JENA Rethinking African Development Webinar Series-2023
Synthesis Report for a Webinar on:
Navigating Africa's Sovereign Debt Crisis with the Emergence of China as the Continent's Largest Bilateral Creditor

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OVERVIEW

The Jesuit Justice Ecology and Network Africa (JENA) organized a webinar themed, "**Navigating Africa's Sovereign Debt Crisis with the Emergence of China as the Continent's Largest Bilateral Creditor''**. The webinar was held on Thursday 27 July, 2023 from 3:30 pm to 5:30 pm East African Time. The webinar attracted over 40 participants.
The webinar aimed to raise awareness among stakeholders on the implications of China's role as the leading creditor for African states. It is also provided insights into the challenges of navigating the sovereign debt crisis in Africa and suggested ways to promote transparency and accountability in governance. Additionally, the webinar offered a platform for dialogue and exchange of ideas among stakeholders interested in African development and China-Africa relations.

Moderator:
Ms Lurit Yugusuk, *Institute of Public Finance (IPF), Kenya*

Webinar panelists:
1. Dr. Penelope Hawkins- *Senior Economist, United Nations Conference on Trade and Development (UNCTAD*)
2. Peter Mumba - *CSO Debt Alliance Coordinator-Zambia*
3. Veronicah Ndegwa- *Senior Research Analyst, Institute of Public Finance* (IPF)
4. Shem Joshua- *Sovereign Debt Management Policy Lead, AFRODAD*
5. Grace Namugambe- *Programme Officer - Financing for Development/ Tax Justice SEATINI, Uganda*

GOAL AND OBJECTIVE

The purpose of this webinar was to examine the impact of China's role as the leading creditor for African states and suggest ways to navigate the sovereign debt crisis in Africa.
Specifically, the webinar:

1) Examined the root causes of Africa's sovereign debt crisis and analysing its effects on economic development and social welfare as well as discussed the outlook for Africa's debt situation and the potential role of emerging trends and geopolitical developments.
2) Explored the dynamics of China's engagement in Africa's economy and its impact on debt sustainability as well as analyzing the diplomatic implications of Africa's debt situation on its relations with China and other global partners
3) Discussed the importance of transparency and accountability in debt-related agreements with China and other international creditors and shared lessons from successful debt management practices case studies.
4) Exploring strategies for African countries to diversify their financing sources and reduce dependence on a single creditor.
5) Explored the challenges of funding infrastructure projects while managing debt levels responsibly as well as evaluated the role of international organizations and financial institutions in supporting African countries during the debt crisis

ISSUE AT STAKE

The sovereign debt crisis in Africa has attracted great attention given its implication for the region’s growth and development outcomes. The option of borrowing to supplement development in the region has often been mentioned, arguing that the region’s subordinate economic and monetary status cannot meet its development needs. Apart from looking at the impact of the debt crisis on economies in the region, the evolving nature of the debt, including the East or West debt policy, and the whole landscape of sovereign debt to the region, the discussion also shed light on strategies to avert the debt crisis.

Opening Remarks

Ms. Yugusuk opened the discussion by welcoming and introducing the panelists. In her opening statement, she mentioned cases of countries in the region being in debt distress, some at risk of engulfing in debt crisis, defaulting on their debt obligations. Given that debt has become a viable financing option for the region in bridging its development projects, China’s growing role in the region’s source of bilateral borrowing poses the need to probe the landscape of external debt and related governance. Pointedly, she posed a critical question on how countries can find a balance between continued borrowing and diversifying domestic sources of revenue mobilization. China has emerged as an important player, being one of the bilateral lenders to the region. However, this growing China’s role calls for debt sustainability and the kind of arrangements that cushion the region from debt trap.

PANELISTS’ SUBMISSIONS

How to navigate Africa’s debt crisis- by Shem Joshua

In acknowledging the essence of having a timely debate to forge ways for the betterment of the region’s economic standing without increasing overload, he highlighted the current statics showing Africa's debt to stand at $ 800 billion and continues to soar up. From a historical perspective, he noted that debt issue in Africa stems from some of historical injustices rooted in some of the initiatives that have been proposed and deployed to help the region readjust to the growing debt situation. A particular concern has on the interest that these debts attract themselves surpass some of the sectoral allocations that such borrowings are meant to address. Coming to a situation where the continent must continue borrowing to service its debt obligation casts doubts on the region's ability to work towards its 2063 regional agenda that seeks to improve its human capital and development-related sectors, such as health. Based on this debt trend, he argued that the regional debt-to-GDP ratio of most of the countries will go to the highs of upto 70%, indicating the magnitude of the crisis. He pointed out new initiatives such as the G20 Common Framework where some countries, such as Zambia and Ghana, are asking for a more flexible repayment infrastructure. As a solution, he called for debt management programs. Again to reform this debt governance imbalance, he argued that Africa must have its place in the debt bargaining table; a situation where Africa forms part of the policy-making rather than a mere recipient.

External Debt in Africa and role of China- by Dr. Penelope Hawkins

Zambia defaulted its debt in 2020, and its recent effort where it has restructured its debt, how does Zambia's debt default place it on the global map and the diplomatic relations it has with other countries?

She put to perspective the essence of supporting this debate on the debt situation in Africa. From the statistics provided, Africa's share of external debt stock stood at 8% of developing countries' debt stock, amounting to $ 11.4 trillion. She observed that, on comparative grounds, the amount of debt owed by 2022 alone at $800 billion does not appear to raise an alarm unlike when a huge economy such as China would have owed, where China in this case is a conglomeration of several entities/ countries. On the issue on debt-to-export ratio, she observed that unlike the London Agreement, where 5 % of the export revenue was extended to Germany during the World War I and II for debt service, Africa presently pay about three to four times of their export revenue to service their debts.

In addition, the net flows into Africa has taken a unique route, for instance, she pointed out the case of 2020 at the peak of Covid-19 pandemic where net flows into the region stood at zero, an amount equivalent to $ 1.7 billion compared to 2019 amount of $ 21.5 billion. This collapse was attributed to the retreat from private flows with only official flows from bilateral and multilateral flows reaching the region. Now, on the growing role of China, since 2000 it has progressively taken the void left by other countries with its bilateral disbursement keeps rising. Again in the 2000 when the Paris Club of countries stopped giving bilateral loans, China took the void, and with the massive flow of liquidity in advance economies post the global financial crisis, the bondholders and other private lenders have emerged to fill some of gaps left by the 11 member Paris Club countries. But when China is compared to other creditors in the Public-Public Guaranteed external debt, it accounts for 5% of low and middle income countries, 18% of IDA countries debts, and for Sub-Saharan Africa it accounts for 17% of its PPG debts. Again, at the time of Debt Service Suspension Initiative, China suspended 63% of its held 30% claims of the 46/73 countries.

The difficulty in Africa has been highlighted by a series of cascading crises that have limited the region's capacity towards debt obligation. For the 47 countries that had access to the global capital market after the global financial crisis, the recent crises, including the Covid-19 pandemic, Ukrainian war, Fed Monetary tightening, and the bank distress has led to these countries shifts in market access. Furthermore, she added that China has continued to play a new role by filling the financial void, and given the cascading crises that brought a new shift in the frontier economies, a development crisis will still require some debt financing.

Transparency and Accountability in external debts in the region –Veronica Ndegwa
African countries have a critical role in owning up to the borrowings they make even in the events of vulnerability that limit ability to repay. Given the responsibility to repay lies with the borrowers, the issues surrounding the transparency and accountability on the borrowings remain a huge concern in cases where data on public debts cannot be ascertained, and what is the value of transparency in debt-related agreements? What practical debt management practices have you observed in the region that do not really focus on debt renegotiation?

China has been on the receiving end, being accused of trapping the region in debt. On the issue of debt restructuring through the G20 Common Framework, the EXIM bank in China firmly pushed for a case by case basis on debt restructuring instead of service suspensions to the region as a whole. The Chinese investors have committed less investments to the region, the bilateral lending, mostly commercial. Again, China advances credit to Africa through a resource-backed model where countries commit their natural resource revenues to repay debt as evidenced in DRC and Ghana. Other borrowings from China focus on infrastructure, where the contracts have safeguarding mechanisms to ensure that countries repay the debts. Civil organisations have been on the frontline in flagging the nondisclosure agreements surrounding the loans and requirement to open special accounts to secure debt repayment. The Chinese lenders enjoy uneven lending space where they can end their contracts while claiming full repayment. The situation could be more similar with other countries were there access to debt-related information. As the call for transparency increases, there is a need to pay attention to these confidentiality clauses, since they form the basis for probing the terms of loan agreements made with the lenders. It becomes impossible to demonstrate how the loan has been utilized when there exists limited information on loan acquisition and reporting. Under such scenarios, the public will create speculations as has been seen in Kenya regarding the financing of the Standard Gauge Railway. Another case is Zambia, where the Chinese took over copper mines, a situation speculated to have resulted from the debt default. When such debt terms are shrouded in secrecy, chances of raising alarm are quite limited. In cases where a national asset is marked as collateral, the borrowing country loses its sovereignty when the lender has to seize the property during debt defaults. Lastly, lenders can use the debt terms to fast-track the strategic objectives, where conditions for granting loans have also seen creditors getting involved in trade and investments. Such arrangements fail to address the needs of borrowers as in most cases it leads to dumping of goods at the expense of the loans.

Diversification of financing sources- by Grace Namugambe

Challenges emanating from external debts, there are growing calls for diversification; for the region to seek alternative sources of financing. What strategies can the region opt for to reduce its overdependence on these foreign borrowings?

Echoing the preceding presentations, she observed an urgent need for the region to set clear measures for managing its debt even as it looks for other sources of financing for its development programs. One first core step is to establish a transparent system for managing our debts before considering other financing sources. A responsible borrowing culture would then mean that these debts should focus on productive sectors such as agriculture with a high internal rate of return instead of overemphasizing long-term projects. On diversifying sources of funds, mobilizing domestic resources in a way to curb illicit flows and tax evasion schemes can provide sufficient resources for the government. Other factors such as credit ratings for countries in the region become of concern since as the rating keeps going low, the loans advanced to the region attracts high interest rates due to their high risks. Apart from increasing taxes, ramping investments and trade within the regional blocks and the African Continental Free Trade Arrangement can create markets that generate revenue for the continent. Another strategy can involve collaboration on projects as a way of pooling resources and expertise.

At the national levels, countries should aim for financial inclusion to unlock domestic savings for more revenue. For the sustainability of the resources, a responsible extraction framework must be established so that the resources impact the livelihoods of the region. Lastly, countries should work towards occasional reviews that inform the public on the state of the debt.

Lessons from Zambia- by Peter Mumba

Bearing on the discussion on Africa to reduce its dependence on debt, Zambia offers a case study we can learn from regarding debt management. What lessons can we draw from Zambia?

He observed that Zambia found itself in an awkward situation due to an imprudent borrowing in the previous years. Previously, Zambia had benefited from heavily indebted poor countries initiative around 2005; around 2010, it acquired three Eurobonds to finance its infrastructural goals that were occasioned by new policy on infrastructure. Coupled with poor oversight on debts at the time of acquiring the Eurobonds, and the later impact of Covid-19, Zambia defaulted on its loan in 2020. More importantly, it should be understood that taking this path of development without proper means of sustaining debt repayment was a great oversight Zambia made. Even as Zambia went the route of debt restructuring, the need for setting up a legal framework for transparent and accountable operations remained paramount. As seen from the application for restructuring in the G20 Common Framework, it would be in order for countries to strengthen their bilateral ties such that the terms of loans can be reviewed in the event of a crisis.

Closing Remark

The panelist observed that we can edge towards pushing for transparency and accountability so that the money borrowed should be prudently used to create an impact for the people. On the Part of China, it would be prudent for them to put into consideration the situation facing Africa and form agreeable pacts that make them equal partners in the arrangement. Africa and China should engage in open and transparent way. Finally, Africa should learn to borrow responsibly and China to uphold responsible and transparent practices.

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This synthesis report has been prepared by Kevin Okoth Ouko, JENA Research and Policy Analyst (email: jeopolicyanalyst@jesuits.africa or kevinkouko@gmail.com)