantitative performance criteria or indicative benchmarks) had an insignificant impact on debt and poverty.[80] IMF debt policy loans come with stronger conditionalities attached especially to those countries strongly hit by the crisis and facing heavy debt distress as African countries have been in the last two decades. Therefore, because they contribute to poverty and have little positive impact on the poor, the DLP with its strict debt ceilings and façade of transparency do not contribute to Africa's Agenda 2063.

j. IMF Special Drawing Rights

SDRs, code XDR are supplementary foreign exchange reserve assets defined and maintained by the IMF. SDRs are usually issued to provide relief to IMF member countries in times of global economic emergencies and shocks to prevent a collapse of the global financial system.[81]

75 http://www.cadtm.org/A-summary-of-the-report
76 https://www.scmp.com/economy/global-economy/article/3188538/chinas-belt-and-road-lending-under-more-scrutiny-after-imf
77 https://theconversation.com/kenya-has-breached-its-public-debt-ceiling-how-it-got-there-and-what-that-means-190006.
78 https://imfmonitor.org/conditionality/
79 *id*
80 R Bernhard, *et al.* The world system and the hollowing-out of state capacity: How structural adjustment programs impact bureaucratic quality in developing countries. (2019) 124 (4) *American Journal of Sociology* 1222–1257.
81 AFRODAD, *supra* note 27 at 13-15

SDR policies are beneficial because they provide much-needed relief to countries in times of crisis. They are also cost-free alternatives to building foreign exchange reserves. However, because their allocation is based on the colonial-capitalist structural set-up of member country seats in the IMF board and quota system, their SDRs allocations and benefits are negligible for African countries especially, its LICs.[82] From the US$ 33 billion allocated to Africa, Zambia a LIC in debt distress received only US$ 1.3million, compared to Nigeria-with moderate debt level that received US$ 3.35billion.[83].

As a result of the faulty setup, high-income countries that do not have much need for the SDRs end up getting the largest share. Members of the G20 received 68% of the 2021 SDRs allocation, amounting to over US$ 300billion. Africa, the continent with the greatest financing need, received a paltry 5% billion.[84] SDRs policy set-up allows Western countries the opportunity to use SDRs allocation as a carrot and stick tool to deny countries they did not want to benefit from the SDRs allocation for geopolitical reasons. For example, countries like Venezuela did not get SDRs transfers from Western countries lion share. SDRs are allocated based on the quota contributions of countries which is dependent on the GDP size of countries. Also, SDRs allocation is based on voting rights and seats and can only be increased through reviewing and amending the IMF Articles. Also, since SDRs are created reserve assets, their amount in circulation and storage is limited. Therefore, their volume and conversion capacity into useable currency to meet Africa's financing needs and debt pressures are limited. The IMF's current total resource is at SDRs 983 billion, translating into a lending capacity of about SDRs 700 billion (US$925 billion), as of the end of June 2023.[85]

Moreover, the policy condition where SDRs are issued only in times of global crises makes the benefit to Africa's huge financing needs limited and very challenging to meet the development aspirations of Agenda 2063 because Africa only gets access to negligible allocation of SDRs in times of crisis.

This forces African countries to seek expensive debt from private creditors to make up for the shortfall, leading to an unsustainable debt increase. From the data of the previous allocation timeline, SDRs are allocated for an average of 10-15 years. This makes the SDRs policy frustratingly non-responsive to the urgent development concerns of Africa's Agenda 2063. For these reasons, there have been calls from the United Nations and other Civil Society Organisations for the IMF to perform structural reforms at IMF to improve the allocation of SDRs to help countries dealing with the pressures of high debt amidst climate change risks. Until a concrete reform around SDRs occurs, the policy and its allocation's injustices exacerbate high debt levels in Africa making it difficult to achieve its 2063 Agenda across the board.

From the ongoing analysis of the various debt management policies, many of the debt-relief schemes implemented since 1996 have failed to contain the rapid expansion of unsustainable debt or achieve lasting debt sustainability for several reasons. The debt management policies have all been based on a faulty framework for debt sustainability based on debt-carrying capacity using a country's overall balance sheet. This faulty mechanism fails to consider a country's assets through its natural resources and equities but focuses more on its debt liabilities. Also, the DSA does not take into consideration unique conditions that should impact DSA status like fragility and conflicts, and peculiar climate risks in assessing debt vulnerabilities. This has left African countries with unfavourable DSA statuses that have led to seeking new sources of finance from creditors outside the Paris Club. Owing to the higher borrowing costs and maturity periods of these new financial sources, an increase in public debt from higher interest rates and refinancing risks becomes the natural consequence. Left unaddressed, Africa's debt levels pose a huge systemic threat to its nascent development and journey to Agenda 2063.

Despite the implementation of debt management and the introduction of debt reduction strategies, several African countries still face difficulty in maintaining long-term debt sustainability. Lessons learnt from the IFIs debt policy mistakes and debt relief initiatives show the need for the implementation of structural and innovative management and relief initiatives that are tailor-made to debtor country contexts.

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82 *id*

83 https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation

84 https://carnegieendowment.org/2022/04/04/can-imf-do-more-to-help-african-countries-struggling-amid-pandemic-pub-86800

85 https://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money

6. ALTERNATIVE POLICY RECOMMENDATIONS

There are many shortcomings in the current sovereign debt management and workout mechanisms. The debt management policies are dominated by creditors, including the IFIs and bilateral and private creditors. Debt management decisions and assessments are made by creditors behind closed doors. There is a lack of transparency and accountability. There is no forum where all debt can be restructured in one single process. Only financial considerations are valued in debt management policies and debt restructuring mechanisms. Development needs and human rights are neglected.

i. Despite the existence of codes of conduct that encourage the adherence to sustainable lending principles, such as the UNCTAD's Principles on Responsible Lending and Borrowing, the G20's Operational Guidelines for Sustainable Financing, and the African Borrowing Charter; these standards are hardly followed by lenders, including the IFIs. These standards include the need for lenders to ensure that the borrowing country understands the risks and benefits of the debt instruments. When providing new finance, a lender is responsible for assessing the sovereign borrower's capacity to service the loan to understand the wider debt situation of the borrowing country. There is a need to advocate for the establishment of a UN-led debt workout mechanism and binding standards for responsible lending and borrowing.

ii. To reduce uncertainty and risk while improving debt management practices, creditors – IFIs, bilateral, and private should make transparent the process of providing finance alongside the legal and financial terms of new borrowings. In addition, the terms of borrowing should be publicly disclosed to allow for citizen engagement in debt management. The issue of transparency is even more dire given the increasingly diversified creditor base and the cases of hidden debt in countries such as Mozambique in 2016. The responsibility for administering a framework that clearly defines processes, responsibilities and accountabilities should fall on sovereign borrowers and creditors alike. Moreover, better transparency should cover all forms of official borrowing as well as project finance and guarantees/finance made to state-owned enterprises. Strengthening public debt transparency can help support sustainable borrowing and lending practices. Improving the recording and monitoring of debt creates a more complete picture to manage debt more effectively.

iii. Given the interconnectedness of public debt and tax capacities, it is imperative to improve the level of international tax cooperation. Presently, inadequate tax cooperation on the global front encourages tax avoidance strategies by multinational corporations and allows tax evasion by individuals and companies. Adherence to global laws that ensure that multilateral corporations do not shift profits to low-tax jurisdictions and that taxes are paid in locations where the economic activity occurred is of importance.

iv. Debt policies should focus on and value national assets and growth trajectory. One of the first steps to designing a better debt policy is to expand the key terms of "debt sustainability and "debt relief" beyond a government's ability to meet all its current and future payment obligations without exceptional financial assistance or going into default. Debt sustainability in its current context for DSAs is an objective rather than a condition, which is a faulty analytical premise. This is because for a country to meet its payment obligations, a healthy and functioning economy becomes critical. In achieving this, countries may have to borrow beyond what is considered a normal range, particularly where huge capital-intensive infrastructural projects are going on.

    For this reason, debt sustainability should go beyond the "payment obligation" condition to present and future earning returns from ongoing projects and asset availability like natural resources. Eventually, the influx of private investment and improvements in exports would spur higher growth in the medium to long term. Going forward, any meaningful debt policy should include into the analysis asset and economic growth indicators and public spending efficiency indicators.

Facilitating Africa's development should be a most important consideration in meaningful debt management. This will ensure that positive economic outcomes from expanding debt sustainability criteria to include growth and asset availability do not get derailed by wasteful national debt management policies.

v. IFIs debt sustainability frameworks and assessment methods should be revised to better reflect the implications of a country's debt situation on its ability to fulfil its human rights obligations, which requires fiscal space.

vi. A comprehensive legal and regulatory framework is desirable to facilitate effective public debt management through strong governance arrangements as well as clear roles and responsibilities. In addition, a well-articulated legal framework for public debt management increases transparency and predictability in debt management operations. Furthermore, it provides creditors with the assurance that Government's debt management objectives are being pursued while providing clear and consistent principles for borrowing.

vii. Cooperation with development partners to enhance responsibility, transparency and mutual accountability in lending practices minimises the leakages of borrowed funds through capital flight and ensures that debt is used to effectively finance the intended development initiative.

viii. For public debt to be sustainable, there is a need for a robust legal framework that ensures that there is wide consultation on the requirements to be fulfilled, the prudency of government borrowing, the level of transparency and accountability in borrowing processes and agreements, and the right oversight in the utilisation of the borrowed monies.

ix. Paris Club Expansion - given the diverse nature and interests of creditors, most of them being outside of the Paris Club, it has proved to be more difficult to address debt treatment, debt restructuring and debt resolution. There is a need to include the commercial and other non-Paris club creditors in the Paris Club.

x. The G20 Common Framework work needs to be speedily concluded. Countries such as Zambia, Chad, Ethiopia, and Ghana, need debt treatment from all their creditors.

xi. There is a need to expand market-derived concessional financing to support countries to reduce the level of dependency on expensive short-term debt by countries. The African Development Fund (ADF) market-option of the African Development Bank Group must mobilize more funds for low-income countries.

xii. SDRs re-channelling to the African Development Bank has the potential to deliver greater financing for African countries. Currently, the Bank has in place a financial model for SDR re-channelling, with a liquidity support agreement, which met the reserve asset status of the IMF. (AfDB 2023).

xiii. African Financial Stability Mechanism - Africa is the only region without liquidity buffers to protect it against shocks. According to the African Development Bank, it is working together with the African Union to establish an African Financial Stability Mechanism. Such a homegrown mechanism will mutualise our funds and protect against global shocks.

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