Concept Note African Conference on Debt and Development II (AfCoDD II)

"From Recovery to Reform: Sisi Ndio Tuko Stop the Bleeding"

24th to 26th August 2022

1. Introduction

The African Forum and Network on Debt and Development (AFRODAD) and its partners will be hosting the second African Conference on Debt and Development (AfCoDD II) on 24th to 26th August 2022. Launched in August 2021, The AfCoDD is one of three flagship programmes run by AFRODAD that seeks to bring together **all African citizens** to discuss, debate, and decide Africa's path towards economic, political, and social self-determination. AfCoDD II will be held in a hybrid format across 20 African countries between 24th and 26th August 2022.

Across Africa, debt was already very high before the first lockdowns brought about by the global Covid-19 pandemic. At the height of the pandemic, it is estimated that the unprecedented peacetime economic support stabilised financial markets and gradually eased liquidity and credit conditions around the world. In many countries, fiscal policy was able to protect people (especially women) and local firms during the pandemic. It supported monetary policy, too, by adding to aggregate demand and avoiding deflationary dynamics.

During the pandemic, deficits increased and debt accumulated much faster than they did in the early years of other recessions.[1] Fiscal deficits are estimated to have doubled in 2020 to a historical high of 8.4 percent of GDP, leading to increased debt burdens[2]. A gradual consolidation process is expected in 2021 and beyond. The adverse effects of COVID-19 will reverse hard-won gains in poverty reduction in Africa. Paradoxically, despite being a net creditor, African countries repatriate much-needed revenues to developed countries in the form of debt servicing, profit shifting, raw material exports and importation of finished goods coupled by limited internal trade that further constrain the continent's ability to meet essential services for its citizens, including much needed investment in social safety nets. These challenges have been exacerbated by the Russian-Ukrainian war that is piling pressure on food security - shortages and rising prices, and the persistent climate change risks wreaking havoc on the continent.

Even with debt relief programmes like the Debt Service Suspension Initiative (DSSI); the G20s Common Framework; the IMF's Special Drawing Rights, many African countries are required to service bilateral and private sector debt that cripples their ability to respond to the pandemic and the impacts of the Ukraine War effectively. Thus, these interventions are proving ineffective and not addressing the heart of the issue: the fractured global debt and financial architecture. Hence, this year's theme "***From Recovery to Reform: Sisi Ndio Tuko - Stop the Bleeding"*** will promote discussions and debate on how Africa moves from planning for recovering from multiple crises to planning for engagement of the continent in a reformed global economic and political architecture with **Africa as a rule maker and not a rule taker**.

[1] https://blogs.imf.org/2022/04/11/dangerous-global-debt-burden-requires-decisive-cooperation/

[2] Public debt now represents close to 40 percent of the global total, the most in almost six decades.

Together with our partners, AFRODAD welcomes you all to AfCoDD II! The Conference webpage can be found here.

2. Context

AfCoDD II takes place at a time when we need to take stock of the global debt architecture and the role of Africa and Africans in this architecture. Since the HIPC/MDRI debt cancellation movement of the early 2000s, African governments' development finance, both access and configuration, has evolved significantly. In part, this evolution is due to global shocks which forced developed countries to rethink their financial commitments towards developing regions. Furthermore, many African countries have developed and grown significantly in the past decade and a half meaning their position of concessional and grant recipients declined, forcing them to consider non-concessional and loan finance instruments from international financial institutions; non-traditional lenders, and commercial sources. To a large extent while there was fiscal space created from the HIPC/MDRI initiatives, revenue mobilisation was not commensurate to the needs for the economic and social development and growth. Some of the reasons for the low revenue potential was dependence on low value primary commodities; low integration in global supply and value chains; and structural deficiencies that enabled revenue base erosion in the form of capital flight, illicit financial flows, and fiscal leakages at the national level.

Africa's development process and structural transformation needs ambitious actions and finance beyond current limits. It is not in doubt to achieve the aspiration outlined in Agenda 2063, a diverse range of financing options is required. The success of all financing instruments e.g. tax, foreign direct investment, ODA, or Debt, is their ability to mobilise sustainable and equitable tax revenue and generate domestic resources.[3]

AfCoDD II is taking place under very difficult global, continental, and national circumstances.

First, Africa has **experienced the Covid-19 pandemic** in a very different way to which many analysts had predicted. The relative low number of cases and deaths (all things being equal) to the rest of the world and other developing regions is being offset by (i) sharp economic contraction and less chances of a v-shaped recovery i.e. immediate recovery; (ii) deterioration in terms of trade, currency value, and economic output; (iii) increasing pressure on reduced revenues for social welfare provisions as the pandemic evolves and debt repayments coming due; (iv) reduced remittances at the household level that have generally acted as social safety net.[4]

Second, the continents' **recovery and relief programme** has been fraught with severe challenges. Despite the fiscal stimulus packages to protect citizens and domestic business, these fell short of due to lack of well-funded programmes to provide and sustain such interventions forcing them into further borrowing which in turn increased the debt stock on the African governments. Fiscal stimulus packages by African governments to contain the pandemic have had direct implications for public debt levels. The average debt-to-GDP ratio in Africa is projected to increase by 10 to 15 percentage points by 2021. Moreover, Africa's debt continues to shift from traditional lenders towards private and commercial debt with significant vulnerabilities.

[3] Simultaneously, what is needed is a strategy for promoting economic diversification to move African economies up the value and supply chains in order to retain revenues on the continent; and a concerted effort to integrate an African Accountability Mechanism that holds both African **and** Global actors for their actions on the continent that erodes its revenue base through illicit financial flows, corruption, arbitrary tax exemptions and holidays, and unsustainable debt contraction.

[4] Remittances to Sub-Saharan Africa registered a small decline of 0.5 percent to $48 billion in 2019. Due to the COVID-19 crisis, remittance flows to the region are expected to decline by 23.1 percent to reach $37 billion in 2020, while a recovery of 4 percent is expected in 2021.

Third, the **inadequacies of the vaccine acquisition**, distribution, and access programme have been plainly visible. From the COVAX facility to the blocking of the TRIPS Waiver, Africa and Africans have been placed at the back of the recovery line in a systemic and deliberate way. To date, only 21% of the African population has received only one dose, while a mere 16% of the population has been double vaccinated. African countries are not only being pushed further behind the vaccines queue through pharmaceutical companies' monopolies but are also being over-charged for every dose they procure. This unjustifiably higher price for African countries combined with the high costs for administering the vaccines forces African Governments to make an impossible choice between vaccination and servicing debt as the debt crisis is looming hence compromising States' efforts to realise core rights and obligations with respect to the right to health.

Fourth, the current **debt relief measures in place remain inadequate** to address both the immediate fiscal needs of developing countries both low and middle income; and the long-term structural reform of the global debt architecture. The IMF/WB Debt Service Suspension Initiative (DSSI) ended on 31st December 2021 meaning those debts will now be due for servicing, placing increased fiscal pressure on already stretched budgets. The **G20 Common Framework** remains ineffective in its exclusion of private creditors and development financial institutions from the discussions. Coupled with some creditors preferring bilateral arrangements, the Common Framework has failed to yield the desired results. The IMF recently called for more concerted effort to the CF off the ground and running. The **Special Drawing Rights** issuance of $650 billion in 2021 favours developed countries over developing ones. This is due to the allocation mechanism that is determined by voting rights. The reallocation/recycling using current mechanisms and formula will mean developing countries get the short-end of the stick. The implications are far reaching as the developing countries are going to have to still borrow their way out of this pandemic at a time when they are least capable of sustaining this borrowing.

Fifth, the **war in Ukraine** is adding risks to unprecedented levels of public borrowing while the pandemic is still straining many government budgets. The situation highlights the urgent need for authorities to undertake reforms, including governance reforms, to improve debt transparency and strengthen debt management policies and frameworks to reduce risks. The socio-economic fall-out from the war in Ukraine in Africa and on Africans is and will continue to be felt in the short to medium term. Rising food and fuel prices will add to already fiscally constrained budgets at national and household levels. Geo-politically as Europe and North America engage in supporting efforts in Ukraine, there are fears a coordinated global approach to this crisis will not be reached and spill-overs to affected regions an afterthought.

Sixth, the impact of climate change is worsening food security on the continent through frequent severe droughts and floods, infrastructure destruction, and loss of lives. The paradox is that Africa is saddled with huge cost burden on climate change mitigation and adaptation while it has minimal contributed to the problem unlike the developed economies. Developed countries have accelerated the agenda of clean energy transitioning that threatens to worsens climate change injustices as the responsibility and accountability on climate change is evaded by the West at the expense of Africa.

Seventh, the scourge of illicit financial flows is worsening. UNCTAD's Economic Development in Africa Report 2020 indicated that Africa was now losing more than US$88.6 billion annually through illicit financial flows, nearly doubling the High-Level Panel Report 2015's estimate of more than US$50 billion annual losses. Africa's natural resources continue to be the epicentre of illicit financial flows, accounting for US$40 billion, nearly half of the total outflows from the continent.

3. From Recovery to Reform: Sisi Ndio Tuko Stop the Bleeding

The AFRODAD 2021 Inaugural African Conference on Debt and Development outcome declaration, known as the **Harare Declaration**, called for, "reforming of the global debt architecture in a manner that equalises the loan contraction processes – including reform of debt sustainability frameworks and credit ratings assessment, and the establishment of an African Accountability Mechanism that will act as the foundation for enhanced transparency, accountability, and governance of Africa's debt architecture." According to the latest debt statistics, African countries that have or are on course to reach the HIPC completion point for debt cancellation or relief are actually now categorised as 'high risk of debt distress'.

The global pandemic and now the war in Ukraine continue to provide vivid evidence of the need to overhaul the global economic and financial architecture. In particular with debt financing being the 'go to' option for development finance, more needs to be done to ensure the governing architecture is fit for purpose. For instance, the 2021 African Economic Outlook observes that "*Debt resolution in Africa has often been disorderly and protracted with costly economic consequences. The current international financial architecture makes orderly sovereign debt restructuring complex to achieve. To avoid high debt resolution costs and limit the likelihood that debt crises re-emerge, the international community needs to push for enhanced global coordination. African countries need to adopt legal and financial innovations that facilitate debt restructuring. Strengthening the nexus between governance and growth is required to get out of the COVID-19 crisis and avoid a looming debt crisis. African countries must eradicate all forms of "leakages" in public resource management and pursue digitization and fair competition to re-ignite growth.*"

Similarly, throughout the depths of the pandemic, African leaders and Ministers of Finance have constantly argued that debt relief measures to aid recovery are not good enough and more needs to be done to reform the global debt architecture. Ghana's Finance Minister Ofori-Attah stated "*The west should hang its head in shame, […]There was a complete distance between the resources available and what was applied [beyond advanced economies] to a problem that was global. […] We need to seriously evaluate whether the rules laid down [then] are the most appropriate going forward.*" In Zambia, that has the unenviable title of being Africa's first pandemic-era sovereign default in 2020, has been unable to restructure its debt in part due to the ineffectiveness of the G20 Common Framework that doesn't include private/commercial creditors and international financial institutions. Furthermore, Zambia's challenges are worsened due to some bilateral creditors opting to negotiate outside the Common Framework. Debt restructurings are likely to become more frequent and will need to address more complex coordination challenges than in the past owing to increased diversity in the creditor landscape. Having mechanisms in place for orderly restructuring is in the best interest of creditors and debtors alike.

Therefore, it is timely that Africa and Africans advance the reform agenda of the debt architecture which needs to go beyond finance. Given the proliferation of the creditor market, any reform should be extended to include accountability, transparency, and governance. Mechanisms that are in place via UNCTAD SDRM, DSSI, CRF, Paris Club must integrate emerging lenders bilateral, multilateral, and commercial and private. The multiplicity of crises needs a debt architecture that works for debtors and not creditors. Debtor countries should not have to contemplate double punishment for wanting to restructure their debt or seek moratoriums. Furthermore, resetting how the global economy works should address systemic bad behaviour that induces profiteering from indebtedness, the generation and movement of illicit financial flows, and holding to account private agents for their deceitful behaviour that undermines tax revenue generation thus creating fertile ground for debt.

4. Conference Pillars

AfCoDD will have three pillars:

i. **Political –** This pillar will focus on Africa's engagement and role in the current debt and financial architecture as a rule taker and debt taker, and look into building a new political consensus for a new debt architecture where it is a rule maker and debt negotiator. Africa's experience with debt resolution has historically been disorderly and protracted.
ii. **Research and Ideation –** This pillar is about contributing to the Pan-African knowledge and intellectual perspectives of debt, development finance, and structural transformation of Africa. A journal of selected papers for presentation will be launched at the AfCoDD.
iii. **Public Mobilisation #SisiNdioTuko –** This pillar is about national civic movement building in a sustained manner beyond the current debt crisis. Citizens of the developing countries and their governments need to grab the opportunity presented by COVID-19 to demand new debt resolution mechanism that addresses the legality, legitimacy, and sustainability of debts.

5. Objectives

i. **Call for reforms of the global financial architecture that governs public debt:** The principles and mechanisms that protect debtor countries from profiteering creditors need to be revisited based on suspension, renegotiation, restructuring and cancellation. This includes considering changing of the creditor landscape and the proliferation of debt instruments available to African governments. A new sovereign debt restructuring mechanism that would be binding on all creditors, including commercial creditors, and that would make it difficult for hold-out creditors to prevent sovereign debt workouts.
ii. **Seek meaningful debt solutions:** The financial squeeze African governments find themselves in has been worsened by the prolonged effects of the global Covid-19 pandemic. The pressures of debt repayment amidst declining revenues are forcing African governments to trade off protecting citizens from the vagaries of the pandemic in favour of paying off creditors. Support the United Nations Conference on Trade and Development's proposal for an International Developing Country Debt Authority that would oversee comprehensive temporary standstills.
iii. **Call for the sealing of financial leakages**: The African Union needs to focus on closing the financial leakages including addressing illicit financial flows, and supporting initiatives that spur domestic resource mobilisation to fight the pandemic. The issue of Illicit Financial Flows, Debt, Tax Havens, and aggressive corporate culture; and Privatisation of development is a growing concern. It is estimated Africa could gain $89 billion annually by curbing illicit financial flows. The status quo that governs global finance is skewed, with illicit financial flows representing a double theft: an expropriation of funds that also robs billions of a better future.

6. Format

The AfCoDD will be delivered in a hybrid format combining both virtual and physical sessions. The virtual sessions will cover the political and ideation pillars of the conference while the physical will cover the public mobilisation pillar through the national level events.

7. Timelines

The AfCoDD will be held over 3 days in August 2021 and will be delivered as hybrid physical and virtual conference. For more information please contact Jason R Braganza jason@afrodad.org and John Oduk ED.intern@afrodad.org

-END-