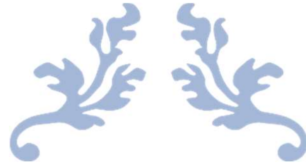

TACKLING AFRICA'S DEBT COMPREHENSIVELY FOR ACCOUNTABLE GOVERNANCE AND TRANSFORMATIONAL DEVELOPMENT.

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Tackling Africa's debt comprehensively for accountable governance and transformational development.

1. Debt and Governance.

Sovereign debt is a governance issue in every respect. Why do governments borrow in the first place? They do so in order to be able to spend more than they can raise in tax revenues at a particular time. Borrowing money is economically justifiable when it has a positive multiplier effect on the economy and society, leading not only to expanding the ability to pay but also expanding well-being. The very fact of debt distress suggests that governments have failed to achieve these outcomes wither through their own fault or because of external factors beyond their control or both.

The size of sovereign debt in any year is equivalent to the size of the budget deficit which is currently projected by the IMF to reach 7% of GDP in 2020. Budget deficits result when expenditures outstrip revenues. This may be because revenue targets are not met, expenditure targets are exceeded, or both. Whichever is the case, except for unforeseen externally induced circumstances, deficits, especially when they remain high year on year, represent a failure of governance.

In relation to revenues, African governments collect on average only 17% of GDP in tax revenues compared to the OECD of more than 30% (IMF 2019). Across the continent, the tax system is hampered by inefficiencies and corruption, excessive tax giveaways to large, often transnational, companies especially in the extractive sector, and aggressive tax avoidance practices by the rich and transnational companies resulting in illicit financial outflows (the Mbeki Report, 2015). According to the Africa Tax Administrators Forum (ATAF), "Africa's problem is that it has signed away its tax base. Tax exemptions may be as high as 40% of revenues' (The Economist, Jan 2010). The burden of taxation falls more on the poor than on the rich reflecting growing income inequalities and inequitable tax policies. Poor people and small businesses pay more relative to their incomes compared to the rich and large companies (Oxfam 2018). Small firms pay the highest corporate income tax rates in Ethiopia (ICTD, 2018), whilst in Cote d'Ivoire personal income tax rates (60%) far outstrip corporate tax rates (25%).

In terms of the attitude towards paying taxes, various Afrobarometer surveys (2012-2020) reveal that whilst most Africans are willing to pay taxes and see this as a civic duty, they expect better public services in return; they are deterred by distrust, perceptions of corruption and inefficient tax administration. A 2012 survey of Nigerians revealed that only 3% of respondents "trust the Federal Inland Revenue a lot" whilst 89% said they had never refused to pay taxes.

On the expenditure side, underlying budget deficits in recent times are: (1) ambitious infrastructure projects (2) cost over-runs of public projects (3) financing of political patronage coinciding with electoral cycles (4) the burden of accumulated debts, among others. The poor quality of budgets also reflects the failure of parliaments and civil society in their oversight responsibilities.

External factors such as declining and unstable export revenues arising from primary commodity dependency depress both government revenues and access to foreign exchange. Long term primary commodity dependency is a sign of the failure of economic governance. The debt problem is therefore a product of both poor domestic governance – how efficiently and transparently budgets are managed - as well as Africa's inability to transform its economy and make it more resilient – the underlying structural factors that force even good economic managers to borrow.

A comprehensive approach tackling debt must by necessity address not only its external dimension but crucially also its foundations which is poor political and economic governance and structural limitation of the economy.

2. Why Debt relief is back on the table.

In the wake of COVID-19, African governments have been quick off their marks in putting forward an action plan to head off looming social, economic and political disaster, including the need for debt relief and the scaling up of concessional resources. To meet the IMF's "people first" agenda, "that countries in the region do whatever it takes to ramp up public health expenditures to contain the virus outbreak, regardless of fiscal space and debt positions", African governments have rolled out various economic stimulus packages and humanitarian measures (AU, 2020).

Across the continent governments have found ways to spend huge amounts of money at a time that most countries had run out of fiscal space to borrow. 20 African countries were already classified as in external debt distress or at high risk of debt distress before COVID-19. In its Regional Economic Outlook report for Sub Saharan Africa (IMF, 2020), the IMF projects that debt levels could rise temporarily from 58 percent of GDP in 2019 to 64 percent in 2020, 2% points higher than the pre-COVID 19 projection. Debt levels are likely to deteriorate going forward due to a combination of factors including rising cost of borrowing, especially from private capital markets, rising domestic debt, lower than planned economic growth, declining export revenues and currency depreciation and declining remittances among others. Several countries could see increases in their debt levels ranging from 10 percent of GDP to 25 percent of GDP.

Debt distress implies that far more resources are devoted to debt servicing than is sustainable. According to UNDESA (2020) due to the negative impact of COVID-19 on economic growth and revenues the share of tax revenues used to pay interest on debt is set to increase for low-income countries (LICs), most of whom are in Africa, from 19.8 per cent in 2019 to 32.9 per cent in 2020 (UNDESA). More revenues devoted to debt servicing implies less money for sustainable

development. High debt levels also create uncertainty, deterring investments and innovation, and create the conditions for capital flight.

According to UNDESA, vast additional public borrowing will be needed to compensate for significant capital outflows from developing countries and rising financing costs. Non-resident portfolio outflows from emerging market countries, including African Middle-Income Countries (MICs), amounted to almost $100 billion since 21 January 2020 (IIF, 2020). Despite near zero global interest rates, borrowing costs for African countries have risen: credit spreads on emerging market sovereign bonds more than doubled from the beginning of the year to April, widening to more than 600bps. As a result, over 100 countries have asked the IMF for emergency funding from its Rapid Financing Instrument (RFI).

It is these concerns that informed African Union's agenda on debt relief and new cash injection.

3. The Official African position on debt relief

Different official documents and statements appear to articulate varying ambitions of debt relief. anticipated by African leaders. In an analysis of the "Impact of the Corona Virus on the African Economy (AU, 2020), the AU Commission was called upon to "lead negotiations for an ambitious plan for the cancellation of total African external debt ($US236 billion). A first order of magnitude is the call by Ethiopia's Prime Minister Abiy Ahmed for a $150 billion aid package as part of an Africa Global COVID-19 Emergency Financing Package".

In a statement released by the ECA (23,March 2020), African Ministers of Finance called for an emergency economic stimulus to the tune of US$100 billion which will include a waiver of all interest payments, estimated at US$44 billion for 2020, and the possible extension of the waiver to the medium term to provide governments with immediate fiscal space and liquidity. The interest payments waiver should include not only interest payments on public debt, but also on sovereign bonds. For fragile states the waiver will include both principal and interest payments.

In April 2020, the African Union Chairman, Mr Cyril Ramaphosa, President of the Republic of South Africa, appointed Special Envoys to "mobilise international economic support for continental Fight Against COVID-19"[2] . "In the light of the devastating socio-economic and political impact of the pandemic on African countries these institutions need to support African economies that are facing serious economic challenges with a comprehensive stimulus package for Africa, including deferred debt and interest payments" (Statement by Office of the Chairman, April 2020). He tasked the Special Envoys with soliciting rapid and concrete support as pledged by the G20, the European Union and other international financial institutions. The support expected included "a comprehensive stimulus package for Africa, including deferred debt and interest payments".

[2] The Special Envoys are: Dr Ngozi Okonjo-Iweala, Dr Donald Kaberuka, Mr Tidjane Thiam and Mr Trevor Manuel

Reviewing the G20 deal, the Special Envoys[3] whilst welcoming the deal, called for: (1) Expansion of the eligibility for the debt standstill to cover Africa's Upper Middle Income Countries (so-called IBRD eligible countries)[4] who account for over 50 percent of Africa's gross domestic product, and 46 percent and 55 percent of intra-regional exports and imports, respectively; (2) that the IMF be tasked to work with the Institute for International Finance (IIF)[5] and the African Union to develop solutions guaranteeing debt sustainability and continued access to capital markets in the future. However, country participation in a standstill on the private debt should be voluntary but significant incentives should be put in place to encourage their participation. (3) leverage Special Drawing Rights (SDRs) to create a special purpose vehicle to serve as a bridge finance facility to be accessed on a voluntary basis (4) strengthen governance around the use of resources through partnership with "renowned civil society organizations" and leverage on technology companies for monitoring.

In a statement at a High Level Event on Financing for Development hosted by the UN Sec Gen alongside the Canadian and Jamaican Prime Ministers (28th May, 2020), the Chairman of the AU Commission outlined further African expectations: (1) the debt problem should be approached comprehensively; (2) the debt standstill should be extended to 2 years (3) Additional SDRs should be issued to increase IMF liquidity and fire power (4) Developed countries should meet their commitments to the Addis Ababa Agenda for Action (AAAA) on financing development (5) address the threat of illicit financial flows (6) tackle the sustainable management of natural resources (7) maintain a focus on the "leave no one behind agenda" in the context of debt relief.

4. Other voices on debt relief

At the High-Level Event mentioned above, the Secretary General of the UN, Antonio Guterres, endorsed these positions adding; (1) "world must not just recover but recover better". To do so, the COVID crisis must also be an opportunity to tackle climate change, economic inequalities and poverty as essential components of a comprehensive debt framework; (2) without equivocation, the debt standstill should be extended to Middle Income Countries (MIC). In contrast, the World Bank President expressed opposition to the extension of the debt moratorium to Multilateral Development Banks (MDBs) arguing that such a step will only hurt poor countries. Angela Merkel, the German Chancellor, cautioned the potential negative impact of long-term debt relief on access to private capital.

5. The Global/G20 response

On April 15th the G20 Finance Ministers and Central Bank Governors announced an "Action Plan to Support the Global Economy". This plan included: (1) swift implementation of the $200 billion emergency response packages adopted by the multilateral development banks, (2) more

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[3] Statement entitled "COVID-19 and debt standstill for Africa: The G-20's action is an important first step that must be complemented, scaled up, and broadened"

[4] Algeria, Angola, Egypt, Libya, Morocco, South Africa, and Tunisia.

[5] The IFF is the largest association of private creditors in the world

contributions to replenish the Poverty Reduction and Growth Trust (PRGT) and the Catastrophe Containment Relief Trust (CCRT). The CCRT is a $500 million IMF debt relief package, with additional US285 million pledges, made available to 25 of the poorest countries (20 of them African) to cover their IMF debt obligations for an initial 6-month period; (3) The suspension of bilateral debt payments for 77 countries (LDCs + small Island states) from 1 May to the end of 2020 equivalent $12 billion and representing, 45 per cent of total external debt payments (principal and interest) due in 2020 (Jubilee Campaign, 2020). (4) Private and multilateral creditors encouraged to similarly suspend debt payments.

6. What the G20 debt relief initiative doesn't cover

Not only is the amount covered by debt services suspension paltry relative to the outstanding debt, but the servicing obligations for most of the outstanding debt of Low-Income Countries (LICs)[6] equivalent to US$4,482 billion will fall due between 2022 and 2024 (UNDESA, 2020), long after the moratorium period. This means that LICs would struggle to finance their growth and the provision of basic public goods from then.

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The UNDESA analysis raise the following concerns: (1) Multilateral and commercial debt are excluded from debt service suspension for all countries, and many middle-income countries at risk are entirely excluded from the initiative. (2) The G20 initiative does not constitute debt relief and debt relief is currently not on the table, but is necessary if developing countries are to recover and progress toward the SDGs. (3) MICs are excluded from the debt standstill package (4) the G20 initiative is a short-term, piecemeal approach. There is currently no comprehensive approach on the table which is necessary to sovereign debt distress which is inherently a long-standing challenge, leaving the world ill-prepared for the current crisis.

To address these gaps, UNDESA propose a three-pronged approach in line with the Secretary-General's report, "Debt and COVID-19: A Global Response in Solidarity": (i) a full standstill on all debt service (bilateral, multilateral and commercial) for all developing countries that request it, while ensuring that developing countries without high debt burdens still have access to credit needed to finance Covid-19 responses; (ii) additional debt relief for highly indebted developing countries to avoid defaults and create space for SDG investments; and (iii) progress in the international financial architecture, through fairer and more effective mechanisms for debt crisis resolution, as well as more responsible borrowing and lending.

7. The nature of the African debt problem

It has been 24 years since the HIPC debt relief initiative and 14 years since Multilateral Debt Relief initiative were put in place to reduce debt owed by low income countries to Paris Club and Multilateral Development Bank (MDB) creditors. In recent times, Africa's debt has risen substantially, with the median debt ratio as percent of GDP increasing from 31 percent in 2012 to 53 percent in 2017. Because of the rapid increase in debt burden (the share of exports used

[6] Of the 31 countries classified by the World Bank as LICs, 25 are African.

to service debt) over recent years, about one-third of the countries in sub-Saharan Africa are either in or at high risk of debt distress, including the majority of countries that benefited from debt relief in the 1990s[7]. Compared to the 2010-2016 (average), the debt service burden in 2019 (before COVID-19) has increased by over 60 per cent. This is highest for oil importing and middle-income countries (Table 1).

Table 1: The State of sovereign debt burden, Sub-Saharan Africa (Debt service/Exports GDP)

Category	Average 2010-16	2019	2020 (Proj)	2021 (proj)
SSA	15.4	25.7	28.7	28.1
Oil Exporting (Exc Nigeria)	11.2	23.5	27.3	26.1
Oil Importing (Exc South Africa)	18.6	26.9	29.5	29.3
SSA LICs	23.1	28.6	30.6	31.2
SSA MICs	13.7	24.7	28	27.1
Countries in Fragile Situations	23.9	25.2	28.9	28.3
South Africa	13.6	21.4	22	22
Nigeria	6.5	15.5	17.4	16.9

Source: World Bank Debt Tables, 2020

In addition to addressing fiscal leakages, borrowing remains one of the few options to support both global goals and ambitious infrastructure programmes in the short run, given low growth in tax revenues, low equity investment inflows and flat-lining of aid budgets. Long term debt sustainability lies in transforming economies and addressing governance issues.

In addition to the governance factors outlined in section 1 above, the rising trend of Africa's external debt is due to a number of economic factors (1) a falling number of countries that have benefited from debt relief since 2007, worsening fiscal positions (ii) exchange rate depreciations, particularly for countries dependent on commodity exports (IMF,2018a). While external debt stocks and debt service have not returned to their pre-HIPC and MDRI levels, they are greater than they were in 2006, when MDRI began to operate (ODI, 2019), (iii)increasing access to commercial debt (iv) change in the structure of debt favoring short term durations.

Africa's risk of future debt distress has also been rising. Africa's Debt Sustainability Framework (DSF) rating began to deteriorate after 2014, signaling the re-accumulation of public debt. By March 2018, 18 countries were at high risk of debt distress, more than twice as many as in 2013 (World Bank, 2018). This number rose to 20 before COVID-19 hit.

African governments' external debt payments have also increased dramatically in the last few years. Between 2015 and 2017 they doubled, rising from a (mean, unweighted) average of 5.9 per cent of government revenue in 2015, to 11.8 per cent of government revenue in 2017. This means African government debt payments are at the highest level since 2001 (see graph below). Key causes of this dramatic change are increases in lending since 2008 from multiple lenders

[7] www.brookings.edu/research

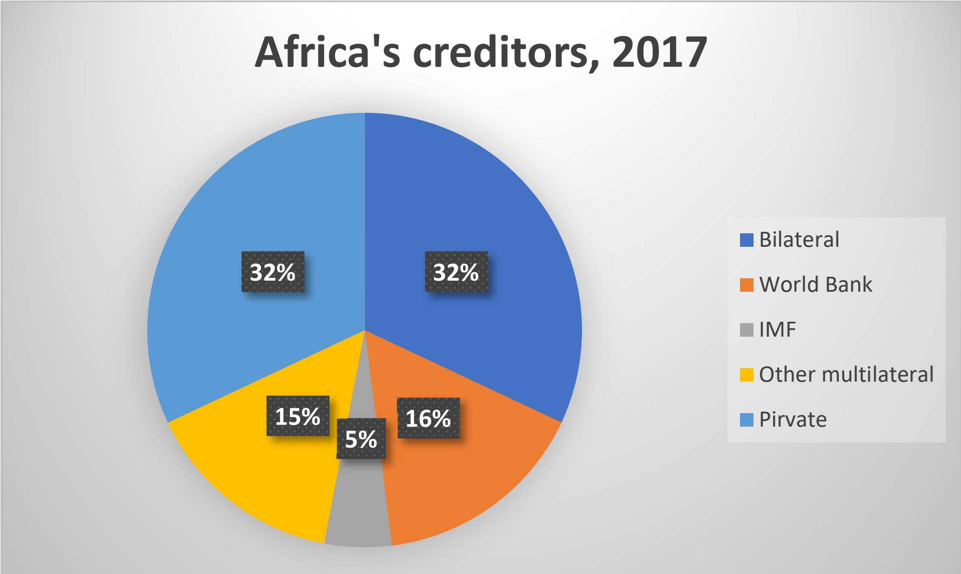
followed by falls in commodity prices in mid-2014, and rising US dollar interest rates and the value of the US dollar in recent (Jubilee Debt Campaign, 2018). In comparison with government revenues, African government external debt payments have doubled in two years, from an average of 5.9 per cent of government revenue in 2015 to 11.8 per cent in 2017.

The composition of debt has changed in a manner that increases Africa's debt risk profile. First, the share of multilateral and concessional debt (from bilateral and multilateral sources) in external debt has declined steadily in SSA since its peak in 2005. As of 2016, multilateral debt accounted for less than 40 per cent of external public debt on average, down from 53 per cent in 2005. More flexible guidelines on external debt limits introduced by IMF-supported programmes allow LICs to take on more debt to support investment in potentially high-return critical infrastructure (IMF, 2013). Many more countries are also attaining middle-income country status, which means, in the medium-term, they are graduating from the concessional windows of multilateral development banks (MDBs) into harder windows and phasing out of donors' bilateral programmes (ODI 2018, Kharas et al., 2014).

Second, the share of non-Paris club sovereign creditors among bilateral creditors has risen. The share of non-Paris Club creditors in total public and publicly guaranteed external debt doubled, from 15 per cent in 2007 to 30 per cent in 2016. At the same time, the share of Paris Club bilateral debt plummeted from 25 to 7 per cent.

Third, private debt has grown significantly. The standout development in the composition of Africa's stock of debt as in Figure 1 below is the share of private sector debt which constituted less than 10% of total debt in the early 2000s and now exceeds 30%.

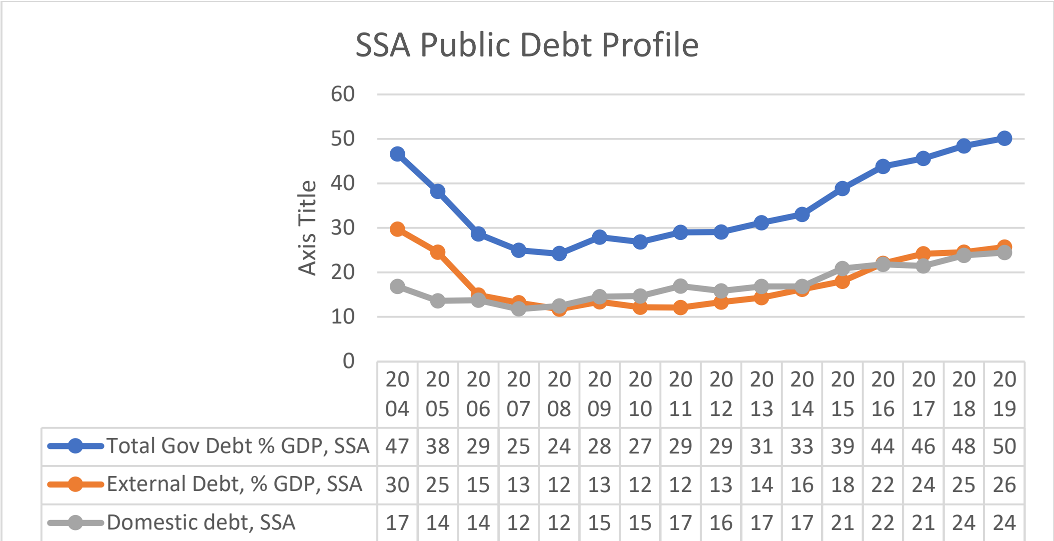
Figure 1: Current composition of Africa's stock of debt



Source: www.jubileedebt.org.uk

Add to these factors, domestic debt dynamics. As Figure 2 below demonstrates, the share of domestic debt in total public debt matched external debt in 2006 following the HIPC and Multilateral Debt Relief that reduced external debt drastically. Since 2014 both external and domestic debt have been rising in tandem and currently contribute and equal share to the total government debt. The rising domestic debt burden arise from 3 factors (1) deficit financing - governments borrowing to finance their budget deficits (2) interest accumulation on unpaid domestic procurements (3) losses due to state owned enterprises.

Figure 2: Sub-Sahara Africa's Public debt profile



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Gov Debt % GDP, SSA	47	38	29	25	24	28	27	29	29	31	33	39	44	46	48	50
External Debt, % GDP, SSA	30	25	15	13	12	13	12	12	13	14	16	18	22	24	25	26
Domestic debt, SSA	17	14	14	12	12	15	15	17	16	17	17	21	22	21	24	24

Source: IMF, Africa Regional Economic Outlook 2020:
https://www.imf.org/external/datamapper/datasets/AFRREO/2
Note: Data rounded to nearest 100

These factors combined have led to a renewed concern that Africa may be sleep walking into a new phase of a debt crisis.

7.1 How much and to whom does Africa owe?

Estimating the volume and terms of Africa's debt is a difficult task for a number of reasons (1) Information on Africa's debt is scattered in several databases, not always in the same format, some of which divide the continent into categories that tends to exclude north Africa. Piecing together the data creates error risks (2) Estimating China's, as a well the Gul Cooperation Countries', financial transactions with Africa is even more daunting (3) Data reporting by African governments and intergovernmental institutions is poor, a situation that leads to reliance on external data, some of which are projected rather than real time.

Taking these into consideration, Table 2 (which based on Jubilee Campaign) estimates that in 2017, Africa's debt stock from all sources, excluding China, amounted to US$317 billion. China's net debt stock varies from a high of US$132bn to a low of $ 72 billion and a median figure of

about US$100bn according to Jubilee Debt Campaign. Others (Yun Sun, 2020) put it much higher at US$143 bn.

From World Bank sources, total debt and external debt for countries eligible for the G20 debt standstill is estimated at $160 billion and $90 billion, respectively (Brookings, 2020).

Table 2: Africa's creditors, 2017

Country	Debt owed Billion (US$), current	% of Total	Source
China **	72– 132	18-24	http://www.sais-cari.org/data Jubilee Debt estimates
Paris Club	40	10	www.Oecd.stats
World bank	66	16	www.oecd.stats.
Other multilateral	61	15	ditto
IMF	18	4	ditto
Private	132	32	www.iif.com

Source: https://jubileedebt.org.uk/report/africas-growing-debt-crisis-who-is-the-debt-owed-to
***Unlike debt to OECD countries and related institutions, there is no single source for reporting Chinese debt. The China Africa Research Initiative (CARI) is the most popularly used although the site acknowledges incomplete information. The debt ranges are estimates by Jubilee Debt Campaign using various scenarios.

Based on these estimates, 17 per cent of African governments' external interest payments are made to China. In comparison, about 55 per cent of external interest payments are made to private creditors.

World Bank data differs somewhat. For the 48 African countries on which it has data, the World Bank says $157 billion was lent by other governments to African governments from 2006 to 2017 (World Bank, 2019). At the end of 2016, African governments owed $130 billion of debt to other governments. This amounts to 32 per cent of African government external debt. A further 32 per cent is owed to the private sector, and 36 per cent to multilateral institutions (16; 5 and 15 per cent to the World Bank, IMF and other multilaterals, respectively).

It should be noted that there are still a few countries, such as Zimbabwe, Sudan and Somalia, whose debt stock is from historic bilateral loans from Western and Middle Eastern governments, which had not been repaid or cancelled. Other historic debt from Western governments include debts that were not cancelled from the HIPC initiative.

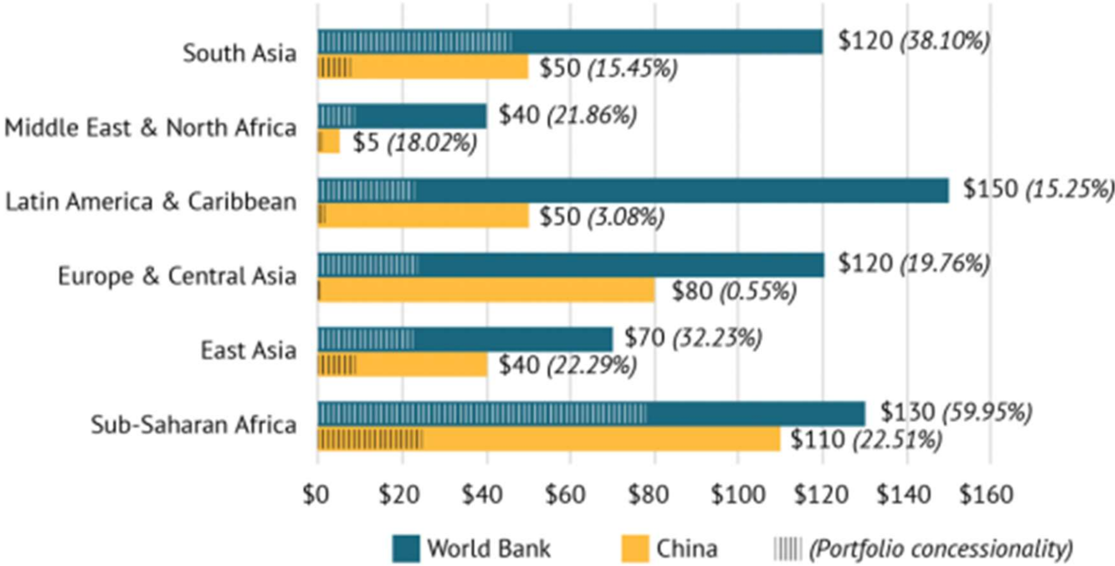
7.2 China as a special Case

China currently holds about 20% of Africa's debt stock. In terms of the nature of the debt owed to China, are comprised of: zero interest loans (ZILs) provided by the Chinese National Government, Exim Bank loans, and loans provided by companies, commercial banks and the China Development Bank (CDB). Over 30 banks provide loans to African governments, mainly to finance state owned enterprises, especially minerals and energy, and infrastructure. Only a small

proportion of the debt is in the form of zero interest loans. ZILs have fallen from a high of 38% in 2013 to 5% of total loans in 2017. Of the $60 billion that China pledged to Africa at the 2015 Forum on China-Africa Cooperation (FOCAC) only 9 percent were in zero-interest loans. Similarly, of the 2018 FOCAC pledge of $60 billion, 50% was in the form of credit lines and development with grants and interest-free loans jointly accounting for less than 25 percent of the total (Yun Sun, 2020). Most of China's loans therefor have a low level of concessionality.

The increase China's presence has spun many perceptions right or wrong. In terms of concessionality, China's loan portfolio is less concessional, compared to the portfolio of the World Bank, but not necessarily so compared to the Paris Club donors. In Figure 3 above, the average concessionality of World Bank loans (60%) far outstrips that of China (22.5%). China's loans on average have higher interest rates, shorter maturity lengths, and shorter grace periods. It has to be noted however that the concessioanlity gap disappears if China's loans to LMICs (mostly infrastructure financing) are compared with the World Bank's commercial lending window (IBRD).

Figure 3: Loan concessionality compared.



Source: Scott Morris, Brad Parks, and Alysha Gardner, www.cgdev.org

China however compares favourably with the Paris Club creditors in many important respects. According to the China-Africa Institute of the John Hopkins School of Advanced Studies (Acker K, Huang et al, June 2020), unlike Paris Club donors, there has been no evidence of China imposing penalties on debt payment arrears; its lending does not require an IMF programme; there is no evidence of asset seizures and China has written off over $3.4bn of zero-interest loans in 94 cases between 2000-2019. About $1.1bn was cancelled in 2007 in 2000 and 2007, both related to HIPC commitments. All other loans are restructured or re-financed. Restructuring often involves extending the maturity date of interest payments, interest rate reduction or rescheduling of

interest payment arrears. $15bn dollars of loan restructuring has taken place involving 20 projects between 2000-2019.

However, the structure of china's debt has also moved towards unfavourable territory. Whereas the bulk of the debt between 2000-2013 were ZILs, the current debt structure if dominated by loans on commercial terms. China's approach to debt relief is on a country by country basis. China's G20 pledge does not include commercial debt, although commercial lenders are urged to consider opening negotiations.

7.3 Is Africa in debt distress?

Is Africa moving towards a new debt crisis? No less than the members of the AU's team of Special Envoys believe that a new debt crisis is distant. They argue that unlike the 1990s/2000s, the economic fundamentals across the continent, save a few countries, are strong; those in debt distress are largely countries in fragility; unlike in the past, many more countries have access to private finance. "The market is saving Africa from debt distress. It is disciplining our bad macroeconomic management and still gives us money. It enables us to undertake continuous restructuring as Ghana has demonstrated" (Vera Songwe, ECA ED, at a Brookings event). It is believed that, unlike the past, the current debt risks are largely a result of bad fiscal management that can be addressed through better governance and the use of technology to raise revenues, as well as commodity price swings. There is a liquidity problem, according to this school of thought, but no insolvency threat.

If Africa is not in a debt crisis, is it at least facing serious headwinds, hurtling towards a crisis? A debt crisis looms when there is a serious threat of debt default on a large scale. In a study of past defaulters, Reinhart and Rogoff (2009), cited by Prizzon et al, 2018[8], finds the threshold in terms of external debt burden for serial defaulter is as low as 30-35 percent of GDP. For those same nations that Reinhart and Rogoff refer to as 'serial defaulters' because they have a long history of default—the average debt-to-GDP ratio was 43.7 percent and thus over the threshold.

The median debt/GDP for Africa exceeds 50 per cent, and far higher with MICs. Debt servicing as a share of exports exceeds 10 per cent for more than a third of the 48 countries where there is data.

Table 3: Debt indicators for selected countries in distress or at high risk of distress, 2019

Country	%GDP	Debt Service/Exports
Eritrea	127.3	
Sudan	177.68	15
Cape Verde	125.3	
Egypt	86.93	5.9
Mozambique	124.46	

[8] Shakira Mustapha, Annalisa Prizzon, Oct, 2018: Africa's rising debt: How to avoid a new crisis, ODI Briefing Note).

Zambia	80.5	18.1
Angola	90.46	13 (25 in 2016)
Congo Republic	90.2	
Mauritania	67.5	13.2
Tunisia	81.55	17.2
Sierra Leone	72.4	
Togo	70.4	
Selected Countries in Moderate risk of distress		
Morocco	65.1	9.8
Mauritius	67.5	
Senegal	62	14.2
Kenya	55.5	14.8
Ethiopia	57.4	20.8
South Africa	57.8	12.2
Ghana	62	

Source: ECA Dataset, 2020

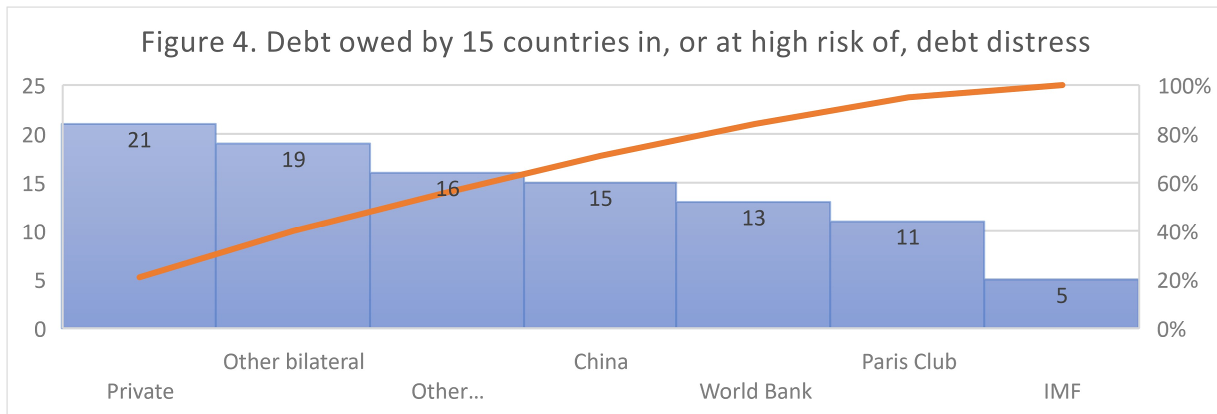
Moreover, the number of countries in, or at a high risk of, external debt distress has increased steadily from 6 in 2013 to 20 at the start of 2020.

Table 4. Debt sustainability' Based on 37 PRGF Eligible African Countries (2020)

Risk Level	No of countries (External Debt)	no of countries (overall public debt)
Low	4	5
moderate	13	13
High	14	12
in debt distress	6	7

Source: IMF, 2020

Figure 4 below presents the debt exposure of the 15 of the countries in, or at a high risk of debt distress. 55 per cent of exposure is to relatively new creditors - private (mainly bond markets), other bilateral (mainly Gulf Cooperation Countries) and China where flexibility is limited. Combined with the IFIs, the debt owed is effectively to priority lenders.



Source: Derived from Jubilee Debt Campaign 2018

The debt risk also needs to be addressed in the context of the social cost of forgone expenditure. According to Jubilee Debt Campaign, 64 countries currently spend more on debt payments than healthcare[9]. Moreover, real public spending per person in the countries with the highest debt payments is falling. In contrast, it has been rising in the countries with the lowest debt payments., For the 30 countries with the highest debt payments for which data is available average real public spending per person fell between 2015 and 2018 by 6 per cent. In the 30 countries with the lowest debt payments, it grew by 14 per cent. Of the 30 countries with the highest debt payments, 18 had lower real public spending per person on average between 2016 and 2019 than they did in 2015. For the 30 countries with the lowest debt payments, just eight had lower real public spending per person on average between 2016 and 2019 than they did in 2015.

The continent could spiral into a full-blown debt crisis if: (1) the ratio of exports to imports does not increase; (ii) the rate of the return on development projects fails to exceed the interest rate on the debt; or (iii) if economies are not transformed to equip them with the absorptive capacity to turn loans into successful income; and, (iv) if COVID creates a herd-like knock on investor confidence, stalling creditors from rolling over or increasing loans (v) If COVID-19 triggers a full-blown capital flight.

There is also the "Transfer problem"- Keynes observed in 1929 that Germany faced two problems in relation to its reparations payments – a budgetary problem, i.e. raising sufficient taxes to pay and a transfer problem, i.e. converting the tax revenues into forms that can be transferred or earning enough foreign currency from exports. The latter has much to do with exchange rate stability as well as the terms of trade. Both problems are equally binding on the continent. African external debts are denominated in foreign currencies, so when interest rates rise or the value of the national currency falls, the cost of debt servicing often skyrockets. Managing the exchange rate has become a major preoccupation of Finance Ministers whilst Africa's structural transformation agenda is precisely aimed at addressing lack of trade competitiveness due to dependence on primary commodities. Similarly, tax revenues have failed to increase relative to economic growth, forcing many countries into deficit financing. Low tax revenues are a result of

[9] Jubilee Campaign (Jan 2020), The Growing Global South Debt Crisis and cuts in public spending

institutional capacity weaknesses in tax administration; misguided policies aimed at attracting FDI such as tax concessions including in the extractives sector, and tax evasion and aggressive tax avoidance practices of multinational companies and rich individuals.

Increasing exposure to international financial markets carries significant risks of debt distress. These include:

(i) **the pro-cyclical nature of debt markets**—there is a lot of liquidity during boom times and thus nations tend to borrow, but liquidity dries up during recessions and can make it difficult for nations to rollover or increase debt (Minsky, 1986). These tensions are exacerbated with greater exposure to international financial markets. For example, with the crash in the oil price and fears of the Covid-19 virus, investors have pulled money from international bond markets. Nigeria's plans to issue a $3.3 billion Eurobond to fund its budget and refinance loans this year will be delayed, after Eurobond yields across emerging markets shot up due to the oil price plunge and the increasing threat of the coronavirus across the globe. Côte d'Ivoire, Benin and South Africa, who also had plans to issues Eurobonds this year, are similarly likely to postpone any debt issues until markets stabilize. "When a crisis like COVID-19 hits, investors will de-risk portfolios and it is much easier for them to pull out of more liquid assets such as Eurobonds," says Samir Gadio, head, Africa strategy at Standard Chartered Bank.

ii. **Private creditors may also be difficult to negotiate with**- 25 private creditors with more than $9 trillion in assets under management have banded together to dismiss calls for blanket debt relief for African nations[10]. African countries also face a combined $44bn debt-servicing bill this year alone. While the working group claims it stands ready to provide support to multilateral and bilateral efforts to help "some of the world's poorest countries to contain the economic impact of COVID-19", its uppermost core engagement principal "is the belief that a one-size-fits-all solution will be counter-productive for the nations and people of Africa". This statement runs counter to calls by the G20 urging private creditors to match their proposal to allow the poorest nations to suspend debt payments for the rest of the year. "A rushed, blanket approach developed during a time of crisis will put that crucial long-term access to capital at risk," the Africa PCWG said.

(iii) **Procyclical behavior of credit rating agencies**- During the 2008 global financial crisis, ratings agencies were accused of aggressively downgrading countries whose economies were already strained. Reports by the European and US Commissions found evidence that their decisions worsened the financial crisis. Ten African countries have currently been downgraded by rating agencies since the COVID-19 pandemic started[11]. These decisions were based on expectations that their fiscal situations would deteriorate and their health systems would be severely strained

[10] The Africa Private Creditor Working Group (AfricaPCWG) aims to "provide African Governments, the UNECA, the G20, the IMF and other Multilateral Development Banks ("MDBs") a forum through which all stakeholders can engage transparently and constructively" with private creditors who hold debt issued by African governments and corporations, according to a statement released by the group on Friday

[11] These are Angola, Botswana, Cameroon, Cape Verde, Democratic Republic of the Congo, Gabon, Nigeria, South Africa, Mauritius and Zambia

by the pandemic. (Misheck Mutize, April 2020, University of Cape Town). Since international rating agencies have tremendous power to influence market expectations and investors' portfolio allocation decisions, crisis-induced downgrades undermine macroeconomic fundamentals and can exacerbate debt distress.

iv. **Other commercial debts**- Besides bonds and bank loans, African private sector debts include commodity-backed loans such as oil-backed loans to Chad, Republic of Congo and South Sudan, and recently, a $2 billion loan backed by Bauxite in Ghana. Of the 77 eligible countries, such loans are estimated to exceed seven billion.[12] Much of the commodity-linked finance, borrowed on commercial terms, has originated largely from bilateral lending from China and private international entities, sometimes on terms that are not sufficiently transparent. Commodity-backed loans allow African countries to access more financing while reducing lending risks to creditors. One estimate suggests that export commodities were used to secure one-third of Chinese loans in Africa (Brautigam and Hwang, 2016). Angola, for example, where over half of the external debt is owed to China, has received over $10 billion in oil-backed loans. These loans have been non-concessionary and required that 70 per cent of the contracts go to Chinese companies (Brautigam and Hwang, 2016). Chad's state-owned oil company also took a large loan from Glencore in 2014 at the time when crude oil was trading above $100 per barrel. There is limited transparency in these kinds of loans. This can pose systemic risks with down swings in commodity prices.

v. Vulture Funds[13]- "vulture funds" is a term given to entities that purchase distressed debt on the secondary market, where it trades significantly below its face value, and then seek to recover the full amount, often through litigation. These intransigent creditors are able to litigate because most debt relief initiatives do not alter the legal rights and obligations between debtors and their external creditors. Vulture funds buy debt often at deep discounts with the intent of suing the debtor for full recovery. Vulture funds have average recovery rates of about 3 to 20 times their investment, equivalent to returns of (net legal fees) 300-2000 per cent. The vulture funds grind down poor countries in cycles of protracted litigation, a practice referred to as "champerty" and largely unknown in African legal systems. In one recent case against Zambia, a vulture fund, having bought a debt for US$3 million, sued Zambia for US$55 million and was awarded US$ 15.5 million. The vulture funds exert pressure on the sovereign debtor by attempting to obtain attachment of the government's assets abroad. Such proceedings are always burdensome to the debtors concerned, and can complicate financial and reserve management. The prospects of "vultures" hovering over Africa's assets in the secondary market cannot be discounted should debt distress (especially of MICs) deepen.

vi. Low rating of Africa's MICs- this low rating by credit rating agencies drives up costs and debt distress risks: Many Africa MICs may find their bond debts escalate. Already the yields of 53 per cent of African bond debtors exceed seven per cent. In four countries – Senegal Ivory Coast,

[12] The African Growth Initiative 2020

[13] See the African Legal Support Facility Briefing Note: Vulture Funds in the Sovereign Debt Context

Gabon and Zambia – the yields exceed 10 per cent. Generally, yields have been increasing steadily. 10 -year bonds have risen from 5.3 per cent in 2012 to an average of 7.4 per cent in 2018. African yields are on average 200 basis points higher than the baseline, accounting for the over-subscription for these bonds. Most coupons are expected to mature from 2022 and should the risk profile deteriorate, Africa could be vulnerable to capital being pulled out or yields going even further up.

vii. **The US dollar denomination of the Eurobonds also exposes their issuers to exchange rate risks**- this is because the required principal repayments are concentrated, typically in a single 'bullet' installment, Eurobonds also involve greater redemption risks than amortizing loans. In contrast to the syndicated bank loans that dominated the commercial debt of African countries during the 1980s, Eurobonds are marked by a much more diffused and diverse set of credi. Moreover, it is widely believed that investor appetite for SSA bonds has been fueled by record-low interest rates in advanced economies and commodity price recovery in the aftermath of the global financial crisis, trends that have now reversed or could reverse in the near future (Masetti, 2015, Standard and Poor's, 2015, Sy, 2015). If interest rates rise, and the risk appetite declines, the bond market may also dry up for the continent[14].

Whether or not a full-blown debt crisis is imminent, debt headwinds are clearly blowing in multiple directions and strongly too. How might further debt distress or even a full-blown debt crisis be avoided?

8.0 "Building Back Better" – An agenda for comprehensive and Just debt resolution

A comprehensive approach to debt is one that combines a domestic governance approach with external factors. To "build back" from the COVID-19 ravage is to set better standards for contracting, using and accounting for loans, and better still minimizing their use. Those standards must be anchored in a vision of a world that is more equitable, greener and more caring.

8.1 Taking a governance approach to debt.

Debt distress is a failure to govern the economy in such a way that debt has a multiplier effect. It is a failure to plan and vision adequately; to raise revenues adequately and equitably and spend those revenues effectively, efficiently, transparently and accountably. It is a failure of the budget and the institutions that oversight it, including parliament and civil society.

To address these failures, CSOs will need to return to 1990s and 2000s focus on pro-poor, eatable and accountable budgeting. It requires connecting the dots of various struggles with the budget

[14]ChristianSenga[a] DannyCassimon[a] Dennis Essers[ab]. Sub-Saharan African Eurobond Yield. What matters beyond Global Factors

being a fulcrum: corruption, social justice and inequalities, tax justice and illicit financial flows, domestic resources mobilization, human rights and green economies.

The approach to debt must be anchored in a normative framework: a vision of financing development anchored on Africa's own human and natural resources; a vision of a post-COVID-19 world that is fairer, greener, safer and more sustainable anchored by a governance framework characterized by greater transparency, accountability and service-oriented. For these CSOs may have to be open to such instruments as debt swap and begin the process of public debate to define the parameters of new debt.

8.2 The Domestic Resource Mobilisation (DRM) agenda.

For an economy yet to diversify, there is no bigger source of money than natural resource rents and taxation, above all, creative use of people's energies and creativity. This makes equitable taxation, transparent resource contracts and Illicit financial flows central to DRM. But it also calls for innovations to grow local capital markets as a complement or alternative to international capital markets and as a strategy to mitigate volatility in international bond markets. In 2018, the AfDB launched the African Domestic Bond Fund – a pan-African fund that invests in local currency bonds from South Africa, Kenya, Nigeria, Egypt, Namibia, Botswana, Ghana and Zambia – which has held up compared with other funds in recent weeks. Morocco and Mauritius are soon to join the fund[15]. CSOs need to engage if even for learning purposes. This applies also to new African institutions such as the African Investment Bank established as a pan African instrument to mobilise capital. The absence of CSOs in these arenas diminishes the CSO impact on governance at the regional and continental levels.

8.3 Domestic debt

With open economies the distinction between domestic and external debt in terms of its impact on debt service burden is small. Domestic debt spills over to external debt. Domestic debt however is grounded in domestic power relations, often the product of government procurements and over-bloated contracts that are unpaid, or borrowing from the banks. Their impacts are more pervasive: they have internal income distribution impacts; they can facilitate corruption and if unpaid have ripple effects on the economy. Yet external debt is prioritized over domestic by the terms of international debt contracts.

Just like the HIPC period, CSOs do not engage on the domestic debt issue, comprehensively. Only by engaging with domestic debt can CSOs adequately tackle a variety of issues including ambitious infrastructure and opaque contracts, among others. With regional integration moving forward, the "domestic" can be extended to the regional and continental levels as entry point for

[15] https://www.euromoney.com/article/b1ks8nprqk465l/african-eurobond-plans-off-the-table-after-oil-price-plunge?copyrightInfo=true

engaging regional financial institutions and ambitious agendas such as PIDA that drive the continent further into debt and unequal contracts.

8.4 Debt and the transformation agenda

Besides political governance issues such as the rule of law, human rights and accountability, the second major driver of indebtedness is the lack of resilience and competitiveness of African countries because of limited diversification, making them vulnerable to external headwinds. A transformation approach to debt has implication for what debt is used. Among others, debt resources must lead to economic diversification and regional integration

As a proxy for economic transformation, the AU/ECA/African Development Bank joint "African regional integration index" tracks such factors as the level of integration in trade, production and infrastructure. The latest report finds that the trade dimension scores higher than the productive and infrastructure dimensions, but with a score of only 0.383 out of 1, it, too, leaves ample room for growth. Implementation of the African Continental Free Trade Area (AfCFTA) offers promise in this regard. It measures the degree of integration at regional and continental levels. CSOs are relatively uninformed about this index although it could serve as a useful guide for channeling of both debt and tax resources. The index does not have any provision of the integration of people and culture. CSOs can influence the direction of travel of the index if they engaged.

Besides, the trade justice appears to falling off the CSO advocacy agenda, creating a big gap for CSO mobilization to engage in the AFCTA and its relations to external trade arrangements. Reviving a vibrant trade network that connects the dots to IFFs, natural resource governance and agriculture is crucial to building the foundations for debt sustainability.

8.5 Tackling debt vultures

The risk of desk vultures is real. The African Union and United Nations Economic Commission for Africa have announced that they are looking at the feasibility of creating a special purpose vehicle that can swap African bonds for debt instruments with more generous terms. What if bondholders decide to sell their discounted bonds to vulture funds instead? Danny Bradlow (May 2020) proposes strengthening the AU proposal by creating a DOVE (Debt of Vulnerable Economies) Fund as the special purpose vehicle which will have the following characteristics: (a) independent of both creditors and debtors, managed by an independent board representing all stakeholders but based for example at AfDB (b) the fund will buy the bonds of African states at their current low market prices and hold them until maturity and economies recovering (c) any future debt renegotiations will be guided by international standards such as the UN Guiding Principles on Business and Human Rights, the Principles on Responsible Investment, and the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (d) the special purpose vehicle would advocate that all private sector creditors participate in a comparable standstill, both on debt payments and debt trading, and consider renegotiating the debt of the

participating countries after the crisis ends. CSOs, especially those providing legal advice, need to be in preparedness to help provide information to country-level accountability struggles.

8.6. Tackling the foundation of an unfair global debt resolution framework.

The legal basis of debt as a contract for the protection of creditor rights is the fundamental factor underlying the inability of the global system to construct a framework for debt workout that is fair and long-term. It accounts for the creditor dominated approach to international debt, a framework marred by the involvement of creditors as judge, prosecution and jury, a system that runs counter to natural justice. The consequence is its failure to take into account either the human rights of the people of debtor nations or the environment.

A concrete way in which this unfair contracting framework impacts on the current debt efforts is the fact that 99 per cent of international government bond contracts are owed under English or New York law. However, of the bond contracts owed by the 24 countries covered by the G20 deal 90 per cent are owed under English law. This means that if a government suspends debt payments on these bonds as requested by the G20, any creditor who wants to sue that government is likely to bring the case before the High Court in London. A campaign/lobbying target could be to ensure that the UK parliament passes an Act, or an amendment to another Act, to protect borrowing governments who choose to implement the suspension of their private debt payments from legal action in line with G20 agreement, to prevent any creditor suing a government for non-payment on a debt in 2020. Creditors would be prevented from bringing a court case against any government which is suspending debt payments in line with the G20 agreement. The legislation should automatically be updated in line with future G20 agreements, for example if the suspension is extended to 2021, or extended to other countries.

This framework also applies to international trade agreements. It has often been overlooked that the definition of a covered investment within international trade and investment agreements often include sovereign debt. International investment agreements may become a “court” for sovereign workouts by default. Most treaties may restrict the ability to restructure debt in the wake of a financial crisis and could undermine the ability of nations to recover from financial crises. The COVID context, combined with the environmental crisis may be an opportunity for CSOs need to push the doors for the consideration of creditor rights.

8.7 Tackling Private debt

As noted, private creditors have become major players in Africa’s debt profile in a manner that may not have been foreseen only a decade ago. A 25-member private creditors club, The Africa Private Creditor Working Group (AfricaPCWG), with more than $9 trillion dollars in combined assets under their management, nearly four times the continent’s current GDP, facing off with the continent is an enormous power imbalance. The Africa PCWG is itself a small part of an even more formidable club, the International Finance Institute, a 450 member advocacy and lobbying body made up of commercial and investment banks, asset managers, insurance companies,

sovereign wealth funds, hedge funds, central banks, multilateral agencies and development banks, with only one purpose in mind, to maximise profits.

This is an entirely different world to which the continent collectively has little experience. This world may also well have as members businesses of some of Africa's business owning politicians, creating possibilities of conflict of interest. Since these private creditors are organized, they provide clear arenas for engagement. To minimise the power imbalance, Africans also have to find a way to organize counter-veiling bodies apart from governments, similar to way that debt coalitions emerged in the 1990s and 2000s targeting bilateral and multilateral creditors.

8.8 Debt owed to China

At the just ended extraordinary China-Africa Summit held on line (1th June 2020), President Xi Xiaoping announced that "within the FOCAC framework, China will cancel the debt of relevant African countries in the form of interest-free government loans that are due to mature by the end of 2020. For those African countries that are hardest hit by the coronavirus and are under heavy financial stress, China will work with the global community to give them greater support, by such means as further extending the period of debt suspension, to help them tide over the current difficulty. President Xi encouraged Chinese financial institutions to respond to the G20's Debt Service Suspension Initiative (DSSI) and to hold friendly consultations with African countries according to market principles to work out arrangements for commercial loans with sovereign guarantees. China will work with other members of the G20 to implement the DSSI and, on that basis, urge the G20 to extend debt service suspension still further for countries concerned, including those in Africa. He urged the international community, especially developed countries and multilateral financial institutions, to act more forcefully on debt relief and suspension for Africa.

In the main, China's response remains limited to zero-interest loans which are a small fraction of the debt owed by African governments and SOEs and a case by case approach. China's position is firmly rooted within the G20 initiative of a debt standstill and demonstrates no appetite for cancellation. CSOs must seek to engage China not only to push it to go further in its debt restructuring commitments but especially to force it to comply with transparency and human rights norms in its business dealings on the continent

8.9 The African official position: A little boldness may help

The official African position for this round of debt relief is as timid as the days leading to the HIPC initiative. The discourse is the same -they desire debt that does not disturb the route to the Eurobond market even if this market is expensive and costs Africa's human and Infrastructure development. African leaders are asking for less than the United Nations. This is not acceptable. In the 1990s, many leading African Finance Ministers questioned the very logic of debt relief arguing it led to moral hazards. The argument today is the same - debt cancellation is not desirable if it affects access to private capital. The counter argument by CSOs in the 1990s was

the need to free up money for health, education and poverty reduction. The argument today has to be that Africa needs to free up money to meet the cost of economic transformation and democratic consolidation. In the long run debt relief will boost Africa's path to private capital. CSOs need to put a foot in to push the courage factor upwards.

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