Current Path

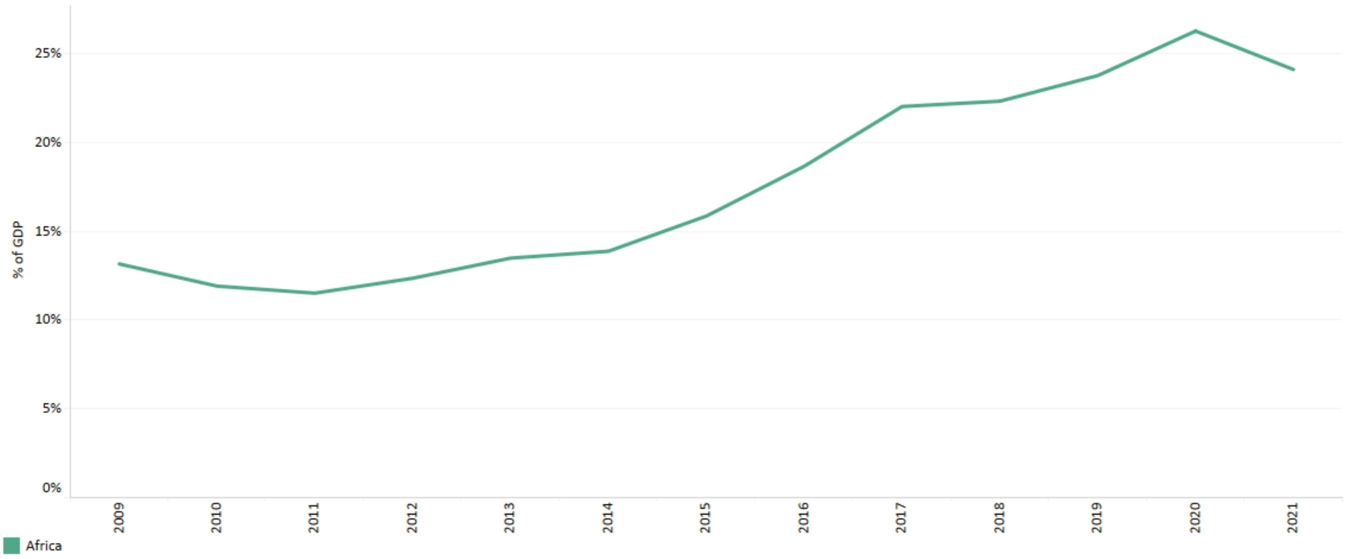
Africa's recurring debt challenge

Jakkie Cilliers

Last updated 19 April 2024 using IFs v7.84

Africa's recurring debt challenge

Chart 13: Debt as a percentage of GDP, 2009-2021



Source: S Harcourt and F Robertson, One.org, https://tinyurl.com/3h44t7x7. Originally from the International Debt Statistics database.

In 1995, public debt for Africa's lower-middle-income countries peaked at 97% of GDP. The following year, public debt for low-income Africa was at 174% of GDP. In response, the IMF, the World Bank and other creditors began the Heavily Indebted Poor Country (HIPC) Initiative in 1996. The HIPC was reviewed and comprehensively expanded in 1999 and complemented by the Mulitlateral Debt Relief Initiative, a debt relief proposal initially advanced by the Group of Eight (G8) countries in 2005.

As the HIPC programme matured, the international community focused on strengthening the links between debt relief and progress in implementing poverty reduction strategies and macroeconomic and structural reform programmes. As a result, public debt among low-income African countries declined to 15% of GDP in 2013 and 11% among lower-middle-income countries the following year.

The problem with this approach is that the medicine was killing the patient. Structural reform required that governments constrain their expenditure, meaning that they had to cut back on services and that the measures inevitably reduced economic growth. Lower economic growth translated into sustained high debt/GDP ratios as African countries could not grow out of their high debt levels.

With the decline in commodity prices after 2011, levels of debt again started to increase, which hit Angola, Chad, the Republic of the Congo, Niger, Nigeria and Zambia particularly hard. Other factors also contributed, such as internal conflict (Burundi), the impact of epidemics such as Ebola (in Liberia and Sierra Leone) and corruption (Mozambique and The Gambia). Finally, a larger liquidity crunch, delays in the start of natural resource production and weaknesses in revenue administration negatively affected debt levels in Benin, Cameroon, Djibouti, Ethiopia, Ghana, Kenya, Senegal, São Tomé and Príncipe, Rwanda, Togo, Uganda and Zimbabwe.

By 2016, according to the IMF, public debt rose above 50% of GDP in 22 countries, up from ten countries in 2013.

In a wide-ranging study on the relationship between debt and growth, Carmen Reinhart and Kenneth Rogoff concluded that 'when external debt reaches 60% of GDP, annual growth declines by about 2%'. For almost two decades since the mid-1980s, Africa's low- and lower-middle-income countries consistently had average debt levels above 60% of GDP (Chart

13). Yet, this period coincided with Africa's most rapid period of ecomic growth since independence, pointing to the challenge of using a fixed debt levels such as 60% of GDP as a reliable guide to debt sustainability.

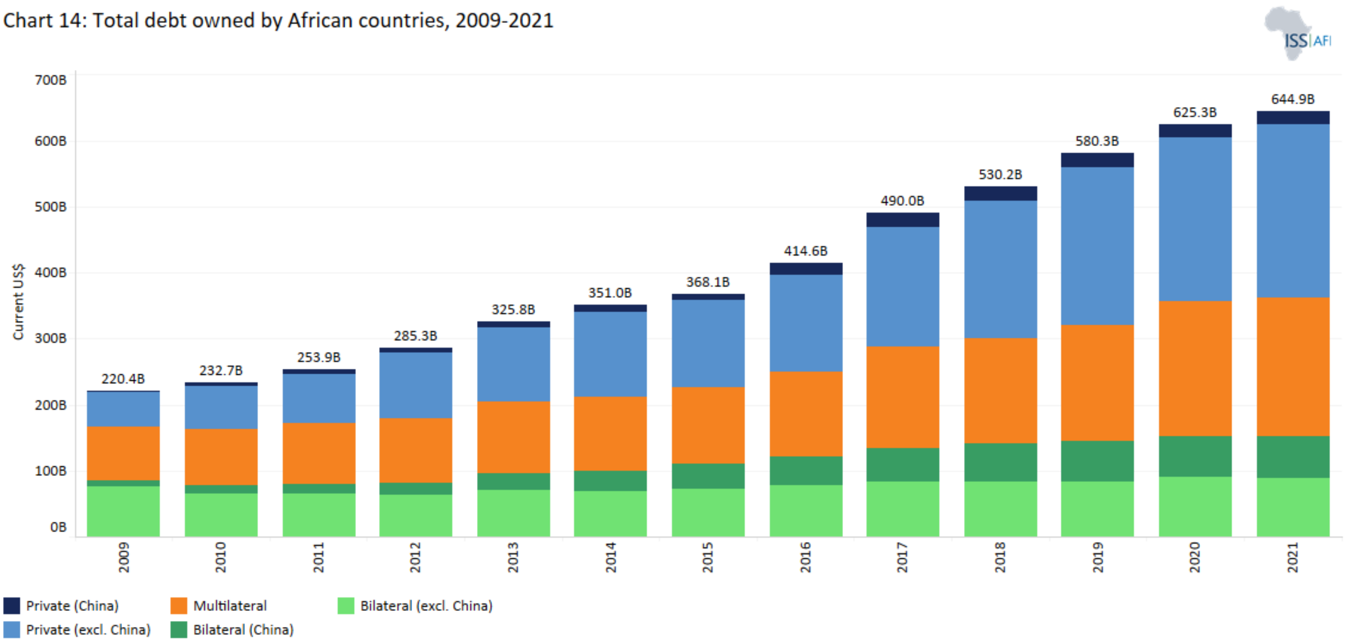
Against this background, the announcements of large additional loans from China (such as on the margins of the Forum on China–Africa Cooperation meeting held in September 2018 in Beijing) elicited concern. Exact information is complex to decipher as Chinese and Western national banks do not release comprehensive data. However, it seems that interest-bearing loans from the Chinese government, banks, and contractors went from almost nothing in 2000 to US$143 billion in 2017, representing about a third of Africa's overall debt of around US$365 billion. The trend is ongoing. Chinese lending now dwarfs World Bank loans to Africa. To some analysts, it appeared that Africans had to borrow money from the IMF to repay China. In response, successive US administrations sought to characterise Chinese loans as 'debt-trap diplomacy'—arguing that China is seeking to use debt for strategic leverage to eventually gain control over strategic resources such as rail and harbours. The reality is more complex. Most African debt is to private bondholders in the West with much higher interest rates than the World Bank and other multilateral development banks and requires shorter repayment periods.

Yet Chinese lending appears to have resulted in an increase of nearly 4% in the debt-to-GDP ratio of low-income countries in recent years. At the same time, multilateral institutions such as the World Bank have seen an equal decline. Chinese lending to developing countries is generally offered less concessional than multilateral development banks, although it is more favourable than what the market would offer. The shift in debt away from the concessional rates provided by the World Bank and IMF (and other multilateral development banks such as the African Development Bank) towards China has also seen other effects, such as shorter maturities and grace periods.

In 2019, Beijing announced that it would establish an analysis framework on debt sustainability for Belt and Road Initiative projects and improve transparency. At that point, the IMF assessed that about 17 low-income African countries were either in or at risk of debt distress, which has subsequently increased.

Chart 14 presents the total debt owned by African countries annually from 2009 to 2021, divided into private (Chinese and non-Chinese), multilateral, and bilateral (Chinese and non-Chinese).

Chart 14: Total debt owned by African countries, 2009-2021



Source: S Harcourt and F Robertson, One.org, https://tinyurl.com/3h44t7x7

To cushion the economic and social impacts of the subsequent COVID-19 pandemic, several African governments announced fiscal stimulus packages that averaged about 3% of GDP, financed partly by debt. The average debt-to-GDP ratio, which had somewhat stabilised at around 60% of GDP at the end of 2019, was increasing rapidly when, in April 2020, the G20 countries, the IMF and the World Bank announced the Debt Service Suspension Iniative referred to previously, potentially available for 73 eligible countries, including 40 in sub-Saharan Africa. The IMF also approved six months of debt service relief for 25 low-income countries, including 19 in Africa, and approved additional funding support for several as well. China's participation was a big step forward but without the involvement of a private creditor, which holds the majority of African debt, the DSSI proved too little too late as, in November 2020, Zambia became the first African country to default on its debt.

Almost simultaneously, in neighbouring Angola, the country opened the door to China to extend its oilfield holding as its previous system of using oil to pay for debt came under pressure with falling oil prices. Oil-backed loans then already accounted for two-fifths of Angola's external debt, most of it to China, which agreed to provide deferment over and above that promised under the G20 DSSI. In Kenya, China agreed to a six-month debt repayment holiday worth US$245 million in January 2021, shortly before a critical deadline when a US$1.4 billion loan from the China Exim Bank to build the Nairobi-to-Naivasha standard gauge railway would have come due.

China has probably taken more aggressive assistance measures to assist Africa during COVID-19 than much of the West, providing restructuring and postponing debt repayments to Angola, Zambia and Ethiopia in rapid succession in 2020. However, it has not offered substantive debt cancellation.

In this context, the administration of US President Joe Biden agreed, in April 2021, to the allocation of US$650 billion in Special Drawing Rights (or emergency credit) via the IMF. Given its large IMF shareholding, US support was crucial. However, only a limited amount (around US$33 billion) will flow to Africa. Having stimulated their domestic economies with several trillion dollars, several G7 members agreed to donated their Special Drawing Rights to low-income countries.

China is now Africa's largest single official bilateral lender, owning at least 21% of the continent's outstanding debt. Africa's fortunes are increasingly tied to China, which is also its single largest trading partner. Looking to the future, it could be that China opts to be a majority shareholder in some key assets of countries with high debt levels as an alternative to the repayment of maturing debt.

China's spectacular growth rates are also set to steadily decline (forecast in IFs to decline to below 4% per annum by 2036) as its population ages, and it no longer runs a regular trade surplus. China will increasingly focus on its neighbourhood that, through its Belt and Road Initiative, has more closely tied it to Asia. The growth slowdown and the efforts for the restructuring of the Chinese economy towards a a consumption-based economy, will decrease its demand for commodities such as iron ore, oil and gas from Africa.

Recent years have already seen a decline in Chinese official sector lending to African governments (so-called sovereign debt by the two 'policy banks', China Exim Bank and China Development Bank) in favour of a dramatic rise in so-called 'hidden debt' from state-owned Chinese commercial banks such as the Bank of China, the Industrial and Commercial Bank of China and the China Construction Bank. For example, whereas Zambia (before its September 2021 elections) admitted to a sovereign debt of US$3.4 billion, research by AidData indicated that Zambia actually owed US$6.6 billion to 18 different Chinese creditors once the hidden debt component was included.

Hidden debt does not appear on public balance sheets. The average annual underreporting of repayment liabilities to China, according to AidData, is equivalent to 5.8% of GDP. Hidden debt differs from sovereign debt, which central government institutions directly own, as it is a debt between a Chinese commercial bank and, often, a special-purpose vehicle specifically created to 'hold' the debt in the African country requiring the loan. Such debt is still guaranteed by the respective African government but indirectly.

What makes this trend alarming is not only the extent of the debt, including the lack of public reporting but the nature of collateral (such as profits from the port of Mombasa) and the steep terms. 'A typical loan from China has a 4.2% interest rate and a repayment period of less than 10 years. By comparison, a typical loan from an OECD-DAC lender like Germany, France or Japan carries a 1.1% interest rate and a repayment period of 28 years,' writes AidData. Accordingly, it seems that 'Beijing has used debt rather than aid to establish a dominant position in the international development finance market.'

By 2024 it is clear that Africa's debt has shifted from concessional financing to more expensive and short-term commercial debt, with Eurobonds accounting for 44% of Africa's total debt, up from 14-17% previously. In 2010 debt service payments amounted to US$17 billion. In 2024 the continent will pay US$74 billion.

Africa's post-COVID debt levels have now become victim to the rise in tensions between the US and China with each side using debt and its capital contribution to organisations such as the World Bank as a cudgel with which to beat the other, demanding haircuts and resisting first-mover concessions.[1] Africa's voice and interests are often quite peripheral in this emerging great power game. We examine the potential impact of different global scenarios in the theme on Africa in the World.

Endnotes

1. World Bank loans are granted at concessional rates and longer periods but in return the Bank requires preferential treatment on repayment. The US, in particular, is also resisting efforts by China to increase its capital contributions to multilateral development banks such as the World Bank since that would increase China's voting rights from its current 6% in the latter.

Donors and sponsors

Hanns Seidel Foundation
Sweden Sverige
AUDA-NEPAD AFRICAN UNION DEVELOPMENT AGENCY

Cite this research

Jakkie Cilliers (2024) Current Path. Published online at futures.issafrica.org. Retrieved from https://futures.issafrica.org/thematic/01-africas-current-path/ [Online Resource] Updated 19 April 2024.

About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the ISS. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.