

African Debt Series Vol. 2

AFRICA'S RISING DEBT AND THE EMERGENCE OF NEW CREDITORS

A REVIEW OF TRENDS, CHALLENGES
AND PROSPECTS (2000 – 2021)

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There is heightened risk of defaults on the African continent as a result of the Covid-19 pandemic, which has led to heavier debt burdens that reduce the states' abilities to fight poverty and rising inequality.



After the debt relief of developing countries in the early 2000s, nontraditional creditors emerged as African countries began to enter the international capital markets and to increasingly engage with China.



This study examines past debt relief initiatives and finds that those initiatives are unable to meet the challenges presented by current realities.

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The Friedrich-Ebert-Stiftung Africa Union Cooperation Office

The Friedrich-Ebert-Stiftung Africa Union Cooperation Office (FES AU) was founded in 2015 to co-ordinate the work and activities with the Africa Union in the areas of Peace and Security, Regional Economic Integration, and Governance. Based in Ethiopia, The FES AU cooperation office aims to create and maintain networks of partners and key individuals in the AU, EU, multilateral and international organizations, civil society, academia and think tanks and provide research and political analysis on issues pertaining to the African Union and support the work of our partners in the continent and worldwide.

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The African Union, established as a unique Pan African continental body, is charged with spearheading Africa's rapid integration and sustainable development by promoting unity, solidarity, cohesion and cooperation among the peoples of Africa and African States as well as developing a new partnership worldwide. Its headquarters are located in Addis Ababa, capital city of Ethiopia. The African Union Commission, Department of Economic Development, Trade, Tourism, Industry, and Minerals (ETTIM) is one of the 6 Departments of the African Union Commission. This work was coordinated under the Directorate of Economic Development, Integration and Trade (EDIT) of this Department.

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TABLE OF CONTENTS

- List of Figures 5**
- List of Tables 5**
- List of Acronyms 6**
- Acknowledgement..... 7**
- 1. Introduction 8**
- 2. Evolution and State of Africa’s Debt 9**
 - 2.1. The Evolution of Africa’s Debt since the New Millennium 9
 - 2.2. The Changing Structure and its Impact on the Continent: Selected African Country Case Studies 12
 - 2.2.1. Nigeria 12
 - 2.2.2. South Africa 12
 - 2.2.3. Ethiopia 13
 - 2.2.4. Morocco 13
 - 2.2.5. Chad 13
 - 2.3. The Impact of the COVID-19 Pandemic on the Debt Burden and Debt Sustainability 14
- 3. Review of Debt Relief Initiatives..... 17**
 - 3.1. The Toronto Plan 17
 - 3.2. The Brady Plan 17
 - 3.3. The Trinidad and Tobago Plan 17
 - 3.4. The Heavily Indebted Poor Countries Initiative (HIPC) 18
 - 3.5. The Multilateral Debt Relief Initiative (MDRI) 18
 - 3.6. COVID-19 Debt Restructuring Framework 19
- 4. Policy Options for Stakeholders 20**
 - 4.1. Establishment of a guaranteed fund for inclusive recovery 20
 - 4.2. Curb the overreliance on credit ratings 20
 - 4.3. Adherence to specific sustainability objectives 21
 - 4.4. Encourage the use of State-Contingent Debt Instruments 21
 - 4.5. Adherence to principles on responsible lending 21
 - 4.6. Transparency in lending process 21
 - 4.7. Limit the spread of off-budget contingent liabilities 21
 - 4.8. Prevent international tax avoidance and evasion 21
- 5. Conclusion 22**
- References 23**

LIST OF FIGURES

Figure 1: Public and publicly guaranteed debt disaggregated by creditors, US\$ million; 2000 - 2020	10
Figure 2: Concessional debt as a share of external debt, percent; 2000 - 2020	10
Figure 3: Debt service payments due on external debt, US\$ million; 2000 - 2020	10
Figure 4: Public and publicly guaranteed debt further disaggregated by creditors, US\$ million; 2000 - 2020	11
Figure 5: Other official flows from DAC countries and loans from China to Africa, US\$ million; 2000-2019	12
Figure 6: The economic transmission channels of the COVID-19 pandemic.....	15
Figure 7: Debt as a share of exports and GNI, percent; 2000 - 2020.....	16
Figure 8: Public and publicly guaranteed debt by tourism and resource-dependence status, US\$ million; 2000 - 2020	16
Figure 9: Public and publicly guaranteed debt by income group, US\$ million; 2000 - 2020.....	16
Figure 10: Public and publicly guaranteed debt across several countries by geographical location and language, US\$ million; 2000 - 2020	16

LIST OF TABLES

Table 1: Comparative analysis of the four selected African countries	14
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LIST OF ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
AFRODAD	The African Forum and Network on Debt and Development
AU	African Union
BDEAC	Central African States Development Bank
BEAC	Bank of Central African States
BEPS	Base Erosion and Profit Shifting
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, and South Africa
CARI	China Africa Research Initiative
CFAF/CFA Franc	Franc de la Communauté Financière Africaine
COVID-19	Coronavirus Disease
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
CRA	Credit Rating Agency
DAC	Development Assistance Committee
DRC	Democratic Republic of Congo

LIST OF ACRONYMS

DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ESKOM	Electricity Supply Commission
FDI	Foreign Direct Investment
FOCAC	Forum on China- Africa Cooperation
G20	Group of 20
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
ICBC	Commercial Bank of China
IDA	International Development Association
IDB	Inter-American Development Bank
IDS	International Debt Statistics
IMF	International Monetary Fund
LDCs	Least Developed Countries
LICs	Low Income Countries
LMIC	lower Middle-Income Countries
MDRI	Multilateral Debt Relief Initiative
MOFED	Ministry of Finance and Economic Development
OECD	Organization for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
SAA	South Africa Airways
SCDIs	State Contingent Debt Instruments
SDGs	Sustainable Development Goals
SOEs	State Owned Enterprises
SDRs	Special Drawing Rights
UMIC	Upper Middle-Income Countries
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa (UNECA)
VAT	Value Added Tax

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1

INTRODUCTION

The rise in sovereign debt across Africa has been a concern before the emergence of the COVID-19 pandemic. Between 2010 and 2017, debt as a share of GDP in sub-Saharan Africa was 35 percent and rose to 52 percent in 2019 (IMF, 2021a). The increase in debt was on the back of increased countercyclical spending after the 2008 global financial crisis, reductions in revenue as a result of the 2014 commodity price shock, and a rise in infrastructure spending (Onyekwena and Ekeruche, 2017).

Furthermore, the composition of creditors has changed significantly from concessional loans to non-concessional loans, such that in the last decade, African countries were seen to shift from multilateral and Paris Club creditors to private creditors and non-Paris club creditors, particularly China. While the traditional lenders offer loans at lower interest rates and longer maturities, fewer conditions are attached to the loans offered by new lenders such as China and private creditors. China, in particular, is more flexible as both Chinese commercial and state entities lend to the continent. Between 2003 and 2019, African governments issued more than 125 Eurobond instruments worth more than US\$155 billion (AfDB, 2021a). Similarly, Chinese loans to African governments since the beginning of the millennium are estimated at US\$153 billion (CARI, 2021). Consequently, the higher interest rate and lower maturities associated with these non-concessional sources have led to rising interest payments and higher refinancing risks.

Since the pandemic, the debt situation has worsened given the rise in public financing requirements-- as governments increase expenditure amid dwindling revenue-- to address the socioeconomic impact of the pandemic. The African Development Bank (AfDB)

has estimated that the continent will require between US\$125 and US\$154 billion in 2020, leading to higher debt levels which were estimated at 70 percent of GDP as of 2020; already, seven countries¹ are in debt distress (AfDB, 2021a). The prospects of debt distress continue to be worrisome given the depreciation in exchange rates, inherent weaknesses in revenue mobilisation, high inflation, and rising primary deficits across the continent; consequently, 16 other countries² are at high risk of debt distress (AfDB, 2021a; IMF, 2022).

Against this background, this study seeks to examine the debt situation in Africa, giving keen attention to the evolution of creditors since the beginning of the millennium and past debt relief initiatives. This inquiry is important in deepening the understanding of the changing creditor landscape, given that, future debt restructuring engagements cannot be successful if it excludes a group of creditors. Furthermore, the study investigates how the COVID-19 pandemic has further amplified the indebtedness of African countries. The study shows the contributory role of the pre-pandemic weak revenue mobilisation and the pandemic-induced increase in expenditure on Africa's debt. After which, the study reviews debt relief initiatives and documents the gains and the drawbacks. The findings are used to provide policy options for multilateral, bilateral and private creditors in general and African Union (AU) member states in particular.

-
- 1 The seven countries include Chad, Republic of Congo, Mozambique, Sao Tome and Principe, Somalia, Sudan, Zimbabwe
 - 2 The 16 countries include Burundi, Cameroon, Cape Verde, Central African Republic, Comoros, Djibouti, Ethiopia, Gambia, Ghana, Guinea-Bissau, Kenya, Malawi, Mauritania, Sierra Leone, South Sudan, and Zambia

2

EVOLUTION AND STATE OF AFRICA'S DEBT

2.1. The Evolution of Africa's Debt since the New Millennium

The objective of the study guides the methodological approach. First, the debt equation is employed to analyse changes to the debt level. In particular, the contributory effect of primary deficits and the difference between growth rate and interest rate is examined. Second, a case study approach is adopted to understand the effect of the changing composition of the creditors (multilateral, bilateral and private creditors) African countries are engaging with. The selected countries are Nigeria, South Africa, Ethiopia, Morocco, and Chad which represent the geo-political regions within the AU including West Africa, Southern Africa, East Africa, North Africa, and Central Africa, respectively. Furthermore, the case study countries are selected based on other criteria including income classification, tourism dependence, resource dependence, and debt outlook. Third, the literature on the past debt relief initiatives from 1988 to 2021 is reviewed in order to identify new approaches to debt relief in the continent. Fourth, key informant interviews with a wide range of relevant stakeholders are carried out including interviews with International Development Institutions (the United Nations Economic Commission for Africa), Ministries of Finance (the Department of Finance Canada), Debt Management Offices (Debt Management Office in Nigeria), Credit Rating Agencies (Standard & Poor's Global Ratings), think tanks (Center for Sustainable Finance) and Civil Society Organizations (The African Forum and Network on Debt and Development, and Jubilee Debt Campaign).

The debt equation is employed to analyse the rising debt in Africa. Changes in debt are due to two main contributing factors including cumulated primary deficits and the cumulated effect of the difference between growth rate and interest rate. The change in the debt equation is expressed in equation 1.

$$\Delta \frac{D}{Y} = \frac{P}{Y} + (r - g) \frac{D}{Y} \dots\dots\dots \text{Equation (1)}$$

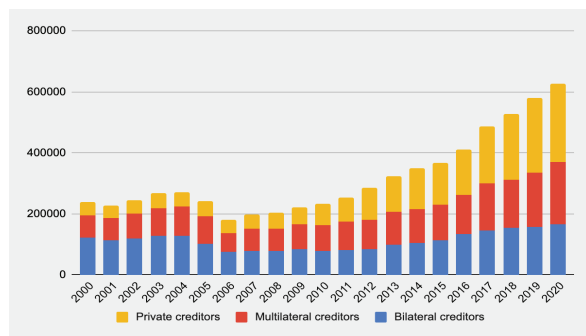
Where $\frac{D}{Y}$ is the ratio of past debt to GDP; $\frac{P}{Y}$ is the ratio of primary deficit to GDP; r is the real interest rate; g is the growth rate of real GDP and Δ is the rate of change (Rangarajan and Srivastava, 2003).

The conceptual framework posits that the primary deficits are rising as government revenue declines amid rising spending. Meanwhile, the beginning of the new millennium has seen that the real growth rate has been less than the real interest rate (Rangarajan and Srivastava, 2003). Overall, debt levels are expected to rise significantly given the expected direction of the variables of the debt equation.

In the past two decades, the rising debt in Africa can be attributed to two main factors: increase in primary fiscal deficit and tepid economic growth (Adeniran et al., 2018; AfDB, 2021a). The primary fiscal deficit in Africa has been deteriorating since the new millennium. In 2001, the average fiscal balance in sub-Saharan Africa was -2.3, with 37 out of 42 countries in the region recording a fiscal deficit (IMF, 2004). The situation was made worse by the commodity price collapse in 2014-2015 and the associated low global demand for raw materials, which undermined the earning potential of African governments. Meanwhile, spending— particularly on infrastructure projects – has increased significantly during the period. By 2016, the average fiscal balance in the continent had reached -5.0, with 45 out of 55 countries recording a fiscal deficit (IMF, 2016). With the COVID-19 pandemic, the fiscal balance deteriorated to -6.6 in 2020, which is underpinned by the limited revenue mobilisation capacity and rising government expenditure to address the effect of the pandemic.

Despite experiencing significant economic growth of 4.5 percent between 2000 and 2019 (World Bank, 2020), the growth was insufficient to reduce debt owing to growing interest expenses. This is especially the case as countries increasingly take on non-concessional debt with a higher interest rate and rely on international capital markets for new finance. Furthermore, exchange rate depreciation has further increased the burden of foreign currency denominated debt, with resource-dependent economies being the worst hit. The COVID-19 pandemic further exacerbates the exchange rate depreciation risks, particularly for resource-dependent and tourism-dependent countries that face foreign exchange shortfalls as global demand recedes. AfDB (2021b) shows that exchange rate volatility was observed at the peak of the crisis in April and continued until the end of 2020.

Figure 1. Public and publicly guaranteed debt in Africa disaggregated by creditors, US\$ million; 2000 - 2020



Source: World Bank's International Debt Statistics

Data on Africa's debt since the new millennium show that the trend of public and publicly guaranteed debt in Africa can be described in three episodes with regards to Africa's creditors and the nature of the debt (see Figure 1). The first episode commenced at the beginning of the millennium when Africa's debt was US\$237 billion and ended in 2006 when it was US\$182 billion. During this period, Africa's debt was dominated by bilateral debt, as it constituted about 47 percent of total debt within the time period. Thereafter, bilateral debt accounted for a lower share of total debt, which resulted from the debt forgiveness packages, for instance, by traditional bilateral creditors such as the United States and the United Kingdom in the early periods of the millennium as well as the 2005 Multilateral Debt Relief Initiative (MDRI) as well as ad hoc debt resolution mechanisms such as that of Nigeria in 2006. More specifically, bilateral debt fell from US\$127 billion in 2004 to US\$75 billion in 2006, indicating a contraction of about 41 percent in bilateral debt (see Figure 1).

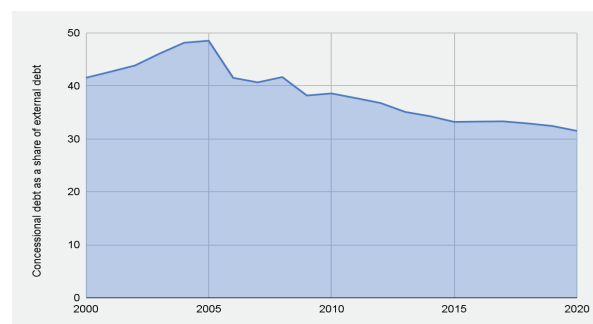
The second episode commenced in 2007 and ended in 2011. During this period, African countries began to increasingly accumulate debt, with sovereign debt rising by 7 percent on average during the period from US\$182 billion in 2006 to US\$253.3 billion in 2011. While all the three categories of creditors extended more debt to African countries during the second episode relative to what was recorded at the end of 2006, available evidence shows that African countries shifted to multilateral and private creditors (see Figure 1). Debt owed to multilateral creditors as a share of total debt rose by 36 percent in the second episode compared with 33.6 percent in the first episode. Similarly, the share of private creditors rose by 27 percent in the second episode compared to 19 percent at the beginning of the millennium.

The shift towards multilateral and private creditors was triggered by difficulties in accessing concessional finance particularly from bilateral creditors. Coincidentally, African governments obtained renewed access to international capital markets during the time period. Furthermore, loans obtained from private creditors have less conditions attached to them, allowing recipient countries to channel new finance to areas where they are most needed.

The third episode commenced in 2012 and spanned until 2020. During this period, private creditors dominated Africa's debt. In 2012, private creditors constituted 36 percent of Africa's total debt, with the volume of debt estimated at US\$103 billion-- a two-fold increase from the debt owed to private creditors at the beginning of the millennium. Furthermore, the shift towards private creditors in the third episode is also reflected in the downward movement of concessional debt as a share of external debt: it reduced from 38 percent in 2011 to 32 percent in 2020 (see Figure 2 below). Additionally, there has been an increase in the share of debt service payments to private creditors from 50 percent between 2000 and 2004 to about 63 percent between 2012 and 2020 (see Figure 3). Consequently, the implication of higher private sector debt is that African countries' debt portfolio is dominated by costlier debt, which is a key difference between the third episode and the first episode and the primary reason behind the need for a new debt restructuring framework.

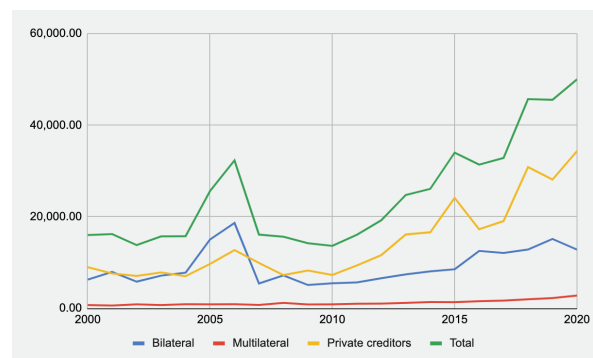
It is noteworthy to mention that there is missing data on debt for all categories of creditors. For instance, debt owed to China and private creditors often have confidentiality clauses which does not allow for the full reporting of loan arrangements. As such, the publicly available debt data grossly underestimates the actual debt owed to creditors.

Figure 2. Concessional debt as a share of external debt in Africa; 2000 - 2020



Source: World Bank International Statistics (2020)

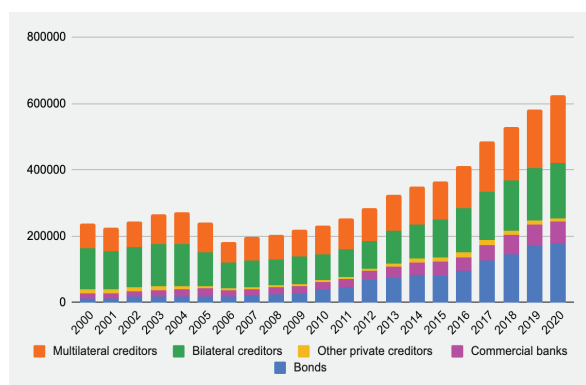
Figure 3. Debt service payments due on external debt, US\$ million; 2000 - 2020



Source: World Bank's International Debt Statistics

To gain a deeper understanding of the changing composition of Africa's debt, debt owed to private creditors is further divided into three classifications: bonds, commercial banks, and other private creditors. The evidence in Figure 4 indicates that bonds followed by commercial banks is driving the increase in private creditor debt. Between 2012 and 2020, the issuance of bonds increased by more than two-folds from US\$67 billion to US\$179 billion. The significant increase in the issuance of bonds by African governments can be attributed to the broad discretion and limited scrutiny in the use of the funds raised through bonds. Meanwhile, conditions are typically attached to borrowing from multilateral institutions. However, private bonds have shorter maturity and are costlier, with the AfDB (2021a) stating that African debt mostly matures within 10 years with an interest rate ranging between 5 and 16 percent.

Figure 4. Public and publicly guaranteed debt in Africa further disaggregated by creditors, US\$ million; 2000 - 2020



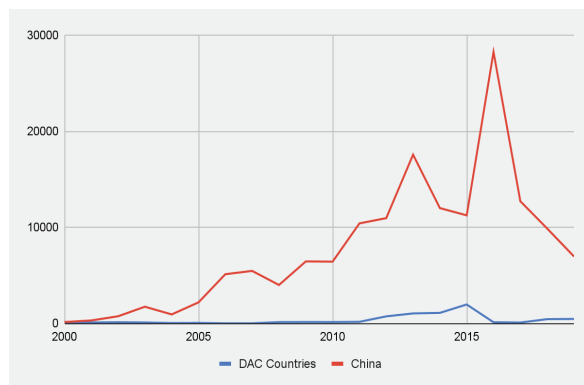
Source: World Bank's International Debt Statistics

Chinese debt has also featured prominently in Africa's rising debt. As shown in Figure 5, since the beginning of the millennium, loans from China to Africa consistently exceeded other official flows from the Development Assistance Committee (DAC) countries. In 2000, Africa's loans from China stood at US\$134 million, whereas other official flows from the DAC countries were less than US\$10 million in the same period (Figure 5). This indicates that from the beginning of the millennium, African countries received more loans from China than the DAC countries, and the margin increased from US\$124 million in 2000 to US\$7 billion in 2019 (Figure 5). According to the China Africa Research Initiative (CARI), China has loaned the continent about US\$153.4 trillion between 2000 and 2019. The implication of the rise in Chinese loans to Africa over the past two decades is that future conversations on debt forgiveness would significantly require the support of China.

The shift towards Chinese loans is underpinned by the mutually beneficial relationship between Africa and China. While Africa is in dire need of resources to close its widening infrastructure gap – Africa has an annual infrastructure financing need of US\$130 and US\$170 billion-- China is willing to provide the financial, material, and human resources required to develop the continent's infrastructure. Consequently, the loans are mainly used to finance infrastructure projects in the mining, construction, transportation, communication and energy sectors which have been further emphasised under the Belt and Road Initiative. Secondly, China is in need of resources to continue its industrial development and therefore, leverages on the resource-backed lending model for financing infrastructure projects in Africa. In this case, the debtor country commits future revenues, which will be earned from its natural resource exports for debt servicing purposes. This initiative has been used in countries such as the Democratic Republic of Congo (DRC), Ghana, and Guinea.

Africa's creditor landscape will remain diversified in the future and is likely to be skewed towards multilateral organisations, new bilateral creditors such as the BRICS lenders, and private creditors. In the wake of the pandemic, multilateral organisations continue to provide concessional finance to developing countries. For instance, under the Rapid Credit Facility and Rapid Financing Instrument, the IMF has provided up to US\$25.9 billion to sub-Saharan African countries (IMF, 2022). Similarly, the World Bank's COVID-19 Fast-Track Facility, alongside the AfDB's African Development Fund, has provided concessional funding to the continent. Meanwhile, new bilateral creditors such as China, Brazil and the Gulf states continue to maintain a mutually beneficial relationship with Africa as they commit to government and state-owned enterprises. 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 export (FOCAC, 2021). This is in line with its historical role as a provider of infrastructure finance across the continent. Furthermore, the need for additional finance obtained without the rigorous scrutiny of official lending programmes will create an appetite for loans from private creditors. Banks, bondholders, suppliers, and contractors will continue to participate in Africa's credit market as they complement borrowing from official creditors. More so, commercial creditors in partner countries such as the commercial banks in China and the China Development Bank will continue to be financiers of large-scale government projects on the continent. As countries reach unsustainable debt levels, the fragmentation of the market will pose difficulties in restructuring sustainable debt in a timely and efficient manner, thus increasing the likelihood and cost of a debt crisis.

Figure 5. Other official flows from DAC countries and loans from China to Africa, US\$ million; 2000-2019



Source: OECD, 2021 and CARI, 2021

2.2 The Changing Debt Structure and its Impact on the Continent: Selected African Country Case Studies

As highlighted in the previous section, private creditors dominate Africa's debt landscape. In 2020, Africa's debt was US\$626 billion, with 41 percent owed to the private creditors, 33 percent owed to multilateral creditors and 26 percent owed to bilateral creditors (World Bank IDS, 2021). This is in sharp contrast to 2000, when Africa's debt was US\$238 billion and less than one-fifth of the debt was owed to private creditors (World Bank IDS, 2021). Private creditors in recent years have become key financing sources to African countries as governments are able to circumvent loan conditions associated with debt owed to bilateral and multilateral creditors.

Five African countries are selected based on key criteria, including the composition of debt, income level and region, to analyse the impact of the rising debt on the continent. The selected countries are Nigeria, South Africa, Ethiopia, Morocco, and Chad. The country selection process provides a rich analysis of the effect of the heterogeneous nature of debt on the continent.

2.2.1. Nigeria

Nigeria's total debt stock as of March 2022 stood at US\$100 billion, with external debt contributing about 40 percent and domestic debt accounting for 60 percent (DMO, 2022). In 2020, total external debt was approximately US\$33.4 billion, an increase of 176 percent from US\$11 billion in 2015. Of the US\$33.4 billion in external debt, 48 percent is owed to multilateral creditors, 38 percent to private creditors and 14 percent to bilateral creditors (World Bank IDS, 2021).

There are several unintended impacts of having a high share of debt owed to multilateral and private creditors. First, multilateral creditors do not lean towards debt reduction programmes. For instance, the World Bank and IMF are not participating in the Debt Service Suspension Initiative put forward by G20 countries and

their participation in the Common Framework is based on macroeconomic conditionalities. This is as 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 unlikely to participate 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. For instance, Nigeria's debt service to revenue ratio stood at 96 percent in 2020 (Ekeruche and Adeniran, 2021). The high interest burden further reduces the fiscal space and limits the use of countercyclical fiscal policy for financing other critical sectors including health, education, and social protection. As such, the government has had to mobilise additional resources domestically by increasing VAT from 5 to 7.5 percent and removing fuel and electricity subsidies (Ekeruche and Adeniran, 2021).

2.2.2. South Africa

In 2020, South Africa's total debt stood at US\$303.8 billion comprising US\$204.4 billion in domestic debt and US\$99.4 billion in external debt (World Bank IDS, 2021). This indicates that about 67 percent of South Africa's debt is in the form of domestic debt, owing to the country's deep financial markets. A breakdown of South Africa's external debt of US\$99.4 billion shows that in 2020, about 90 percent of the debt was owed to private creditors, 4 percent to multilateral creditors and 6 percent to bilateral creditors (World Bank IDS, 2021). State-owned enterprises (SOEs), especially Eskom (the electricity generating parastatal) and South Africa Airways (SAA), are key contributors to South Africa's high private debt as they represent large contingent liabilities for the government. Debt servicing remains a key expenditure line item in South Africa's budget. In 2020, it was estimated that about 4.8 percent of GDP had already been used to bail out SOEs over the past decade and an additional 2.3 percent would be transferred to SOEs over the next three years (IMF, 2020).

The implication of owing a considerable share of a country's sovereign debt to private creditors could be dire. Typically, private creditors offer higher interest rate and shorter maturity and grace periods relative to debt from other creditors. Consequently, the South African government continues to owe a large share of its debt to bondholders, commercial banks, and other private creditors, which is likely to crowd out financing for other purposes such as the purchase of vaccines. Moreover, private creditors have been reluctant in providing debt relief under the DSSI and have not engaged with the Common Framework. Consequently, for governments that are eligible for the DSSI but owe a large share of their debt to private creditors, the savings from the traditional bilateral creditors are likely to be used to service private creditors' debt.

2.2.3. Ethiopia

Ethiopia experienced significant growth in the past decade, recording an average growth rate of 8.4 percent between 2015 and 2020 (see Table 1). This has resulted in improvement in the standard of living and reduction in poverty level. However, the growth is mainly driven by government investment, which has also led to debt accumulation. Ethiopia's total debt doubled from US\$25 billion in 2013 to US\$56 billion in 2020 (MOFED, 2021). External debt as a share of total debt stood at 55 percent in 2013 and reduced marginally to 53 percent in 2020. The operational expenses of the SOEs contribute in part to Ethiopia's debt. Between 2016 and 2020, SOEs had an average total debt of US\$24 billion. On the composition of the external debt, between 2011 and 2020, Ethiopia's debt is dominated by multilateral debt (41 percent) followed by bilateral debt (31 percent) and private creditors (28 percent) (World Bank IDS, 2021).

Chinese debt features prominently in Ethiopia's debt particularly since the launch of the Belt and Road Initiative (BRI) in 2013. According to the China Africa Research Initiative (CARI), Chinese loans to the Ethiopian government between 2000 and 2019 amounted to US\$14 billion, making Ethiopia the second highest recipient of Chinese loans after Angola (CARI, 2021). Chinese loans have supported the development of transportation (US\$5 billion), power (US\$3 billion), and communication (US\$3 billion) infrastructure in Ethiopia leading to substantial growth since the new millennium. However, some of the Chinese loans are offered at a relatively higher interest rate given the increasing number of commercial lenders in China such as the China Development Bank and the Industrial and Commercial Bank of China (ICBC). These commercial lenders do not participate in debt relief initiatives, such as the DSSI, leaving countries to use scarce revenue for debt servicing purposes. Moreover, rather than provide blanket debt relief, historical precedence shows that China is more likely to explore a range of options including debt restructuring, postponement of loan payments, refinancing, and lastly, debt reduction (Sun, 2020). For instance, in 2018, China agreed to extend the repayment terms of debt by 20 years including the US\$4 billion loan for the Addis-Djibouti railway.

2.2.4. Morocco

Morocco is the leading tourist destination in Africa with an average annual tourist arrival of 11.7 million between 2015 and 2019, pre-pandemic (World Bank, 2021b). However, the movement of international tourists has been restricted since the COVID-19 pandemic leading to shortages in government revenue. In 2020, Morocco's

total debt was US\$87 billion comprising US\$44 billion in external debt, which represents about 51 percent of total debt. Morocco's external indebtedness is associated with a change in the loan portfolio from bilateral creditors and multilateral creditors to private creditors. Between 2000 and 2004, about 38 percent of Morocco's external debt was sourced from bilateral creditors which reduced to 21 percent between 2016 and 2020 (World Bank IDS, 2021). Whereas debt owed to private creditors rose from 23 percent between 2000 and 2004 to 33 percent between 2016 and 2020 (World Bank IDS, 2021). Accordingly, multilateral creditors are owed 46 percent of Morocco's total debt.

2.2.5. Chad

As of 2019, Chad already faced high risk both for external and overall debt distress. By 2020, external debt owed to creditors amounted to US\$2.95 billion (World Bank IDS, 2021). However, this figure does not include Chad's CFAF-denominated debt held by the regional central bank (BEAC), the regional development bank (BDEAC), and bilateral creditors in the currency union which amounts to 9.9 percent of GDP (IDA and IMF, 2019). A large share of Chad's debt is owed to private creditors with private creditor debt increasing by 75 percent in the past decade from US\$16.6 million in 2010 to US\$1.26 billion in 2020. Commercial borrowing from Glencore in 2013 to cover up for revenue shortfalls and the purchase of a share in the Doba Oil Consortium are the main contributors of the rising private creditor debt. As a result of the growing difficulty in attaining concessional finance, debt owed to multilateral creditors declined by 55 percent from US\$1.53 billion to US\$692.5 million in the same period. However, debt owed to bilateral creditors increased by 98 percent from US\$503.5 million to US\$995.3 million. In 2021, Chad became the first country to seek for debt treatment under the Common Framework. However, the non-participation of private creditors – Chad's major creditors – has led to the slowdown in the debt restructuring process. The IMF-World Bank debt sustainability analysis has shown that Chad has a weak debt carrying capacity, reflected in a low CPIA, low remittances and low foreign reserves (IDA and IMF, 2019).

Table 1. Comparative analysis of the five selected African countries

	Nigeria	South Africa	Ethiopia	Morocco	Chad
Region	Western Africa	Southern Africa	Eastern Africa	Northern Africa	Central Africa
Income classification	LMIC	UMIC	LIC	LMIC	LIC
GDP growth rate 2015-2020	0.70%	-0.50%	8.44%	1.39%	-0.3%
Population (million)	206.13	59.31	114.96	36.91	16.4
Public Gross Debt/ GDP	34.4%	65.3%	52.7%	76.5%	44%
Debt size (billion)	\$82.54	\$303.80	\$61.82	\$86.45	\$2.95
Concessional debt as share of total debt (percent)	12.08	0.53	47.41	3.12	18
Debt outlook	Moderate	In distress	High	In distress	High
Resource dependent	Yes	No	Yes	No	Yes
Tourism dependent	No	No	No	Yes	No
COVID-19 cases (thousands)	214	2,900	370	949	7.4

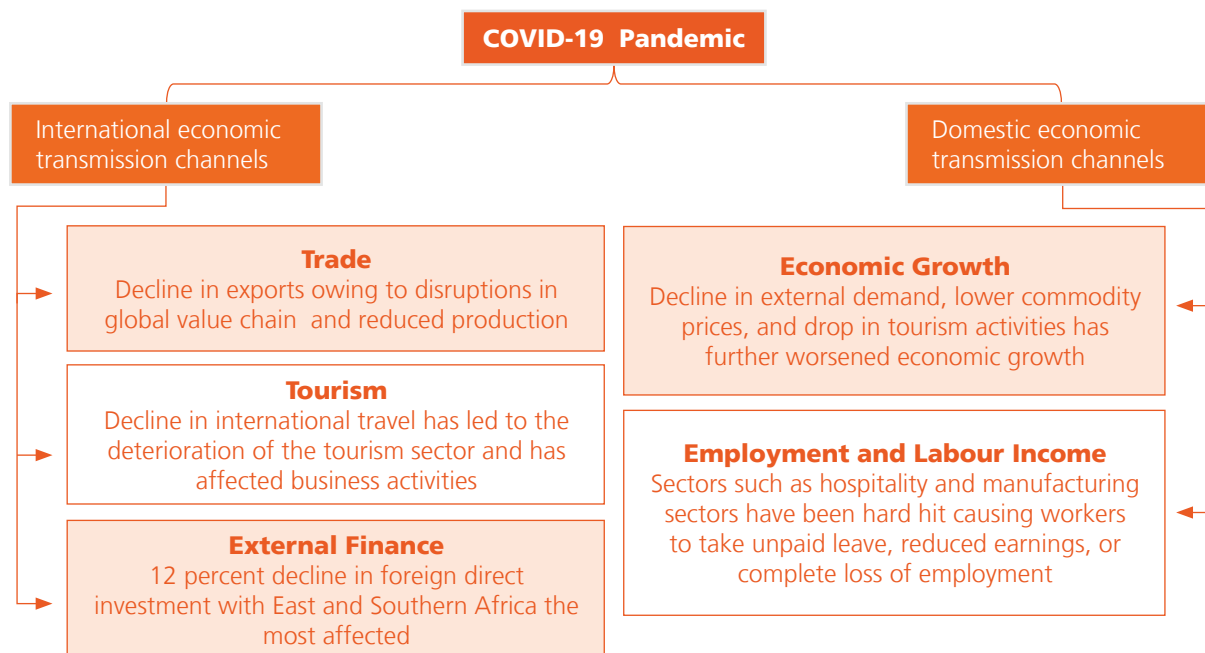
Sources: World Bank Development Indicators; World Bank's International Debt Statistics; and Ritchie, H., Mathieu, E., Roser M., 2020

2.3 The Impact of the COVID-19 Pandemic on the Debt Burden and Debt Sustainability

This section investigates the channels through which the COVID-19 pandemic has affected the debt dynamics in the continent. The analysis shows that the economic impact of the pandemic is felt in some of the case study country/regions than others. For instance, between 2019

and 2020, the pandemic led to a 16 percent decline in foreign direct investment (FDI) in Southern Africa whereas in Central Africa only a 3 percent decline in FDI was recorded. This section also shows the changes in public debt in African countries between 2000 and 2020 disaggregated by tourism status, resource-dependence status, income category, region, and official language. The rationale behind the analysis is to identify how different country categories have accumulated debt since the pandemic.

Figure 6. The economic transmission channels of the COVID-19 pandemic

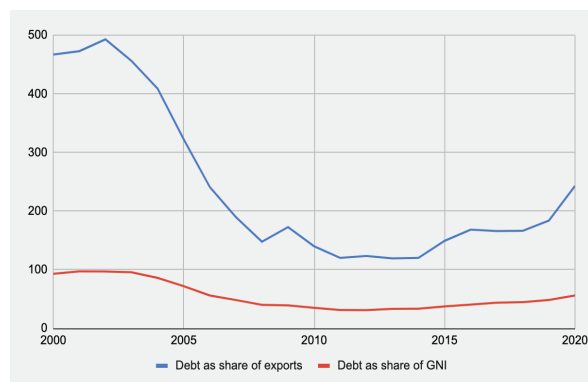


Source: Authors adaptation based on United Nations Committee for Development Policy, 2021

As of November 21, 2021, Africa accounted for only 3.3 percent of the world's COVID-19 cases and 4.3 percent of total deaths (Ritchie, et al., 2021). However, through several international and domestic economic transmission channels, the pandemic has affected the debt dynamics across the 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 has 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 even in September of 2020 (United Nations Committee for Development Policy, 2021). Furthermore, debt as a share of exports increased from 184 percent to 243 percent between 2019 and 2020 (see Figure 7). The pandemic has 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. More so, economies heavily dependent on resources have faced considerable disruption with regard to trade. The decline in trade contributes to revenue shortfalls, thus making it more difficult to service existing debt and creating the need for new debt.

Figure 7. Debt as a share of exports and GNI, percent; 2000 - 2020



Source: World Bank's International Debt Statistics

Furthermore, the restrictions on travel have affected the economies of African countries, particularly tourism-dependent economies-- twelve countries in Africa are deemed to be tourism-dependent economies³. For these countries, the halt in international travel during the lockdown period has led to a slowdown of economic activities and more specifically, the deterioration of the tourism sector. The drop in international travel has also affected business activities as teleworking becomes more mainstream which further undermines the travel sector.

³ These countries include Botswana, Cabo Verde, Egypt, Eritrea, Gambia, Liberia, Mauritius, Mauritania, Morocco, Sao Tome and Principe, Seychelles, and Tunisia.

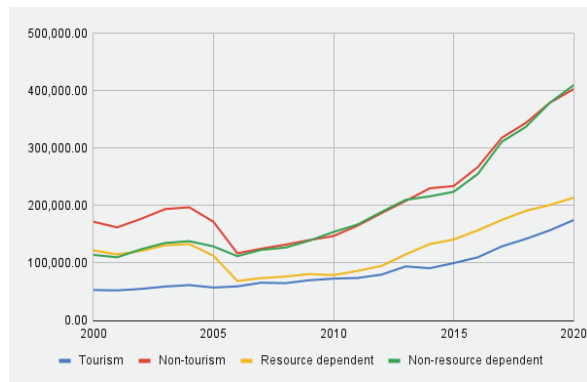
Additionally, since the pandemic, key financing sources such as foreign direct investment have been negatively impacted. Between 2019 and 2020, FDI inflows to sub-Saharan Africa decreased by 12 percent to US\$30 billion as a result of mobility restrictions in the first half of 2020 (UNCTAD, 2021). However, the impact of the pandemic on FDI was varied, with East and Southern Africa recording a 16 percent decline in FDI while Central Africa recorded a 3 percent increase in FDI. Consequently, new external inflows are lower than the amounts required for debt servicing, leading to countries taking on additional debt.

Meanwhile, poor economic growth and decline in employment and labour income are the key domestic transmission channels through which the pandemic affects African economies. As highlighted in the previous section, the pandemic has had a debilitating effect on economic growth underpinned by the decline in global demand and lower commodity prices. In addition, the lockdown measures weighed heavily on economic growth, with GDP growth falling from 3 percent to -1.7 percent between 2019 and 2020 (IMF, 2021b). Furthermore, debt as a share of GNI increased from 49 percent to 56 percent between 2019 and 2020 (see Figure 7). Agricultural and industrial commodity exporting countries are also affected owing to a decline in demand in trading partners alongside the low commodity prices. In the medium term, economic expansion in key trading partners, including China and other developed countries as well as the trend in the oil market, will influence economic activities in Africa.

Since the pandemic began, there has been a decline in employment, with workers having shorter working hours. The effect has been more prominent on sectors that thrive on face-to-face interaction, such as the hospitality and manufacturing sectors. Workers have had to take unpaid leave, reduced earnings, or are faced with complete loss of employment. Those in the informal sector are the worst hit as there is little to no social security. Consequently, the government loses revenue that would otherwise be paid in the form of personal and business income taxes.

Figures 8 to 10 show public debt in African countries between 2000 and 2020 disaggregated by tourism status, resource-dependence status, income category, region, and official language. The rise in the debt level appears to hold across the different country classifications. A closer look at Figure 8 indicates that the rate of debt accumulation is higher in tourism dependent countries than in non-tourism dependent African countries; however, the debt level is higher in non-tourism dependent countries. Similarly, the level of debt in resource-dependent countries is lower than non-resource dependent countries. Counterintuitively, the rate of debt accumulation is higher in non-resource dependent economies.

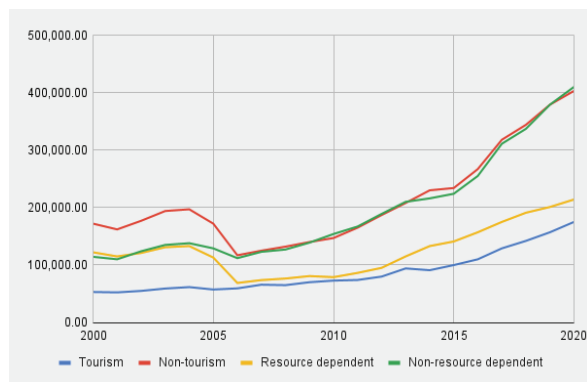
Figure 8. Public and publicly guaranteed debt in Africa by tourism and resource-dependence status, US\$ million; 2000 - 2020



Source: World Bank's International Debt Statistics

Figure 9 reveals that the extent of debt accumulation varies across income groups, with low-income countries accumulating more debt as a result of the pandemic than lower-middle income and upper middle-income countries. Debt of low-income African countries rose by 11 percent from US\$100 billion in 2019 to US\$110 billion in 2020. Furthermore, lower-middle income countries' debt crossed the mark of US\$400 billion due to the pandemic. Meanwhile, upper middle-income countries experienced a decline in external debt from US\$111 billion to US\$109 billion during the same period (see Figure 8).

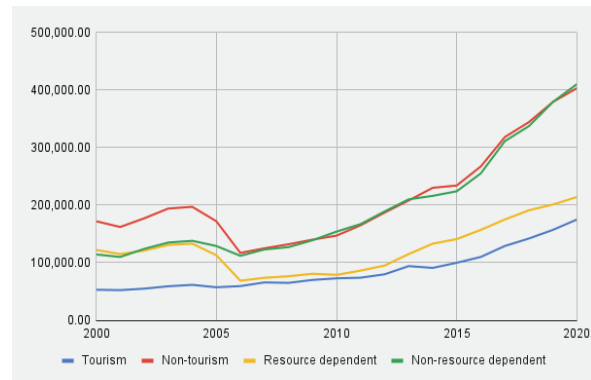
Figure 9. Public and publicly guaranteed debt in Africa by income group, US\$ million; 2000 - 2020



Source: World Bank's International Debt Statistics

The level of indebtedness of African countries based on geographical location and official language is presented in Figure 10. The rate of external debt accumulation due to the pandemic is higher among West African countries, followed by North African and Central African countries. However, for Southern African countries, external indebtedness declined by 0.6 percent. Meanwhile, Anglophone countries have recorded a higher level of debt accumulation relative to Francophone countries.

Figure 10. Public and publicly guaranteed debt across several countries by geographical location and language, US\$ million; 2000 - 2020



Source: World Bank's International Debt Statistics

3

REVIEW OF DEBT RELIEF INITIATIVES

This section examines the previous debt relief initiatives, beginning from 1988, and how the initiatives can be improved to address the present situation where the pandemic has increased debt levels and debt that is owed to non-traditional creditors. More specifically, an investigation into past debt relief initiatives, in particular the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI), will be conducted with the aim of identifying new approaches to debt relief in the continent. Key issues including the lack of focus on middle and high-income countries and the increased attachment to private creditors and China will be taken into consideration in the design of a new debt relief initiative. To achieve this, past debt relief initiatives, which private creditors and non-Paris club creditors have participated in, will be examined. In addition, key informant interviews with the relevant stakeholders including the International Development Institutions (IMF, World Bank, the United Nations Economic Commission for Africa), Ministries of Finance, Debt Management Offices, African Union member states, and private creditors working group are carried out.

3.1. The Toronto Plan

In 1988, the Toronto debt relief package was established, and it aimed to lower the stock of non-concessional bilateral debt. Under this relief package, three menu options were developed. According to Ezenwe (1993), they include the following:

- 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.
- Rescheduling of debt at concessional or below market interest rates with a 14-year maturity, including a grace period of eight years.
- Rescheduling of debt service due during the consolidation period at market interest rates with a 25-year maturity, including a grace period.

Their overall objective was to partially cancel one-third of the debt service that is due during consolidation periods, and to reschedule debts that have below market interest rates with a 14-year and a 25-year maturity (Ezenwe, 1993). During 1991, 18 African countries benefited from the Toronto relief package, as they received debt rescheduling. The total amount of failed payments that was consolidated under this relief package was approximately US\$6 billion. The

following countries benefited from this package, and they returned several times to profit from the Toronto plan; Niger, Madagascar, Togo, Central African Republic, Mali, Senegal, and Tanzania (Ezenwe, 1993). However, 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 (Daseking & Powell, 1999). Hence, the need for a new and efficient debt relief term. This new term was labelled the 'Trinidad terms' and it will be discussed in detail below.

3.2. The Brady Plan

The Brady initiative was designed in 1989 and its aim was 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 debts 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; Congo, Côte d'Ivoire, and Nigeria. (Ezenwe, 1993). For instance, in 1989, Morocco had an external debt of approximately US\$21 billion and their debt service ratio was at 32 percent. In 1990, they signed a rescheduling agreement under the Brady initiative, which included the rescheduling of US\$1.2 billion of the country's debt for a period of 15 to 20 years (Ezenwe, 1993).

3.3. The Trinidad and Tobago Plan

As it became evident that earlier proposed relief initiatives could not meet expectations in terms of repayment capacity, new initiatives like the Trinidad and Tobago terms were designed. In 1990, the Trinidad term 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 the period of 25 years, inclusive of a grace period of five years. (Ezenwe, 1993).

The terms under this initiative showed significant improvement compared to the Toronto terms. Under the Toronto terms, only one-third of the debts were cancelled by part of the creditors. Also, the agreements under the Trinidad terms were to be applied to the debts immediately compared to the Toronto terms, which were to be applied in successive percentages.

3.4. The Heavily Indebted Poor Countries Initiative (HIPC)

In the 1990s, a protracted downturn in commodity prices, moderate growth in industrial nations, and rising protectionism harmed the economic prospects of developing countries, notably most African countries. Substantial debt relief needed to be provided for Africa's poorest, most indebted countries, who were facing unsustainable debt burdens and insufficient external assistance.

In 1996, the Heavily Indebted Poor Countries (HIPC) Initiative was launched. The HIPC initiative is a cooperative effort by the IMF and the World Bank to support low-income economies and reduce their debt. Also, this was the first time a debt relief package was addressing the issues surrounding multilateral debt. The HIPC initiative was made conditional, and countries must adhere to certain requirements to qualify for the initiative. The two institutions, i.e., IMF and World Bank, provide debt relief in two stages; the decision and completion points. Under these two stages, a country must meet all criteria and fulfill all commitments to be eligible for the provision of full debt relief (IMF, 2021c). Below is the criteria under the two stages, i.e. decision and completion points.

First stage: decision point

- 1) "Be eligible to borrow from the World Bank's International Development Agency, which provides interest-free loans and grants to the world's poorest countries, and from the IMF's Poverty Reduction and Growth Trust, which provides loans to low-income countries at subsidised rates" (IMF, 2021c).
- 2) "Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms" (IMF, 2021c).
- 3) "Have established a track record of reform and sound policies through IMF- and World Bank-supported programs" (IMF, 2021c).
- 4) "Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process in the country" (IMF, 2021c).

In general, the first stage requires that the debtor government demonstrates the capacity to prudently utilise the savings from the debt relief granted by adhering to the IMF and World Bank supported economic adjustment programmes.

Second stage: completion point

- 1) "Establish a further track record of good performance under programs supported by loans from the IMF and the World Bank" (IMF, 2021c).
- 2) "Implement satisfactorily key reforms agreed at the decision point" (IMF, 2021c).

- 3) "Adopt and implement its PRSP for at least one year" (IMF, 2021c).

In addition, it includes countries that face lack of efficient debt sustainability even after applying the traditional debt relief initiatives (UNCTAD, 2004). Under this initiative, a country's debt is considered sustainable if certain debt ratios were within particular thresholds after a debt sustainability analysis (DSA) is conducted. African countries that were eligible under the different criterion of the relief initiative include; Mali, Burkina Faso, Uganda, Mozambique, and Cote d'Ivoire (UNCTAD, 2004). 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. The IMF and World Bank worked with HIPC governments to improve transparency and accountability in the use of the freed-up resources and the implementation of poverty reduction strategies.

However, a few years after the HIPC initiative was designed, African countries were still struggling with debt sustainability, as they were involved in the repetitive rescheduling of debts. This became a cause of serious concern, hence, leading to the launch of an enhanced version of the HIPC initiative. The primary aim of the enhanced initiative was to strengthen the link between policies and debt relief initiatives that are peculiar to every country's situation. The enhanced HIPC also aimed to deliver faster and deeper debt relief to an increased number of countries. There were five African countries who were beneficiaries of the enhanced HIPC debt relief initiative and they include; Benin Republic, Central African Republic, Ghana, Togo and Senegal (UNCTAD, 2004).

3.5. The Multilateral Debt Relief Initiative (MDRI)

In 2005, the Multilateral Debt Relief Initiative (MDRI) was launched as a follow up to the HIPC initiative and its key objectives include the following:

- "Encouraging the best use of additional donor resources for development by allocating them to low-income countries on the basis of policy performance" (Braga, 2009).
- "Deepen debt relief to HIPCs to support their progress toward the Millennium Development Goals while safeguarding the long-term financial capacity of the international financial institutions" (Braga, 2009).

Under this initiative, participation from official bilateral creditors and commercial creditors are not required. The only exceptions are; the IMF, African Development Fund (ADF), Inter-American Development Bank (IDB) and the International Development Association (IDA). One of the primary aims of the MDRI was to cancel all eligible debts owed by countries reaching the completion point in the HIPC initiative, to specific multilateral creditors like the IMF, ADF and the IDA. Since the implementation of

this initiative, significant progress has been made. The 35 countries under the post decision point in the HIPC initiative were given a total amount of US\$117 billion, inclusive of US\$45 billion under the MDRI plan (Braga, 2009).

However, despite the significant introduction of debt reduction strategies, several African countries still face difficulty in maintaining long term debt sustainability. The magnitude of these debt problems in Africa is one of the major contributors to the deteriorating economic situation of the continent. Lessons learnt from the previous debt relief initiatives show the need for the implementation of structural and innovative relief initiatives that will be country specific, i.e., the relief plan should target the specific issues in each country rather than a 'one size fits all' policy for every country. This could help alleviate the problem of debt sustainability in African countries. Second, savings from debt relief initiatives have to be linked to development priorities in general and social spending and pro-poor programmes in particular. Another lesson is the need to provide substantial debt relief at the onset of the initiative. Barely dealing with a small aspect of countries' debt typically results in countries seeking additional recourse to debt relief in the future. Furthermore, the initiative should be home-grown with Africans involved in the design and implementation phases in order to generate relevant, innovative and practical solutions.

3.6. COVID-19 Debt Restructuring Framework

Since the pandemic, the international community has put forward two initiatives – the Debt Service Suspension Initiative (DSSI) and thereafter, the Common Framework – for countries with unsustainable debt. The Debt Service Suspension Initiative has been able to relieve some countries of making debt service payments on bilateral loans particularly loans owed to the G20 countries, until the end of 2021. Furthermore, the 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. However, there exists a number of gaps in both initiatives.

First, none of these initiatives offer debt relief in the form of haircuts. More specifically, there are no reductions in participating countries' debt stock, which implies that the core problem of unsustainability is not being addressed. Second, the initiatives are done on a case-by-case basis which allows for 'first mover disadvantage' as the first group of countries seeking debt restructuring could be punished by the capital markets. Third, there is a glaring absence of the private creditors in both initiatives as they do not guarantee private sector engagement considering that the DSSI is voluntary in nature and the Common Framework has no strong mechanism for private sector participation. Fourth, while the present

focus is on LICs, there are middle income countries that have unsustainable debt burdens and as such, should be eligible for debt relief. Lastly, the initiatives do not align new financing to the implementation of the Sustainable Development Goals and the Paris Agreement. Consequently, there is the need for a new framework that builds on the existing debt relief initiatives and addresses the present-day challenges.

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. While the debt relief provided by official creditors will improve upon the HIPC initiative, private creditors involved in the debt restructuring will swap their old debt with a haircut for sustainability-linked bonds. The proposed framework is an adaptation of the Brady plan. Here, multilateral organisations, including the World Bank and IMF, as well as creditor governments, will lend to debtor governments to enable the financing of significant reductions in debt. The new finance will thereafter be used to finance new bonds, which will be deployed towards key sectors, including the purchase of vaccines, SDG and climate adaptation and mitigation sectors. The rationale is to create the fiscal space to address the health and economic effects of the pandemic alongside climate change.

As described by Volz, Akhtar, Gallagher, Griffith-Jones, Haas, and Kraemer, 2020, the new debt could receive Brady-type credit enhancement, which could be secured through an issuance of bonds by a multilateral institution with a triple-A rating or SDRs issued by the IMF. In case of missed payments, the collateral would be released and could be liquidated by the private creditor. The missed payment would have to be repaid by the sovereign to the guarantor. Such a credit enhancement mechanism would help countries undergoing debt restructuring to continue having access to international capital markets. Meanwhile, legal, regulatory, accounting and tax codes incentives will be put in place in countries where bondholders and commercial banks are dominant such as the European Union and the United States to encourage their participation in providing debt relief. Furthermore, countries should be provided with debt relief at the same time in order to address the first mover disadvantage that is present in the Common Framework and some debt relief initiatives. Using a carrot and stick approach in the form of providing guarantees to creditors for the restructured debt as well as modifying legal and regulatory incentives to encourage participation will provide the foundation for addressing the debt challenges.

Box 1. Regional mechanisms for debt relief on the continent

The Africa Private Creditor Working Group stands out as a medium to coordinate African countries and debt providers to contain the economic impact of COVID-19 across the continent. It represents private creditors and has advocated for a case-by-case approach in dealing with the pandemic's effect (Bloomberg, 2020). This is against the background that each African country has its peculiar fiscal and social dynamics which will need to be considered in designing debt management strategies. On the other hand, a blanket approach could increase the cost of capital across board and cut countries off from the international commercial debt markets.

In addition, the African Union has been vocal in calling for debt relief from all categories of creditors including private creditors. In multiple statements, the African Union has sought for the suspension of interest payments and the provision of stimulus packages particularly for countries facing extreme circumstances such as high dependence on commodities, conflict, terrorism, extremism, economic sanctions, climate change and natural disasters. To complement these efforts, the African Union created the COVID-19 Response Fund with the purpose of combatting the socio-economic effect of the pandemic and providing access to medical supplies. As at April 2020, the Fund had raised about US\$12.5 million (Statecraft, 2020).

4

POLICY OPTIONS FOR STAKEHOLDERS

The increasing concerns from debtor governments, creditors, and the international community over debt sustainability in Africa have created the need to propose policy options to tackle the debt challenges in the continent. Based on the Eurozone debt crisis, the African Union has recommended that member states place limits on public debt in their constitution and design reforms to reduce excessive deficits and domestic debt (African Union, 2017). However, more specific policy responses are put forward with the aim of achieving debt sustainability while meeting development goals and achieving macroeconomic stability in African Union member states. These policy responses are based on lessons from past debt relief initiatives as well as current policy discourse.

4.1. Establishment of a Guaranteed Fund for Inclusive Recovery

In order to incentivise the private sector to offer debtor governments some form of debt relief, the World Bank should establish a guarantee facility for an inclusive recovery. Here, the facility will back the payments of new bonds that are swapped with a significant haircut for old and unsustainable debt. The guarantee facility will provide a partial guarantee of the principal and a share of interest payments which is similar to the Brady plan. This will incentivise the private sector to participate in debt relief programmes.

4.2 Curb the Overreliance on Credit Ratings and Establish an Indigenous Credit Rating Agency

Given that credit ratings do not determine interest rates, lenders and other market participants should not overly rely on the positioning of countries' credit ratings in determining the terms of loans. For instance, countries that have accessed the DSSI and have been downgraded should not be penalised by higher costs of borrowing as the fundamentals remain unchanged. Such overreliance on credit ratings not only affects individual countries but could have spillover effects on the entire continent. A related issue is the inaccuracy of credit ratings with countries like Ghana raising concerns over the technical accuracy and speed in rating decisions of credit rating downgrades (African Union, 2022). Consequently, both creditor and debtor governments should reduce their dependence on credit ratings and governments should not center their decisions on them. Market participants should complement the CRA ratings with their own credit assessment of countries. Furthermore, it is important to ensure that credit ratings are not entrenched into legislative provisions, regulatory frameworks, and financial contracts to reduce reliance on them. As an alternative to the main credit rating agencies, an indigenous credit rating agency should be established to carry out its own credit assessments. This will ensure that the risk premium placed on loans and bonds are not biased against African countries, but rather

are put forward with an understanding of the domestic context of African economies. More so, such ratings are expected to have more details and be significantly higher than ratings from the main international credit rating agencies. A first step is for African countries to develop legislation on credit rating services which will allow authorities oversee the regulation and licensing of international rating agencies. Furthermore, the African Union should establish a continent-wide regulatory body particularly for countries that seek redress from the unfair practices by rating agencies.

4.3. Adherence to Specific Sustainability Objectives

The wave of linking investments to Agenda 2063 and Sustainable Development Goals (SDGs) should be maintained as investors should be made to adhere to specific sustainability objectives. Incentives such as lower costs should be put forward to investors in order to encourage participation. This is particularly important as the COVID-19 pandemic has further worsened the constraints for the Agenda 2063 and SDGs and could recede the gains so far. This will enable the achievement of the Agenda 2063, SDGs and the Paris Club agreement while ensuring debt sustainability. Furthermore, creditors should be committed to transparency in providing and disbursing loans, specifically regarding the sectoral allocation of loans.

4.4. Encourage the Use of State-Contingent Debt Instruments (SCDIs)

Presently, the uncertainty around future economic growth and the current high debt levels in Africa presents an opportunity to develop the market for state-contingent debt instruments (SCDIs). These SCDIs link debt service payments to pre-defined variables such as a country's GDP and commodity prices, or to negative events like floods or wild fires such that repayments are paused when a borrower faces difficulty. Africa, with its numerous resources could develop new debt instruments linked to the price of gold and oil for instance, or linked to economic performance indicators such as GDP growth rate, inflation, government revenues, and export earnings. Issuance of such instruments could avert debt restructuring. However, there is the need for independent statistical agencies to accurately determine the pre-defined variables alongside a strong debt management capacity to execute the design and uptake of such instruments.

4.5. Adherence to Principles on Responsible Lending

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 and the G20's Operational Guidelines for Sustainable Financing, these standards are hardly followed by lenders. These standards include the need for lenders to ensure that the borrowing country understands the risks and benefits of the debt instrument.

This is particularly important when dealing with a less-knowledgeable sovereign counterparty. Furthermore, in providing new finance, a lender is responsible for making an assessment of the sovereign borrower's capacity to service the loan in order to have an understanding of the wider debt situation of the borrowing country. In addition, project evaluation studies should be undertaken in order to ascertain the economic, social and environmental implications of newly-financed projects for a cost-benefit analysis.

4.6. Transparency in the Lending Process

In order to reduce uncertainty and risk while improving debt management practices, creditors 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 in order 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 some countries. 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.

4.7. Limit the Spread of Off-Budget Contingent Liabilities

The widespread use of unbudgeted contingent liabilities has become commonplace with the growing volume of private capital flows, public-private partnerships, collateralised debt, and the government taking up the role of guarantor of services and projects. Meanwhile, these fiscal obligations are not accounted for and are not considered in the conventional fiscal analysis as their costs are unknown until they come due. The hidden nature of off-budget contingent liabilities complicates fiscal analysis and as creditors should avoid such. In extreme cases where such liabilities are taken on, the explicit and implicit costs should be factored in the analysis.

4.8. Prevent International Tax Avoidance and Evasion

Countries with improved tax capacities are better able to finance public projects and policies while reducing their dependence on external financing sources. 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. The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which intends to close gaps and mismatches in tax rules that allow for the shifting

of profits to lower tax rate environments, is a step in the right direction. Additional resources can also be obtained when illicit financial flows are curbed to the minimum. The most recent estimate shows that the continent loses up to US\$88.6 billion annually (UNCTAD, 2020). Improving the transparency on financial information

to ensure that individuals do not take advantage of loopholes in regulations is critical. It is also important to build the capacity of developing countries to identify and address tax avoidance and evasion, and curb illicit financial flows.

5 CONCLUSION

The evidence from this study on the evolution of Africa's debt shows a shift from traditional creditors to non-Paris club creditors and private creditors. The shift was also seen to be accompanied with a shift in the structure of debt service payment. Accordingly, there was an increase in the share of debt service payment to the private creditors from 50 percent between 2000 and 2004 to about 63 percent between 2012 and 2020. Consequently, the share of concessional debt in external debt fell from an average of 44.5 percent between 2000 and 2004 to 32 percent in 2020.

Before the onset of the COVID-19 pandemic, there were concerns regarding the rising external debts in most African countries. However, the evidence from this study shows that the pandemic amplified this issue, as there was an increase in debt levels. Most African countries struggled with a negative fiscal balance, tepid economic growth, an increase in unemployment, and a decrease in trade. The worsening debt situation combined with the shift towards non-Paris club creditors and private creditors creates the need for countries to implement

new debt relief mechanisms. This debt relief mechanism will involve official creditors providing debt relief while a carrot and stick approach in the form of providing guarantees to private creditors for the restructured debt as well as modifying legal and regulatory incentives to encourage participation should be adopted. This would provide the foundation for addressing the present debt challenges.

Furthermore, policy options aimed at achieving debt sustainability while meeting development goals and achieving macroeconomic stability are required to tackle the debt challenges in the continent. The options include but are not limited to the establishment of a guaranteed fund for inclusive recovery, curbing the overreliance on credit ratings, adherence to specific sustainability objectives, encouraging the use of State-Contingent Debt Instruments, adherence to principles on responsible lending, transparency in the lending process, limiting the spread of off-budget contingent liabilities, and preventing international tax avoidance and evasion.

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AFRICA'S RISING DEBT AND THE EMERGENCE OF NEW CREDITORS: A REVIEW OF TRENDS, CHALLENGES AND PROSPECTS (2000 – 2021)



Debt levels in most SSA countries were already increasing before the Covid-19 pandemic. Over the past 20 years, also a structural change could be observed: debt moved from concessional and long-term financing towards short-term maturities and market-led debts with non-traditional creditors.

recovery, curbing the overreliance on credit ratings, adherence to specific sustainability objectives, and encouraging the use of State-Contingent Debt Instruments.



Policy options aimed at achieving debt sustainability while meeting development goals and securing macroeconomic stability are required to tackle the debt challenges in the continent. The options include – but are not limited to – the establishment of a guaranteed fund for inclusive

Africa as a continent must adopt a comprehensive strategy for debt restructuring including relief initiatives. With the creditor landscape having changed, new debt relief frameworks have to be considered.

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