Options for Reimagining Africa's Debt System

A Development Reimagined Flagship Report

February 2021

CONTENTS

Section 1: Introduction 5

Section 2: The global debt system 6

The debtors 7

Who are the debtors? 7

Why do countries borrow? 7

The lenders 10

Who are the lenders? 10

Why do they lend? 10

What do they lend? 12

Where do they lend? 12

Section 3: Debt in African countries: a brief history 15

Debt and debt sustainability in Africa over time: what does the data show? 15

The emergence of China as a source of loans to Africa 16

Debt in Africa: A contextualised explanation 18

Pre-independence/colonial structural influence on African economies 18

Oil crises and collapses of other commodity prices in in 1970s 19

Debt crises of 1980s and 1990s 19

Section 4: COVID-19 and debt: the present day 21

The impacts of COVID-19 in Africa 21

Reduced economic growth 21

Increased government expenditure 22

Reduced tax revenues from international flows of goods, people and finance 23

Growing external debt challenges 24

Section 5: Assessing the options 26

Section 6: The options 28

Previously utilised solutions 28

1. Bretton Woods (IMF/World Bank) structural adjustment programs (SAPs) 28
2. Heavily Indebted Poor Country and Multilateral Debt Relief Initiatives 31
3. The 2020 COVID-19 debt relief response 35

Proposed new solutions to reforming the global debt system to meet Africa's needs: 38

4. Special drawing rights issuance/reallocation 38
5. Reform/regulation of private sector risk perceptions analysis 41

6. Reform of established debt sustainability frameworks 44
7. Reform of World Bank/MDB approaches to development 48
8. Improved negotiation with lenders – "borrowers' clubs" 53
9. African Union continental financial institutional development 56
10. Accelerating African economies' structural transformation 59
Comparing the options 61
Section 7: Conclusions and Recommendations: A reimagining of the global debt system 64
Recommendations for African stakeholders 65
Recommendations for Chinese Stakeholders 66
Recommendations for other international stakeholders 67
APPENDIX 1: List of acronyms and glossary of terms 69
List of acronyms: 69
Glossary of terms 70
Concessional Loan 70
APPENDIX 2: Comparing China's 2019 debt sustainability framework (LIC-DSF) to the IMF/World Bank's (DSF) 73
What is the LIC-DSF? 73
Procedures 73
List of references 75

Acknowledgements:

Development Reimagined would like to thank all expert interviewees (Howard Stern, Tang Xiaoyang, Yun Sun, Woury Diallo, Deborah Brautigam, Marina Rudyak, Wang Yan and Mma Amara Ekeruche) who helped formulate and contextualise the paper. Thanks too to Deborah Brautigam, Mma Amara Ekeruche, and W. Gyude Moore for their insightful pre-publication comments on this report. Special thanks also to contributing DR team members Hannah Ryder, Peter Grinsted, Rosemary Flowers, Ovigwe Eguegu, Fu Yike, Harry Nicholls, Jade Scarfe, Rose Wigmore, Chen Jinyu, and Chazha Ludo Macheng.

SECTION 1: INTRODUCTION

Development Reimagined (DR) recently published a "Debt Guide", as part of the Africa Unconstrained series of content on African growth, debt and perspectives, aiming to improve understanding of the topic. This report builds on this knowledge and looks towards the future of debt in developing countries, with a focus on African countries.

The paper brings together and appraises in as complete and holistic a way as possible ten methods, solutions and strategies for African and broader stakeholders to consider implementing as the world continues to grapple with the ongoing COVID-19 pandemic. Three of the "options" analysed have previously been utilised, while seven others are newly proposed.

The bulk of the paper draws heavily from desk research. Prior DR debt-related research and publications have been updated, and combined together with information from a range of other sources, including official reporting from government and multilateral organisations, academia, NGOs and private sector organisations across the world, including China and African countries. To supplement this, a series of interviews have also been conducted with subject experts, including individuals for which development and debt is their day-to-day work, such as academics and policymakers, also from across the world, including China and African countries.

Utilising a newly created and innovative approach and appraisal framework for assessing the "options" proposed (which can also be extended to other options as they arise), this paper aims to methodologically and clearly provide detail, nuance, knowledge, and recommendations to all stakeholders involved in the international debt system for how best to proceed going into the 2020s and beyond. Critically, this paper is written with African sustainable development and economic crisis avoidance the overarching long-term goal.

The paper was written to be read and understood by those with some subject expertise. For readers not so familiar with the topic, a glossary in the appendix provides a list of acronyms and definitions of technical terms used throughout.

OBANIKORO BUS STOP

SECTION 2: THE GLOBAL DEBT SYSTEM

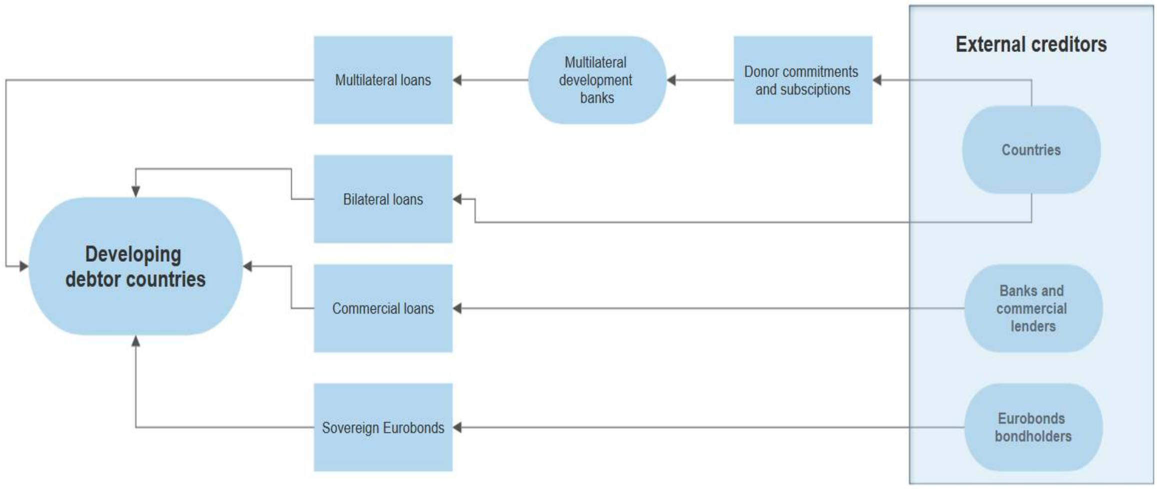
The global debt system is complex, with many diverse and sometimes overlapping concepts and actors. This section aims to illuminate this system, giving detail on the different stakeholders, their different approaches, and the different reasons for their involvement. While governments do have domestic debt, built up through domestic lending institutions, and this has its own opportunities and challenges, since this report is focused on international policy, "debt" in this report refers primarily to external debt, defined as:

> *"the portion of a country's debt that is borrowed from foreign lenders, including commercial banks, governments, or international financial institutions."*

Thus, the analysis and findings of this paper are applicable to all countries that raise external debt, especially through the lens of sustainable economic development and poverty reduction, which is required in all countries universally. However, due to the fact that most high-income countries have highly developed domestic banking systems, and therefore rely on external debt less, combined with constraints in data availability – especially data from multilateral organisations – the analysis primarily features low- and lower middle-income countries.

Figure 1 provides a simplified overview of the global external debt system. The key actors in this system are the lenders and debtors – those who offer and receive loans – though other institutions such as regulators and credit ratings agencies also play significant roles.

Figure 1: Debtor countries debt system – a simplified overview[i]


External creditors
Countries
Banks and commercial lenders
Eurobonds bondholders
Donor commitments and subsciptions
Multilateral development banks
Multilateral loans
Bilateral loans
Commercial loans
Sovereign Eurobonds
Developing debtor countries

The proportions of different types of debt held in developing countries and the types of lending engaged in or favoured by different lenders varies significantly and is discussed in more detail in the following sections.

But who exactly are these stakeholders? Why and how do they lend or borrow? Where and what do they prioritise?

The debtors

As already noted, both rich and poor governments, on behalf of their citizens, have debt. For most rich country governments, the majority of their debt is often lent from within their own countries – through their own central banks, or their own private banks. But for many poor country governments, much of the debt has been lent to them from external sources – by other governments and multilateral organizations, as well as private lenders.

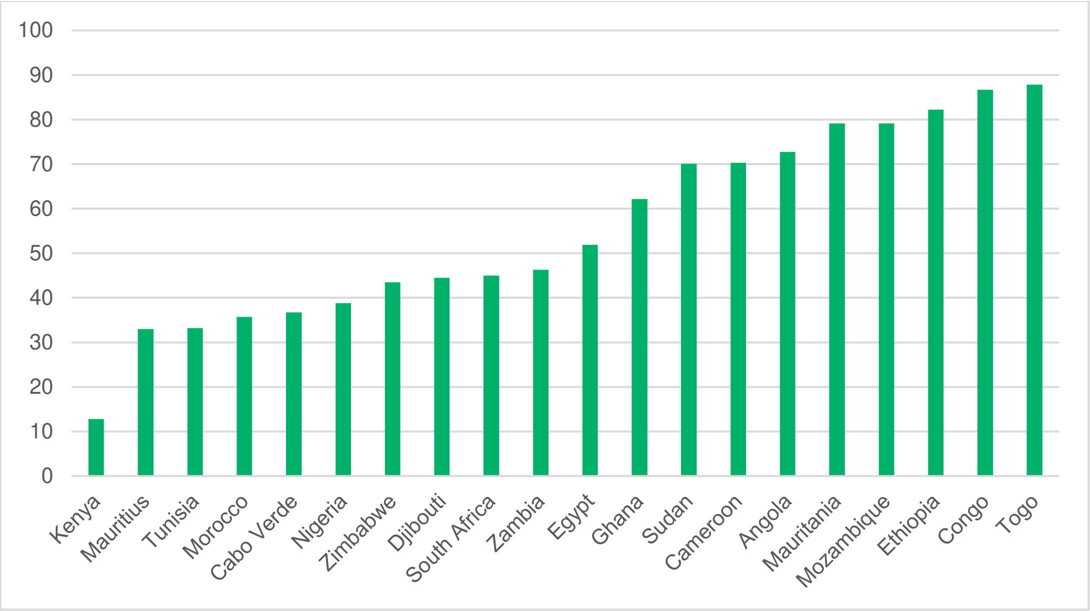
Who are the debtors?

The countries focused on in this report display a wide range of circumstances with regard to debt and development. Most African countries are low-income or lower middle-income countries, some are resource-rich, some are politically unstable, etc. DR's Debt Guide provides detail on 20 of these countries[ii], but there are many more, and they all have different reasons for desiring and maintaining debt, and their preferences for debt levels, stock, structures and creditor make up.

Why do countries borrow?

African countries face huge infrastructure gaps, which require financing, if needed sustainable development is to occur, and for goals like the Sustainable Development Goals (SDGs) to be achieved. For example, over 640 million Africans remain without access to energy, corresponding to an electricity access rate of 40%[iii]. Figure 2 illustrates the internet access gap in 20 African countries, the importance of which has been highlighted during the COVID-19 pandemic, with internet access essential not just for enabling safe digital trade and services, but also for children to access education and health information. Indeed, SDG 9 is meant to 'significantly increase access to ICT and strive to provide universal and affordable access to the Internet in least developed countries by 2020'. As Figure 2 shows below, the target is clearly being missed, including in some relatively richer African nations[iv].

Figure 2: Percentage of Population without access to the internet in 20 African countries, 2018[v]



Many African countries do not have the capacity in budget or ability to raise funds domestically to finance such infrastructure gaps, which extend to energy and electricity, water, transport, and other sectors. Connectivity and infrastructure projects often require large capital, which governments cannot fund through tax revenues nor domestic debt without unacceptably large opportunity costs in reductions to key government expenditure like education and health. African countries cannot raise taxes or other funds domestically for an infrastructure funding gap estimated by the African Development Bank (AfDB) at between USD 68 billion and USD 108 billion per year[vi], not to mention all the other key requirements of their citizens.

Therefore, external financing plays a huge role in the infrastructure and development planning of African countries, including FDI and grant aid but also loans – the focus of this paper. "Good debt" would mean these loans go into productive use, allowing vital infrastructure projects to go ahead, and promoting sustainable development, economic growth, and poverty alleviation, whilst "bad debt" can go to unproductive uses, get mired in corruption, and potentially place African governments in debt crises.

Promoting "good debt" is clearly vital for many countries in their ambitions to deliver infrastructure, economic growth, and associated poverty alleviation and jobs for their citizens.

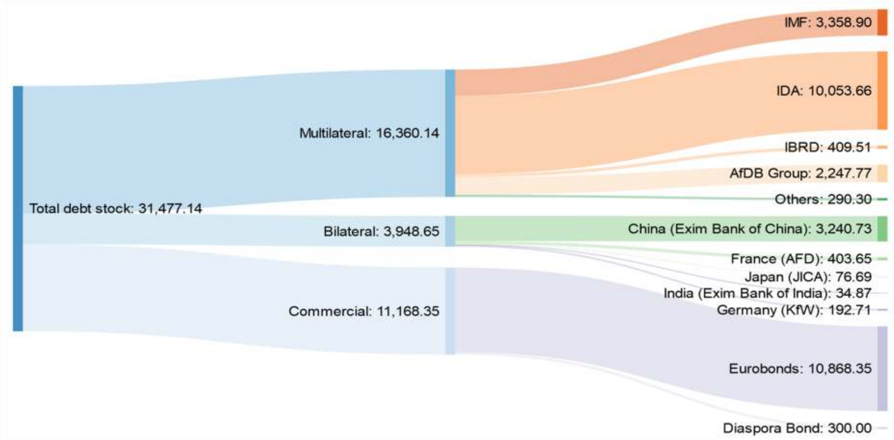
To explain this in more depth, Box 1 provides a case study of Nigeria, including a breakdown of the country's external debt stocks[vii].

Box 1: Case study debtor: Nigeria

Nigeria is the African continent’s biggest country in GDP terms and in population terms. Nigeria uses external debt for spending on outstanding infrastructure projects in the sectors of power, mining, roads, agriculture, health, water and education, with Eurobonds issued to provide further funding for the country’s budget deficit and other financing needs. The county’s president Muhammadu Buhari said in September 2020 “We have so many challenges with infrastructure. We just have to take loans to do roads, rail and power, so that investors will find us attractive and come here to put their money.’’

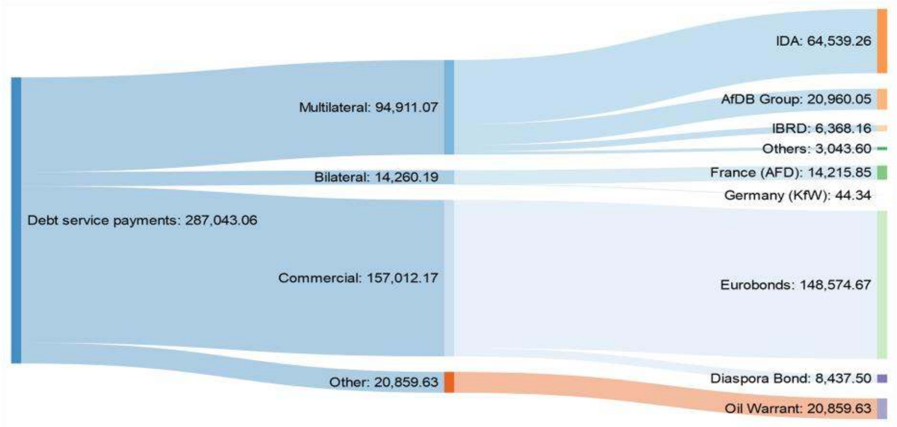
As Figure 3 below shows, Nigeria’s external debt stock is varied, with commercial private sector debt (known as “Eurobonds”) the largest single contributor. The country also owes significant debt to the World Bank International Development Association (IDA), the International Monetary Fund (IMF), and China’s Exim Bank. Nigeria’s bilateral debt to China is multiples of its bilateral debt to other bilateral lenders – fairly typical among African countries.

Figure 3: Nigeria's External Debt Stock as at June 30, 2020 in Millions of USD



The terms of this debt vary between lenders and mechanisms, but Figure 4 provides a snapshot of actual debt service payments for the country for a short period in 2020. Over this time, the majority of Nigeria’s actual debt service payments were to Eurobond holders (at 55%), followed by the IDA and AfDB Group.

Figure 4: Nigeria's Actual External Debt Service Payments (April to June 2020) in thousands of USD



The lenders

The range of lenders can broadly be categorised into 3 groups (as in Figures 2 and 3 above):

1. Lending countries – or "bilateral" lenders
2. Multilateral or regional development banks[1]
3. Commercial lenders like private investment or other banks with market-rate interest loans (such as JPMorgan Chase or China Development Bank) and other credit instruments of varying lengths - such as Eurobonds or other foreign bonds.

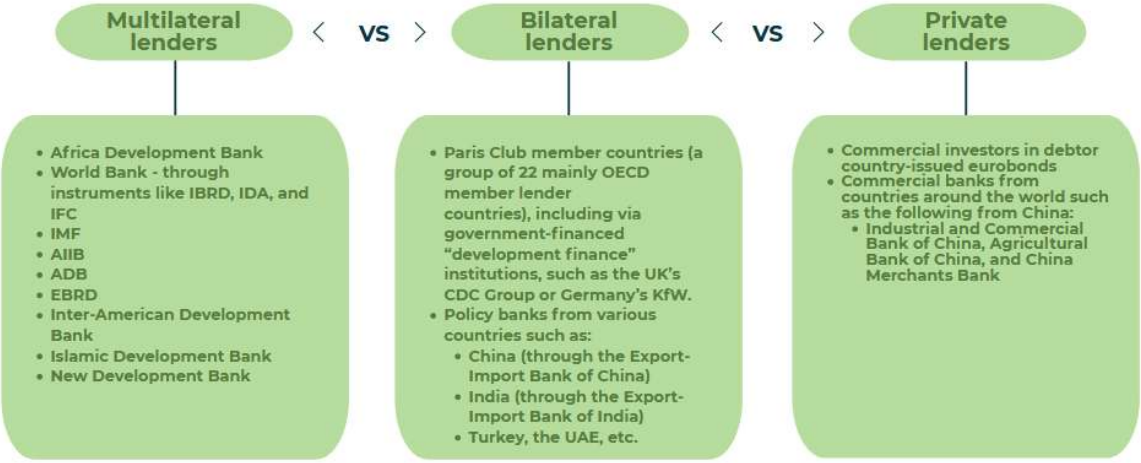
Some lenders straddle groups through partnering or offering differing lending mechanisms, and/or are considered by some observers as private, but by others as public. For example, in some cases bilateral lending countries put extra finance into development banks, rather than or in addition to lending through their own domestic institutions.

This section details the types of loans these different groups, and lenders within them, offer across Africa, as well as their reasons for doing so.

Who are the lenders?

Figure 5 shows some example institutions from each category as described above. All lend for very different reasons.

Figure 5: Example organisations within different lender groups



- Africa Development Bank
- World Bank - through instruments like IBRD, IDA, and IFC
- IMF
- AIIB
- ADB
- EBRD
- Inter-American Development Bank
- Islamic Development Bank
- New Development Bank

- Paris Club member countries (a group of 22 mainly OECD member lender countries), including via government-financed "development finance" institutions, such as the UK's CDC Group or Germany's KfW.
- Policy banks from various countries such as:
  - China (through the Export-Import Bank of China)
  - India (through the Export-Import Bank of India)
  - Turkey, the UAE, etc.

- Commercial investors in debtor country-issued eurobonds
- Commercial banks from countries around the world such as the following from China:
  - Industrial and Commercial Bank of China, Agricultural Bank of China, and China Merchants Bank

Why do they lend?

The different lenders have differing reasons for providing credit (loans) to African countries, and make decisions to lend in different ways.

Multilateral and regional development banks (MDBs) typically cite poverty reduction, sustainable development, and assistance through crises as reasons for providing loans. In 2015, all the above listed MDBs committed to supporting the achievement of the SDGs[viii], and the overarching objective of the AfDB, for example, is to "spur sustainable economic development and social progress in its regional member countries, thus contributing to poverty reduction"[ix].

[1] *Note: Projects executed by multilateral organizations on behalf of donor countries are classified as bilateral flows, since it is the donor country that effectively controls the use of the funds.*

However, there are differences between individual credit mechanisms' aims. For instance, the IMF has three main credit facilities for low-income countries (LICs): one aimed at supporting "countries' economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth"; another aimed at providing "low-access, rapid, and concessional financial assistance to LICs facing an urgent balance of payments need"; and another aiming to support "low-income countries that have reached broadly sustainable macroeconomic positions, but may experience episodic, short-term financing and adjustment needs, including those caused by shocks"[x].

Moreover, the MDBs have different structural approaches to decision making on how, how much and whom to lend to within these overall objectives. The IMF's Executive Board, for example, includes 24 Executive Directors, only 3 of which are from Africa[xi]. The board composition impacts the strategic view of who and what is funded by the IMF. At 12% of the total, the African board representation is considerably less than the continent's proportion of global population at 17%. Furthermore, when taking into account the global geographic distribution of the poor, which is dominated by Africa, it can be considered that Africans' voice on the board level is extremely under-represented. Similarly, the executive board of the World Bank's IDA, International Finance Corporation (IFC) and International Bank for Reconstruction and Development (IBRD) includes 4 African Executive Directors, from a total of 24[xii].

Bilateral lenders' reasons for providing credit to African countries are more diverse than for MDBs. In many cases, the lending country's political or strategic ambitions are a priority – with loans often (though not always) conditional upon lender country companies (such as infrastructure builders or consultancies) involvement. Political acceptability of external loans among lender countries' own populations (i.e. what some term as "taxpayers" views on aid) can also impact their decision making.

Many bilateral lenders decide upon their lending strategy, in terms of where and how to loan, within the context of a "country strategy" written by that country's bilateral institution itself. For example, the UK's Foreign, Commonwealth and Development Office (formally Department for International Development - DFID) has multi-year top-down country strategies into which aid, World Bank trust fund and other activities fit, which take into account analyses such as the World Bank's Country Policy and Institutional Assessments (CPIA)[2]. Alternatively, and in addition, non-governmental and private sector organisations from the lending country often access the bilateral lender directly or are approached directly by the bilateral lender to propose projects to deliver abroad which may then be taken up. This often takes place with Chinese loans, but also for other lenders such as the US, France, Japan, etc.

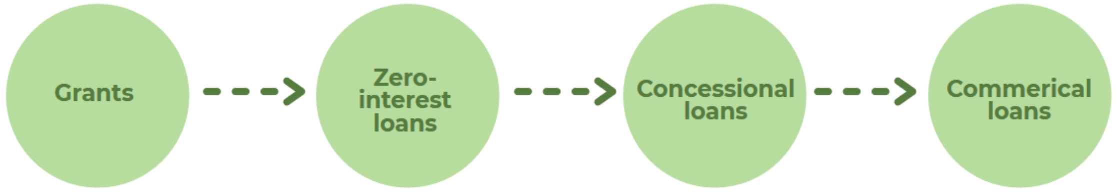
Private lenders, such as commercial banks and Eurobond bondholders typically provide finance with the objective of making a profit. They decide on portfolios of and/or specific projects and loans to finance making use of credit ratings agencies' ratings, and other risk analyses, as well as feasibility studies.

[2] For an example of such a document – see the UK's Bilateral Development Review from 2016: https://www.gov.uk/government/publications/rising-to-the-challenge-of-ending-poverty-the-bilateral-development-review-2016

What do they lend?

Figure 6 shows the broad categories of development finance, as offered by lenders. As this report is focussed on debt – grant aid is not discussed further.

Figure 6: Types of development financing



Typically associated with both mutilateral and bilateral development finance organisations, grants require no repayment, and therefore are not considered loans.

Zero interest loans are a type of development finacning that requires repayment but no interest payments. Typically offered with long repayment and grace periods, this type of loan is offfered by bilateral and multilateral lenders and are consdired ODA.

Concessional loans are loans with low, below-market interest rates. Like zero-interest loans, they are typically also offered with long repayment and grace periods, this type of loan is offfered by bilateral and multilateral lenders and can be consdired ODA depending on the loans' grant-element.

Commercial loans, sometimes called non-concessional loans, are loans with interest at market interest rates. Unlike other loans, they are more typically offered by private lenders, such as commercial banks.

Where do they lend?

Different organisations lend in different places.

MDBs limit their credit offerings to certain qualifying countries for the following reasons:

Geographical distribution

- AfDB, for example, only extends credit to regional member countries; that is, African countries. The Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank also restrict loans to regional member countries. In most instances, MDBs member organisations from outside of their respective regions are lenders. However, this is not necessarily always the case, with Asian Infrastructure Investment Bank having outside-region members who more typically would be debtors rather than lenders (including African members like Benin).

Income status/level

- Certain IMF and World Bank facilities are only available to low-income countries. For example, eligibility for the World Bank Group's IDA support depends primarily on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (USD 1,185 in the fiscal year 2021) – which currently applies to 74 countries around the world[xiii].
- These types of groupings also come with further conditions. For example, IDA loan eligibility involves debt sustainability assessments (discussed further later). In contrast, eligibility for IBRD loans does not require such assessment, but is only possible for countries grouped as higher income. As a country graduates from one grouping to another, it's eligibility for loans can significantly change.

Similarly, some **bilateral lenders** also limit their credit offerings to certain countries or regions based on the following reasons:

- Politics – for example:
    - Canada only provides loans to countries considered democratic.
    - China only provides loans to countries that it has diplomatic relations with – a list which includes 53 African countries.
- Income status/level
    - Similar to MDBs, some countries offer certain debt only to countries under an arbitrarily chosen level of national per capita income.

Last but not least, **private and commercial lenders**, as well as Eurobond-holders, prioritise returns, interest rates and coupon rates.

More detail about China as a lender is provided in Box 2 as a case study[xiv].

Having discussed the actors involved in the debt system, and their motivations and mechanisms, the following section broaches how we got to this point – by providing a brief summary of the history of debt in African countries.

Box 2: Case study lender: China

Chinese institutions, like those from other countries around the world, lend money to African countries through a variety of mechanisms and from a variety of sources. As, according to World Bank and UN classifications, the world's largest developing country, and largest South-South Cooperation actor, China is chosen as a case study debtor country. Indeed, China's lending footprint in Africa is broad - 50 countries in Africa have borrowed from Chinese institutions between 2000 and 2018, with 1,077 loan commitments worth a total of USD 148 billion.

This might seem like a great deal from Africa's perspective, but from China's perspective it is less important. For instance, lending to Africa from China comes from three categories (as stated above in the main text):

- Bilateral lending through state policy banks such as the China Export-Import Bank (EXIM) and China Development Bank (CDB - though its status as a policy or private bank is debated).
- Multilateral lending through capital contributions and continued shareholding of MDBs such as the World Bank institutions and more recently the AIIB and New Development Bank (note contributions to UN institutions are grants).
- Private lending through commercial banks such as ICBC and BOC.

With regards to EXIM, based on 2018/2019 figures, lending to 46 African countries in total makes up around just a third of its total overseas lending portfolio. However, EXIM also has a domestic component as well, which is significant. CDB reports suggest that Africa is a very small lending destination – accounting for just 1.3% of total overseas loans by 2019.

Similar to Japan – though in contrast to some other lenders – China strongly favours bilateral lending over multilateral lending. Bilateral lending enables Chinese firms to engage directly in delivery of projects (through tied loans). This also enables other incentives (such as provincial level subsidies) to be combined with project delivery for most cost-effective outcomes from a Chinese perspective.

An analysis of 157 countries comparing World Bank to Chinese lending in the 2000-2014 period found that while Chinese lending terms (grace periods, interest rates, and maturities) appear to be less concessional than those for World Bank projects, loans provided by Chinese institutions tended to be larger than those provided by the World Bank (the average size of loans was USD 307 million and USD 148 million, respectively), potentially indicating that Chinese banks lend for types of projects that the World Bank and other multilateral institutions do not. The authors also found that China provided loans to 30 countries that the World Bank didn't, and that Chinese loan terms were comparatively easier (more concessional) than private sector terms.

Chinese banks tend to employ a different methodology to assess loans compared to MDBs, which means Chinese actors are able to offer loans in certain sectors such as infrastructure - more easily and speedily. A 2018 study by the Infrastructure Consortium for Africa suggested that for some categories of infrastructure projects, countries have had to wait over nine years for project approval from multilateral banks. Part of the challenge for others is risk assessment. For China, loan eligibility is typically conducted on the basis of projected returns from a specific project. The aspect of which country the project would be in, or "political risk" as it is sometimes termed, is a minimal consideration. In other words, Chinese lenders look at loans as business propositions, and worry less about individual credit history or "debt sustainability" (see Appendix 2 for more on this) than other bilateral or multilateral lenders might. From the Chinese lending perspective, infrastructure tends to have a higher return. Hence, the China Exim states that over 80% of its outstanding loans to Africa are for infrastructure construction. In addition, loans can be offered to fund projects that have been won by a Chinese company through a public tender process, which also speeds processes up.

China's emergence as an important source of debt for African countries is further detailed in the next section.

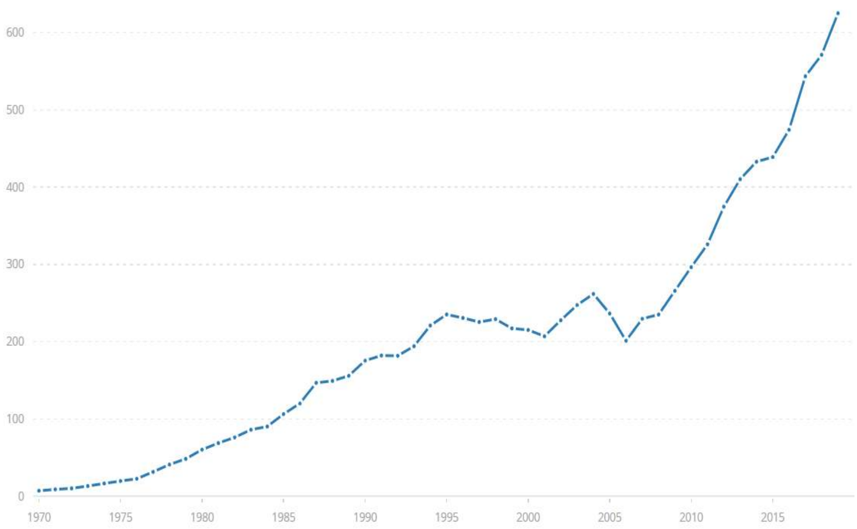
SECTION 3: DEBT IN AFRICAN COUNTRIES: A BRIEF HISTORY

This section provides key background information on debt in African countries, including exploring the origins of debt crises on the continent (and elsewhere, where relevant, for context). First, data is used to contextualise debt levels in Africa over time, since the 1950s and 1960s, when the majority of African countries became independent, right up to 2020 (note that the COVID-19 pandemic and its impacts on debt in Africa is covered in Section 4).

Debt and debt sustainability in Africa over time: what does the data show?

From very low bases in the 1960s and 1970s, external debt stocks in many African countries grew steadily until a period of relative stability from the early 1990s to the mid-2000s, after which external debt stocks have grown rapidly, as shown in Figure 7.

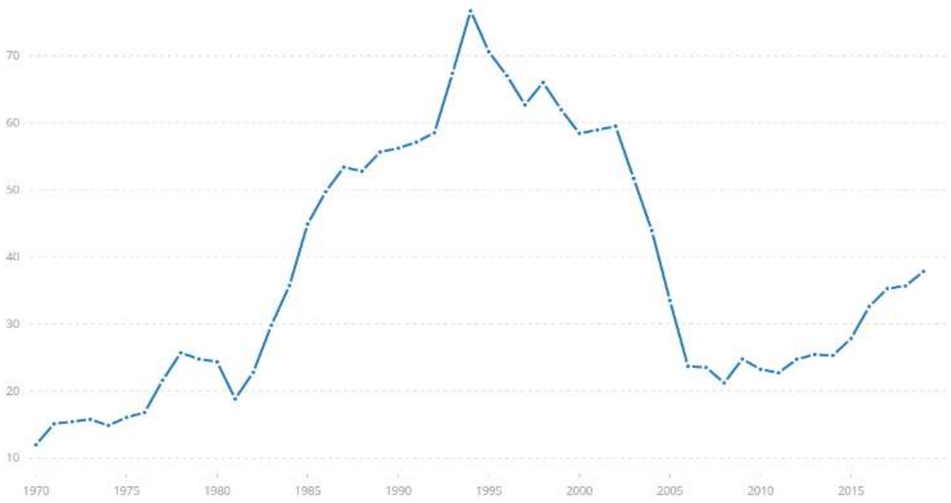
Figure 7: External debt stocks, total (disbursed and outstanding debt, current USD billions) - Sub-Saharan Africa (excluding high income)[xv]



However, when considering concurrent economic growth in these countries, by looking at these stocks as a percentage of GNI, the data tells a different story. As Figure 8 shows, by this indicator, low-income African countries' external debt stocks grew hugely in the 80s and early 90s, reaching a peak in 1995, before falling similarly quickly in the late 90s and early 2000s, as stronger economic growth across the continent greatly increased GNIs. Since then, however, external debt ratios have been increasing once more, though not yet to the highs of the 1990s.

That said, debt in the majority of African countries is very small compared to global debt and global GDP. Africa as a whole has a very small proportion of externally held debt, such as debt from other governments, multinational banks or the private sector globally, totalling USD 775 billion, comparable to amounts held by single countries (such as USD 557 billion in Brazil, or India's USD 521 billion) and less than half of what China has borrowed from the world (USD 1962 billion)[xvi].

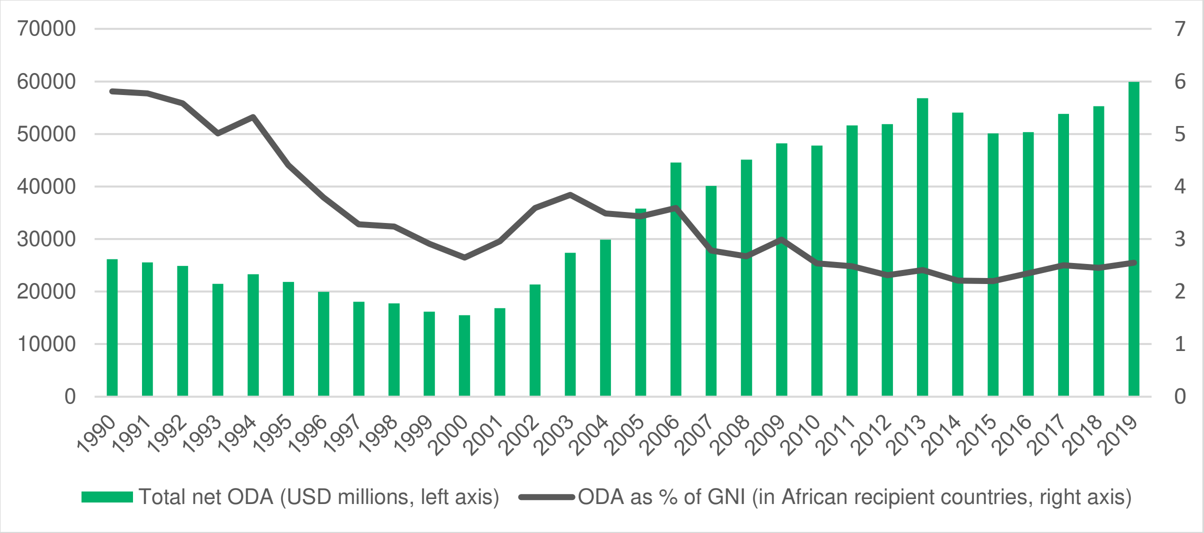
Figure 8: External debt stocks (% of GNI) - Sub-Saharan Africa (excluding high income countries)[xvii]



The emergence of China as a source of loans to Africa

After steady growth in the first decade of this millennium, official development assistance (ODA) to Africa stagnated in the past decade at around USD 50 billion per year, and this is true of multilateral, Development Assistance Committee (DAC) donors as a group, and non-DAC donors of ODA, for which the OECD collects data (and therefore not including China). Figure 9 represents this, while also highlighting African countries' economic growth over the same time period. As a percentage of their GNIs, ODA to African countries fell from close to 6% in 1990, to under 3% every year since 2007.

Figure 9: Overseas Development Assistance to Africa[xviii]

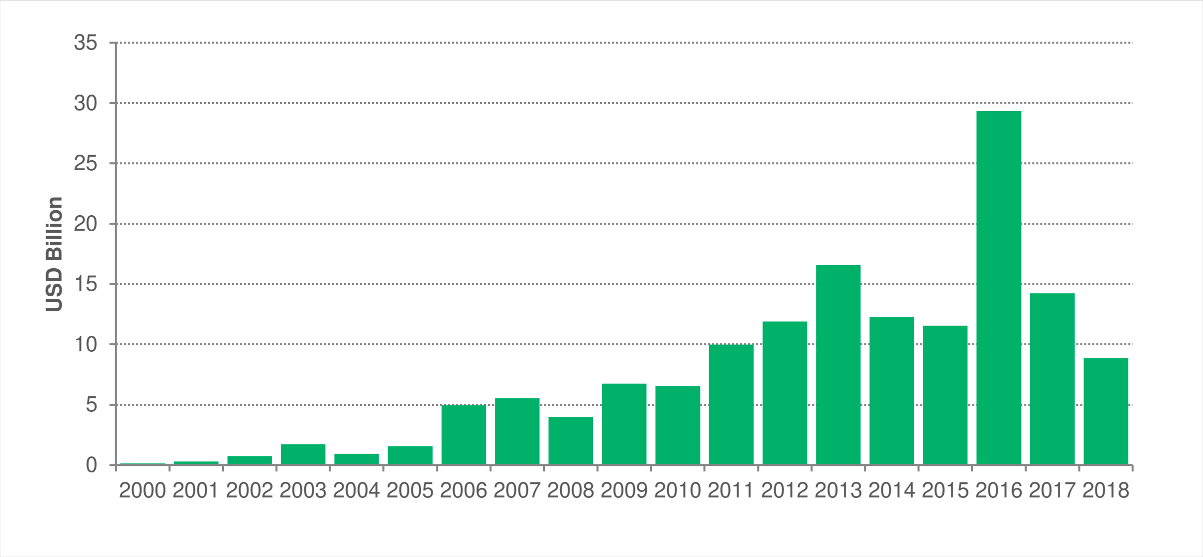


In comparison (and in some ways making up for this), China has emerged as an important source of external financing in African countries.

However, estimates for the proportion of loans that China now makes up for developing countries vary – due to differing estimates of China's lending overseas, and limited official data from China of the volumes, especially at a country-level. There are challenges with transparency on loan distributions and terms; as Marina Rudyak, Assistant Professor of Chinese Cultural Studies at Heidelberg University put it: "*We don't get to see the loan agreements so it's difficult to know about the risks*". For instance, a study of 48 African countries by the Jubilee Debt Campaign suggested that 20% of their debt was owed to China, compared to 35% to multilateral institutions, 32% to private creditors, and the remaining 13% to the "Paris Club" of lenders[xix]. A recent IMF paper suggested that since 2010, private sector bonds have been the fastest growing source of finance for several low-income countries. On the other hand, in a June 2019 working paper for the Kiel Institute for the World Economy, estimated that for low-income countries total lending from China between 2010 and 2015 exceeded lending from the multilaterals and private sources[xx].

However, the most rigorous sources suggest that around 20% of African external debt is now owed to China, and as set out in Box 2, worth USD 148 billion. Figure 10 shows that these loans were of relatively small value in the early 2000s, but have since risen significantly, averaging over USD 10 billion per year in the decade from 2008-2018. It is also worth noting that 2016 is a special case in China's lending to Africa, with Angola having received almost USD 20 billion credit.

Figure 10: Chinese loans to Africa (2000 to 2018)[xxi]



Like any other bilateral lender, China has limits on the volume of grants and concessional (cheap) international loans it provides. The total volume of China's lending to Africa is typically determined and negotiated as part of the Forum of China Africa Cooperation (FOCAC) and more recently the Belt and Road Initiative (BRI). FOCAC, which celebrated the 20th anniversary of its founding in 2020, is a forum of China and the 53 African countries that maintain diplomatic relations with China. For instance, at both the 2015 and 2018 meetings of FOCAC, China pledged USD 60 billion to Africa – most of which constituted loans and other credit lines. The African Union (AU) and 46 African countries have now signed separate Memorandums of Understanding on the BRI with China[3], which is expected to shape the future volume and direction of Chinese development finance[4].

[3] See www.africaunconstrained.com/ourdata

[4] See China's 2021 White Paper on International Development Cooperation: http://www.xinhuanet.com/english/2021-01/10/c_139655400.htm

Debt in Africa: A contextualised explanation

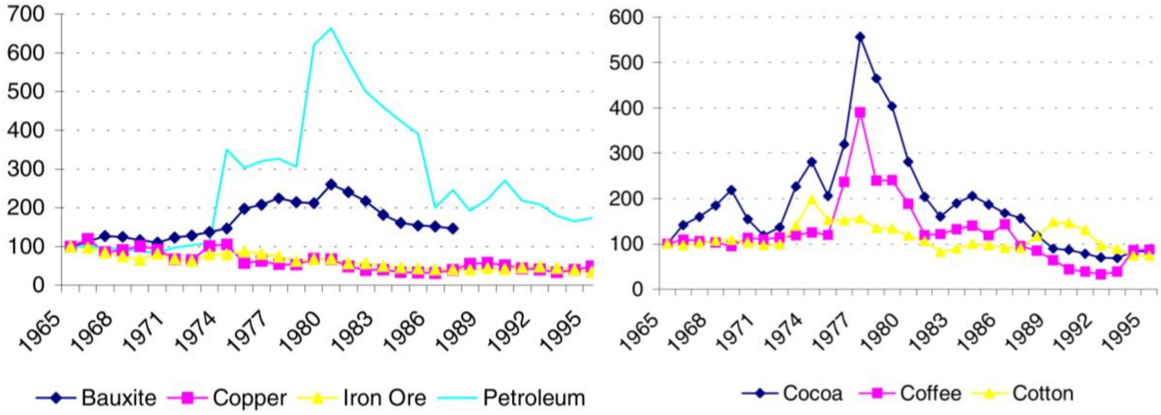
Pre-independence/colonial structural influence on African economies

Due to the nature of their economic relationships with former colonial powers, almost all African nations had become exporters of a limited range of primary products, and importers of manufactured goods, by the time of independence[xxii]. The established links between the producers and the colonial metropoles meant that many colonies became dependent on other countries to purchase and dictate prices of products. Colonies, as a result, were left without infrastructure to process raw materials and primarily purchased ready-made goods from their associated former colonial powers. The result was that colonies produced what they did not consume and consumed what they did not produce.

This was accompanied by a demand for external finance when export earnings were not sufficient to finance the level of public expenditures required for maintaining and expanding the commodity exporting dominated economies. Combined with the historical reliance on commodity exports, this then helped create situations where African countries' financing would be very sensitive to global commodity demand and price shocks – as discussed further in the following section.

Compounding this were commodity booms during the post-independence era in major commodities exported from Africa, as shown in Figure 11**.** In many cases, along with the rise in commodity prices came increases in government expenditure. As Mma Amara Ekeruche, Research Fellow at Centre for the Study of the Economies of Africa, highlighted in our interview with her, after African countries gained independence, which brought more ownership of their spending, they particularly increased spending on social services, and countries increasingly borrowed to do this due to a lack of tax revenue. Though some argue that this and import substitution policies were policy errors on the part of African governments, it can also be argued that the fundamental problems were structural/historical and the resulting policies are therefore a reflection of this reality and hence secondary in their effect.

Figure 11: Price indices of some major agricultural and mineral export commodities of Africa*[xxiii]*



Lessons learnt

- The structure of African economies at independence was hugely influenced by former colonial powers, which set African countries on a difficult debt and sustainability path. This was further exacerbated by weak African government policies, partially caused by colonial power influence.
- Colonial legacies still impact African economies in the present day.

Oil crises and collapses of other commodity prices in in 1970s

Figure 11 also shows that commodity prices collapsed during multiple instances during the 1970s, which had strong direct and indirect impacts on African debt. The World Hunger Education Service (WHES) argues that the debt crisis (especially in Africa and South America) was caused by unregulated private sector lending and policies administered by international financial institutions[xxiv].

A major node in the debt crisis onset is the oil crisis of 1973, where members of the Organization of Petroleum Exporting Countries (OPEC) placed an embargo on oil prices as a geopolitical strategy to disrupt the economies of countries that supported Israel in the Yom Kippur War. Banks that benefited from the new OPEC investments began making loans to developing countries, mostly with improper evaluation as per the loan requests and usage thereafter. The oil crises led to recessions in industrialised nations, a decline in demand for and exports of raw materials from developing countries like those in Africa, increased domestic costs of production in the continent, and many countries also saw the interest on their debt rise dramatically. When the second oil price shock came in the late 1970, many African countries were unable to absorb the shock. By the end of the 1970s Africa's total external debt volume grew almost fifteen-fold[xxv], without concurrent similar sized increases in government expenditure.

Lessons learnt

- A lack of diversification of exports and export markets can lead to an over-reliance on the global price of a country's predominant export commodity, or an over-reliance on the economic status of external trade partners – both of which remain out of the control of African governments.

Debt crises of 1980s and 1990s

The 1980s and 1990s were a period during which the debt crisis had a massive effect on LICs. Many economies of the Global South defaulted on their debts, with Mexico being the first to request repayment assistance[xxvi]. The IMF and the World Bank practically oversaw the financial rescue policies that were necessary to address the mass debt crisis that erupted in 1982. Policies centered on 'structural adjustment' (mostly privatization) and 'macroeconomic tightening' (austerity measures) were suggested and applied as measures to deal with the debt crisis. These structural adjustment programs (SAPs), as a policy response are discussed further in Section 6.

Conversely, the debt crisis of the 1990s was not a mass fallout of simultaneous defaults like in the 1980s. The crisis was sequential, with multiple countries/regions across the world having economic failures from 1994 (Mexican Crisis), 1997 (Asian Crisis) right up to 2002 (Argentine Crisis). Some foundations to this were elements of the private sector, with major banks and corporations over-borrowing, as private investors, and foreign banks over-lending without checking ability to honor debt. These actions led to capital flight and massive currency speculation which contributed to the economic failures of the 1990s.

Around the same time, private investors which came to be characterized as "Vulture Funds" began to buy the debt of countries that had defaulted, and then sued the defaulting countries years later to get the funds back at much higher values[xxvii]. They effectively acted as "bailiffs" or "third party debt collection agencies" at the international level. This practice was eventually outlawed by several countries, such as the U.K., but there is a risk that similar practices might resume in future.

Box 3 below sets out the specific experience of the Asian crisis.

Box 3: The Asian debt crisis

The Asia crisis revolves around the 1997 economic collapse in Thailand, Malaysia, Indonesia, and South Korea. The currencies of these countries lost between 30% and 50% of their value, many banks became insolvent, and central banks were unable to generate foreign exchange needed to deal with international debts.

Similar to countries in Africa and Latin America, the aforementioned Asian countries had economies based on natural resource extraction which had started losing value in the mid to late 1980s. Thailand and Indonesia adopted IMF SAPs as a means of avoiding debt defaults. Privatization and deregulation of economic activities initially led to increased foreign investment, exports, and loan renewals.

Southeast Asian countries benefited greatly from Japanese Foreign Direct Investment (FDI), which enabled them to temporarily overcome IMF SAP policies and become major exporters of manufactured products to the United States in particular. However, the majority of the production of exports were under foreign control. For instance, over 90% of machinery and electrical appliances exported were from foreign controlled companies (mainly Japanese). In 1994, the Matshushita company alone accounted for 4% to 5% of Malaysian GDP.

High current account deficits were the result of these trading methods and meant that the Southeast Asian governments were under constant pressure to generate foreign exchange. Even though goods were being manufactured locally and exported competitively, resource exploitation continued apace, and migrant workers were brought in to keep wages low, as the governments searched for more drastic ways to generate foreign exchange. The Thai government's heavy promotion of the sex industry is an example of the search for foreign exchange and led to a worsening of the AIDS crisis. With the reduction of Japanese FDI in the early 90s, Thailand, Malaysia, Indonesia, and the Philippines sought to attract investors by dropping foreign exchange controls, raising interest rates, and pegging their currencies to the USD.

With improved FDI, the Thai government increased borrowing and its foreign debt increased from USD 21 billion in 1989 to USD 89 billion in 1996. However, the finances never went to productive investments, the majority went to property developers and by 1997, about half of all loans made to property developers were non-performing. Similar events took place in Malaysia, Indonesia, and the Philippines and the respective financial institutions started defaulting on their foreign loans. This led to a chain-reaction where foreign investors started removing their stocks and investments causing the inevitable crash of multiple economies. Thailand and Indonesia sought IMF assistance again and were put back on SAPs.

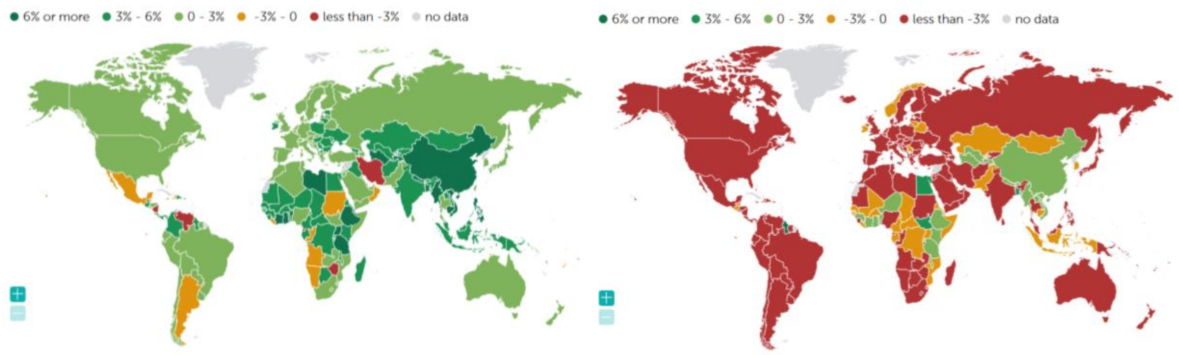
Lessons learnt

- The dependent nature of a country's export industries and the consumption desires of the wealthy class can lead to desperate measures to build foreign exchange. The financial technologies (i.e. deregulation, incentives etc.) had short term benefits but next to no long-term sustainable advantages.
- The flip-side is that government-backed deregulation in many industries encouraged cronyism and corruption. History has shown that neoliberal policies for economic recovery as proposed by the IMF and the World Bank consistently and subtly defend capitalist interests. This is usually followed with the calls for lowered private control of the major/central industries, and increased support for responsible growth models which leads to political deadlocks. Alternatives must be continuously sought after. State-capitalism and export resource-based growth strategies are not the only options.
- Africa's debt crisis was/is centered around stagnant development, while the Asian Crisis was more a result of financial speculation and failed currency protection policies.

SECTION 4: COVID-19 AND DEBT: THE PRESENT DAY

The COVID-19 pandemic has had huge impacts all over the world. At the time of writing, over 95 million cases have been reported worldwide, with over 2 million deaths[xxviii]. This health tragedy has also triggered one of the world's largest economic crises, with the virus and (individual, societal and governmental) responses to it impacting significantly on economic growth. Most global economies contracted for at least one quarter. Figure 12 shows the drastic change in GDP growth estimates between 2019 and 2020. However, it should be noted that several African nations stand out in both graphs - along with those in East and South East Asia - as having the highest growth rates in the world.

Figure 12: Global GDP growth estimates for 2019 (left) and 2020 (right)*[xxix]*



A further impact of the pandemic has been seen on unemployment, poverty, and "debt sustainability" levels (this terminology and its implications are discussed in Section 6). This section looks at forecast African growth and debt levels both pre- and mid-pandemic, while looking forward to the post-pandemic landscape.

The impacts of COVID-19 in Africa

Reduced economic growth

According to the IMF, in 2019, before COVID-19 struck, four out of the top ten fastest growing economies were African. In 2020, the IMF estimated in October that six of the top ten fastest growing economies were African. However, while the IMF has forecast that 22 of Africa's 55 countries will experience economic growth of over 4% in 2021, only three of the top ten fastest growing countries in the world will be in Africa: Libya, Mauritius and Botswana[xxx], partly due to the relatively faster economic recovery expected in the Asia region.

Indeed, the same analysis shows Africa had 3.3% and -2.9% real GDP growth in 2019 and 2020, significantly higher growth rates than every other IMF region apart from "Asia and Pacific" in each year, and higher than a "rest of world" average of 2.2% in 2019 and -6.7% in 2020. For 2021, however, Africa is forecast to grow by 3.7%, while the rest of the world will grow by 4.3%, again driven by Asia. The IMF's January 2021 Economic Outlook Update projects a 3.2% growth rate for Sub-Saharan Africa, an increase of 0.1% compared to its October 2020 projection of 3.1%. Comparatively, the rest of the world is projected to grow by 5.5% in 2021, a 0.3% increase from the October 2020 prediction[xxxi]. It therefore seems that having withstood some of the economic effects of COVID-19 over 2020, African countries may suffer more relative to others in 2021.

The challenge with forecasts like the IMF's is that while useful, they hide a great deal of specificity. Although Africa accounts for less than 4% of global investment, tourism and trade, the fact is there are many African economies that depend on all of these "flows" hugely for growth. And most of these "flows", according to various UN and international organisations, have seen great reductions since the start of the pandemic, while health and social safety net budgets have had to increase quickly.

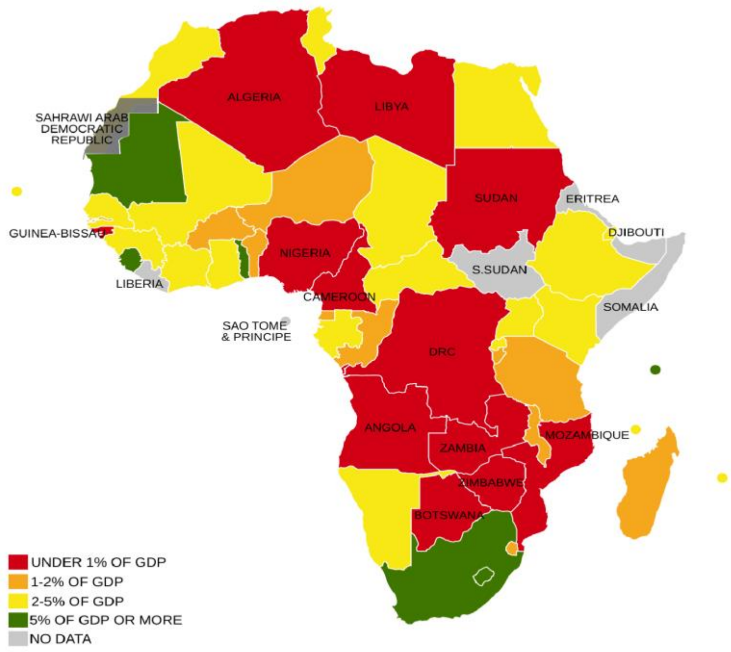
From January to October 2020, international arrivals into Africa fell 69%[xxxii]. At the same time, in last quarter of 2020, global trade is expected to be 3% lower than the same period in 2019[xxxiii]. In many African countries, trade and tourism account for significant proportions of their GDP. 19 LIC African countries' make at least 30% of GDP from the exports of goods and services[xxxiv], while 14 African countries, depend on tourism for at least 10% of their GDP[xxxv]. Some countries, on both of these lists, are particularly vulnerable, such as Cabo Verde.

Increased government expenditure

As a result of the pandemic, government expenditures across the continent have increased significantly, with funding required to meet new COVID-19 related needs – such as PPE, testing equipment, medical supplies and vaccines – as well as measures to support poor people over the COVID-19 period. Furthermore, the United Nations estimates that African countries will need at least USD 200 billion to cope with the socioeconomic costs of the COVID-19 pandemic, in addition to emergency health spending but the prospects for new inflows are limited[xxxvi]. Indeed, African governments have been increasing budgets (from USD 38 billion in April 2020 to USD 68 billion in September 2020) to support citizens and businesses.

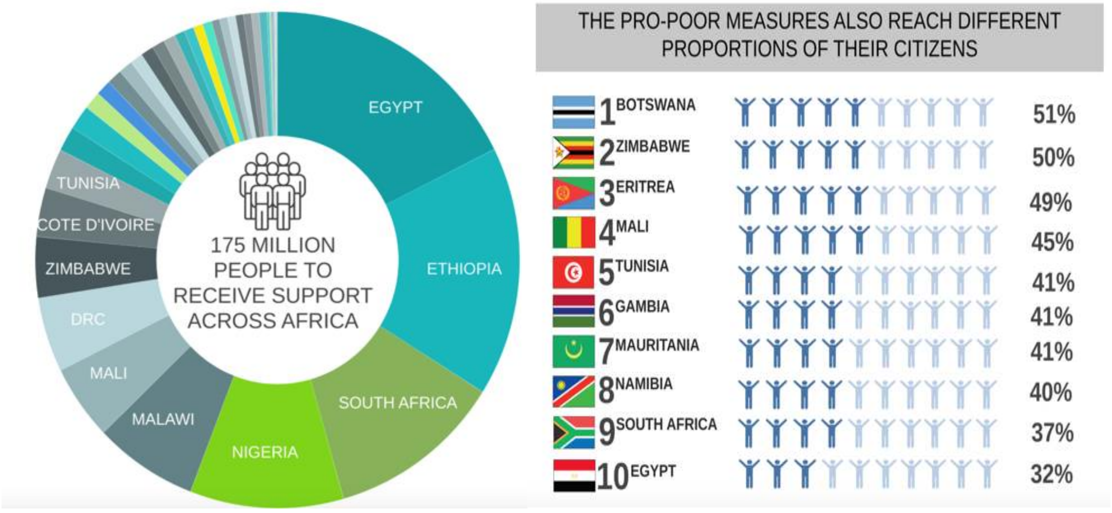
As Figure 14 shows, in some countries, the expenditure on these measures reached over 5% of GDP. However, on average they reached 2.5% of GDP, which – while important – is far below levels in other countries and regions, such as Asia, estimated at 7%, and the G20, estimated at 11%[xxxvii]. Put another way, overall, African countries planned to spend the equivalent of $51 per person on COVID-19 in 2020, if spending were evenly distributed across the continent's population.

Figure 14: African country spending on COVID-19 related support for citizens and businesses as a percentage of GDP in September 2020[xxxviii]



In addition, public information released by African governments suggest that pro-poor measures, aiming to avoid increases in poverty introduced in 2020 were aimed at reaching over 175 million African people, far more than the 40 million people the World Bank has modelled as potentially falling into extreme poverty in Africa due to COVID-19[xxxix]. However, these measures were concentrated mostly in relatively more wealthy African countries, and reached different numbers of citizens in each country, and as shown in Figure 15**.**

Figure 15: African governments pro-poor measures introduced in response to the pandemic by June 2020[xl]



Furthermore, African government spending on other measures, such as much needed infrastructure, has also been impacted. In Zambia spending on infrastructure projects will likely slow down because of pressure to reduce arrears, and there are multiple reports of stalled projects, including a USD 450 million dam[xli]. In contrast, in Nigeria, in early June 2020, the government proposed to cut the 2020 health budget by 43%, due to falling revenues from oil exports[xlii].

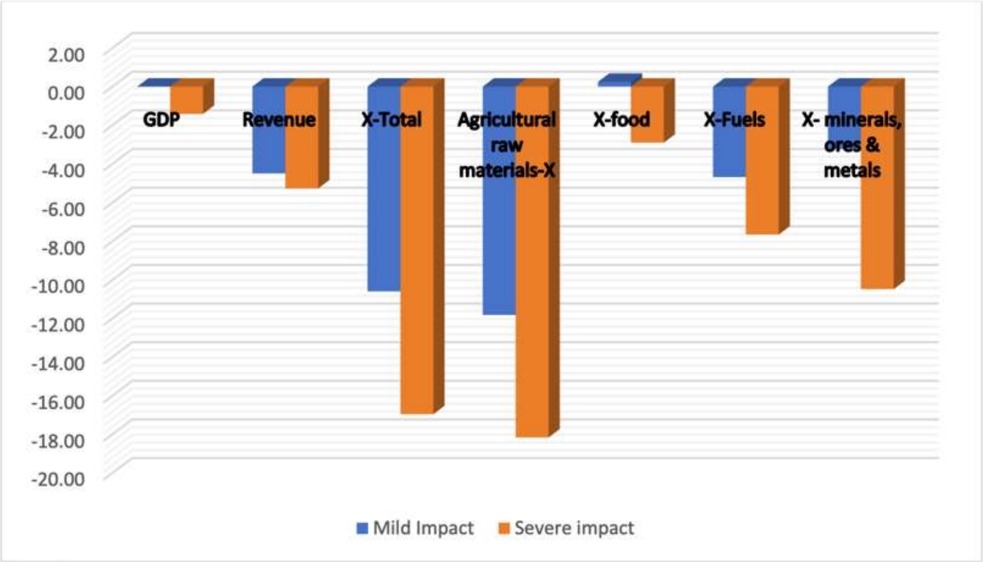
Reduced tax revenues from international flows of goods, people and finance

The impact of the COVID-19 pandemic on African governments' tax revenues is also significant. Many African countries depend on exports of raw commodities, such as crude oil and minerals, and many also generate tax from significant tourism sectors[xliii]. Income tax revenues are also low as jobs are lost due to the COVID-19-induced recessions in many African countries, as Mma Amara Ekeruche remarked in her interview with the authors, in reference to Nigeria.

Global GDP contractions from COVID-19 have resulted in a reduction in demand for, and prices of, many commodities – including oil and others which are some African countries' primary export, and the attendant losses to tax revenue which reduce the capacity of government to extend public services necessary to respond to the crisis. A regional average of about 5% in public revenue losses has been estimated in Africa, with total merchandise exports contracting by about 17%[xliv]. As shown in Figure 16, estimates suggest that exports in Africa will fall by 10.6% under the mild impact scenario which is largely a consequence of a drop in fuel exports followed by food exports. A significant decline in fuel prices will cause substantial losses in government revenue as observed both under the mild and severe impact scenarios. This deep recession will further see a drop in Africa's total exports by -16.7% with the resultant revenue losses of up to 5.3%. A significant decline in exports of agricultural raw materials would be detrimental to African economies depending mainly on this sector such as Benin and The

Gambia among others. Significant revenue declines have also emerged in the mineral sector for Sierra Leone (-7%), DRC (-6.2%), Ghana (-4.6%) and Mali (-4%).

Figure 16: Estimated aggregate COVID-19 scenario impacts on African GDP, revenue and exports % deviation from baseline *xlv*



Note: X = exports.

COVID-19 has also led to huge reductions in tourism revenues, due to lockdowns, border closures, travel restrictions, and fear of travel, this has also hampered African government's tax revenues – especially in African countries with significant tourism sectors. As stated earlier, 14 African countries depend on tourism for at least 10% of their GDP, with five countries relying on tourism for over 20% of their GDP; Seychelles, Cape Verde, Sao Tome and Principe, Mauritius and the Gambia[xlvi]. In Africa there was a -87.4% decrease in decrease in international arrivals in October 2020 compared to the same period in 2019, and the UN World Tourism Organisation's 2021-2024 forecast estimates that a global recovery to 2019 levels of international arrivals could take up to 2.5-4 years[xlvii].

FDI to Africa, though only 2.9% of global FDI in 2019, is an important consideration with Egypt, South Africa, Congo, Nigeria, Ethiopia and Nigeria all having inflows of FDI worth over USD 2 billion that year[xlviii]. The United Nations Conference on Trade and Development (UNCTAD) predicts that foreign direct investment in Africa will plunge from USD 51 billion in 2018, and USD 45 billion in 2019 , to between USD 25 billion and USD 35 billion in 2020, a contraction of between 25% to 40%, with a recovery not expected until 2022[xlix].

Growing external debt challenges

The combination of COVID-19 influenced reduced economic growth, increased government expenditures, and reduced tax revenues has led to increased debt stocks and debt to GDP ratios across the world, including in Africa.

COVID-19 therefore increases the risks of sovereign debt crises in the continent if debt is not properly managed. As the AfDB reported in its Africa Economic Outlook (2020 Supplement), many countries in Africa entered the pandemic period with existing high debt-to-GDP ratios, which are projected to increase further by up to 10 percentage points beyond the pre-COVID trajectory in 2020 and 2021[l].

It is important, however, to put these debt levels into context. First, the global context. In 2019, there were 64 countries around the world that had public debt to GDP ratio's amounting to more than 60% of their GDP. A third of these were African. However, in 2020, the only 12 countries classified as in or at high risk of debt distress are all African[li]. Is there a specific characteristic that differentiates the African nations? It is unclear.

Second, within Africa's 55 economies, only 5 African countries (specifically Cabo Verde, Mauritius, Mozambique, South Africa, and Tunisia) are currently forecast to see debt to GDP ratios above those they saw in the early 1990s when a previous "African debt crisis" was declared. These countries are often seen as African countries that can 'well manage' their debt, compared to Zambia, for example, whose debt is forecast to rise, but not as high as its peak ratio of 261% GDP in the 1990s (up to 2025).

Based on our analysis of the figures, there are also only a few African countries with particularly challenging-looking indicators, such as debt levels larger than the current size of their economies (true in only two African countries - Djibouti and Mozambique), 40% of their debt lent by the private sector (Mauritius, Nigeria and Zambia) – often lent in foreign currencies, or have current debt repayments accounting for more than 15% of the debt owed (Mauritius, Djibouti and Angola)[lii]. The vast majority of countries in Africa suffer from a lack of (cheap) finance to increase economic growth and address poverty[5].

We turn now to how avoiding debt crises while providing further finance for growth might be possible. What options do African countries and international partners have?

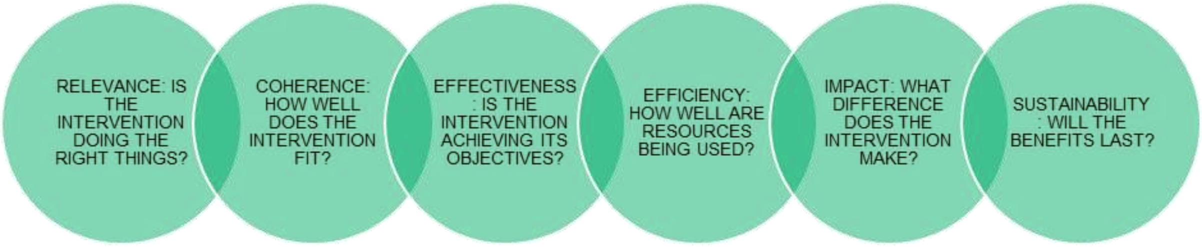
[5] For more see: African country debt guide, Development Reimagined, January 2021.

SECTION 5: ASSESSING THE OPTIONS

Before setting out and analysing the options, it is important to first set out how these options can and should be assessed and compared. In many general and corporate assessments of options, methods such as "Strengths Weaknesses Opportunities and Threats" (SWOT) analysis is used.

In international development, bilateral and multilateral donors often appraise development interventions options using a set of criteria, as shown in Figure 17[liii].

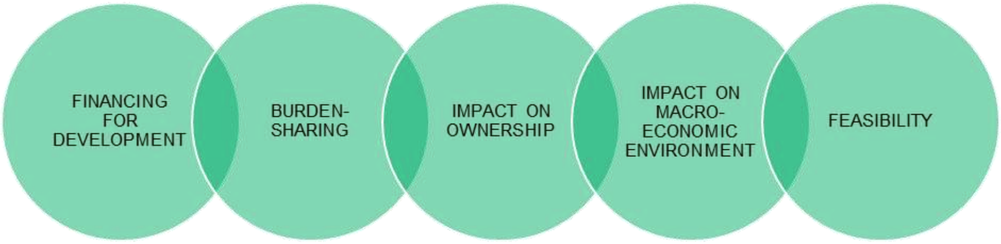
Figure 17: OECD DAC Evaluation Criteria*[liv]*


RELEVANCE: IS THE INTERVENTION DOING THE RIGHT THINGS?
COHERENCE: HOW WELL DOES THE INTERVENTION FIT?
EFFECTIVENESS : IS THE INTERVENTION ACHIEVING ITS OBJECTIVES?
EFFICIENCY: HOW WELL ARE RESOURCES BEING USED?
IMPACT: WHAT DIFFERENCE DOES THE INTERVENTION MAKE?
SUSTAINABILITY : WILL THE BENEFITS LAST?

Whilst both these frameworks are important, given we are discussing considerably long-term solutions to development, which may well involve more than one intervention and actions by those within and outside of the development sector, we have decided to create a bespoke method of assessment, drawing on both of these assessment methods.

Specifically, and bearing in mind the structure of existing debt markets as described in Section 2, lessons learnt from previous debt crises as set out in Section 3 and the particular challenges that African countries are facing due to COVID-19, as set out in Section 4, each of the options are considered and assessed against the following five key criteria, as shown in Figure 18.

Figure 18: Evaluation Criteria for the Options


FINANCING FOR DEVELOPMENT
BURDEN-SHARING
IMPACT ON OWNERSHIP
IMPACT ON MACRO-ECONOMIC ENVIRONMENT
FEASIBILITY

1. **Financing for development: To what degree does this option support or hinder African countries' long-term economic development ambitions?**

   It is of utmost importance that solutions incentivise productive loans that promote development, fulfilling high infrastructure and financing gaps required to achieve the SDGs as highlighted earlier. Prior to the COVID-19 pandemic, Africa exhibited large financing gaps for infrastructure development – and so an ideal solution would need to go beyond debt relief alone and help create environments where required access to financing future needs is incentivised. In the analysis, this criterion is scored from 1 (hinders development) to 10 (supports development).

2. **Burden-sharing: How does the burden of debt related risks fall between debtors and lenders?**

   In principle, solutions to financing challenges should allow for at least equal burden sharing between debtors and lenders, as well as within debtor and lender groups. Indeed, this principle is to some degree encompassed in the aid system already. For instance, through "concessionality" of loans (explained in Section 2). However, given that poverty tends to be concentrated in debtor countries (since richer countries have access to domestic lending), there is an argument that burden sharing should fall as little as possible on debtors. We use this latter argument as a benchmark for our assessment. Thus, a score is given for burden sharing on the debtor, with 1 representing the entire burden falling on the debtor (problematic), and 10 signifying the burden not falling on the debtor at all – instead falling either on the lender or possibly not at all. As a result we do not distinguish with this criterion whether falling on the lender or not at all is better – we explore this aspect in terms of a separate criterion (feasibility – criterion 5), however we comment on the implications for each individual option.

3. **Impact on ownership: Would debtor countries lose sovereignty?**

   Development cooperation effectiveness includes a criterion of local or country "ownership", which explores the degree to which countries receiving finance are able to direct the money to where it is most needed, rather than for example "strings attached", "conditions" or lender views on what the money should be spent on or how the money should be spent (for example, via the lender's firms or contractors). In principle, solutions to financing challenges should be acceptable to and prioritise the needs and sovereign demands of debtor country governments, citizens and institutions, and should not restrict debtor countries' ability to direct where the money goes - where possible. In the following analysis, this is scored from 1 (strongly hampers ownership) to 10 (does not hamper ownership).

4. **Impact on African macroeconomic environment: How 'stable' is this solution?**

   For a solution to really work in the long-term it needs to be "stable" – and avoid creating problems in the rest of the economy – for example if the solution increases inflation (i.e. higher prices) for goods, this can be a problem because such inflation can exclude the poorest people in the economy from accessing goods. In the following analysis, this criterion is scored from 0, representing a highly unstable solution, to 10, representing a solution that improves the country's overall economic functioning, especially for the poorest citizens.

5. **Feasibility: How likely is the option to actually happen in the future?**

   It is critical that options are practicable and achievable. If the solution requires unprecedented cooperation among debtors or lenders, for example, this option would score low (1 being unfeasible, 10 highly easy and swift to implement).

SECTION 6: THE OPTIONS

The analysis below presents, explains and appraises **ten** solutions – **three** previously utilised solutions (Options 1-3), including the G20 Debt Service Suspension Initiative (DSSI), introduced in response to COVID-19, and **seven** other entirely "new" proposed solutions for consideration and implementation by African readers and the international community (Options 4-10).

It should be noted that the first two solutions analysed (Options 1-2) were linked. To summarise briefly, Option 1, prominent in the 1980s, involved new lending from multilateral institutions to debtor countries, but with strong conditions attached to the new spending, and some extension of payment periods, but no debt write-offs. The actual debt relief initiative (Option 2), starting in the late 1980s, was combined with new lending, from the same institutions that had been advocating Option 1, but with some adjustments to the type and degree of conditions. The first part of debt write off under Option 2 involved only bilateral institutions, but eventually was extended to multilateral institutions in the 1990s, after most of Option 1 had been put into effect.

Other options set out in the paper do not have such existing linkages, although it is entirely possible that they are (and this is discussed later in the appraisal).

Beyond this designation as "previously utilised" or "new", the options are presented in no particular order.

The individual analysis against the 5 criteria outlined above are presented at the end of each Option, and aggregated "scores" are presented at the end of this entire section, before drawing conclusions and recommendations.

Previously utilised solutions

1. Bretton Woods (IMF/World Bank) structural adjustment programs (SAPs)[lv]

Consisting of loans (structural adjustment loans; SALs) provided by the IMF and the World Bank, known together as the Bretton Woods institutions, to countries that experienced economic crises, SAPs are a set of economic reforms that a country must adhere to in order to secure a loan from the Bretton Woods institutions. Structural adjustments are often a set of economic policies, including reducing government spending, opening to free trade and so on. They are designed to encourage the structural adjustment of an economy by, for example, removing "excess" government controls and promoting market competitionlvi.

In looking at solutions to the debt crisis, SAPs have had the positive effect of opening foreign investment markets and reducing inflation. On the other hand, SAPs have consistently aggravated unemployment levels due to high rates of privatization and civil service reductions lvii. SAPs have also led to environmental neglect and declined quality in health, education, and infrastructure industries. Many countries of the African continent depend on resource extraction as a source of exports, and these countries need foreign exchange to service debt. When structural adjustment programs are introduced to the mix, many operations are deregulated, and resources are exploited, with destructive impact to the land and the people who live off it. This is observed readily across Africa today.

A vicious cycle is established where currencies of developing economies are heavily devalued by adopting adjustment programs which makes them less competitive and incapable of generating real value, leading to the inability to service existing debt or interest payments and as a result, such countries have to seek external funding options, starting the cycle of borrowing all over.

The two Bretton Woods institutions require borrowing countries to implement certain policies in order to obtain new loans (or to lower interest rates on existing ones). These policies were typically centered on increased privatisation, liberalising trade and foreign investment, and balancing government deficits. The conditionality clauses attached to the loans have been widely criticised due to their effects on competitiveness, sovereignty and the social sector, with some critics arguing that they amounted to financial threats or even blackmail, and that poor nations had no choice but to comply. Examples of policies required include:

- Devaluing their currencies to reduce balance of payments deficits;
- Cutting public sector employment, subsidies, and other spending to reduce budget deficits;
- Privatising state-owned enterprises and deregulating state-controlled industries;
- Easing regulations in order to attract investment by foreign businesses;
- Closing tax loopholes and improving tax collection domestically.

Early SAPs promulgated across low- and middle-income nations during the debt crises of the 1980s. Mexico was the first country to implement structural adjustment in exchange for loans. During the 1980s the IMF and World Bank created loan packages for the majority of countries in Latin America and Africa as they experienced economic crises.lviii Since then, they have mainly distributed to Latin American, East Asian, South Asian, and African countries, including Colombia, Mexico, Turkey, Philippines, Pakistan, Nigeria, Sudan, and Zimbabwe. As of 2018, India has been the largest recipient of structural adjustment program loans since 1990.

While SAPs are no longer directly in use – it is important to note that IMF (and World Bank) instruments in use today have the potential to (conditionally) introduce the types of reforms mentioned above.

A classic criticism of structural adjustment is in dramatic cuts in the education and health sectors. In many cases, governments ended up spending less money on these essential services than on servicing international debtslix. Other criticisms includelx, but are not limited to, the following:

- Critics portray conditional loans as a tool of neocolonialism. According to this argument, rich countries offer bailouts to poor ones—their former colonies, in many cases—in exchange for reforms that open the poor countries up to exploitative investment by multinational corporations. Since these firms' shareholders predominantly reside in rich countries, the colonial dynamics are perpetuated, albeit with nominal national sovereignty for the former colonies[lxi]. The IMF and World Bank provide financial assistance to countries seeking it, but apply an economic ideology or agenda as a precondition to receiving the money. For example:
    - They prescribe cutbacks, liberalisation of the economy and resource extraction/export-oriented open markets as part of their structural adjustment;
    - The role of the state is minimised;
    - Privatization is encouraged, as well as reduced protection of domestic industries;
    - Other adjustment policies also include currency devaluation, increased interest rates, flexibility of the labour market, and the elimination of subsidies such as those for food;
    - To be attractive to foreign investors various regulations and standards are reduced or removed.

- Undermining national sovereignty[lxii]. Countries under structural adjustment program have less policy freedom to deal with economic shocks, while the rich lending nations can pile on public debt freely to ride out global economic storms that often originate in their markets.
- Poor countries must export more in order to raise enough money to pay off their debts in a timely manner. Because there are so many nations being asked (or forced) into the global marketplace—before they may be economically and socially stable and ready—and told to concentrate on similar cash crops and commodities as others, the situation resembles a large-scale price war. This can lead to the resources from the poorer regions becoming even cheaper, which favours consumers in the more developed countries. Governments then need to increase exports just to keep their currencies stable (which may not be sustainable) and earn foreign exchange with which to help pay off debts.

The combined impact of these preconditions on poorer countries can be devastating[lxiii]. Factors such as the above can lead to further difficulties for LICs and keep them dependent on developed nations. Box 4 illustrates these challenges with the case of Ghana[lxiv].

Box 4: Ghana and Structural Adjustment

In Ghana, the implementation of structural adjustments involved reducing government expenditures through cuts in social services and privatization of state-owned enterprises. Ghana also increased its production and exportation of staple products such as cocoa and timber, as well as non-traditional exports. Ghana's economic reform program was financed by more than USD 6 billion in loans from the World Bank and other institutions.

Just like other countries, the government at the time (Provisional National Defence Council - PNDC) implemented the SAP in stages. Between 1983 and 1992, Ghana implemented two major phases of SAP, locally described as Economic Recovery Program One (ERP I) and Two (ERP II). ERP I (1983-1986) was the first phase of the program, which focused on resuscitating the economy.

The goals of ERP I were numerous, but essentially aimed at stabilizing the Ghanaian economy. Stabilization was intended to halt the downhill trend in the economy, particularly in the export and industrial sectors. ERP I aimed at increasing export while discouraging exports. The stage is characterized by what has been described as the PNDC's obsession with reducing inflation, and exchange rate liberalization as an incentive to export.

In effect, ERP I was an effort to restore fiscal discipline, encourage savings and investments, and to lessen Ghana's domestic and international imbalances.

ERP II (1987-1992) focused on consolidating the gains made in ERP I. This phase attempted to integrate stabilization and economic reform. Medium to long-term goals were therefore set to achieve the following: an economic growth rate of about 5% per annum through increasing investment from about 10% of national income to 25%, increasing savings from 7% at the end of ERP I to about 15% by 1990, public sector reform through the Public Enterprise Reform Program (PERP), reduction in government expenditure, privatization of non-performing state-owned enterprises, and establishing a program to address the social cost of adjustment otherwise known as the Program to Mitigate the Social Costs of Adjustment.

Assessment of potential future utilisation of further SAPs

Aspect	Rating (1-10)	Notes
Financing for development	3	Despite providing high volume loans, in the past SAPs have hindered many aspects of development.
Burden sharing	1	The burden falls strongly on the borrower.
Impact on ownership	2	The impact on sovereignty is significant, with governments having to relinquish state assets such as utilities, and make other challenging policy reforms not in line with politics.
Impact on macroeconomic environment	2	There is significant evidence that SAPs created strong inflationary pressure, increasing inequality, uncertainty and discouraging domestic investment and saving
Feasibility	7	Having been implemented for 40 years, the institutions involved have shown that SAPs are feasible. Politically there could be challenges for recipient country governments to accept new SAPs, although new terminology may make this easier.

2. Heavily Indebted Poor Country and Multilateral Debt Relief Initiatives

In the 1990s and early 2000s, two new initiatives were introduced and implemented by lenders – offering programmes of debt cancellation and debt relief to countries considered to be in debt distress.

Heavily Indebted Poor Country initiative

The World Bank, the IMF and other multilateral, bilateral and commercial lenders began the Heavily Indebted Poor Country (HIPC) Initiative in 1996.

The programme was designed to ensure that the poorest countries in the world are not overwhelmed by unmanageable or unsustainable debt burdens. The international financial community, including multilateral organisations and governments, were meant to work together to lower to sustainable levels the external debt burdens of the most indebted poor countries.

How were the eligible countries chosen?

First step: decision point. To be considered for HIPC Initiative assistance, a country had to fulfill the following four conditions:

1. Be eligible to borrow from the World Bank's IDA, 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 subsidized rates[6];
2. Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms;

[6] In other words, the country had to be a low-income country or a lower middle-income country but also meet a number of other criteria separately determined by the World Bank.

3. Have established a track record of reform and sound policies through IMF- and World Bank–supported programmes; and
4. Have developed a Poverty Reduction Strategy Paper (PRSP). PRSPs were the reform packages introduced after SAPs.

Once a country had met or made sufficient progress in meeting the four criteria, the Executive Boards of the IMF and World Bank formally decided on its eligibility for debt relief, and the international community committed to reducing debt to a level that it considered sustainable. The decision made by the Boards could include having to make further reforms in-country. Once a country passed this stage, it could immediately stop paying some due debt service.

Second step: completion point. In order to receive full and irrevocable reduction in debt available under the HIPC Initiative, a country had to:

1. Establish a further track record of good performance under programmes supported by loans from the IMF and the World Bank;
2. Implement satisfactorily key reforms agreed at the decision point; and
3. Adopt and implement its PRSP for at least one year.

Once a country had met these criteria, it could receive the full debt relief committed at the first step (decision point).

Where has HIPC been applied?

- 39 countries were initially determined to be eligible or potentially eligible for HIPC Initiative assistance. 36 received full debt relief from the IMF and other lenders after reaching completion points.
- 3 countries have not yet reached their decision points, as shown in Figure 18**.**

Figure 18: List of countries that have qualified for, are eligible or potentially eligible, and may which to receive HIPC initiative assistance (as of Feb 2020)[lxv]

Post-Completion-Point Countries (36)		
Afghanistan	Ethiopia	Mauritania
Benin	The Gambia	Mozambique
Bolivia	Ghana	Nicaragua
Burkina Faso	Guinea	Niger
Burundi	Guinea-Bissau	Rwanda
Cameroon	Guyana-Bissau	Rwanda
Cameroon	Guyana	São Tomé & Principe
Central African Republic	Haiti	Senegal
Chad	Honduras	Sierra Leone
Comoros	Liberia	Tanzania
Republic of Congo	Madagascar	Togo
Democratic Republic of Congo	Malawi	Uganda
Cõte d'Ivoire	Mali	Zambia
Pre-Decision-Point Countries (3)		
Eritrea	Somalia	Sudan

Multilateral Debt Relief Initiative (MDRI)

To help accelerate progress toward the Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the MDRI in 2006.

The MDRI provided 100% relief on eligible debts to the IMF and MDBs including the AfDB, the Inter-American Development Bank (IADB), and World Bank for countries completing the HIPC Initiative process. For instance, the total amount of estimated ADB debts cancelled under MDRI was equivalent to USD 11.35 billion, across 25 African countries.

The eventual MDRI agreement was a compromise agreement between the United States and the Europeans. U.S. officials reportedly argued that the cost of multilateral debt relief could be borne by the institutions and did not require donors’ contributing any new assistance. However, other lenders believed the institutions should be compensated for their debt forgiveness to avoid diverting potential resources that could be lent to the poorest countries. Any debt relief, they argued, should be additional to existing multilateral assistance. The compromise plan entailed the MDBs receiving new money from creditor nations to offset their debt reductions while the IMF would absorb the cost of debt relief using internal resources. For instance, the AfDB was compensated “dollar for dollar” for the MDRI-related foregone ADB reflows over a 50-year MDRI period (2004 – 2054).

Which countries were eligible for the MDRI?

All countries that reach the completion point under the enhanced HIPC initiative were eligible for the MDRI. Moreover, to comply with a requirement specific to the IMF, that the institution's resources be used in an evenhanded manner across its membership, the IMF Executive Board agreed that all member countries (including non-HIPCs) at or below a per capita income threshold of USD 380 should also be eligible. Figure 19 provides more context on the list of eligible countries.

Figure 19: Country coverage of eligibility to the MDRI[lxvi]

	Eligible under the "MDRI-I Trust" (pre-capita income at or below $380)	**Eligible under the "MDRI-II Trust" (per-capita income above $380)**
Countries that benefited from HIPC/MDRI relief		
"Completion point" HIPCs: 36 countries that have reached the completion point under the Enhanced HIPC Initiative	Afghanistan, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, São Tomé and Principe, Sierra Leone, Tanzania, Togo, Uganda	Benin, Bolivia, Cameroon, Comoros, Republic of Congo, Côte d'Ivoire, Guinea, Guyana, Haiti, Honduras, Mauritania, Nicaragua, Senegal, Zambia
Non-HIPC countries (2) with per capita income below $380 and outstanding debt to be IMF	Cambodia, Tajikistan	
Countries potentially eligible conditional on the completion point under the Enhanced HIPC Initiative		
Chad: At the time of its HIPC completion point Chad no longer held MDRI-eligible debt and therefore did not qualify for MDRI assistance from the IMF.		
Three additional countries – Eritrea, Somalia and Sudan – could eventually be considered for HIPC debt relief, but these do not have any MDRI-eligible debt. Eritrea does not have any outstanding obligations to the IMF. Somalia and Sudan have protracted arrears to the Fund and would not have any MDRI eligible debt following the clearance of their arrears.		

Together, the HIPC and MDRI programmes relieved 37 participating countries — 31 in Africa — of more than USD 100 billion in debt.

Analysis on potential future utilisation of further HIPC/MDRI-like debt relief

Aspect	Rating (1-10)	Notes
Financing for development	5	Debt relief as an intervention does not directly provide the means for increased long term sustainable financial development. It's more reactive. In one aspect, it can open up some debt-carrying capacity in the future, but it can also damage countries' reputations (and the decision-making of future lenders), making new debt harder to access.
Burden sharing	8	The burden falls primarily on the lenders (although there may be some burden on debtors vis-à-vis damaged future debt access).
Impact on ownership	4	Debt relief came with certain conditions for example having PRSPs which were the successor to SAPs. PRSPs did not have as stringent requirements but they nevertheless included elements of public sector reform.
Impact on macroeconomic environment	6	Typically improves macroeconomic conditions, however, may have led to a higher cost of capital through expectations of future default (risk perceptions)
Feasibility	7	These initiatives have been in practice for decades and both lenders and debtors understand the requirements.

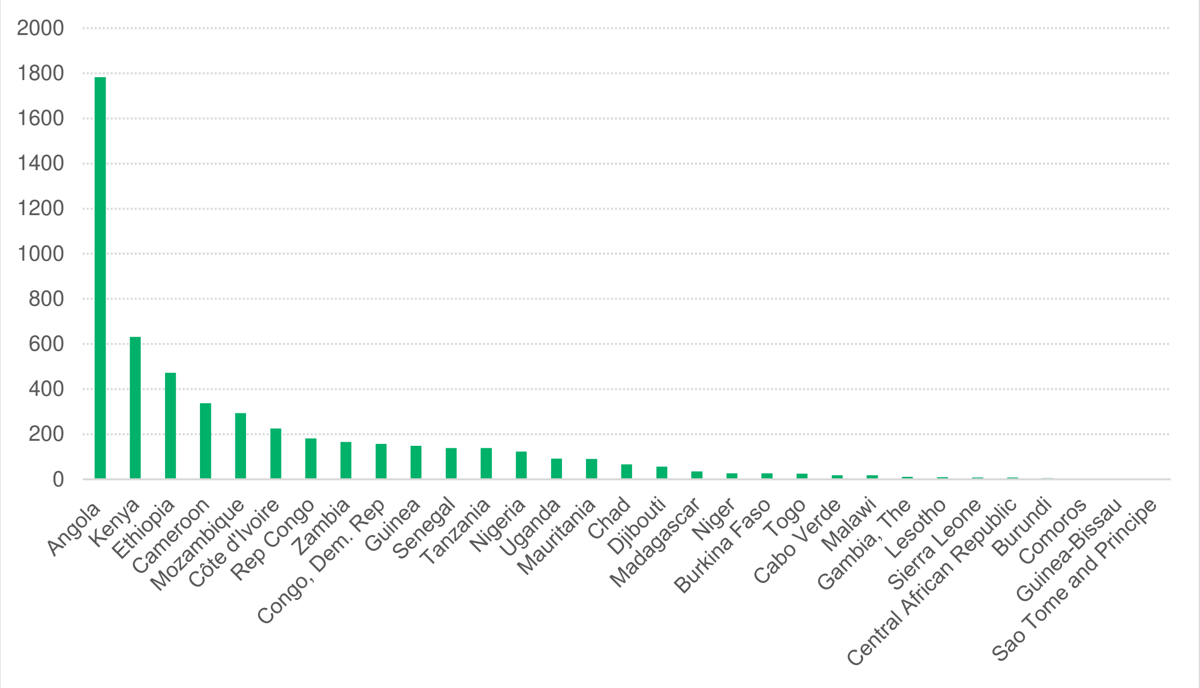
3. The 2020 COVID-19 debt relief response

In order to respond to COVID-19, African countries together put aside a total of USD 68 billion by September 2020[lxvii], equivalent to 2.5% of GDP. This was an extra unforeseen spend and therefore governments had to reprofile other budget lines, to obtain "fiscal space". One key identifiable and significant budget line was debt service repayments, including interest payments. To get an idea of scale, total debt service payments owed by African countries to the rest of the world in 2018 was USD 76.6 billion – 1.1 times more than the set aside budgets.

Postponing these payments seemed like the right way to ameliorate the situation, without affecting the countries' future ability to get finance. The G20 – the group of the 20 wealthiest countries in the world including China – thus offered support to 77 of the poorest countries in the world, 40 of whom were in Africa, to postpone the debts they owe to the G20 countries. Originally this debt suspension was offered until the end of 2020, but this has since been extended to June 2021, and could potentially be extended further. Given the relative decline in bilateral funding from many G20 countries over the last decade or so (as discussed in **Section 3**), now 71.8% of the bilateral debt service payments due in 2020 and 2021 by DSSI-eligible African nations are owed to China[lxviii], and estimates suggest significant further payments linked to the China Development Bank[lxix].

Since May 2020, DSSI has delivered about USD 5 billion in relief to more than 40 countries from a total of 73 eligible countries.[lxx] 31 out of 37 African countries have participated so far, with overall potential savings of almost USD 6 billion, as shown broken down by participating country in **Figure 20.**

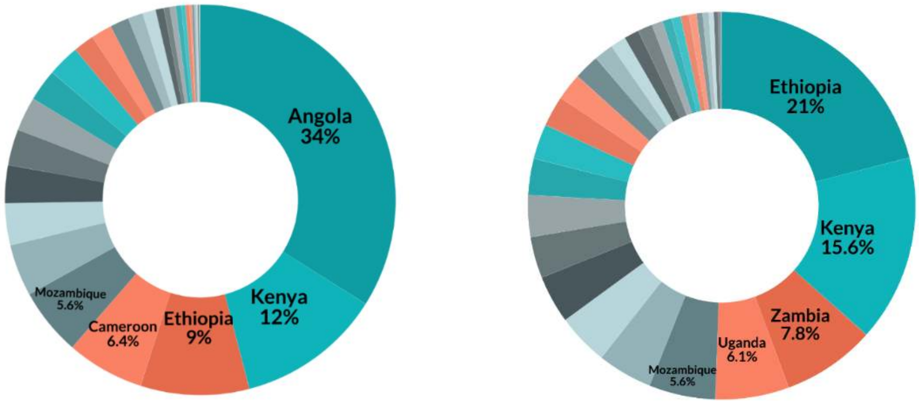
Figure 20: Potential DSSI savings for participating African countries (in USD millions)[lxxi]



However, the impact of the G20 suspension initiative is also limited for several reasons:

1. The G20 commitment did not relate to multilateral finance, who still required such payments otherwise countries would risk being ineligible for future funds. Instead, multilaterals such as the World Bank and IMF extended new finance to countries through existing instruments, the amounts and conditions for which have had to be negotiated and approved country-by-country by their respective boards. Furthermore, the majority of the new multilateral finance has been loans that will need to be paid back within 5-10 years – not grants[lxxii];
2. The G20 commitment did not relate to private sector (commercial) lenders from the G20 countries, who still required such payments otherwise countries would be labelled as going into "default". In fact, in November 2020 one country, Zambia, did not make a payment and was labelled as such. Only one (semi) commercial lender to date has openly agreed to a debt repayment holiday for any African country – China Development Bank (CDB) for Zambia (amount undisclosed);
3. The G20 commitment did not apply to 15 African countries because of arbitrary income thresholds, others were left out because they did not meet World Bank/IMF conditions for funding (i.e. Sudan, Eritrea and Zimbabwe, despite being some of the poorest countries in the world) while some of the eligible 40 African countries were also concerned about joining the initiative because of the potential to be labelled as going into "default" or "distress", simply by requesting a payment holiday; and
4. The G20 commitment was highly skewed towards supporting countries that had large debt payments – not necessarily those that had the most challenges in terms of fiscal space (due to, for example, slower growth) nor COVID-19 health challenges. For instance, as Figure 21 demonstrates, 34% of African debt that has been postponed has been for Angola, yet Angola only accounts for 3% of the total African DSSI-country COVID-19 cases (19,672 cases as of 1st February 2021). Comparatively, Ethiopia has the highest number of cases at 135,594, yet its debt suspension only equates to 9% of the regions total.

Figure 21: The proportion of the total relief available via DSSI to African DSSI-recipient countries by country[lxxiii] (left); the proportion of COVID-19 cases in DSSI-recipient African countries[lxxiv] (right)



5. The G20 commitment initially only applied to 2020.[lxxv] In November 2020, it was extended to June 2021. However, the degree of uncertainty a short-time commitment creates can be enough to stop governments fully utilising the "fiscal space" created. The G20 countries have said they will decide if another six months of extension is needed in April 2021[lxxvi]. Indeed, debt servicing payments are projected to be higher in 2021 than 2020, putting further pressure on governments[lxxvii].

Analysis on potential future utilisation of further DSSI debt suspension

Aspect	Rating (1-10)	Notes
Financing for development	5	Debt suspension as an intervention does not directly provide the means for increased long term sustainable financial development. Though it does create immediate fiscal space for COVID-19 related development financing (especially with regard to health), it is more of a short-term reaction. However, no relief – "default" or "distress" can affect eligibility for future lending, so the counterfactual is important to keep in mind. The current DSSI also only covers a proportion of debt service payments made.
Burden sharing	5	The burden is short-term on the lenders, but in the longer-term falls on borrowers to find the means to make up payments.
Impact on ownership	6	Some impact on ownership due to having to be eligible for finance from multilaterals and other transparency requirements set out by the G20 in an Annex to the initiative.
Impact on macroeconomic environment	5	Creates fiscal space to avoid default, but can also create higher risk as future payments rise or if comes with austerity conditions
Feasibility	10	Two rounds of DSSI have already completed, with more potentially in the pipeline, meaning it is very feasible from bilateral lenders points of view. However, it is still infeasible for most private sector and multilateral lenders.

Proposed new solutions to reforming the global debt system to meet Africa's needs:

4. Special drawing rights issuance/reallocation

Special drawing rights (SDRs) were created by the IMF in 1969 and were intended to be an asset held in foreign exchange reserves under the Bretton Woods system of fixed exchange rates. Created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts, SDRs augment international liquidity by supplementing the standard reserve currencies. Some key points on SDRs:

- SDRs are defined and maintained by the IMF.
- SDRs are units of account for the IMF, and not a currency *per se*. They represent a claim to currency held by IMF member countries for which they may be exchanged.
- An SDR is essentially an artificial currency instrument used by the IMF, and is built from a basket of important national currencies.
- The IMF uses SDRs for internal accounting purposes.
- SDRs are allocated by the IMF to its member countries and are backed by the full faith and credit of the member countries' governments. The makeup of the SDR is re-evaluated every five years.
- The SDRs are allocated to countries based on their quotas – which are in turn determined by their shareholdings in the IMF. Therefore, the vast majority of SDRs are held by the wealthiest countries. For instance, African countries together are allocated approximately USD 18.7 billion of SDRs. To put this in context, the total SDRs allocated to African countries are equivalent to 9% of SDRs allocations to the G20 countries together.

Since they were created, there have always been proposals – including discussed at the UN – to allocate SDRs disproportionately to developing countries, as a potential form of development finance[lxxviii]. However, this has never been done. Instead, SDRs have been used in crisis aversion – specifically around the 2008 global financial crisis. In September 2009, after five months of deliberation and in response to G20 statements in April 2009, an additional SDR 187.2 billion were created (equivalent to newly creating USD 117 billion – and equivalent to over twice the value of SDRs allocated to the US, or just over half the value of SDRs allocated to the G20) in order to inject liquidity into the global economy and ease financial pressure. Since the new allocation was distributed according to quota, the larger shareholder countries of the IMF benefitted the most from the new allocation.

Due to COVID-19, two proposals have arisen with regards to SDRs.

One proposal is to reallocate a substantial quantity of SDRs held by countries that do not need them right now to low- and middle-income countries that do need them – including African countries. For instance, not all countries "used" the extra liquidity injected in 2009. Some countries have additional "reserves" of SDRs holdings, which could potentially be donated without harming their currency status.

The second proposal is for the IMF to instigate a new issuance, as was done in 2009. There have been proposals for a new issuance of at least USD 500 billion to USD 2 trillion equivalent of new SDR issuance in response to COVID-19, which is significantly larger than the 2009 amount.

Broadly, as an unconditional resource allocated on a transparent basis, both proposals could provide the following benefits:

- This could act as a cost-effective response to COVID-19 related debt, liquidity and financial pressures, without exposing African countries (in particular) to risks of credit ratings downgrades or constrained access to private capital.
- New issuance of SDRs would increase African countries' levels of foreign exchange, reduce African countries' exposure to exchange rate and commodity price volatility, simultaneously improving investor confidence.
- Could benefit both DSSI-eligible low-income African countries, as well as those nations that are ineligible and/or opt out of the DSSI scheme.
- SDR issuance would reduce the risk of liquidity problems in African countries and give them financial means to address the pandemic and its effects, when their governments lack the fiscal space nor the privilege of issuing reserve currencies.

However, it is unclear whether either of these proposals would be sufficient.

With regards to reallocation, while some G20 countries such as the US, China and Japan do have some reserves, others have used their allocations to the degree that overall holdings by the G20 are larger than allocations (i.e. several G20 countries have borrowed against their allocations). In addition, the amounts are not particularly significant – the surplus of the 5 G20 countries adds up to just over USD 6.3 billion, though arguably this could be leveraged if combined with other IMF concessional instruments.

Figure 22: Unused SDRs of different countries versus Africa[lxxix]

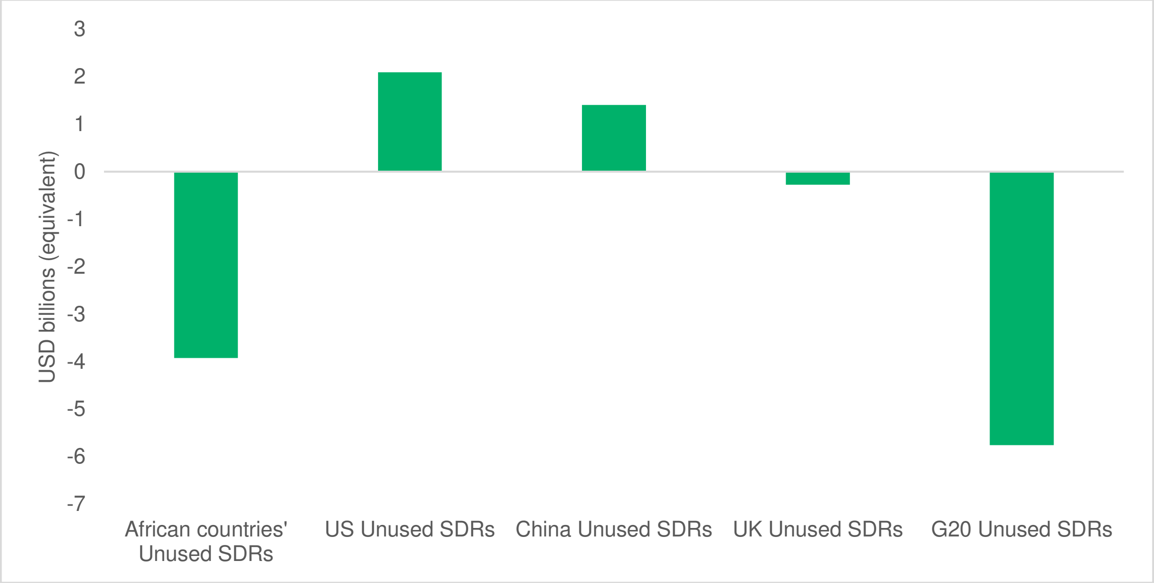
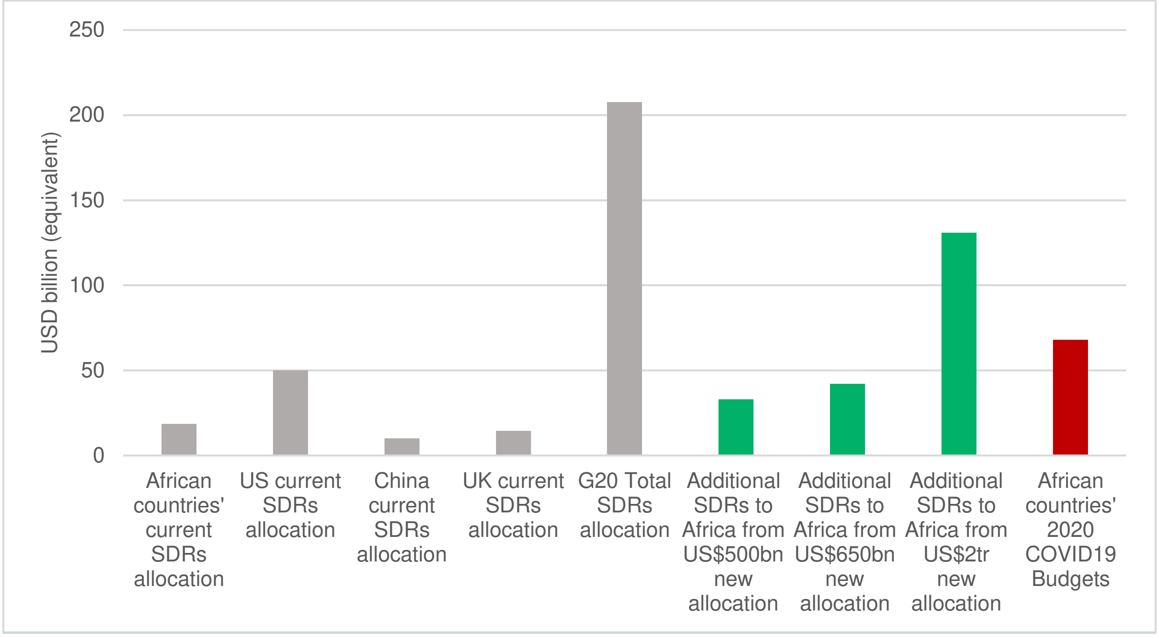


Figure 23 below shows simulations of the resulting allocation of such "large" SDR issuances for African countries in aggregate would come to versus COVID-19 budgets set aside by African countries in 2020. As is clear, since the 55 African countries in total account for just 7% of IMF allocations, the result of some fairly large allocations are insufficient on their own to meet even short-term African financing needs.

Figure 23: Allocations of SDRs of different countries and new issuances versus African COVID-19 budgets[lxxx]



There are also pros and cons to both approaches, especially as regards feasibility. In particular, issuing new SDRs requires a resolution of the IMF's Board adopted by an 85% majority of the votes. The United States alone casts 16.5% of the votes, and anything larger than a 650 billion allocation requires Congress approval[lxxxi]. Thus 650 billion may act as an unofficial ceiling. Congress approval is also unlikely to be required for re-allocation.

In terms of feasibility, especially as far as concerns SDR reallocation (first proposal) bilateral swap lines could play a role. In 2018, China and Nigeria announced a three-year swap of RMB 15 billion (equivalent to USD 2.3 billion), seeking to, *inter alia*, make available liquidity in their respective currencies for the facilitation and promotion of trade and investment across the two countries. These types of swap lines by China or other partners with African countries with foreign exchange challenges related to trade could be further extended, for instance immediately after a new SDR allocation.

Another possibility is that with a new allocation of SDRs, high-income countries could donate non-SDR reserves, equivalent to their share of the new allocation, to a new special purpose fund to support African and/or other lower income countries which need the support[lxxxii] - for example as discussed in Option 8 further below. A further possibility is to allocate non-SDRs to enlargen existing IMF instruments to then disburse to low-income countries, such as the Poverty Reduction and Growth Trust[lxxxiii]. However, this raises challenges in relation to conditionality/austerity, as discussed under Option 1 earlier.

Finally, there are also views that a more long-term democratisation of SDRs would open up the power of Central Banks beyond the countries home to major international reserve currencies. The pandemic has highlighted global inequalities on many fronts – including within the current global financial architecture. Reforming this would better prepare governments in Africa and all over the world for future crises mitigation and management.

Analysis on potential future utilisation of SDRs issuance/reallocation

Aspect	Rating (1-10)	Notes
Financing for development	6	SDRs have in the past and are currently being considered as a short-term solution, however in principle their allocation can also be used as a longer-term measure.
Burden sharing	8	The burden of reallocation or new issuance would in particular fall on those countries that hold most SDRs in the IMF.
Impact on ownership	7	SDR issuance would have little to no impact on ownership as there is no current means of withholding SDRs for certain countries based on certain conditions, or "strings" attached.
Impact on macroeconomic environment	8	Highly likely to improve macroeconomic conditions by enabling domestic quantitative easing and lowering interest rates for public and private sector activity
Feasibility	5	Some countries – including China – have already urged the IMF to consider a new allocation. However, the United States, for example, currently objects[lxxxiv]. It is unclear whether redistribution might be feasible.

5. Reform/regulation of private sector risk perceptions analysis

All countries – including African countries - are subject to risk perceptions analysis, by various actors, both private sector as well as intergovernmental. Any index or assessment of certain capacities brings with it a judgement of risk or opportunity. Many countries compete to be "higher" on certain rankings, for instance the World Bank's Ease of Doing Business Index is widely used by the private sector[lxxxv], while as mentioned in earlier sections, the World Bank's CPIA is often used by bilateral donors in deciding country priorities for aid and loans[lxxxvi].

Credit rating agencies (CRAs) are organisations that do this professionally and independently. Indeed, one of their key benefits is that they are not owned (and putatively not controlled) by state actors. There are three particular CRA's which dominate the industry under the designation of the United States' Nationally Recognized Statistical Rating Organizations (NRSROs), and have developed what amounts to a global oligopoly in the industry. They are: Standard & Poor's Credit Market Services (S&P), Moody's Investor Service, and Fitch Inc. The United States Securities & Exchange Commission (SEC) in 1975 created the concept of NRSROs to designate agencies whose credit ratings would comply with investor-oriented interests as stated by the SEC[lxxxvii]. Being market participants, and even though they (CRAs) routinely state that they are publishers of financial opinions only, their credit ratings are far more valuable than the opinions of governments, multilaterals or the most prominent financial publishers and journalists[lxxxviii], with wide ranging and global influence on debt decisions – including those made for African countries.

Over the last two decades, more African countries have been able to join in the sovereign debt system[lxxxix]. In the early 1990s, thre was just one African country with a sovereign credit rating – South Africa[xc]. Even as recently as 2006, 28[xci] African countries were "unrated". Now 32 out of the 55 African countries have one or more ratings from the three CRAs[xcii]. The results of CRA analyses are made available to investors, portfolio managers, and other actors on the buy/sell-sides of the financial market.

Through credit 'outlooks' and 'watches', financial regulators and lawmakers increasingly make decisions based on credit-rating criteria. Minimum quality standards of investment and the eligibility of debt issuers for access to financial instruments are influenced by these ratings and this means that CRAs have a quasi-regulatory role in the securities market[13]. In this sense, ratings have been helpful to African countries, enabling them to secure certain types of private sector finance as well as reducing some of the risks and therefore costs of borrowing from the international private sector.

However, there are four key challenges CRAs pose for African countries in particular.

First, CRAs' global influence was brought to the forefront after the 2008 financial crisis because of the shortcomings of financial regulatory frameworks and investors whose decision criteria are hardwired into credit ratings[xciii]. A 2011 US congressional financial crisis report found that Moody's and S&P's triggered the 08' crisis when they were forced to downgrade the inflated credit rating they had initially assigned to poorly performing mortgage-backed securities[xciv]. It was also shown during the 1998 Asian Financial Crisis that CRAs can reinforce boom-bust cycles of economies where capital markets react to ratings in terms of investments and credit levels which then systematically influences ratings usually for the worst in the case of developing economies[19].

Second, a particular issue is around the prevailing 'issuer-pays' business model involving CRAs being paid directly by debt issuers who they in turn rate, a conflict of interest since the 1970s. Additionally, approximately 90% of CRA revenues come from debtors who pay for ratings with service fees reaching USD 2.4 million[xcv]. The conflict of interest is further expressed through the 'revolving door' of officials between credit rating agencies and other financial institutions. For example, WorldCom had the same director serve in Moody's and received good ratings although its securities were at non-investment grade ratings[18]. The implication here is that countries with poor debt profiles pay for the ratings and the indirect 'pay-to-win' model still leaves them in a lose-lose situation because the new negative rating subverts any chances of sustained recovery from a financial standpoint.

Third, credit rating agencies consistently use several empirical variables to determine 90% of the variations in credit ratings, including but not limited to; GDP per capita, GDP growth, inflation, the ratio of non-gold foreign exchange reserves to imports, the ratio of the current account balance to GDP, and debt default history as well as the level of economic development. Additionally, the ratings of developing countries are negatively effected by two more variables - increases in international interest rates and the structure of exports and their concentration[xcvi]. This means by design, African countries are on the backfoot when it comes to debt sustainability when considering the conditions under which their credit ratings emerged, most during the 2000s after debt relief and structural adjustment efforts.

Fourth, future policies of developing economies are impacted by credit rating downgrades, as access to credit is further limited and the cost of borrowing is increased. Reformist policies to address structural problems can either not affect ratings or even move in the opposite direction. Indeed, to avoid further downgrades, countries often seek policies to serve short-term creditor concerns at the expense of long-term sustainable development, keeping them in a vicious cycle of deprioritizing structural solutions for immediate band-aid policies. As a key example of this during COVID-19, the CRAs were criticized by the UN for downgrading four African countries immediately after joining the DSSI initiative, thus stimulating higher risk premiums[xcvii]. Others initially did not join DSSI for fear of their ratings being downgraded[xcviii]. The US Financial Stability Board published 'Principles for Reducing Reliance on CRA Ratings' in October 2010 and noted that credit ratings are intertwined with regulatory/investment judgments meaning that small rating changes kickoff large sales thereby worsening already bad situations[xcix].

Partly as a result of these four challenges, the COVID-19 crisis inspired the Africa Union’s Peer Review Mechanism (APRM) to launch its first sovereign credit rating review report. The main criticisms raised against CRAs are: Lack of competition, Lack of accountability, and Ratings triggers (i.e. by downgrading a country’s ratings, liquidity can be compromised causing loss of investor confidence and demotion in creditworthiness).

Proposals to deal with CRA related issues would ideally tackle benefits related to conflict of interests and impose a real threat of liability in cases of misconduct. Some structures have been put in place to address conflicts of interests (especially the ‘issuer-pays’ model) although adherence is negligible. Concrete plans could also be made to reduce the over-reliance of investors on ratings, and to break the oligopoly situation, which can be argued to be anticompetitive, especially in the real economies of ‘developing’ countries, especially African, where few other entities have powers.

Index providers

Similarly, in recent years, with the rapid growth of passive investment in tracker funds, the role of index providers in African countries’ financial landscape is significant. Formerly, investors gave their money to funds where a well-paid fund manager was picking stocks (or bonds) with the aim to produce above average returns – to “beat” the market in finance parlance. But now more and more investors invest in cheap passive funds (which comprise both exchange traded funds and index mutual funds) that merely track financial indices. Unlike actively managed funds, however, the passive index funds industry is characterised by enormous economies of scale – in terms of technology it is not a big difference if a passive fund has USD 10 million or USD 10 billion assets under management. BlackRock, Vanguard and State Street dominate passive funds as the “Big Three”, and they effectively delegate their investment decisions to a small group of index providers, which own, construct and maintain the key global benchmark indices - S&P Dow Jones, MSCI and FTSE Russell.

Reclassification between different indices can have significant impacts on a country’s flows of capital. For example, moving from MSCI’s Frontier Markets Index, tracked by assets worth USD 14 billion, to its Emerging Markets index, which serves as a benchmark for assets under management worth USD 1.8 trillion. Turkey, was put on a “watchlist” for possible exclusion from MSCI’s Emerging Markets Index. This is expected to trigger about USD 5 billion in total outflows from Turkish equities, including about USD 2-3 billion from passive investment funds that automatically track the index.

The index providers’ decision-making in classifying which indexes rests upon their own assessments of criteria such as market accessibility and are based on qualitative measures that MSCI (and other index providers) reviews for all markets at least once a year, giving index providers a high degree of discretion and “ample space for subjective judgement on whether certain countries should be considered frontier or emerging markets,[c]” thereby wielding significant influence.

Analysis on potential future utilisation of reform/regulation of private sector risk analyses

Aspect	Rating (1-10)	Notes
Financing for development	6	Reform to how African countries' credit is rated could be very consequential for their future access to debt and future development path.
Burden sharing	10	Reform to intermediaries in the global debt system, as opposed to lenders themselves or debtors should not impact the burden sharing balance.
Impact on ownership	8	This option presents very little impact on ownership, and in fact could lead to an increase in sovereignty as countries are able to counter negative risk-perceptions more easily.
Impact on macroeconomic environment	6	Changing cost of borrowing through better risk assessment can reduce interest rates for public and private sector activity
Feasibility	3	Major changes to this key part of the dominant international financial infrastructure will be difficult – CRAs are integral to the continued status of the USD as a dominant currency in the global financial market. The discussion on index providers is still immature. However, regulation is possible, for instance via US or UK markets where most CRAs operate.

6. Reform of established debt sustainability frameworks

The IMF and World Bank together approved a new Debt Sustainability Framework for Low-Income Countries (LIC-DSF) in 2017, with the framework "*designed to guide the borrowing decisions of LICs in a way that matches their financing needs with current and prospective repayment ability*", and "*help guide countries and donors in mobilizing the financing of LICs' development needs, while reducing the chances of an excessive build-up of debt in the future*[ci]."

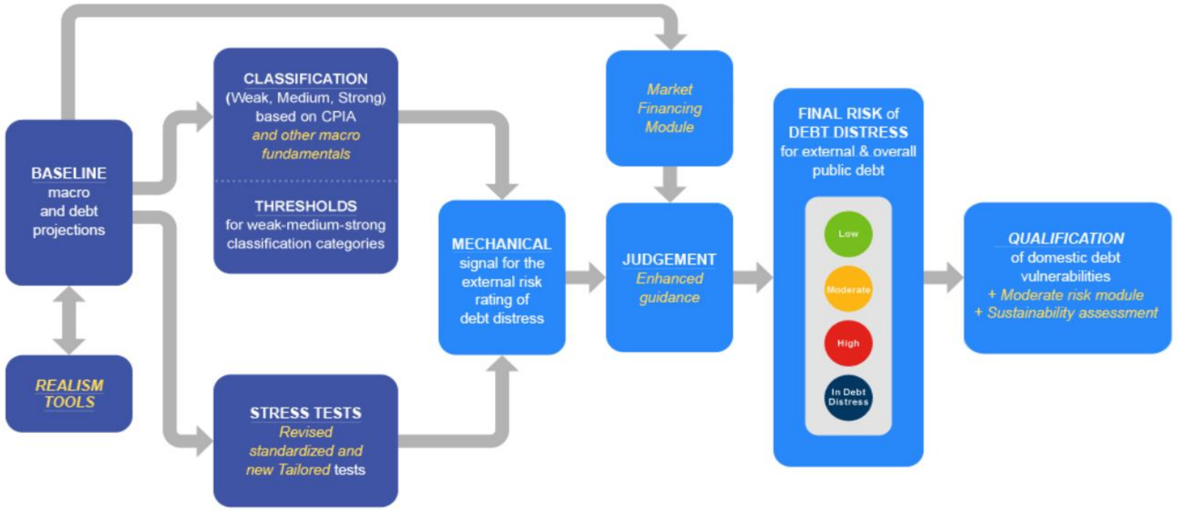
Under this framework, the IMF currently defines debt sustainability as follows: "*A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default*[cii]."

As noted earlier, however, debt sustainability analysis is conducted exclusively for poor countries. The analysis follows the chart shown in Figure 24, and consists of:

- a composite indicator to assess country's debt-carrying capacity drawing on a set of country-specific and global factors (including institutional strength using the World Bank's CPIA score);
- realism tools to facilitate closer scrutiny of the baseline projections;
- a standardized forward-looking analysis of the debt and debt service dynamics under a baseline scenario and in the face of plausible shocks, where the scale and interactions of shocks are calibrated to country experience;

- tailored stress tests to better evaluate country-specific risks stemming from contingent liabilities (consistent with the coverage of public sector debt), natural disasters, volatile commodity prices, and market-financing shocks; and
- modules that provide a richer characterization of debt vulnerabilities (from domestic debt and market financing) and better discrimination across countries within the moderate risk category.

Figure 24: LIC-DSF process diagram[ciii]


BASELINE macro and debt projections
REALISM TOOLS
CLASSIFICATION (Weak, Medium, Strong) based on CPIA and other macro fundamentals
THRESHOLDS for weak-medium-strong classification categories
STRESS TESTS Revised standardized and new Tailored tests
MECHANICAL signal for the external risk rating of debt distress
Market Financing Module
JUDGEMENT Enhanced guidance
FINAL RISK of DEBT DISTRESS for external & overall public debt
Low
Moderate
High
In Debt Distress
QUALIFICATION of domestic debt vulnerabilities
+ Moderate risk module
+ Sustainability assessment

The assessments are calibrated in reference to previous episodes of debt distress for groups of countries with similar economic characteristics. The calibrations lead to debt sustainability analysis thresholds for key public debt indicators that signal higher risk if that indicator exceeds (or is expected to exceed) its threshold" but can also be "based on historical experience." The IMF's frameworks consider the degree of uncertainty in the projections of the debt and debt service indicators through fan charts and stress tests.

The IMF (and World Bank) argue that key empirical findings show that low-income countries with better policies, institutions, assets, and macroeconomic prospects can sustain higher levels of external debt. The DSF, utilising the CPIA framework, classifies countries into one of three debt-carrying capacity categories (strong, medium, and weak). Corresponding to these categories, the framework establishes three indicative thresholds and a benchmark for each of five debt burden indicators (assessed in terms of GDP, exports, and revenues). Thresholds corresponding to strong policy performers are highest.

Figure 25: Debt Burden Thresholds and Benchmarks Under the LIC-DSF[civ]

	PV of external debt in percent of		External Debt service in percent of		PV of total public debt in percent of
	GDP	Exports	Export	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	50	240	21	23	70

On the basis of these thresholds and benchmarks, as shown in Figure 25, sustainability analysis under the LIC-DSF give an assessment of the risk of external and overall debt distress based on four categories:

- Low risk (when there are no breaches of thresholds);
- Moderate risk (when thresholds are breached in risk scenarios);
- High risk (when thresholds are breached in the baseline scenario);
- In debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

There are several problems with this approach, both structurally and analytically.

First, and structurally, a major concern is the restriction to assessment of only poor countries, which means that by default, disproportionally African countries are assessed publicly as "in or at risk of debt distress" compared to the rest of the world. As noted earlier in **Section 4**, at the beginning of 2021, the only 12 countries out of the 64 countries globally with public debt levels higher than 60% in 2019 that the IMF classified as at "high risk of" or already "debt distressed" were African. This in itself provides a negative signal to investors and others about the potential for development in poorer (African) countries and can negatively impact their potential future access to (cheap) finance for development.

Second, the use of thresholds itself has elements of a "self-fulfilling prophecy"[cv]. The basis for using thresholds is both theoretical and evidence based. In economic theory, returns on investment tend to fall as the quantity of investment increases – a decreasing marginal return, which can be an argument for thresholds. More practically, a large majority of studies on the debt-growth relationship find a threshold somewhere between 75 and 100% of GDP[cvi] and argue that large increases in the debt-to-GDP ratio could lead to much higher taxes, lower future incomes, and intergenerational inequity. Many argue that there is a so-called cliff where the private sector is "crowded-out" by high public debt. However, the fact of having a perceived "threshold" itself, unless well understood can itself send signals to the private sector (and CRAs – as discussed in earlier sections) to respond negatively. Economists describe this as an "endogeneity" and "asymmetric information" problem, and it is difficult to overcome.

Third, and relatedly, the DSF does not take into account the composition and quality of government spending. Indeed, debt sustainability should look very different if debt resources are used for "recurrent expenditure" – such as salaries of civil servants or health or education workers, or big, one-off investments in infrastructure which may have their own "growth spillovers". While broad references are made in some IMF documents to the impact of different types of spending[cvii], the current country-by-country framework itself has no way of formally (if at all) distinguishing between the two types of spending – when the sustainability implications are very divergent. For instance, in a webinar on Africa-China debt issues, ProfessorChristoph Trebesch, Director of International Finance and Global Governance at Germany's Kiel Institute for the World Economy who has conducted research with the IMF into the volume of Chinese loans in developing countries stated: *"I'm a big fan of combining assets and liabilities. But why the IMF for example does not in its debt sustainabilty analysis include data on assets is that there is no good data on assets*"[cviii]. Furthermore, some analysts acknowledge the different contexts in which debt can *induce* growth[cix]. Others also acknowledge that much analysis of thresholds has been done in developed/transition country contexts, such as EU Member States[cx].

Fourth, although it purports to, the framework has no way of taking into account the future public investment (and often debt) needed in infrastructure and human capital to meet the SDGs. The need for new debt investment to meet infrastructure gaps in particular clashes with this – even in the best governed African LICs[cxi]. In 2018, the AfDB estimated Africa's infrastructure financing needs at up to USD 170 billion a year by 2025, with an estimated external financing gap of up to USD 68-108 billion a year.[cxii] This does not even take account of public (or private) financing needs to meet non-infrastructure SDGs – such as certain aspects of education or health – nor the increased needs for digital access to trade and services in a post-COVID-19 age. It also does not include finance for dealing with the "grey rhino" of climate change mitigation and adaptation. A debt sustainability framework that has the potential to mark down countries that might be making investments now to meet these needs clearly is not "sustainable" in a holistic manner.

Fifth, the DSF does not have sufficient flexibility for country-specific characteristics. For example, the debt thresholds are calculated using a LIC-average GDP growth rate and with just three categories (weak, medium and strong) for the CPIA score, rather than a continuous variable. This methodology ignores potentially useful information. Why search for debt thresholds rather than say thresholds for the probability of debt distress itself? The desire to produce debt burden thresholds has muddied the question of how to aggregate information when the different debt burden measures convey conflicting information[cxiii].

Sixth, while the IMF has been focused most strongly recently on trying to ensure countries include contingent liabilities of banks and state-owned enterprises in their debt numbers (which can often "uncover" more Chinese debt due to tied aid or resource backed loans), other criteria and indicators could also be included – such as a thorough analysis of public debt by "quantifying variables that drive debt relative to GDP: primary fiscal deficits and the interest rate-growth differential, as well as exchange rate risks, since over half of the debt is denominated in foreign currency. Also missing are market signals on default and devaluation risks, such as Eurobond spreads or interest rates on local debt in excess of inflation targets that are relevant given the big shift to market debt[cxiv].

Seventh, the DSF uses the present value (PV) of debt, rather than the nominal value. Today, nominal debt seems more appropriate because of the profusion of different types of public debt at different interest rates – including official concessional debt, domestic market debt, Eurobonds, and non-concessional bilateral loans. But it is their weighted average that is relevant for debt dynamics.

Eighth and finally, the specific use of the CPIA – a tool primarily used to measure and rank the ability of countries to make effective use of aid, not debt, also presents problems. The CPIA does not directly reflect specific criteria such as poverty reduction, school enrolment, maternal health, etc; nor does it directly rest on proxy outcome variables such as GDP, export or investment growth rates. The CPIA instead relies on the subjective judgments of technical analysts, and as such can be subject to major biases and lack of in-depth information.

Analysis on potential future utilisation of reforming established DSFs

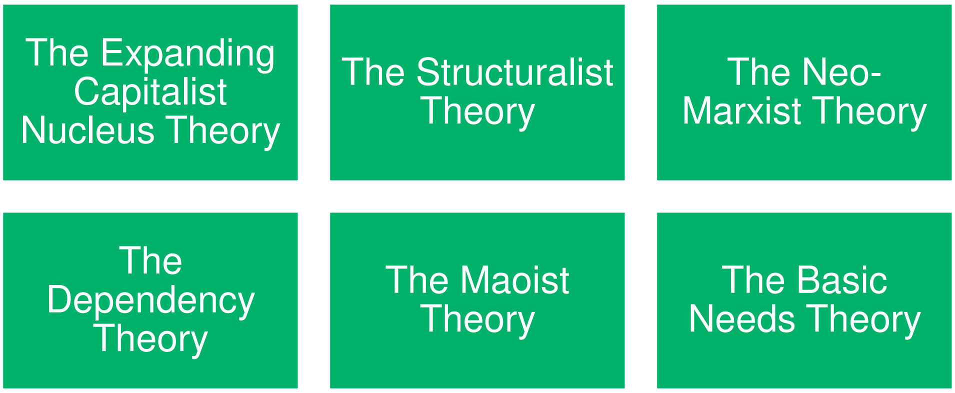
Aspect	Rating (1-10)	Notes
Financing for development	8	Reform to debt sustainability frameworks to take account of future financial needs would impact strongly on countries' future access to debt and future development path.
Burden sharing	10	Reform to assessment in the global debt system, as opposed to lenders themselves should not impact the burden sharing balance.
Impact on ownership	8	This option presents very little impact on ownership, and in fact could lead to an increase in sovereignty as countries are able to utilise debt finance in a more agile manner.
Impact on macroeconomic environment	7	Changing African sustainability rankings can reduce interest rates for public and private sector activity, and feed into other risk assessment
Feasibility	5	Major changes to this integral way of working of the IMF will be difficult and long-term, however it is targeted and an independent review process could be initiated as a first step.

7. Reform of World Bank/MDB approaches to development

The World Bank, and the approaches to development it takes, play an important role in the narrative, structure and effectiveness of global development policies and initiatives.

As background it is important to be aware that there are many, competing approaches to development that exist. For instance, Professor Diana Hunt in 1989[cxv] categorised six different potential theories of how development takes place. They are listed in the diagram below:

Figure 26: Hunt's 6 Categories of Development Economics Approaches



The Expanding Capitalist Nucleus Theory

The Structuralist Theory

The Neo-Marxist Theory

The Dependency Theory

The Maoist Theory

The Basic Needs Theory

Without explaining each type of theory, the key point to note is that each theory has different views on the "ultimate causes of underdevelopment, the key factors that stimulate economic development and the role of technology, the role of government, market and other institutions in the development process, and the implications for equality in the early stages of development"[cxvi].

The World Bank, as a major institution in the development sphere, that does not only provide loans to developing counties but also provides a great deal of "capacity building" to utilise these loans and institute development policies is a highly influential actor in utilising and advancing one or more of these theories in practice in poorer countries. For instance, Howard Stein argues that the World Bank needs to "rethink the basics" and "move away from neo-liberal conditionality".

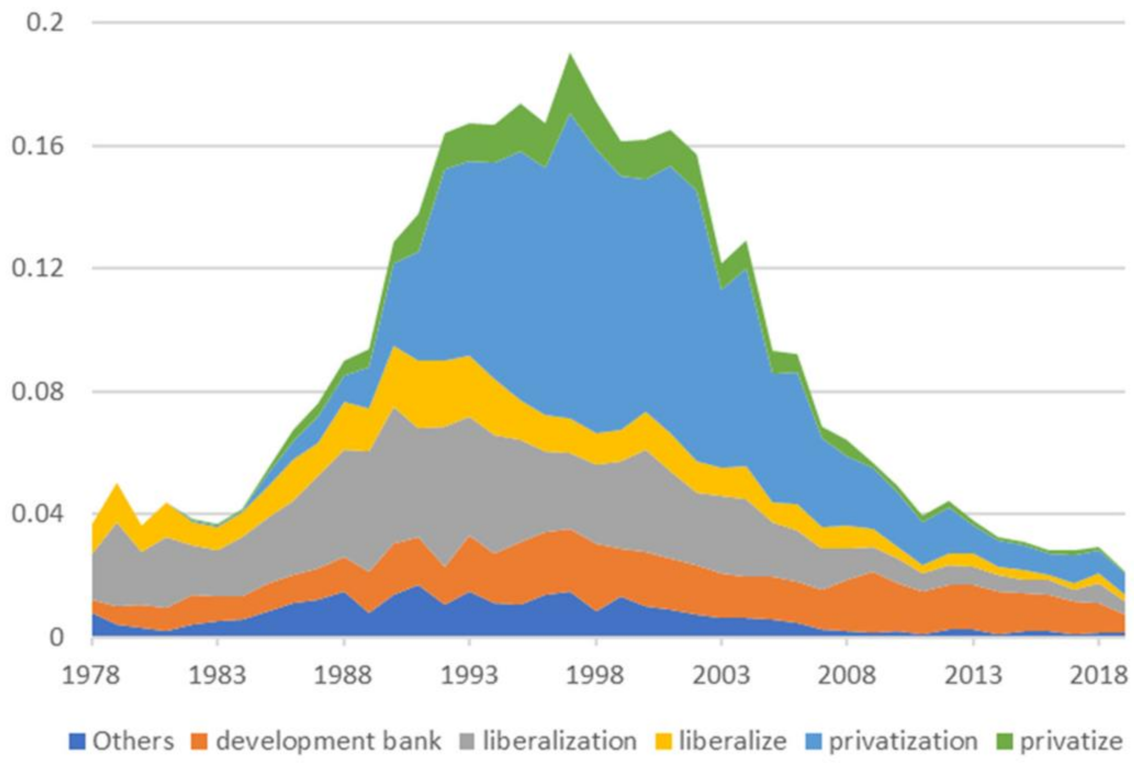
More specifically, there are many different aspects of the World Bank's operations that could be reformed, with the potential for a greater positive impact on development and debt management in African countries. Below a few case-studies are discussed, in order to illustrate the impact of different approaches and tools.

World Bank Reform Background: Washington Consensus

In 1989, John Williamson, a British economist from the Institute for International Economics (an international economic think tank based in US capital) coined the term 'Washington Consensus' to describe the themes and reforms espoused in policy advice by Washington-based institutions such as the World Bank, the International Monetary Fund and the US Department of the Treasury, which were believed to be necessary for Latin American states to recover from their financial and economic crises of the 1980s[cxvii]. The reforms called for the opening up of economies through trade and investment, the expansion of market forces in the domestic economy and for general macroeconomic stabilisation. However, the term was later broadened to refer to highly market-based policies that should be promoted in all developing countries, often being labelled 'neoliberal' in its approach. It should be noted that Williamson strongly opposed this alternative usage and highlighted that some of his prescriptions were often neglected, particularly about the "redirection of public spending from subsidies toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment" [cxviii]. Countries across the world have endeavoured to implement varying components of the reform packages, with implementation sometimes imposed as a condition for receiving SAP loans from the IMF and World Bank[cxix].

However, as Figure 27 shows, the frequency of use of the terms most associated with this "Washington Consensus", "liberalisation" and "privatisation", climbed to a peak in the late 1990s, before falling dramatically in recent decades, suggesting that within this Bretton Woods organisation, attitudes towards and/or the use of these types of policies has become unpopular.

Figure 27: Rise and fall of the "Washington Consensus" narrative at the IMF (y-axis refers to frequency of use of the terms in IMF country reports)[cxx]



A move towards the "New Structural Economics" approach?

Dr Justin Lin, who in 2008 was appointed the World Bank's Chief Economist and Senior Vice President. Dr Lin would prove instrumental in shaping the World Bank's economic research agenda and leading a new approach for achieving sustainable growth in developing countries, with what he termed 'new structural economics'[cxxi]. In the wake of the financial crisis, Dr Lin drew up a framework consisting of three distinct ideas with which to rethink the World Bank's approach to development. The first was that an economy's structure of factor endowments evolves from one level of development to another. That is, that the industrial structures of a given economy should be optimised for its current level of development. The second was that the notion of 'rich' and 'poor' countries was a false dichotomy that should be abandoned. Instead, economic development followed along a more nuanced continuum from low-income agrarian economies to high-income industrialised systems. Therefore, infrastructure projects and improvements in industrial capacity in developing countries should not necessarily be based on those in higher-income economies. Finally, at each stage along this continuum of development the market remains the foundation for the effective allocation of resources. Nevertheless, economic development is a changing and dynamic process, therefore to ensure success the state has a role to play alongside the market in facilitating infrastructural improvements and industrial upgrading.

Reform to the Ease of Doing Business Index

The World Bank's Ease of Doing Business Index (DBI) aims to rank countries on their ease of doing business, with a higher score/ranking meaning the regulatory environment is more conducive to the starting and operation of a local firm[cxxii]. Some consider the DBI to present conflicts of interest. The World Bank and others tell governments to seek to expand domestic revenue mobilisation – including through taxes, but the DBI rewards them for doing exactly the opposite. For example, a country will get points for increasing tax exemptions for foreign investment, meaning tax burdens fall to a greater extent on the country's (often poor) citizens, not wealthy potential investors. Similarly, constraints that governments might want to impose in order to achieve SDGs and support local citizens/businesses directly (such as for trade or jobs), such as local-content requirements or local employment requirements are discouraged - which itself can impede development. The DBI is fundamentally based on neo-classical economics, with little evidence that these policy prescriptions actually drive up investment (or reduce risk) in developing country settings. African countries instead need help from the World Bank and others to shape the upside. Not remove the downsides.)

Another example of potential reform of the World Bank/MDBs' approaches to development is illustrated in Box 5, which details some of these challenges and controversies when it comes to capital controls[cxxiii].

Overview of World Bank Group headquarters. Credit: Franz Mahr / World Bank

Box 5: Capital Controls – to use or not to use?

Capital controls are policies that limit or redirect capital (financial) cross-border transactions. During the great depression of the 1930s, countries first adopted capital controls to stabilize their economies while reducing the risk of capital flight. They have been used in various other situations since. For instance, Chile used capital controls in 1990 when dealing with the Latin American financial crisis, and Malaysia did so in 1998 when dealing with the Asian Financial crisis.

This is highly relevant for African countries because they borrow in foreign currencies and having access to foreign currency is critical to repayment of foreign debt. In general, foreign currency flows into countries through: a) selling goods/services to foreign countries and getting their currencies; b) foreign investors bringing the currency to invest; c) diaspora sending money back home. In many African countries, foreign currencies are often earned primarily by multinational mining firms. Because these firms are multinational, they often keep a sizable or all their profit outside the country where the parent companies are. With free capital flows, these companies can transfer money (such as USD or EUR) outside of the country easily, thus the government cannot get access to it to (borrow) to repay debt. In such a situation, capital controls can help.

However, the IMF (and its largest shareholder the United States) have, in general discouraged the use of capital controls. Indeed, financial account openness was one of the pre-conditions for eligibility for HIPC and MDRI.

With that said, however, in recent years there has been more open discussion amongst IMG staff members. In 2010, a number of IMF economists in 2010 drew up a policy toolkit to manage macroeconomic and financial-stability risks linked to the volatility of capital flows. In that toolkit, they factored in a role for capital controls. While the policy note didn't represent the official IMF standpoint, it seems to have been influential in bringing about a debate amongst policymakers and the wider international community, which ultimately brought about a shift in the IMF's official position. The crux of the policy was that the restriction of short-term inflows could lower financial stability risks. In 2012, they published a staff paper which build on their initial change of heart regarding their support for capital controls but still limited it as a last-resort policy.

Proponents for capital account openness state that controls run the risk of discouraging investors from bringing in their money in the country if they will have difficulty getting it out. They also state that such controls are largely ineffective, because the private sector can find ways to avoid control measures and bringing in such controls can actually stimulate investors to take their capital to 'safe-havens'. An analysis covering 96 developing countries through 1970-2000 showed that restrictions on capital accounts were only effective in East-Asian countries. The research showed that capital control policies had no effect on Africa and the Middle East. Additionally, there was a net negative effect on the economies in East Asia and South America.

On the other hand, there is no unified framework for analyzing the macroeconomic consequences of capital controls, there are multiple definitions of what is considered a success because capital controls are a single policy device while there are multiple objectives; and there are massive socioeconomic variations across countries that use such policies. Indeed, policymakers in different situations would rather give up capital mobility as opposed to yielding autonomy of monetary policy (or defaulting on debt payments).

Analysis on potential future utilisation of World Bank/MDB approaches

Aspect	Rating (1-10)	Notes
Financing for development	8	Reform to the advice that World Bank provides to developing countries may or may not impact countries' future access to debt and future development path.
Burden sharing	9	The burden of reform to the World Bank would fall on lenders, as opposed to debtors.
Impact on ownership	8	This option presents very little impact on ownership, and in fact could lead to an increase in ownership as countries are able to utilise alternative approaches to development.
Impact on macroeconomic environment	3	Unlikely to have significant immediate macroeconomic impact.
Feasibility	2	Major changes to the dominant narratives and ways of working of the World Bank/MDBs will be difficult and long-term.

8. Improved negotiation with lenders – "borrowers' clubs"

There is no doubt that African countries – and other poorer countries – have difficulty in negotiating with all lenders the terms of their loans and establishing agency on what and how the loans are used. By definition, as "borrowers" they are in an "asking" position, which lowers their bargaining capacity.

In addition, negotiations with certain borrowers can be more complex than with others, even if they offer new opportunities for meeting financial needs. As an example, a number of African countries such as Sudan, Ghana, Angola and South Sudan have used what is known as "resource-backed" financing instruments – using commodity flows such as oil or cocoa as collateral – to access Chinese finance[cxxiv] Few other bilateral donors offer these sorts of loans, even though they can potentially provide a clear benefit to citizens in the sense of ensuring commodity revenues are fully dedicated (i.e. hypothecated) to infrastructure spending projects and ensuring less chances for funds to be lost to tax havens, for instance. In addition, in some cases, if well negotiated, such instruments can be designed to provide a buffer for borrowers against low commodity prices[cxxv]., which is a perennial issue. However, resource-backed loans also come with risks, and like for all contracts, the devil is in the detail, and the less familiar the form of a loan is the harder it is to negotiate the best out of it.

Thus, creating means to support African countries and/or LICs and MICs more broadly – or even better for them to exchange experience and support each other – to better negotiate with lenders could be helpful.

Such means can be envisioned at various levels institutionally - from the less coordinated to the highly coordinated, and each has pros and cons. We explore these options below.

At the least coordinated level, African countries can seek the support (pro-bono or charged) of legal firms in particular to get the best from every deal they make. There are numerous examples of this, with a recent one including the hiring by the Zambian Government of French firm Lazard Freres in May 2020 at a cost of up to USD 5 million to support debt restructuring negotiations with various lenders[cxxvi].

It is also possible to coordinate this kind of support. For instance, the French firm GIDE has recently set up an "African Debt Taskforce" and think-tank to provide pro-bono support to African governments on this issue[cxxvii]. It would be plausible for other firms to join this initiative or create others, so that such advice is possible to access on an "on-demand" basis.

It is also possible for African borrowers to themselves find or create forums to meet informally or formally to discuss and exchange experience of negotiating lending instruments, for instance within the AU (for example, around or during meetings of African Finance Ministers) or coordinated by the UN or even academic institutions. For instance, in October 2019, Dr Folashadé Soulé of the Blatnavik School of Governance in Oxford University in the UK launched an Africa-China negotiation workshop series (closed-door) on comparative negotiation practices strategies and strategies by African governments when dealing with China. The first workshop attracted 15 senior policy makers[cxxviii]. It would be possible to scale-up and formalize such programmes.

Two other important potential more structural and coordinated measures are detailed below:

Coordinated debt swaps

As explained in an earlier section, a "swap line" is effectively an emergency pipeline of foreign currency to countries that need them, agreed between central banks to exchange their country's currencies to one another. One country's currency is "swapped", or in other words traded, for the other country's currency.

Early in 2020, the UN Economic Commission for Africa (UNECA) proposed that some African countries should work together to exchange their sovereign debt for new concessional loans – rather than simply using funds otherwise needed for COVID-19 to pay private creditors[cxxix]. UNECA, the AU and a group of African finance ministers are in the process of designing a special-purpose vehicle for such a swap.

The mechanism would work as follows. A trusted (i.e. high credit rating or AAA-rated) multilateral lender like the World Bank, IMF or a larger G20 economy would underwrite a major new loan for the economies together – providing "collateral". This new loan would be used to pay off commercial debt payments being made now – effectively turning the current debt into longer-maturity loans with a five-year grace period and lower interest payments thereafter. This proposal is similar to the 1980s Brady Plan that converted bank loans owed by mostly Latin American countries into new securities backed by US Treasuries, though importantly, as noted by Vera Songwe, UNECA's Executive Secretary, the circumstances are different: "*The Brady plan saved us from a crisis, but it was a policy-induced crisis [...] This time we are not insolvent, we are not poorly managed economies, but we have fallen into a crisis because of the pandemic.*"[cxxx]

The benefit to borrowers would be that they would no longer need to make the commercial debt payments for a fairly long and predictable period (such as 5 years), lower interest payments long-term, and use the new "fiscal space" created to deal with COVID-19 as well as invest in economic-growth inducing measures to generate new funds to pay the new loan. And they would not harm their credit ratings. The benefit to lenders is that they would get their payments.

The challenge with this model – like the G20 debt payment moratorium – is that it would largely benefit the countries already spending money on debt investments (including potentially badly spent money), rather than releasing new funds for those that have not invested or are suffering from COVID-19 impacts relative to others. However, it could also provide a pathway to another more long-term model – a "borrowers' club".

A "borrowers' club"

There are various schemes that exist for otherwise marginalized, low-credit ranking or uncollateralized borrowers at a personal level to raise more finance. Most of these schemes are based on the Grameen Bank model of "microfinance", created in Bangladesh 1976 by the Nobel Prize winner Mohammed Yunus. Before Grameen, people had only been able to take loans based on their own predicted income or collateral, which left many out of the system, especially the rural poor.

Yunus's bank enabled people to club together to take loans, as well as make slower and smaller affordable repayments together. The system, though it had faults, has been replicated globally and enabled millions of people to access debt to durably lift themselves out of poverty.

This model can also be applied at a macro level to make country-level debt both cheaper and more widely available – a "borrowers' club", either as a response to COVID-19 or to alleviate the debt challenges that COVID-19 has exposed.

Such a club would involve African (and/or other) countries coordinating to apply for finance as a group, using as collateral each other's growth prospects alongside accountability to each other and their citizens. Alternatively, as per the coordinated "swap model" above it could be collateralized by a multilateral bank.

The borrowers themselves (only) would be responsible for determining the prioritisation of projects across members, and each would provide small, low-interest regular repayments, agreeing their own relevant thresholds or criteria for internal defaults (e.g. commodity price falls). The club would collate and issue repayments as one to lenders on their schedules as required – while keeping aside a certain amount as a cushion or for further collateral. There are already organisations on the African continent for example that help to prioritise projects – for instance the Programme for Infrastructure Development in Africa (PIDA) has a task force of infrastructure experts from AU Commission, AU Development Agency (AUDA-NEPAD), and AfDB and UNECA to gather, consult on and prioritize projects in four sectors (Energy, Transport, Trans-Boundary Water, and ICT) across the continent over 10 year time frames[cxxxi]. This taskforce and process could be strengthened by and utilized for a borrowers' club.

The benefits to lenders of this club would be similar to the benefits commercial banks experienced with microfinance. Lenders could look at new loans as real growth or business propositions with lower risk – enabling lower interest rates – and higher returns.

Analysis on potential future utilisation of improved negotiations and a borrowers' club

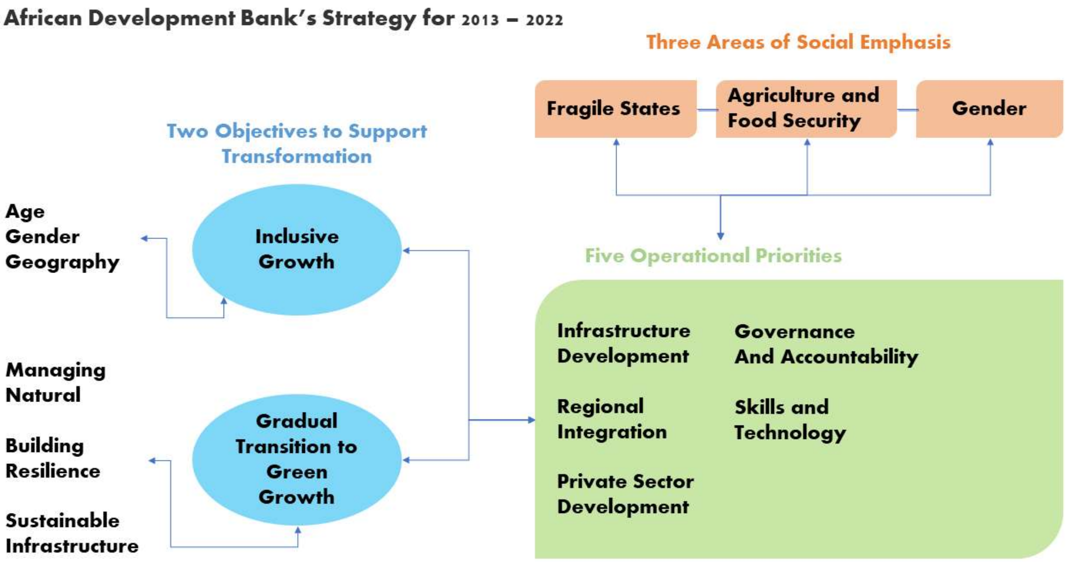
Aspect	Rating (1-10)	Notes
Financing for development	9	Coordinating borrowers to ensure the best outcomes from lending – even at the most informal level - could impact strongly on countries' future access to debt and future development path.
Burden sharing	8	The burden is mostly fairly shared - borrowers take steps to improve, but ensure lenders are being fairer and delivering more.
Impact on ownership	9	The most coordinated, formal methods of this option will likely lead to an increase in sovereignty as countries are able to demand more benefits from debt finance. However, there are potential for conflicts of interest in some advisory mechanisms, and there is also the potential for eligibility criteria to be introduced in the swap-instrument or borrowers' club if multilaterals are involved, which could have the opposite effect.
Impact on macroeconomic environment	7	Increasing external debt at lower cost could enable reduced domestic interest rates for public/ private sector
Feasibility	4	Some initial steps to see this option become a reality are being taken, and there are existing coordination mechanisms to be built on.

9. African Union continental financial institutional development

The African Continental Free Trade Agreement (AfCFTA), which became effective on May 30th 2019, is one of many planned continental-level institutions to be developed or brokered by the AU. In particular, there have been in existence since 2006 plans for an African Monetary Fund (AMF), African Central Bank (ACB), and African Investment Bank (AIB), which could provide strong opportunities for debt solutions in Africa. The establishment of the African financial institutions is a flagship programme under Africa's Agenda 2063 to accelerate the continent's regional integration[cxxxii].

However, before exploring these three, it should be noted that there is already a continent-wide financial institution in Africa, the AfDB. The AfDB's goal is to encourage sustainable economic development and social progress in Regional Member Countries, thereby contributing to the reduction of poverty[cxxxiii]. It is not necessarily a primary financial institution (a lender of last resort) because it focuses on SDGs, and "regional integration" is just one of five operational principles, as shown in Figure 28.

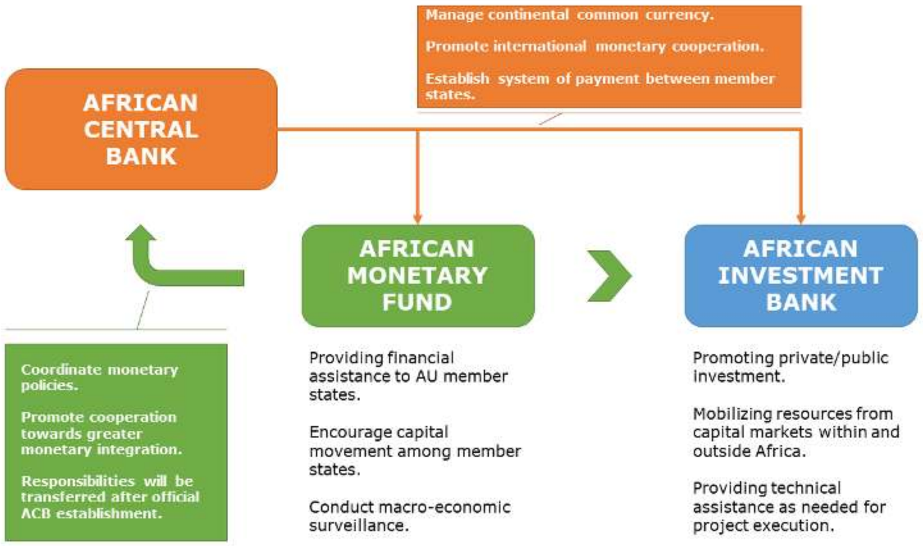
Figure 28: African Development Bank Strategy 2013-2022[cxxxiv]


African Development Bank's Strategy for 2013 – 2022
Three Areas of Social Emphasis
Fragile States
Agriculture and Food Security
Gender
Two Objectives to Support Transformation
Age
Gender
Geography
Inclusive Growth
Five Operational Priorities
Infrastructure Development
Governance And Accountability
Regional Integration
Skills and Technology
Private Sector Development
Managing Natural
Building Resilience
Sustainable Infrastructure
Gradual Transition to Green Growth

The AfDB has two groups of shareholders. The first are the 54 African Member Countries, the second are 27 non-African Member Countries. The non-African members hold 39.493% of the shareholder votes and therefore the African members have more power to determine strategic direction and approval of projects than the non-African members[cxxxv].

In contrast, the plans for three financial institutions envision voting power and decisions being fully vested in African countries exclusively. Figure 29 provides a conceptual representation of the proposed relationship between these three future financial institutions of the AU, with the eventual aim of economic and eventually monetary integration within the African continent.

Figure 29: Conceptual relationship between the financial institutions of the African Union


Manage continental common currency.
Promote international monetary cooperation.
Establish system of payment between member states.
AFRICAN CENTRAL BANK
AFRICAN MONETARY FUND
AFRICAN INVESTMENT BANK
Coordinate monetary policies.
Promote cooperation towards greater monetary integration.
Responsibilities will be transferred after official ACB establishment.
Providing financial assistance to AU member states.
Encourage capital movement among member states.
Conduct macro-economic surveillance.
Promoting private/public investment.
Mobilizing resources from capital markets within and outside Africa.
Providing technical assistance as needed for project execution.

The main purpose of the AMF will be to "*facilitate the integration of African economies by eliminating trade restrictions and providing greater monetary integration*"[cxxxvi]. This vision is expressed under articles 6 and 44 of the 1991 Treaty Establishing the African Economic Community (Abuja Treaty) and the AMF is expected to serve and operate as a pool for the African Central Bank (ACB) reserves as well as national currencies for AU member states – essentially acting as Africa's own IMF, its own "lender of last resort". It would, like IMF, also conduct macro-economic surveillance of AU member states.

The AU Assembly adopted the AMF Protocol and Statute at the 22nd AU Summit June 2014. It will go into force 30 days after ratification by 15 AU member states. As of June 2019, 12 countries have provided signatures to the AMF Protocol and Statute while Chad is the only country that has also ratified and made a capital deposit[cxxxvii]. The majority of the 12 signatories so far are from West Africa.

The plans for the AMF are already fairly detailed. The headquarters of the AMF is to be in Yaoundé, Cameroon, and other offices can be established as per the approval of the Board[cxxxviii]. Article 7 Section 1 of the statute describes the capital structure of the AMF, stating that the authorized share capital would be USD 22.6 billion denominated in USD 100 shares. Every 5 years, the Board is expected to review -*through qualified consensus (like the IMF)* - the allocation of the AMF's capital shares and also determine deadlines upon which member states are required to make payments. The share of capital subscription for each member state party is meant to be determined by considering GDP and population[cxxxix], so that each member state's contribution is less than 0.625% of its 9-year average annual GDP, with voting rights proportionate to subscribed shares[cxl].

Plans for the AIB are also well developed. The aim of the AIB is to provide technical assistance for and invest in development projects – especially for regional economic integration of member states, 'modernization' of rural sectors in low-income member states while strengthening private sector activities. Membership is open to all member states of the AU, and African regional financial institutions, African domestic public financial institutions/enterprises and even nationals and registered legal entities in African countries[cxli]. The authorized initial capital stock of the AIB is to be USD 25 billion denominated in USD 10,000 shares. Subscription shares of member states are to be determined on a "composite index of economic and demographic variables" as prescribed by the General Assembly. Furthermore, voting rights are proportionally determined by the allocated quota of each member state's paid-in subscription[cxlii]. AIB will also establish a fund for loans and guarantees to African low-income countries, resourced via special/voluntary contributions of member states, funds from repaid loans, and proceeds from investments financed from the Special Fund itself.

As of May 2019, 22 countries have signed the Protocol of the AIB and the document has been ratified by 6 countries (Togo, Libya, Congo, Chad, Burkina Faso, and Benin).

Unlike the AMF and AIB, plans for the ACB are not yet detailed. This is because the ACB is eventually expected to take over the responsibilities of the AMF and its plans will be prepared by an African Monetary Institute, to be established before the ACB[cxliii]. However, it is instructive to compare the ACB to the European Central Bank and the Fed to understand its potential function in Africa. The ECB is the central bank for the eurozone which is the monetary union of 19 EU member states and similarly to the ACB, it is one of seven institutions of the European Union just as the ACB (not officially established) is one of five in the AU. The U.S. Federal Reserve is the central bank of the United States that ensures the safety and efficiency of payment systems while processing various financial transactions and regulating banking institutions among other functions. The ECB can issue banknotes while eurozone member states can issue euro-coins. In the U.S. case, the Federal Reserve buys banknotes and coins from the U.S. Treasury and issues the currency accordingly. However, currently, no comparative African currency exists in that the US dollar is a global reserve currency and that currencies like the CFA Franc remain pegged to the euro and backed by the French treasury. Thus, the stated mission of the ACB is to fill this gap by building a common monetary policy as well as a single African currency.

Were these institutions to be in place now, they could arguably have helped alleviate COVID-19 financial liquidity challenges in Africa, in particular the African Monetary Fund (AMF), for example through quantitative easing (equivalent to issuing "Africa-only" SDRs). The AIB could also help the poorest countries invest in the short, medium and long-term to employ the required technical solutions for the health or economic crisis.

Analysis on potential future utilisation of African financial institutional development

Aspect	Rating (1-10)	Notes
Financing for development	10	Having independent African financial institutions could impact strongly on countries' future access to debt and future development path.
Burden sharing	1	The burden falls on (African) borrowers to create and capitalise institutions.
Impact on ownership	9	This option will likely lead to an increase in sovereignty due to the governance structure of the institutions. However, there is the potential for African governments to impose on each other's sovereignty and ownership through the rules and governance mechanisms of the various institutions.
Impact on macroeconomic environment	5	Could shift macroeconomic conditions in different countries dramatically (positively and negatively) through centralised monetary policy.
Feasibility	5	While initial steps have been taken to make these institutions a reality, these are slow, and it will take several more years and a concerted lobbying effort within Africa to make them happen, especially capital contributions.

10. Accelerating African economies' structural transformation

Broadly speaking, structural transformation refers to the re-allocation of resources across and between economic activities. For example, rebalancing over time to become a predominantly secondary industry-based economy with smaller primary and tertiary industries, or an economy in which service industries become paramount. It can mean diversification across industries or industry sectors, or diversification within those industries or industry sectors – such as a transformation increasing productivity within an economy's agricultural sector.

Many economies in Africa are poorly diversified, with some, for example, dependant on one or a few commodity exports for foreign exchange generation, and others highly dependent on tourism. If a country cannot service its debt through tax income on the industry they primarily depend upon, what will they do? A fall in the price of that commodity, or a dramatic reduction in tourist arrivals can have significant impacts on a government's ability to raise finance needed for debt and interest payments, as discussed in earlier sections. An overdependency on one foreign trade partner can have similar and compounding impacts. What happens if that partner's economy goes into recession, and the demand for (and price of) the African country's export commodity falls?

Other directions in which transformation could occur is in a move towards exports, and in digitalisation. Indeed, in a 2021 OECD and AU report, digitalisation's primary impact on job creation in Africa and other developing countries was found to be in export opportunities[cxliv].

Economic diversification is therefore key for countries to mitigate the risks of external shocks from one industry, one commodity, or one partner. The AfCFTA can play a role in this, opening up intra-continental trade and reducing Africa's reliance on extra-continental actors.

Relatedly, one reason many African countries require external financing and loans for their sustainable development and to reach Agenda 2063 or SDG targets, is that domestic resource mobilisation (DRM) is underdeveloped. DRM is the process through which low-income and lower middle-income countries raise and spend their own funds to provide for their own people – either through taxes or savings. If countries were better able to this, their reliance on industries that could be devastated by an external shock would be more limited. The UN recognises domestic resource mobilisation as "the foundation for self-sustaining development"[cxlv].

Beyond economic diversification and DRM, another route through which African countries could structurally transform is through changing lending structures. Is debt being taken up for the right reasons, with productive use of debt? And how could systems be created which incentivise and reward productive use of debt?

For African countries, a structural transformation approach could yield strong responses. Industrialisation and DRM would bring employment opportunities and productivity gains. It has also been argued that COVID-19 has amplified this existing need for economic diversification in Africa[cxlvi], intensifying the importance of this solution.

Analysis on potential future utilisation of structural transformation

Aspect	Rating (1-10)	Notes
Financing for development	6	Having diversified economies and more domestic resources could impact strongly on countries' future access to debt and future development path. However, much of this itself requires (upfront) financing for development.
Burden sharing	1	The burden falls on (African) countries to transform their own economies.
Impact on ownership	8	This option will likely lead to an increase in ownership and sovereignty due to the better diversified economies, less dependent on single bilateral or multilateral partners.
Impact on macroeconomic environment	3	Transformation will be aimed at improving macroeconomy but may also lead to higher (public) debt levels
Feasibility	4	Arguably African countries have been working hard to deliver structural transformation since at least the 1960s, and structural impediments to do so exist. It is unclear if these will change anytime soon.

Comparing the options

Any assessment of options such as those laid out earlier in this section will of course have subjective elements. As explained in Section 5, the assessment of the options centres on four bespoke and specific criteria, identified as crucial to long-term sustainability of debt solutions.

The "scores" of each of the options are presented below in Figure 30, with some interesting initial implications.

Figure 30: Summarising the options

Option	Financing for development (1 to 10)	Burden sharing (1 to 10)	Impact on ownership (1 to 10)	Impact on macroeconomic environment (1-10)	Feasibility (1 to 10)	Total Score (out of 50)
1. Further structural adjustment-like programmes	3	1	2	2	7	15
2. Further HIPC/MDRI-like debt relief	5	8	4	6	7	30
3. Further DSSI debt suspension	5	5	6	5	10	31
4. SDRs issuance/ reallocation	6	8	7	8	5	34
5. Reform/ regulation of private sector risk analysis	6	10	8	6	3	33
6. Reforms to debt sustainability frameworks	8	10	8	7	5	38
7. Reform of World Bank/MDB approaches	8	9	8	3	2	30
8. Better negotiation and a "borrowers' club"	9	8	9	7	4	37
9. African financial institutions	10	1	9	5	5	30
10. Structural economic transformation	6	1	8	3	4	22

With regards to enabling and enhancing more financing for development the options relating to the adjusting the IMF's debt sustainability frameworks (Option 6), World Bank approaches (Option 7), and the development of African financial institutions (Option 9) score highly. These help create environments where required access to financing future needs is incentivised. The improvement of negotiation and coordination capacity including a borrowers' club or special purpose vehicle (Option 8) also scores fairly high, while the re-introduction of SAPs (or other similar austerity and privatisation programmes – Option 1) is scored lowest. Importantly, debt relief programmes (Option 2) and the recent G20 DSSI initiative itself (Option 3) also score relatively low in supporting African countries' long-term economic development ambitions through financing.

With regards to **burden-sharing,** the most neutral options (i.e. that balance or don't affect debtors and lenders equally) are reforms to existing normative debt frameworks – in particular reform to credit ratings agencies and other private sector risk assessments (Option 5) and debt sustainability frameworks (Option 6). On the other hand, as mentioned in the introduction to this section, given that poverty tends to be concentrated in debtor countries burden sharing should fall more on lenders than debtors. The options that have the least burden on debtors include reform of the World Bank and MDBs (since they are the world's largest lenders – Option 7), improved negotiation (Option 8), further debt relief (Option 2), and SDR reallocation/issuance (Option 4). Setting up African finance institutions (Option 9) and restructuring African economies (Option 10) seem very important but it must be recognised they put the onus only on African countries as borrowers to adjust and change.

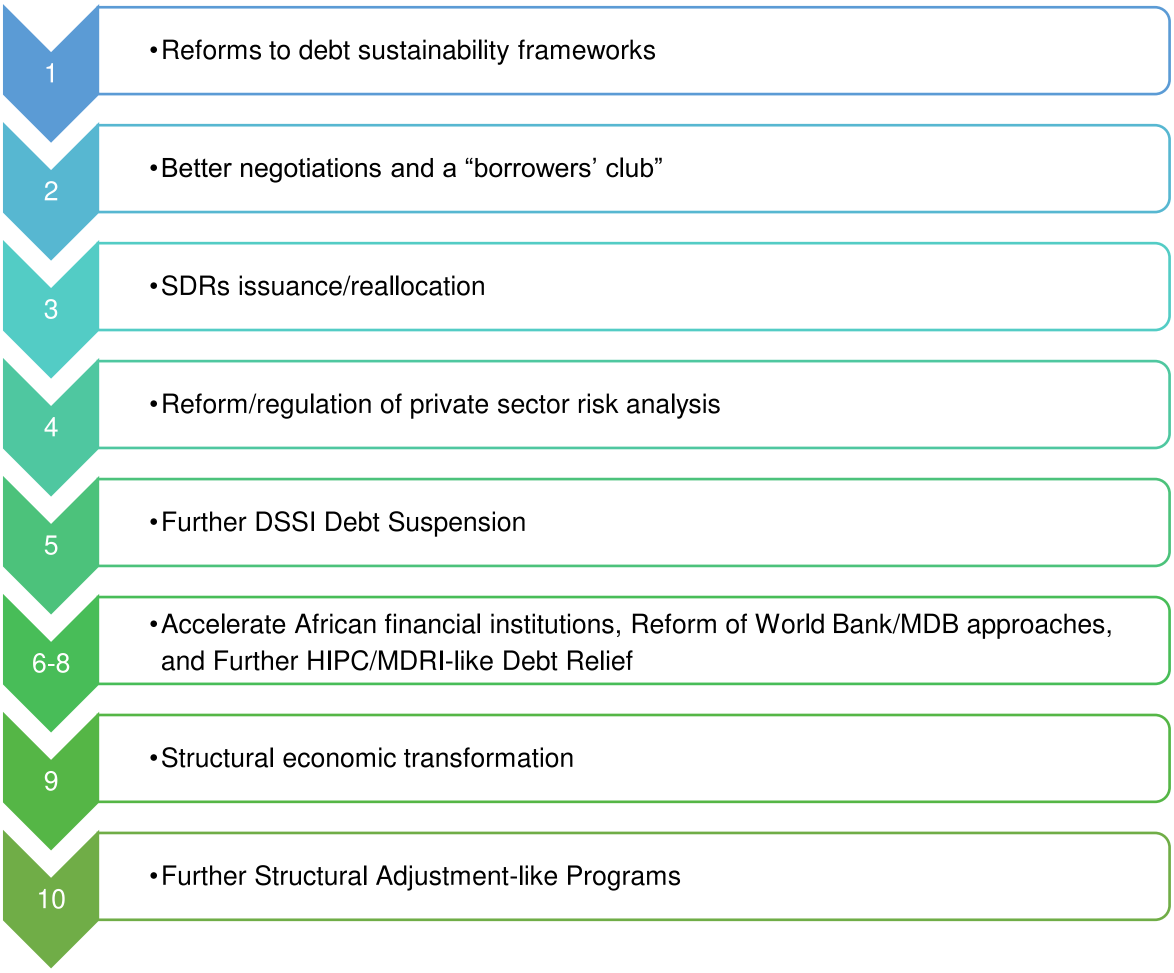
In terms of the **ownership of debtor countries,** the highest scoring options imply a potential increase in ownership or sovereignty – in particular improvements to negotiation capacity and coordination (Option 8) as well as African financial institutions (Option 9). However, options such as structural adjustment programmes (Option 1) as well as debt relief (Option 2), and even suspension (Option 3) could impose restrictions on ownership, and therefore face feasibility challenges in African countries in particular.

For **impacts on macroeconmic environment**, SDRs allocation scorest highest (Option 4), while improved negotiation (Option 8), such as through a borrowers' club, or reform to established debt sustainabillty frameworks (Option 6). Meanwhile, futher utilisation of structural adjustment type policies ranks lowest (Option 1).

Finally, in terms of **feasibility**, the options that are most practicable and achievable are those which have already been implemented or implemented recently, especially the furthering of DSSI debt suspension (Option 3). Improvements to negotiation capacity and coordination may be possible (Option 8 – although some of the stronger aspects of this option may be less feasible). The least feasible are reform of World Bank approaches (Option 7) and private sector risk analysis (Option 5), as well as structural transformation to African economies (Option 10), changes to IMF debt sustainability frameworks (Option 6), as these require a great deal of institutional change across a great deal of actors, and arguably have been attempted for decades.

What does this mean in aggregate? Based on this framework, which seeks to prioritise long-term solutions to debt challenges, the front runner options for the world to pursue together and for African stakeholders in particular to advocate emerge as improvements to negotiation capacity and coordination (Option 8), as well as reforms to debt sustainability frameworks (Option 6). Reform to private sector risk assessments (Option 5) also stands out, alongside further DSSI debt suspension (Option 3), while African financial institutional development (Option 9), despite feasibility challenges, and the issuance/reallocation of SDRs (Option 4) also score relatively highly. The options are ordered in priority in Figure 31.

Figure 31: Options to pursue in order of priority



1 • Reforms to debt sustainability frameworks

2 • Better negotiations and a "borrowers' club"

3 • SDRs issuance/reallocation

4 • Reform/regulation of private sector risk analysis

5 • Further DSSI Debt Suspension

6-8 • Accelerate African financial institutions, Reform of World Bank/MDB approaches, and Further HIPC/MDRI-like Debt Relief

9 • Structural economic transformation

10 • Further Structural Adjustment-like Programs

The framework also suggests that structural adjustment-like austerity and privatisation programmes and policies (Option 1) are the least useful in ensuring long-term solutions to African debt challenges.

That said, we should also note that none of these options are mutually exclusive. They are and should be possible to work on in tandem, and in some cases can mutually reinforce each other. For instance, aspects of Option 8 such as swap lines and the borrowers' club proposals could be combined with issuance or reallocation of SDRs (Option 4), and/or as a means to initiate African financial institutions (Option 9).

SECTION 7: CONCLUSIONS AND RECOMMENDATIONS: A REIMAGINING OF THE GLOBAL DEBT SYSTEM

Section 1 outlined the approach and structure of the report, highlighting that a report of this sort – outlining the different options available to better development in Africa with regard to debt – has not been written before.

In **Section 2**, the global debt system was introduced. Stakeholders on all sides of the system were explained, from lenders and debtors to credit ratings agencies. The types, and importantly, reasons for debt engagement were highlighted – with Africa's need for external financing to construct much-needed infrastructure a key point. Nigeria and China were presented to further illustrate.

Section 3 provided an overview of debt in African countries over time, highlighting important background information in Africa's debt story, backed with data. The importance and lasting influence of Africa's colonial era is pronounced, as well as key events such as the 1980s debt crises.

The arrival and impact of the COVID-19 pandemic in Africa formed the focus of **Section 4**. The virus' effects in Africa, though less severe than in other areas of the world, have significantly reduced economic growth prospects, increased government expenditures, and reduced tax revenues – which together worsened debt sustainability outlooks and caused liquidity concerns.

Section 5 introduced the analysis criteria, utilised in **Section 6** to present the options available to African and international stakeholders in the future. Interventions implemented in the past were analysed, such as the HPIC and DSSI initiatives, before seven proposed solutions were brought together and analysed against a set of criteria deemed most important. Comparative analysis was also used to discuss these options – and inform the conclusion and recommendations in this final Section.

The options outlined above present a coherent, holistic toolkit from which African and other stakeholders can approach future debt and growth challenges. Importantly, the options should not be considered mutually exclusive. The leading different options should be worked on simultaneously, with different actors or governments focusing their efforts on the ones they deem most appropriate to their needs, and in particular ensuring that it is not only borrowers or debtors that should act/change on their own. At the same time, it is important to be sceptical about both singular proposals as well as proposals which are ranked lowest in the appraisal in **Section 6.**

Furthermore, this holistic toolkit is arguably in line with a number of other recent and emerging paradigm shifts in the international development sector.

First, since 2011 there has been a shift in the development policy making world from focusing on "aid" to "development cooperation" which purports, for instance, to encourage the shift of private sector finance towards sustainability and poverty reduction, as well as increase transparency of finance flows and "ownership" of recipient countries of aid or loans provided.

Second, there has been talk of a shift from "foreign aid" in providing grants and loans to poor countries towards "Global Public Investment" – a concept coined and explained by Jonathan Glennie in a 2020 book: *The Future of Aid*[cxlvii]. This encourages a shift from seeing international finance as a temporary last resort (such as SDRs or loans), to valuing it as a permanent force for good, alongside collective paying in and collective benefits, no matter the development level of a country, and representative decision-making.

Third, as a result of the Black Lives Matter movement, which came to a head in 2020, the development sector has come under some pressure and criticism to "decolonise" and shift away from a "white gaze" which views recipients of aid or loans through a lens of superiority and removes their agency.

Any discussion of avoiding debt and ensuring adequate future financing for African countries must therefore be able to respond comfortably to these three paradigm shifts.

Based on this requirement, as well as the analysis of the options set out in **Section 6** we have the following specific recommendations for different stakeholders, depending on their unique and potential contributions to implementing the solutions explored in this paper.

Recommendations for African stakeholders

African stakeholders are no doubt the most important stakeholders of all when exploring short-and long-term African financing solutions. It is up to African governments and citizens to determine the shape of engagement with the rest of the world on this issue. In this sense, African governments and citizens must first establish agency over these issues, including through conducting their own appraisal of these options, as has been done in this paper.

Based on the analysis in this paper, we specifically propose:

- African governments should use the COVID-19 experience of working together collectively towards a common goal, as well as the renewed efforts for continental coordination through the AfCFTA to work together to create African-owned and managed forums or bodies for increasing negotiation capacity and coordination on financing issues, including DSSI and SDR proposals in particular (ref: Option 8, linking to Options 3 and 4).
- While new SDR issuance proposals are welcome (ref: Option 4), African stakeholders must explicitly clarify that they will be insufficient to meet African needs on their own, and could create problems if combined with austerity programmes led by multilateral organisations. African governments should therefore advocate for the G20 to agree a new SDR issuance on the condition that each G20 member will also re-allocate a certain percentage (to be determined) of the new allocation to a new special purpose borrowers' vehicle, managed and led by African countries/institutions (ref: Option 4).
- African finance ministers should build on their work with UNECA and form a working group to determine the modalities for a special purpose borrowers' vehicle to present to the G20 and multilateral lenders at the Italian-led G20 Summit in 2021, as a repository for a percentage of SDRs re-allocated to Africa (ref: Option 8).
- African governments and non-governmental organisations should call for an immediate and independent review of the IMF's debt sustainability framework, ensuring that African experts are well represented in any expert groups formed to do so (ref: Option 6).
- African governments should call for the G20 to initiate a workstream on reform and regulation of credit ratings agencies and private sector risk analysis. The G20, with its financial background, is the right institution to initiate this (ref: Option 5).
- African governments should push the G7 and G20 to agree to a further extenshion of DSSI debt suspension, for 1 to 2 years, depending on the progression of the COVID-19 pandemic, and for all African countries (both LIC and MIC), while including multilateral lenders (ref: Option 3)
- African governments should accelerate work towards creating independent African financial institutions, utilising new bilateral SDR allocations to make initial capital contributions as necessary and using the special purpose borrower's vehicle as a practical stepping-stone (ref: Option 9).

- African governments and non-governmental organisations should call for the World Bank to review its approach to development – including its poor emphasis to date on structural transformation through industrialisation and other state-led policy shifts (ref: Option 7).
- Based on lessons learnt from past debt crises, African stakeholders should be wary of proposals from all potential partners – whether multilaterals, Chinese or other countries - to provide new lending on condition of privatisation, tax reform or other types of policy change that could reduce government capacity for raising finance domestically.

Recommendations for Chinese Stakeholders

This paper sets out how and why China has become an important development partner for African countries in financing development. It is not just China that has driven this, China has also filled a gap not met by others. That said, every development partner can improve, and it is important that Chinese stakeholders listen carefully to African stakeholders needs and respect their needs and demands for ownership and aspiration to find long-term African financing solutions. This requires a delicate balance between being part of the G20 system to try to ensure global macro-stability and taking a progressive stance in the G20 alongside the G20's one African representative South Africa, and any other African observers.

Based on the analysis in this paper, we specifically propose:

- The Chinese government has since mid-2020 indicated openness to a new SDR issuance[cxlviii]. Based on the analysis in this paper, this is clearly a positive stance to take. However, recognising that this will not be sufficient to support the poorest countries due to low allocation levels, the Chinese Government should also express willingness as soon as possible to also re-allocate a certain percentage (to be determined) of its own new allocation to a new special purpose borrowers' vehicle, managed and led by African countries/institutions. China could even consider allocating a certain amount of its own bilateral finance to such a vehicle, at the next FOCAC Summit in Senegal In 2021 (ref: Option 4 and Option 8).
- As noted in **Section 5** as well as Appendix 2, the Chinese government has issued new debt sustainability guidance to be used by Chinese banks in "going out". While it is admirable to review one's own practices in the light of international pressure, the international pressure has come from other development partners, not necessarily African counterparts. Thus, the Chinese government should also call for review and reform of the IMF's framework, and provide more details of its own framework to the expert team to help in considering alternatives and ensure more finance for African countries from all sources going forward (ref: Option 6)
- The Chinese government should advocate within the G20 for a further extension to DSSI debt suspension (ref: Option 3) for all African countries (both LIC and MIC) and other LICs, including from multilateral lenders, and agree within the G20 to take part in a workstream on regulation of credit ratings agencies and country risk analyses (ref: Option 5).
- Chinese stakeholders beyond the government – both private sector and non-governmental – should aim to work more closely with African counterparts, to increase mutual understanding of financing challenges in African countries, as well as potential options and approaches used by Chinese counterparts, to help overcome scepticism and lack of transparency to date on Chinese financing to Africa.
- Chinese lenders should also avoid falling into practices used in the past (ref: Option 2) to provide new lending on condition of privatisation, tax reform or other types of policy change that could reduce government capacity for raising finance domestically.

Recommendations for other international stakeholders

This paper sets out how and why the traditional modes of engaging with African countries on finance and debt – by traditional OECD lenders and multilateral institutions have been and continue to remain highly problematic. Agency of African stakeholders is often non-existent, justified by analysis emphasising poor governance, although African governments and institutions have in 2020 shown themselves to be superior to many others including those of their traditional development partners during the COVID-19 crisis. The time is now to learn from the past and improve, listening carefully to African stakeholders needs and respecting their needs for ownership and aspiration to find long-term African financing solutions. This requires not just taking seemingly progressive stances in the G20 but being willing to consider internal reforms and to consider new options never on the table before, so as to avoid creating future debt crises by imposing the wrong kinds of conditions.

Based on the analysis in this paper, we specifically propose:

- Bilateral OECD lenders and boards of multilateral institutions should express openness to a new SDR issuance, but recognise that this will not be sufficient to support the poorest countries due to low allocation levels. They should thus also be willing as soon as possible to re-allocate a certain percentage (to be determined) of new country allocations and any new capital (via the IMF, MDBs, and so on) to a new special purpose borrowers' vehicle, managed and led by African countries/institutions (ref: Options 4 and 8). The UN and non-governmental organisations based in OECD countries should put pressure on governments to agree to this.
- Non-governmental organisations based in OECD countries should recognise the problems that austere progammes created for poor countries in the past (ref: Option 2), and put pressure on bilateral OECD lenders and boards of multilateral institutions to avoid using new finance as a means to impose conditions on African countries, whether the finance comes from multilateral institutions or from new SDRs.
- Bilateral OECD lenders and boards of multilateral institutions, as well as the UN and non-governmental organisations should call for and be willing to commence an in-depth, independent review and reform of the IMF's debt sustainability framework (ref: Option 6).
- The board of the World Bank should initiate a review of the World Bank's approach to development, including its poor emphasis to date on structural transformation through industrialisation and other state-led policy shifts. The review should cover all aspects of internal Bank modalities and operations – including the election of the President, as well as other staffing issues, internal guidance. and economic modelling/indicator biases, among others (ref: Options 7 and 10).
- Bilateral OECD lenders and boards of multilateral institutions should agree within the G20 for a further 1.5 to 2-year DSSI debt suspension for all African countries (both LIC and MIC) and other LICs, including from multilateral lenders (ref: Option 3) and agree within the G20 to initiate a workstream on regulation of credit ratings agencies and country risk analysis (ref: Option 5).
- Private sector lenders from OECD countries should express willingness to reform and take part in a G20 workstream on regulation of credit ratings agencies and country risk analyses (ref: Option 5). The UN has played a positive role in supporting African countries to coordinate and manage the economic impacts of COVID-19 in particular through the UNECA. The UN should continue to do so, and scale this work up to provide a consistent forum for more detailed coordination and support, with a view to operationalising new African-led financial institutions (ref: Options 4 and 9).

APPENDICES

APPENDIX 1: LIST OF ACRONYMS AND GLOSSARY OF TERMS

List of acronyms:

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AU	African Union
BRI	Belt and Road Initiative
CDB	China Development Bank
COVID-19	Coronavirus Disease 2019
DAC	Development Assistance Committee
DR	Development Reimagined
EBRD	European Bank for Reconstruction and Development
EXIM	China Export-Import Bank
FOCAC	Forum of China Africa Cooperation
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MDB	Multilateral development bank
MDRI	Multilateral Debt Relief Initiative
NDB	New Development Bank
NGO	Non-governmental organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Developmen
SAP	Structural Adjustment Loan
SDG	Sustainable Development Goal
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

Glossary of terms

Concessional Loan

A loan offered by multilateral and bilateral official creditors usually at a very low cost for the borrower; the grant element of a concessional loan is around 35%.

CPIA: Country Policy and Institutional Assessment (CPIA) Index

An index rating given to country's based on a set of criteria in 4 main clusters: economic management, structural policies, policies for social inclusion and equity and public sector management and institutions.

Debt

Financial claims that require payment(s) of interest and/or principal by the debtor to the creditor at a date in the future.

Debt Distress

An explicit assessment of a country's risk of external debt distress. The rating is based on an analysis of PPG external debt in the external DSA.

Debt Forgiveness

Debt forgiveness is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor

Debt Overhang

A situation in which the sovereign's debt stock exceeds its capacity to repay it; a debt burden that is so large that an entity cannot borrow to help service it; a condition in which the expected tax burden of debt is so high that it dissuades current investment/consumption and hence serves as a drag on economic activity.

Debt Restructuring

Also known as debt reorganization; an arrangement involving both the creditor and the debtor (and sometimes third parties) that alter the terms established for servicing existing debt.

Debt Service

Payments on debt (interest + amortization) that fall due during the current period.

Debt Service Suspension Initiative (DSSI)

Debt Service Suspension Initiative (DSSI) was endorsed by the World Bank's Development Committee and the G20 Finance Ministers in April to response to grant debt-service suspension to the poorest countries to help them manage the severe impact of the COVID-19 pandemic.

Debt Sustainability Framework (DSF)

The framework within which all DSAs are produced to ensure comparability across DSAs produced for different countries

Debtor

A party that owes a debt to a second party; a person or institution that owes money; one that borrows from another party.

Default

A party is unwilling or unable to pay their debt obligations; a government is unable to pay its creditors.

External Debt

Debt liabilities owed by residents to non-residents.

Foreign Direct Investment (FDI)

Investment of capital by foreigners into one's country; can be to finance domestic projects or foreign projects in domestic country.

Foreign Exchange Reserves

Reserve money denominated in foreign currency held by a country's monetary authority.

GDP Growth Rate

The percent change in an economy's value added from one period to the next (usually 1 year)

Government Debt

Also known as public debt, sovereign debt, or national debt; the debt owed by a central government.

Government Expenditure

Total government payments and expenses.

Grace Period

The period of time in which no principal payment is due on a loan.

Gross Domestic Product (GDP)

The market value of all final goods and services produced within a country in a given period. The GDP is determined using data for production, expenditures, or income and is presented in current or constant prices

Gross National Income (GNI)

The sum of GDP and net foreign income generated by production activities abroad. GNI was GNP in pre-1993 versions of the SNA

Inflation

A sustained increase in the general price level. The rate of inflation is the percentage change in the price level in a given period (usually one year).

Inflation Rate

The rate of inflation is the percentage change in the price level in a given period (usually one year).

Initiative for Heavily Indebted Poor Countries (HIPC)

The HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage. Since then, the international financial community, including multilateral organizations and governments have worked together to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries

Interest Payment

A payment made on a loan each period, separate from amortization. Interest payments are periodic payments associated to borrowing, conceptually reflecting the cost for using someone else's financial assets.

Interest Rate

The annual return on a fixed-priced financial asset expressed as a percentage of the price of the asset

Multilateral Debt Relief Initiative (MDRI)

The MDRI was launched in 2005 to help them advance toward the United Nations’ Millennium Development Goals. It provides for 100 percent relief on eligible debt from three multilateral institutions (IMF, IDA, and the African Development Fund) to a group of low-income countries. In 2007, the Inter-American Development Bank (IaDB) also decided to provide additional (“beyond HIPC”) debt relief to the five HIPCs in the Western Hemisphere.

Public Debt

The total financial obligations incurred by all governmental bodies of a nation; total obligations by a country's public sector

Public Debt-to-GDP Ratio

The ratio of a country's gross public debt to its gross domestic product.

Poverty Reduction Growth Trust (PRGT)

Trust fund for the IMF's concessional financing. There are three concessional facilities - the Extended Credit Facility (ECF) to provide flexible medium-term support; the Standby Credit Facility (SCF) for addressing shortterm and precautionary needs; and the Rapid Credit Facility (RCF) to provide emergency support.

Ratings Agency

A company that assesses the creditworthiness of both debt securities and their issuers; examples include Standard and Poor's, Moody's and Fitch.

Repayment Capacity

A measure of a body's ability to service its existing obligations (debt) through its income.

APPENDIX 2: COMPARING CHINA'S 2019 DEBT SUSTAINABILITY FRAMEWORK (LIC-DSF) TO THE IMF/WORLD BANK'S (DSF)

What is the LIC-DSF?

BRI-DSF

It immediately (on page 1) addresses the fact that borrowing is way to boost growth and achieving sustainable development. States it is a non-mandatory tool unlike the IMF-DSF

- borrowing is an important tool for financing investment critical to achieving sustainable development.
- recognize the importance of striking a balance between meeting financing demands, sustainable development and debt sustainability.
- This framework is a non-mandatory policy tool. The financial institutions of China and other BRI countries are encouraged to use this framework.

IMF-DSF

BRI-DSF excludes mentions of poverty reduction whereas the IMF-DSF focuses on support, SDGs and poverty reduction

- The objective of the DSF is to support efforts by LICs to achieve their development goals while minimizing the risk that they experience debt distress.
- LICs require sizeable public investment to address infrastructure gaps, strengthen potential output growth, and reduce poverty. With ambitious targets, reflected in the Sustainable Development Goals (SDGs), and limits to official aid, LICs are relying increasingly on domestic and non-concessional external borrowing to finance investment.

Procedures

A. Debt Coverage

BRI-DSF

Uses a more general definition than IMF-DSF

- The BRI-DSF defines the debt coverage as the future payments of interest and/or principal that are required from the public debtor to the creditor, including debt securities, loans and other accounts payable.

IMF-DSF

- external financing remains largely concessional and the present value (PV) of debt plays a key role in understanding debt-related vulnerabilities

B. Macroeconomics

BRI-DSF

It's interesting that the BRI-DSF mentions up front that technological progress should be considered a factor that effects the economy

- The projections of key macroeconomic variables should be based on the country's economic development plan and its medium and long-term fiscal plan, with comprehensive consideration of the economic development, economic cycle, capital accumulation, population structure, technological progress

Mentions of endogenous growth impacts

Both use realism tools that take into consideration endogenous growth impacts of the debt

BRI-DSF

Relationship between public investment and growth. Productive investment, while increasing debt ratios in the short run, can generate higher economic growth, fiscal revenue and export, leading to lower debt ratios over time. Therefore, it is critical to reflect the impact of public investment on economic growth and debt changes. The pulling effect of public investment on economic growth can be marked by the output elasticity. When a new public investment project is implemented, if the economic growth calculated using the historical empirical output elasticity is inconsistent with the actual economic growth, possible explanations should be considered. Where a reasonable explanation is lacking, consideration should be given to adjusting the macroeconomic projections.

IMF-DSF

The final DSF realism tool assesses the consistency between growth and public investment assumptions. Growth projections should capture the impact of public investment on growth in a realistic manner. Proponents of scaling up public investment maintain that productive investment, while increasing debt ratios in the short run, can generate higher growth, revenue, and exports, leading to lower debt ratios over time. At the same time, high economic returns of individual projects do not always translate into high macroeconomic returns. DSF users should therefore carefully assess the impact of a scaling-up of public investment. A number of tools are available to help users study and model this relationship in depth.

LIST OF REFERENCES

[i] Author's compilation

[ii] The Debt Guide is available in five languages at Available in 5 languages at https://www.africaunconstrained.com/reports/, with the data at https://www.africaunconstrained.com/our-data/

[iii] African Devleopment Bank Group, *Light Up and Power Africa – A New Deal on Energy for Africa*, https://www.afdb.org/en/the-high-5/light-up-and-power-africa-%E2%80%93-a-new-deal-on-energy-for-africa

[iv] SDG Knowledge Hub, 2019, *Broadband Commission Proposes Action Plan to Achieve SDG Target 9c*, https://sdg.iisd.org/news/broadband-commission-proposes-action-plan-to-achieve-sdg-target-9c/

[v] Development Reimagined, 2020, *The African Debt Guide*, https://www.africaunconstrained.com/reports/

[vi]African Development Bank Group, 2018, *African Economic Outlook 2018* – Chapter 3, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf

[vii] All data from: Debt Management Offfice Nigeria, 2020, *External Debts*, https://www.dmo.gov.ng/debt-profile/external-debts , Buhari quote from: Debt Management Office Nigeria, 2020, *President Buhari Justifies Borrowing to Fund Infrastructure*, https://www.dmo.gov.ng/news-and-events/dmo-in-the-news/president-buhari-justifies-borrowing-to-fund-infrastructure

[viii] World Bank, 2016, *Statement by Multilateral Development Banks: Delivering on the 2030 Agenda*, https://www.worldbank.org/en/news/press-release/2016/10/09/delivering-on-the-2030-agenda-statement

[ix] African Devleopment Bank Group, *Mission & Strategy,* https://www.afdb.org/en/about/mission-strategy

[x] International Monetary Fund, *Mission & Strategy*, https://www.imf.org/external/about/lending.htm#facilities

[xi] International Monetary Fund, 2021, IMF Executive Directors and Voting Power, https://www.imf.org/external/np/sec/memdir/eds.aspx

[xii] World Bank, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, INTERNATIONAL FINANCE CORPORATION, INTERNATIONAL DEVELOPMENT ASSOCIATION, *EXECUTIVE DIRECTORS AND ALTERNATES,* http://pubdocs.worldbank.org/en/241041541103873167/BankExecutiveDirectors.pdf

[xiii] International Development Association, *Borrowing Countries*, https://ida.worldbank.org/about/borrowing-countries

[xiv] All data in this box taken from: Brautigam, Deborah, Jyhjong Hwang, Jordan Link, and Kevin Acker (2019) "Chinese Loans to Africa Database," Washington, DC: China Africa Research Initiative, Johns Hopkins University School of Advanced International Studies; Xinhua News Agency, 2019, https://www.sohu.com/a/324100156_267106?scm=1002.46005d.16b016c016f.PC_ARTICLE_REC_OPT; Pengpai News, 2018, https://baijiahao.baidu.com/s?id=1610232808828583333&wfr=spider&for=pc; Xinhua News Agency, 2019, https://baijiahao.baidu.com/s?id=1638459391077420601&wfr=spider&for=pc; Morris, Parks, and Gardner at the Center for Global Development.

[xv] World Bank, International Debt Statistics, International Debt Statistics Dataset

[xvi] Development Reimaginec, 2020, https://developmentreimagined.com/2020/10/29/will-the-imf-2021-projected-growth-rates-for-african-countries-impact-covid19-recovery/, 29 October, 2020, derived from World Bank/IMF statistics on debt.

[xvii] World Bank, International Debt Statistics, International Debt Statistics Dataset

[xviii] OECD 2021, Aid (ODA) disbursements to countries and regions [DAC2a], https://stats.oecd.org/Index.aspx?DataSetCode=Table2A# (accessed on 30/01/2021)

[xix] Jubilee Debt campaign

[xx] Horn, S., Reinhart, C. R. and Trebesch, C., 2019. *China's Overseas Lending*. National Bureau of Economic Research Working Paper No. 26050, https://www.nber.org/system/files/working_papers/w26050/revisions/w26050.rev0.pdf

[xxi] Brautigam, Deborah, Jyhjong Hwang, Jordan Link, and Kevin Acker (2019) "*Chinese Loans to Africa Database*," Washington, DC: China Africa Research Initiative, Johns Hopkins University School of Advanced International Studies.

[xxii] Geda, Alemayehu,2003. *The Historical Origin of African Debt Crisis*. Eastern Africa Social Science Research Review. 19. 59-89. 10.1353/eas.2002.0012.

[xxiii] Ibid

[xxiv] World Hunger, *How Did the Debt Crisis Come About? What Was Its Impact on Poor Countries?*, https://www.worldhunger.org/articles/global/debt/caritas2.htm

[xxv] The Historical Origin of African Debt Crisis - Scientific Figure on ResearchGate. https://www.researchgate.net/figure/Price-indices-of-some-major-agricultural-export-commodities-of-Africa-1965100_fig1_236792693 [accessed 30 Jan, 2021]

[xxvi] Debt Crisis of the 1980s, https://www.grips.ac.jp/teacher/oono/hp/lecture_F/lec10.htm

[xxvii] Author's interview with Howard Stein

[xxviii] Johns Hopkins University & Medicine, 2021, Coronavirus Resource Center, https://coronavirus.jhu.edu/map.html

[xxix] International Monetary Fund, *World Economic Outlook (October 2020)*, Real GDP Growth, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/AFQ/APQ/EUQ/MEQ/NMQ/SMQ

[xxx] Ibid

[xxxi] International Monetary Fund, 2021, *World Economic Outlook Update (January 2021)*, https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

[xxxii] United Nations World Tourism Organization, 2020, *World Tourism Baromteter*, https://www.e-unwto.org/doi/epdf/10.18111/wtobarometereng.2020.18.1.7

[xxxiii] United Nations Conference on Trade and Development, 2020, *Global Trade Update*, https://unctad.org/system/files/official-document/ditcinf2020d4_en.pdf

[xxxiv] World Bank, 2020, https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?end=2019&locations=ZF&most_recent_value_desc=true&start=1960

[xxxv] Knoema, 2019, World Travel and Tourism Council Data, https://knoema.com/WTTC2019/world-travel-and-tourism-council-data

[xxxvi] Kituyi, M. 30 September, 2020

[xxxvii] Development Reimagined, 2020, https://developmentreimagined.com/2020/12/11/chinadebtreliefimpact/

[xxxviii] Development Reimagined, 2020, https://developmentreimagined.com/2020/09/20/now-comes-harder-work/

xxxix World Bank, *The World Bank In Africa – Overview*, https://www.worldbank.org/en/region/afr/overview

[xl] Development Reimagined, 2020, https://developmentreimagined.com/2020/06/26/is-africa-poverty-inevitable/

[xli] Muhumuza, R. 1 November, 2020

[xlii] Kituyi, M. 30 September, 2020

[xliii] Gondwe, G. (2020).

[xliv] Ibid

[xlv] United Nations Conference on Trade and Development, 2020, *Assessing the Impact of COVID-19 on Africa's Economic Development*, https://unctad.org/system/files/official-document/aldcmisc2020d3_en.pdf

[xlvi] Knoema, 2019, World Travel and Tourism Council Data, https://knoema.com/WTTC2019/world-travel-and-tourism-council-data

[xlvii] United Nations World Tourism Organization, 2020, *World Tourism Baromteter*, https://www.e-unwto.org/doi/epdf/10.18111/wtobarometereng.2020.18.1.7

[xlviii] Gondwe, G. (2020).

[xlix] Ibid

[l] African Development Bank Group, 2018, *African Economic Outlook 2018* https://www.afdb.org/en/knowledge/publications/african-economic-outlook

[li] Development Reimagined, 2020, https://developmentreimagined.com/2020/12/11/chinadebtreliefimpact/

[lii] Development Reimagined, 2020, https://developmentreimagined.com/2020/06/12/is-africa-drowning-in-debt/

[liii] For an applied discussion of how Chinese actors evaluate development assistance, see: https://chinaafricaproject.com/analysis/qa-measuring-the-effectiveness-of-chinese-agricultural-assistance-in-africa/

[liv] OECD, *Evaluation Criteria*, https://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm

[lv] Claude Frey, 1997, *Activities of the Bretton Woods institutions*, https://assembly.coe.int/nw/xml/XRef/X2H-Xref-ViewHTML.asp?FileID=7711&lang=en

[lvi] UNESCWA, https://www.unescwa.org/structural-adjustment-programmes

[lvii] Wohlmuth, Karl, 1984. *IMF and World Bank structural adjustment policies: Cooperation or conflict?*, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol.19, Iss. 5, pp. 226-234, https://www.econstor.eu/bitstream/10419/139935/1/v19-i05-a05-BF02928342.pdf

[lviii]Lensink, Robert (1996). Structural adjustment in Sub-Saharan Africa *(1st ed.)*. Longman. ISBN 9780582248861

[lix] Jurgen, K. (2018). *Interfering with national sovereignty*, https://www.dandc.eu/en/article/shortcomings-and-weaknesses-structural-adjustment-measures-recent-decades

[lx] Tony Killick, ODI (1990). *Problems and Limitations of Adjustment Policies*, https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6915.pdf

[lxi] Ibid.

[lxii]Williams, G. (1994) *Why structural adjustment is necessary and why it doesn't work*, 21:60, 214-225, DOI: 10.1080/03056249408704057. https://www.tandfonline.com/doi/pdf/10.1080/03056249408704057

[lxiv] References use for this Box are Rothchild, 1991:8 and Donkor (1997:122)

[lxv] International Monetary Fund, 2016, *Factsheet: Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative*, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative

[lxvi] International Monetary Fund, MDRI Facts, https://www.imf.org/external/np/exr/facts/mdri.htm

[lxvii] Development Reimagined, 2020, https://developmentreimagined.com/2020/06/12/is-africa-drowning-in-debt/

[lxviii] Author's calculation from with data from https://datatopics.worldbank.org/debt/ids/

[lxix] Reuters Staff 20 November, 2020

[lxx] World Bank, 2021, *COVID 19: Debt Service Suspension Initiative*, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

[lxxi] Ibid

[lxxii] Development Reimagined, 2020, https://developmentreimagined.com/2020/07/10/time-to-find-new-solutions/

[lxxiii] World Bank, 2021, *COVID 19: Debt Service Suspension Initiative*, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

[lxxiv] Africa Centres for Disease Control and Prevention, 2021, *Coronavirus Disease 2019 (COVID-19)*, https://africacdc.org/covid-19/

[lxxv] Development Reimagined, 2020, https://developmentreimagined.com/2020/09/01/is-africas-covid19-crisis-over/

[lxxvi] Reuters Staff 20 November, 2020

[lxxvii] Muhumuza, R. 1 November, 2020

[lxxviii] For an example, see: UN, 1970. "International Development Strategy for the Second United Nations Development Decade," General Assembly resolution 2626 (XXV), adopted 24 October. https://digitallibrary.un.org/record/201726?ln=en

[lxxix] Author's calculations using data from https://www.imf.org/external/np/fin/tad/extsdr2.aspx?date1key=2020-03-31

[lxxx] Ibid

[lxxxi] Barry Herman (2020) *What You Really Need to Know about the SDR and How to Make it Work for Multilateral Financing of Developing Countries*, Challenge, 63:5, 286-299, DOI: 10.1080/05775132.2020.1802178

[lxxxii] Mark Plant and David Andrews, 2021, *What is the Best Way to Allocate New SDRs?* https://www.cgdev.org/blog/what-best-way-allocate-new-sdrs

[lxxxiii] https://www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries

[lxxxiv] Reuters, 2020, https://www.reuters.com/article/us-china-cenbank-imf-sdr/chinas-central-bank-chief-urges-imf-to-open-cash-floodgate-to-fight-pandemic-idUSKCN24H2ZV

[lxxxv] World Bank, 2020, *Doing Business*, https://www.doingbusiness.org

[lxxxvi] World Bank, *Country Policy and Institutional Assessment*, https://datacatalog.worldbank.org/dataset/country-policy-and-institutional-assessment

[lxxxvii] Frost, C. A. (2007). *Credit Rating Agencies in Capital Markets: A Review of Research Evidence on Selected Criticisms of the Agencies*. Journal of Accounting, Auditing & Finance, 469-491.

[lxxxviii] Partnoy, F. (2006, May 4). *How and Why Credit Agencies are Not Like Other Gatekeepers.* University of California. Berkeley: Social Science Research Network. Retrieved from http://ssrn.com/abstract=900257

[lxxxix] Hu, C. M., Missong, T., Bertocci, B., & Coffee, J. (2014). *The Impact of Credit Rating Agencies on Financing for Sustainable Development.* International Conference on Financing for Development (pp. 1-8). Economic & Social Council.

[xc] This document includes information on when each country achieved their first rating for S&P. http://www.acismoz.com/wp-content/uploads/2017/06/000054.pdf

[xci] 30 countries including to be created South Sudan and Sahrawi Arab Republic - http://documents1.worldbank.org/curated/en/759061468323725184/pdf/wps4269.pdf

[xcii] For example, see the list here: https://tradingeconomics.com/country-list/rating?continent=africa

[xciii] Hu, C. M., Missong, T., Bertocci, B., & Coffee, J. (2014). *The Impact of Credit Rating Agencies on Financing for Sustainable Development.* International Conference on Financing for Development (pp. 1-8). Economic & Social Council.

[xciv] Ryan, J. (2012). *The Negative Impact of Credit Rating Agencies and Proposals for Better Regulation.* SWP Berlin: Stiftung Wissenschaft und Politik.

[xcv] Partnoy, F. (2006, May 4). *How and Why Credit Agencies are Not Like Other Gatekeepers.* University of California. Berkeley: Social Science Research Network. Retrieved from http://ssrn.com/abstract=900257

[xcvi] Elkhoury, M. (2008). *Credit Rating Agencies & Their Potential Impact on Developing Countries.* United Nations Conference on Trade and Development.

[xcvii] Global Insolvency, *Moody's Clashes With UN Over G20 Debt-relief Efforts,* https://globalinsolvency.com/headlines/moodys-clashes-un-over-g20-debt-relief-efforts

[xcviii] For example, Kenya: https://www.reuters.com/article/us-health-coronavirus-kenya-exclusive-idINKBN22R25A

[xcix] Ryan, J. (2012). *The Negative Impact of Credit Rating Agencies and Proposals for Better Regulation.* SWP Berlin: Stiftung Wissenschaft und Politik.

[c] IPE, 2018, *Don't doubt the power of index providers*, https://www.ipe.com/dont-doubt-the-power-of-index-providers/10022946.article

[ci] International Monetary Fund, 2016, *Factsheet - Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries*, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries

[cii] International Monetary Fund, 2020, *What is Debt Sustainability?* https://www.imf.org/external/pubs/ft/fandd/2020/09/what-is-debt-sustainability-basics.htm

[ciii] World Bank, *Interactive Guide on Debt Sustainibility Framework for Low-income Countries*, Station 1, https://www.worldbank.org/content/dam/LIC%20DSF/Site%20File/station1.html

[civ] International Monetary Fund, 2016, *Factsheet - Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries*, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries

[cv] FRBM, 2016, *Self-fulfilling Prophecies in Sovereign Debt Markets*, https://www.minneapolisfed.org/article/2016/self-fulfilling-prophecies-in-sovereign-debt-markets

[cvi] Salmon, Jack and de Rugy, Veronique, 2020, *Debt and Growth: A Decade of Studies*. Mercatus Research Paper, Available at SSRN: https://ssrn.com/abstract=3690510 or http://dx.doi.org/10.2139/ssrn.3690510

[cvii] For example, see IMF, 2018, *Macroeconomic Developments and Prospects in Low-Income Developing Countries:* https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/03/22/pp021518macroeconomic-developments-and-prospects-in-lidcs

[cviii] https://www.ifw-kiel.de/institute/research-centers-initiatives/kielinstituteafricainitiative/ - quotation made at 1:41 onwards.

[cix] Andros Kourtellos, Thanasis Stengos, and Chih Ming Tan

[cx]Jernej Mencinger, Aleksander Aristovnik, and Miroslav Verbič

[cxi] Brian Pinto, 2018, *The distressing Debt Sustainability Framework of the IMF and World Bank*, https://www.brookings.edu/blog/future-development/2018/07/03/the-distressing-debt-sustainability-framework-of-the-imf-and-world-bank/

[cxii] African Development Bank Group, 2018, *African Economic Outlook 2018*, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf

[cxiii] Andrew Berg, Enrico Berkes, Catherine Pattillo, Andrea F. Presbitero, Yorbol Yakhshilikov, 2014, *IMF Working Paper: Assessing Bias and Accuracy in the World Bank- IMF's Debt Sustainability Framework for Low-Income Countries*, https://www.peio.me/wp-content/uploads/PEIO8/Berg,%20Berkes,%20Pattillo,%20Presbitero,%20Yakhshilikov%2026.03.2014.pdf

[cxiv] Brian Pinto, 2018, *The distressing Debt Sustainability Framework of the IMF and World Bank*, https://www.brookings.edu/blog/future-development/2018/07/03/the-distressing-debt-sustainability-framework-of-the-imf-and-world-bank/

[cxv] Hunt, Diana, 1989. *Economic theories of development: An analysis of competing paradigms*, Harvester Wheatsheaf; 1st edition.

[cxvi] Quotation taken from: Sadiddin, Ahmad, 2014, *A Review of Diana Hunt's Economic Theories of Development: An Analysis of Competing Paradigms*, International Journal of Culture and History 1(2):32: https://www.researchgate.net/publication/287139285_A_Review_of_Diana_Hunt%27s_Economic_Theories_of_Development_An_Analysis_of_Competing_Paradigms

[cxvii] Williamson, J., 1989. *What Washington Means by Policy Reform*, in Williamson, J. (ed.), Latin American Readjustment: How Much has Happened. Peterson Institute for International Economics.

[cxviii] Ibid.

[cxix] Helleiner, E. and Pauly, L. W., 2005, in Ravenhill J. (ed.). *Global Political Economy*. Oxford University Press. pp. 328–333.

[cxx]Cherif, Engher and Hasanov (2020), *Crouching Beliefs, Hidden Biases: The Rise and Fall of Growth Narratives*, https://www.imf.org/en/Publications/WP/Issues/2020/11/08/Crouching-Beliefs-Hidden-Biases-The-Rise-and-Fall-of-Growth-Narratives-49730

[cxxi] Lin, J. Y., 2011. *New Structural Economics: A Framework for Rethinking Development*. The World Bank Research Observer. 26, pp. 193-221.

[cxxii] World Bank, *Ease of Doing Business rankings*, https://www.doingbusiness.org/en/rankings

[cxxiii] References include: Neely, C. J. (1999, November 1). An Introduction to Capital Controls. *Federal Reserve Bank of St. Louis - Review, 81*(6), 13-30. doi:https://doi.org/10.20955/r.81.13-30 and Magud, N. E., Reinhart, C. M., & Rogoff, K. S. (2011). *Capital Controls: Myth & Reality - A Portfolio Balance Approach.* Cambridge: National Bureau of Economic Research, and Edwards, S. (1999). How Effective are Capital Controls? *Journal of Economic Perspectives, 13*(4), 65-84. Asiedu, E., & Lien, D. (2004). Capital Controls and Foreign Direct Investment. *World Development, 32*(3), 479-490. doi:10.1016/j.worlddev.2003.06.016, https://developingeconomics.org/2020/11/24/haemorrhaging-zambia-prequel-to-the-current-debt-crisis/, https://www.imf.org/external/pubs/ft/spn/2010/spn1004.pdf, and https://www.imf.org/external/np/pp/eng/2012/111412.pdf

[cxxiv] Natural Resource Governance Institute, 2020, *Resource-Backed Loans: Pitfalls and Potential*, https://resourcegovernance.org/sites/default/files/documents/resource-backed-loans-pitfalls-and-potential.pdf

[cxxv] Interview with Deborah Brautigam, December 2020.

[cxxvi] Reuters Staff, 2020, *Zambia picks French firm Lazard Freres as debt advisers*, https://www.reuters.com/article/us-zambia-economy/zambia-picks-french-firm-lazard-freres-as-debt-advisers-idUSKBN2332XR

[cxxvii] Gide, 2020, *Gide's African Debt taskforce*, https://www.gide.com/en/news/gides-african-debt-taskforce

[cxxviii] Golbal Economic Governance Programme, *Africa-China negotiation workshop series launches in Benin*, https://www.geg.ox.ac.uk/news/africa-china-negotiation-workshop-series-launches-benin

[cxxix] Alonso Soto, Bloomberg, 2020, *Africa Eyes Own 'Brady Plan' as Debt Relief Proposal Takes Shape*, https://www.bloomberg.com/news/articles/2020-04-28/africa-eyes-own-brady-plan-as-debt-relief-proposal-takes-shape

[cxxx] Ibid

[cxxxi] African Union – Programme for Infrastructure Development in Africa, https://www.au-pida.org

[cxxxii] African Union, *Financial Institutions*, https://au.int/en/financial-institutions

[cxxxiii] African Development Bank, https://www.afdb.org/en

[cxxxiv] African Development Bank, *AfDB's Strategy for 2013–2022,* https://www.afdb.org/en/about-us/mission-strategy/afdbs-strategy

[cxxxv] African Development Bank, 2020, *AfDB - Statement of subscription and voting powers as at 30 September 2020*, https://www.afdb.org/en/documents/afdb-statement-subscription-and-voting-powers-30-september-2020

[cxxxvi] African Union, *Financial Institutions*, https://au.int/en/financial-institutions

[cxxxvii] African Union, *PROTOCOL ON THE ESTABLISHMENT OF THE AFRICAN MONETARY FUND*, https://au.int/sites/default/files/treaties/36417-sl-PROTOCOL%20ON%20THE%20ESTABLISHMENT%20OF%20THE%20AFRICAN%20MONETARY%20FUND.pdf

[cxxxviii] African Union, *DRAFT STATUTE OF THE AFRICAN MONETARY FUND*, https://au.int/sites/default/files/pages/32815-file-african_monetary_fund_-_statute_annexes_-_final_-_english.pdf

[cxxxix] Ibid

[cxl] Ibid

[cxli] African Union, *STATUTE OF THE AFRICAN INVESTMENT BANK*, https://au.int/sites/default/files/treaties/36414-ax-statute_of_the_african_investment_bank_-_en.pdf

[cxlii] Ibid

[cxliii] JOINT AUC-AACB COMMITTEE STUDY GROUP, 2013, JOINT AUC-*AACB STRATEGY ON THE ESTABLISHMENT OF THE AFRICAN CENTRAL BANK (ACB)*, https://au.int/sites/default/files/pages/32815-file-african_central_bank_joint_strategy_e.pdf

[cxliv] African Union Commission and OECD, 2021, *Africa's Development Dynamics 2021*, https://www.oecd-ilibrary.org/development/africa-s-development-dynamics-2021_0a5c9314-en

[cxlv]Samuel Wangwe and Prosper Charle, 2004, *Innovative Approaches to Domestic Resource Mobilization in Selected LDCs*

[cxlvi] Njuguna Ndung'u, 2020, *COVID-19 crisis amplifies the urgency for economic diversification in Africa*, https://www.un.org/africarenewal/magazine/september-2020/covid-19-crisis-amplifies-urgency-economic-diversification-africa

[cxlvii] Jonathan Glennie, 2021, *The Future of Aid*, https://www.routledge.com/The-Future-of-Aid-Global-Public-Investment/Glennie/p/book/9780367404970

[cxlviii] Meg Shen, Reuters, 2020, *China's central bank chief urges IMF to open cash floodgate to fight pandemic*, https://www.reuters.com/article/us-china-cenbank-imf-sdr/chinas-central-bank-chief-urges-imf-to-open-cash-floodgate-to-fight-pandemic-idINKCN24H2ZV