COVID-19 and external debt in Africa

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Abstract

Amid the economic fallout of COVID-19, Africa faces a potential wave of sovereign debt crises, though there is also an opportunity for the continent to pursue new, more sustainable approaches to development financing.

This paper puts that opportunity in historical context, while considering the short- and long-term priorities for African governments and their partners. Due to Africa’s growing debt burden and a decline in the share of concessional debt to total public external debt over recent decades, debt servicing costs have increased at rates that outpace economic growth and domestic revenue generation, thereby narrowing fiscal space and jeopardizing macroeconomic stability. Governments’ private borrowing (e.g. commercial bank lending and foreign currency-denominated bonds) has also increased their exposure to currency and rollover risks and has complicated prospects for debt resolution and restructuring. Although the evolution of debt dynamics has increased Africa’s vulnerabilities, exposing the region to significant risks in the wake of COVID-19, these challenges may force significant reforms to borrower-creditor relationships throughout the continent, providing African governments with an opportunity to rethink their strategies for sustainable and balanced growth.
COVID-19 and external debt in Africa

Executive summary

The combined effects of a global economic slowdown, sharp declines in commodity prices, disruptions to domestic economic activity and the costs of measures to prevent or contain COVID-19 outbreaks have dealt an extreme shock to all African countries.

Of particular concern is how the COVID-19 economic shock may exacerbate Africa’s debt vulnerabilities.

Africa’s debt levels were already elevated before the crisis. In many countries, high public debt levels and large debt servicing obligations now present significant near-term risks. Efforts to address these risks, however, should extend beyond short-term fixes. COVID-19 thus represents a historic opportunity for Africa to meaningfully and urgently address debt vulnerability, as part of a broader economic transformation towards a more sustainable and resilient growth path.

Recent African debt can be divided into two historical periods: (i) the period leading up to debt crisis in the mid-1990s, which spurred the creation of major debt relief initiatives; and (ii) the period following these initiatives, starting in the 2000s, when Africa’s debt dynamics evolved and became considerably more complex.

Since 2000, the structure of Africa’s public debt has evolved dramatically due to three main reasons:

1. **The increasing share of private debt.** From 2000 to 2017, sub-Saharan Africa’s share of private borrowing in external debt rose from 9 percent to 17 percent. There has been a significant increase in the issuance of foreign currency-denominated bonds (eurobonds) by a growing number of African countries.

2. **The rise of China.** During Africa’s debt crisis in the 1990s, the continent’s most influential bilateral creditors were members of the Paris Club. Since then, however, Chinese loan commitments have increased, totalling at least $148 billion between 2000 and 2018. As a result, the share of Africa’s bilateral debt held by members of the Paris Club declined from 15 percent in 2008 to less than 7 percent in 2017.

3. **The increasing cost of debt.** Shifts in debt and creditor composition have made Africa’s debt more expensive over time. Since 2000, Africa’s share of concessional debt sources has declined considerably. Collateralized borrowing has also increased costs. From 2013 to 2017, sub-Saharan Africa’s median interest payments-to-revenue ratio increased from 5 percent to nearly 10 percent, and from 2 percent to 15 percent for oil-exporting countries.

The COVID-19 pandemic may well prove to be another major turning point for Africa’s debt. The International Monetary Fund (IMF) projected that sub-Saharan Africa’s debt-to-gross domestic product (GDP) ratio would rise to 65.6 percent in 2020, though this average may have been overly optimistic and disguises a high degree of heterogeneity among countries. A specific concern is the ‘wall’ of eurobond issuances reaching maturity in the coming years. If African governments become locked out of international markets, these burdensome schedules of maturing foreign currency debt could pose significant rollover risks.

To avert these adverse impacts and free up fiscal space for the COVID-19 response, most African countries are exploring ways to reduce their debt burdens. While broad-scale debt relief in the style of the Heavily Indebted Poor Countries (HIPC) Initiative or the Multilateral Debt Relief Initiative (MDRI) is not currently being envisaged by Africa’s creditors, two key efforts have been initiated:

- **The IMF’s Catastrophe Containment and Relief Trust (CCRT)** has provided 23 of Africa’s poorest and most vulnerable countries with debt relief totalling $399 million to date, covering IMF debt service obligations between April 2020 and April 2021.

- **The Debt Service Suspension Initiative (DSSI)** offers a moratorium on debt service payments due to participating bilateral creditors between May 2020 and June 2021 for 38 eligible countries in Africa, with potential savings of $11.2 billion. To date, at least 29 African countries have signed up to participate.
However, these efforts face significant limitations, namely:

- **Insufficient size.** Although the CCRT and DSSI offered some breathing space in 2020 and early 2021, their impact is small compared to the scale of Africa’s debt burden and the expected economic impacts of COVID-19.

- **Narrow scope.** With country eligibility based primarily on per capita income, the CCRT and DSSI exclude 16 primarily middle-income African countries, many of which have been hit particularly hard by COVID-19 and its economic impact.

- **Temporary nature.** Although the CCRT and DSSI were recently extended into 2021, the health and economic impacts of COVID-19 and Africa’s increasing debt vulnerabilities are likely to extend far longer.

- **Suspension, not relief.** Under the DSSI, eligible bilateral debt service obligations of participating countries will be suspended for a one-year grace period, after which the countries will have five years to service the suspended payments.

- **Limited official creditor participation.** Including DSSI-eligible countries’ debt service payments to multilateral development banks (MDBs) could provide additional global savings of as much as $7 billion in 2020 and nearly $10.6 billion in 2021, which has led to calls for MDBs to join the initiative. This is highly unlikely, however, due to the MDBs’ concerns about jeopardizing their triple-A credit ratings.

- **Uncertain private creditor participation.** Suspension of private debt service obligations for DSSI-eligible countries could offer additional potential global savings of $10.2 billion in 2020 and $12.6 billion in 2021. However, the voluntary nature of the private sector’s participation, the insistence on net present value (NPV) neutrality, and countries’ fears of potential consequences to their creditworthiness make any significant private debt service suspension highly unlikely.

Recognizing that the CCRT and DSSI may not be enough given the scale of COVID-19’s economic impact, in November 2020, the G20 agreed to establish a ‘Common Framework for Debt Treatments Beyond the DSSI’. In the event of debt difficulties in DSSI-eligible countries, a common framework could facilitate timely, coordinated and orderly debt treatments with broad creditor participation, including the private sector. Although this effort is a significant and welcome development, it replicates a number of the same limitations.

Given the likelihood that many African countries may face large financing gaps for the foreseeable future, this paper offers three key categories of recommendations:

- **Short-term recommendations:** To increase fiscal space and bolster African governments’ COVID-19 response efforts, current debt relief and suspension programmes must be significantly strengthened, scaled up and improved. To be successful, African countries and their creditors must urgently improve debt transparency, maximize sources of concessional financing and promote near-term solutions to address the risks of disorderly private sector debt resolution.

- **Long-term recommendations:** After the crisis, African countries and their creditors must work together to rethink how the continent’s development can be financed more responsibly and sustainably. Given the unprecedented global shock of COVID-19, the very definitions of debt sustainability, solvency and sustainable development may need to be adapted in the post-COVID-19 era. As reflected in the G20’s proposed common framework, fundamental shifts are needed in the international sovereign debt architecture. For Africa to achieve the Sustainable Development Goals (SDGs), new and creative solutions for sustainable finance must also be developed.

- **New African growth strategies:** African governments should harness the opportunity presented by the current crisis to devise and embrace new strategies for more sustainable economic growth. With fewer resources at their disposal, countries must seek to ‘build back better’ in order to maintain macroeconomic sustainability, avoid the next wave of debt crises and pursue more resilient development strategies. In particular, African countries must urgently implement long-overdue domestic policy reforms, including efforts to strengthen public financial management, increase revenues, improve debt management, accelerate governance and anti-corruption measures and pursue innovative financing mechanisms to scale up efforts to achieve the SDGs.
Introduction
Introduction

Although the COVID-19 pandemic has spread more slowly in Africa than originally feared, with lower infection rates than other parts of the world, the worst may be yet to come.

The continent reached 1 million confirmed cases of the virus in early August 2020, more than five months after its first case, with South Africa representing almost half of the total case count. However, the region is still experiencing outbreaks, most countries’ testing capacity is weak, and some indicators suggest that the spread of the virus is more extensive. Despite the pandemic’s ‘slower’ spread in Africa, the severe economic impacts throughout the continent were immediately clear. Despite the reopening of economies, the combined effects of the global economic slowdown, sharp declines in commodity prices, disruptions to domestic economic activity and costs of measures to prevent or contain COVID-19 outbreaks have dealt an unprecedented shock to all African countries. What is perhaps most concerning though, is that Africa’s high pre-pandemic debt levels threaten to turn this shock into a protracted crisis.

Debt is an integral part of the economic development process. In many developing countries, especially in Africa, it is difficult for governments to raise sufficient capital to meet their investment needs, with under-developed financial systems and low levels of financial inclusion leading to a savings-investment gap. Africa’s annual investment needs are estimated to be anywhere from $93 billion (Foster and Briceño-Garmendia, 2010) to $130–170 billion (African Development Bank [AfDB], 2018). For the sub-Saharan Africa region alone, achieving the infrastructure-related Sustainable Development Goals (SDGs) by 2030 is estimated to require additional annual spending amounting to 9 percent of the region’s gross domestic product (GDP) (Rozenberg and Fay, 2019). Debt can be essential for addressing such immense gaps, provided that the financing is used for productive purposes (Semmler and Sieveking, 2000; Easterly, 2002; Ferrarini, 2008). In fact, most African countries have relied on external financing to accelerate their development since gaining independence. Although Africa’s borrowing has supported growth, in many cases it has also heightened debt vulnerabilities, increased the risks of debt distress and led to a broader deterioration of public finances (Yang and Nyberg, 2009; Calderon and Zeufack, 2020). Most African countries have not been able to achieve debt sustainability, which is a common consequence among countries or regions that have accumulated significant debt.

For years, experts have increasingly warned about the risks of Africa’s increasing debt burden (such as Arezki et al., 2018; World Bank, 2018). For the most part, however, this has failed to change the continent’s borrowing habits. In the face of COVID-19, debt risks in Africa have heightened.

Without significant efforts, the pandemic’s economic impacts could lead many African countries into debt crises.

When debt accumulation followed by a crisis has occurred elsewhere, it has typically resulted in periods of weak or negative economic growth (Ayhan Kose et al., 2020). To avert a cascade of debt crises and protracted economic slowdown, African countries and their creditors must act decisively. Although some efforts are being made, such as the temporary suspension of bilateral debt service obligations for low-income African countries, they have significant limitations, including the likelihood that any freed-up ‘breathing space’ will only be used to pay other creditors, rather than to contribute to the COVID-19 response. Much more must be done. Given the unprecedented nature of COVID-19 and the severity of its economic impacts, all stakeholders must think creatively and go beyond the standard approaches to sovereign debt restructuring.

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1 This includes estimated capital investments and maintenance costs for electricity, transport, water and sanitation, flood protection and irrigation infrastructure.
By drawing urgent attention to Africa’s debt vulnerabilities, the COVID-19 shock presents the region with an unparalleled opportunity to fundamentally transform its approaches to debt sustainability and economic growth. This paper puts that opportunity in historical perspective, assesses current efforts and makes recommendations for the road ahead. Focus is placed on external public and publicly guaranteed debt, given that external debt poses more risk to African sovereigns than domestic debt, and corporate debt levels in Africa are relatively low outside of key markets such as South Africa. Potential debt crises in Africa are most likely to be those involving external sovereign debt.

The paper is organized as follows: section 1 summarizes the economic impacts of COVID-19 on Africa. Section 2 details how Africa’s sovereign debt dynamics have evolved in recent decades and the resulting impacts of these changes. Section 3 identifies current efforts to release some countries from their immediate debt challenges, before assessing why these efforts are woefully inadequate. The final section outlines the urgent need for new approaches to avert near-term crisis and seize upon the opportunity to address long-overdue reforms.

Africa is at a critical moment. Despite the potential for certain disaster, COVID-19 presents the continent and its partners with an opportunity to truly ‘build back better’.
1. Impact of COVID-19
1. Impact of COVID-19

Africa felt the economic impacts of COVID-19 immediately.

In sub-Saharan Africa, second-quarter growth fell by 10.9 percent compared with the same quarter in 2019, which is the region’s worst economic performance on record (International Monetary Fund [IMF], 2020a). As a result of the continent’s largely informal economies, relatively shallow financial markets and banking systems, and thin fiscal buffers, several African governments lack many of the tools available to advanced economies to counteract the pandemic’s economic impacts. In sub-Saharan Africa, for example, countries’ COVID-19-related fiscal packages averaged only 3 percent of GDP (IMF, 2020b), compared with more than 11 percent of GDP for G20 economies (Segal and Gerstel, 2020).

Sub-Saharan Africa’s economy was projected to contract by 3 percent of GDP in 2020 (IMF, 2020b), ending nearly three decades of consistently positive growth for the region, while North Africa’s economy was projected to contract by 2.3 percent (AfDB, 2020a).

This is a significant growth reversal, shaving several percentage points off both regions’ projected 2020 growth rate. The downturn is driven by Africa’s two largest economies, Nigeria and South Africa, which were projected to contract by 4.3 percent and 8 percent, respectively, in 2020. Tourism-dependent economies were hit particularly hard, with growth declining by about 17 percentage points in Mauritius and the Seychelles compared to late 2019 (IMF, 2020b). The fall in oil prices also hit Africa’s oil-exporting countries hard, with expected average contractions of 4 percent. Although Libya’s data reliability is low, its fragile oil-dependent economy was expected to shrink by about 67 percent in 2020. However, some countries with more diversified economies were still expected to achieve modest growth in 2020. For example, Africa’s third-largest economy, Egypt, was expected to grow by 3.5 percent, owing largely to recent structural reforms supported by the IMF. Some of Africa’s other major economies also had modest 2020 growth forecasts, such as Rwanda (2 percent), Ethiopia (1.9 percent), Côte d’Ivoire (1.8 percent) and Kenya (1 percent) (IMF, 2020b).

Due to COVID-19, these forecasts are subject to numerous downside risks and a high degree of uncertainty, though together they represent a significant economic slowdown for the African continent. The pandemic also had stark socio-economic impacts. Despite many countries expanding their social safety net support, initial lockdowns were particularly painful in Africa due to the high shares of informal employment and low household savings buffers. Many informal workers have become unemployed during the pandemic, due to the significant impact it has had on sectors such as retail, tourism and transport. In South Africa, for example, employment fell by 14 percent in the second quarter of 2020. According to the World Bank, the crisis is expected to push 26 million people in sub-Saharan Africa into extreme poverty (IMF, 2020b).

Despite some tentative signs of recovery in the latter half of 2020, the economic impacts of COVID-19 will continue to be felt in Africa for some time. Sub-Saharan Africa’s growth is expected to recover to 3.1 percent in 2021, close to the 2019 rate of 3.2 percent. This growth is smaller compared with other regions, which partly reflects the continent’s limited capacity for expansionary fiscal policies. Forecasts are also subject to major uncertainty around the unfolding epidemics in Africa and its major trading partners. For Africa’s largest economies, growth may not return to pre-crisis levels until 2023 or 2024 (IMF, 2020b).

The crisis is putting significant pressure on Africa’s already-strained public finances. Governments are struggling to meet large and unexpected health and social sector costs amid dramatic revenue declines from slowing economic activity. Across sub-Saharan Africa, government revenues were projected to decline by 10–15 percent in 2020, with average revenue-to-GDP decreasing by 2.6 percentage points from 2019 levels. Revenues in oil-exporting countries were particularly hard hit from the fall in oil prices in early 2020, with tourism-dependent countries also experiencing sharp drops. Despite efforts to reprioritize budgets, the average fiscal deficit for sub-Saharan Africa was expected to widen to 7.6 percent of GDP, almost doubling the 2019 average of 4.4 percent (Ibid).
Access to financing during the downturn will be a significant challenge for most African countries.

 Tightening global financing conditions between February and May 2020 resulted in capital outflows of nearly $5 billion from sub-Saharan Africa, which was equivalent to 1.25 percent of GDP in South Africa, 0.75 percent in Côte d’Ivoire and 0.5 percent in Ghana. Sub-Saharan Africa’s average emerging market bond index spread widened by over 1,000 basis points (bps). Despite global financing conditions having become more accommodative, investment flows to Africa are recovering tentatively (Institute of International Finance [IIF], 2020a). Borrowing costs remained elevated for most of 2020, foreign direct investment reached historic lows and remittances were expected to decline by as much as 20 percent (IMF, 2020b). African central banks responded by easing monetary policy, in many cases significantly, with benchmark interest rate reductions of as much as 500 bps in Zambia and 275 bps in South Africa, and liquidity injections of as much as 3 percent of GDP in Zambia and 2.4 percent in Nigeria. Some central banks, such as the Bank of Ghana, also announced willingness to finance the government’s deficit spending, a monetary policy that carries significant risks. Exchange rates depreciated or were adjusted downward in many countries, which, among other impacts, increased the cost of servicing foreign currency-denominated debts, with average inflation in sub-Saharan Africa projected to increase from 8.5 percent in 2019 to 10.6 percent in 2020 (IMF, 2020b). With its 12-year €1 billion eurobond issuance in November 2020, Côte d’Ivoire became the first sub-Saharan African country to issue a eurobond since the onset of COVID-19. Countries such as Ghana and Kenya are expected to follow suit in 2021 (Fitch, 2020).

In later sections, this report discusses recent debt relief and suspension efforts of Africa’s international partners to help address the continent’s near-term challenges. In addition to those efforts, the IMF, World Bank, African Development Bank (AfDB) and other partners are providing significantly stepped-up levels of financial support to Africa in the wake of COVID-19. As at late November 2020, the IMF has approved assistance packages totalling $25.4 billion for 39 African countries (IMF, 2020c). The World Bank has approved projects for 33 African countries as part of its $160 billion planned global financing for health, economic and social programmes in response to COVID-19 (World Bank, 2020a). The AfDB has established a $10 billion COVID-19 Response Facility and approved projects for most African countries (AfDB, 2020b). Many bilateral donor countries have also extended or announced significant health and economic support for Africa.

Near-term economic support for Africa

<table>
<thead>
<tr>
<th>IMF</th>
<th>The World Bank</th>
</tr>
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<tbody>
<tr>
<td>$25.4 billion</td>
<td>$160 billion</td>
</tr>
<tr>
<td>39 countries</td>
<td>33 countries</td>
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</table>

AfDB
$10 billion
Most countries

While significant, these efforts are unlikely to be sufficient given the scale of the negative economic impacts Africa will face in the coming months and years. The IMF estimates that sub-Saharan Africa’s funding shortfall could reach $890 billion over 2020–2023, of which $130–410 billion has yet to be identified (IMF, 2020b). Faced with deteriorating financial conditions and significant fiscal pressures, many African governments are being forced to postpone, reduce or cancel current and capital spending in order to respond to the COVID-19 crisis. Without additional financing, forced consolidations would significantly threaten Africa’s prospects for growth recovery.

Of particular concern is how the COVID-19 economic shock may exacerbate Africa’s debt vulnerabilities, especially when considering that the continent’s debt levels were already elevated before the crisis (Table 1). In the event of a deep and protracted recession, high public debt levels and large debt servicing obligations could present significant risks in many countries. Efforts to address these risks, however, should go beyond short-term fixes. COVID-19 thus represents a historic opportunity for Africa to meaningfully address debt vulnerability by reshaping its strategy for sustainable growth and economic transformation.

To understand these risks and opportunities, it is important to understand how Africa got to where it is today.
2. Implications for debt sustainability
Debt risks in Africa, which were already high before COVID-19, are now materializing.

In many African countries, high debt servicing costs threaten to crowd out much-needed fiscal space for governments’ health and economic responses. In the medium-term, without aggressive efforts by African borrowers, their creditors and key international stakeholders, the pandemic’s economic impacts could lead many African countries into debt crises. This would be a major setback to development progress on the continent and would seriously jeopardize the achievement of the United Nations SDGs by 2030. To better assess how these risks can be avoided, this section explores Africa’s recent debt trends and current dynamics.

Africa’s debt trends before COVID-19

Recent African debt can be divided into two historical periods: (i) the period leading up to debt crisis in the mid-1990s, which spurred the creation of major debt relief initiatives; and (ii) the period following these initiatives, starting in the 2000s, when Africa’s debt dynamics evolved and became considerably more complex.

Debt accumulation in the 1980s and 1990s

The causes of Africa’s debt crisis in the late 20th Century were both global and domestic. After years of aggressive expansionary fiscal policies, oil price shocks and a global recession led to reduced export earnings and government revenues for many African countries. Rising global interest rates following United States monetary policy shifts in the early 1980s and Africa’s poor macroeconomic conditions (including unsustainable exchange rate policies, unaffordable subsidy regimes and rising inflation) then led to significant capital outflows and higher debt servicing costs on market-based loans. To keep financing their investment priorities despite these circumstances, African governments took on even more debt, particularly concessional debt from official multilateral and bilateral creditors such as the World Bank, the IMF and advanced economies. Much of this borrowing was conditional on ‘structural adjustment’ policy frameworks, including fiscal austerity measures, which on the whole did not produce their intended results. During this period, African countries experienced stagnant growth and poor revenue performance, leading to even higher debt service burdens requiring debt rescheduling, refinancing and additional borrowing. From 1980 to 1987, Africa’s external debt-to-gross national income (GNI) ratio rose from 49 percent to 104 percent (Fole, 2003; Fosu, 2010; Coulibaly, Gandhi, and Senbet, 2019; Onyekwena and Ekeruche, 2019; Brautigam, Huang, and Acker, 2020; Landers, 2020).

The resulting defaults and debt crises led to two international efforts, spearheaded by the World Bank and IMF: the Heavily Indebted Poor Countries (HIPC) Initiative, which was established in 1996 to provide debt relief and reduce debt service payments up to 80 percent for eligible countries, and the Multilateral Debt Relief Initiative (MDRI), which was launched by the IMF in 2005 to provide full debt relief on eligible debt. Under the HIPC Initiative and MDRI, 30 African countries (all in sub-Saharan Africa) have obtained debt relief of $99 billion as at the end of 2017. From 1993 to 2010, the HIPC Initiative and MDRI helped to significantly reduce sub-Saharan Africa’s external debt-to-GDP ratio from 89 percent to 21 percent (IMF, 2020d).

Debt evolution and complexity: 2000 to present

Since the HIPC Initiative and MDRI, Africa’s debt levels have risen again, though the nature of debt accumulation has changed. After stabilizing in the 2000s (reflecting the effects of debt relief), borrowing resumed before accelerating significantly after the 2008–2009 global financial crisis amid easing global financial conditions. Africa’s public debt rose from about 35 percent of GDP in the early 2010s to about 55 percent of GDP in the mid-2010s (Figure 1) (IMF, 2020b). While median debt levels across the globe rose during this period, the increases were largest in Africa (IMF, 2019a; IMF and World Bank, 2020). Although this report focuses on external debt, Africa has seen an almost equal increase in domestic debt (i.e. issuances of government bonds on local debt markets, with local commercial banks as creditors) since 2000.
As in the earlier period, governments borrowed to meet growing public expenditure and make much-needed investments in infrastructure and human capital, relying on expectations of future growth and steady export earnings to service the debt. In some countries, debt-financed fiscal deficits were matched by higher public investment. In other countries, however, borrowing led to increases in current consumption, such as public sector wages or, in some cases, illicit transfers abroad (Coulibaly, Gandhi, and Senbet, 2019; Essl et al., 2019). In resource-rich countries, negative commodity shocks typically resulted in more borrowing rather than reduced expenditure. As debt levels rose, domestic revenue generation stagnated or grew only modestly in most countries. Between 2000 and 2019, sub-Saharan Africa’s average revenue-to-GDP ratio declined from 22 percent to 18 percent (IMF, 2020e). The combination of increasing debt service and declining revenues led to deteriorating primary balances.

**Between 2000 and 2008, sub-Saharan Africa had an average primary surplus of 2.5 percent of GDP. Between 2009 and 2019, this shifted to an average primary deficit of -1.8 percent of GDP (Ibid).**

The period also saw improvements in debt management for some African countries, but the continent’s overall debt management capacity is still weak compared with other regions.

For example, sub-Saharan African performance in debt management on the World Bank’s Country Policy and Institutional Assessment (CPIA) declined from 3.34 to 3.07 (on a scale from 1 to 6) between 2014 and 2018, which was lower than any region except the Middle East and North Africa (Onyekwena and Ekeruche, 2019). In some countries, a lack of debt transparency and weak anti-corruption institutions may have led to the misuse of external financing.

**Strengthened debt management frameworks, improved debt transparency and better risk management strategies are important achievements and must continue.**

Although Africa’s debt levels are far from their mid-1990s peaks and were broadly stabilizing (and expected to start declining) in recent years following many countries’ adoption of fiscal consolidation strategies, there is a high degree of heterogeneity among countries. Between 2014 and 2016, for example, debt levels surged in resource-rich countries affected by the global commodity price slump and resulting terms-of-trade shocks. External debt levels have also increased more rapidly across the continent in recent years, rising from an average of 14 percent of GDP between 2010 and 2016 to 23.4 percent of GDP in 2019 (Ibid). More broadly, Africa’s recent period of debt accumulation is marked by significant shifts in debt composition, which pose distinct risks amid the COVID-19 crisis.

**Figure 1. Debt-to-GDP ratio (%), 1970–2018**

![Debt-to-GDP ratio (%), 1970–2018](image)

Shifts in external debt composition

As Africa’s public debt has increased, its structure has evolved dramatically (Figure 2). The continent’s earlier period of debt build-up was characterized by high levels of borrowing from ‘traditional lenders’ (i.e. bilateral debt from advanced economies and multilateral debt from international financial institutions such as the World Bank and IMF). Although these traditional lenders maintained significant levels of support to Africa following the HIPC Initiative and MDRI, their share of Africa’s overall debt declined as other sources, including domestic sources, increased. By 2017, debt from traditional lenders accounted for roughly only a quarter of Africa’s total public debt (IMF, 2019b).

The composition of Africa’s external debt, in particular, has changed significantly, and is marked by three interrelated shifts: an increasing share of private debt; the emergence of new bilateral creditors, particularly a surge in borrowing from China; and the increasing cost of debt.

Increasing share of private debt

From 2000 to 2017, sub-Saharan Africa’s share of private borrowing in external debt rose from 9 percent to 17 percent due to a number of factors (Coulibaly, Gandhi, and Senbet, 2019). For countries without market access, syndicated loans arranged by commercial banks increased significantly during this period. External debt contracted by African state-owned enterprises (SOEs) also played a role, as did contingent liabilities arising from financing mechanisms such as public-private partnerships, though these types of obligations are often not clearly measured or disclosed in public debt statistics. The largest factor, however, was a significant increase in the issuance of foreign currency-denominated bonds (eurobonds) by a growing number of African countries (IMF, 2019c). As such, Africa’s increasing share of private external debt is driven by the continent’s high- and middle-income countries (HICs and MICs), as opposed to low-income countries (LICs).

**Figure 2. Composition of Africa’s external debt (%/GDP), 2000–2018**

Source: World Bank (undated b).
South Africa issued Africa’s first eurobond in 1995, with other countries following suit during the 2000s. This trend accelerated after the global financial crisis, as low interest rates in advanced economies drove investors to emerging and frontier markets in search of higher yields. While Egypt, Nigeria and South Africa represent the majority of issuances, middle-tier African economies (e.g. Angola, Côte d’Ivoire, Ghana and Kenya) have also borrowed significantly, with smaller economies (e.g. Benin, Gabon and Senegal) having entered the market in recent years. Investor appetite for African debt grew despite increasing concerns about debt sustainability, widening yield spreads and downgrades of several African sovereigns by the major credit rating agencies.

In total, 21 African countries have issued eurobonds to date, with approximately $119 billion outstanding at the onset of COVID-19 (Figure 3) (Smith, 2020).

While expanded access to international markets is a welcome achievement, offering African governments more diverse financing sources and subjecting their economies to the discipline and scrutiny of global financial markets, the shift also carries several risks if not well-managed. In particular, reliance on foreign currency-denominated debt exposes African governments to factors beyond their control, such as global market volatility and exchange rate risk, or the risk that depreciation of a country’s domestic currency will increase the relative cost of servicing debt in a foreign currency. As many African currencies are currently under pressure, this is a particular concern in the COVID-19 era. Most of Africa’s eurobonds are denominated in United States dollars, though euro-denominated issuances have become more common. Eurobonds also pose unpredictable rollover risks. Despite African governments taking advantage of favourable market conditions to refinance more expensive short-term debt with relatively less expensive eurobonds, they may face rollover difficulties when the eurobonds are due. Most African issuances have been limited to medium-term maturities (most are 10-year), though longer-term maturities have become more common, including several recent 30-year issuances (Ibid). Finally, private debt poses challenges for debt resolution, a topic that will be explored in the next section.

As a result of these shifting dynamics, 42 percent of Africa’s debt service obligations in 2020 was owed to private creditors, with similar trends persisting over the medium-term (Figure 4). While bilateral and multilateral debt still comprises the majority of African LICs’ debt service obligations, approximately 30 percent of LICs’ debt service in 2020 was owed to private creditors, with slightly lower shares in the medium-term (Figure 5).
Figure 4. Projected debt service composition (%), Africa, 2020–2026

Source: Johns Hopkins University School of Advanced International Studies, China–Africa Research Initiative (SAIS-CARI) (2020).

Figure 5. Projected debt service composition (%), LICs, 2020–2026

Source: Johns Hopkins University SAIS-CARI (2020).
**Emergence of new creditors, particularly China**

There has also been a significant shift in Africa’s bilateral debt with the emergence of new creditors. During Africa’s debt crisis in the 1990s, the continent’s most influential bilateral creditors were members of the Paris Club, a group of 22 mostly Western creditors established in the mid-20th Century to establish standards, share data and coordinate sovereign debt restructuring and resolutions. While these countries still provide significant support to Africa, the share of their lending (and lending from traditional multilateral institutions) has declined compared with other sources of financing. Of Africa’s new ‘non-traditional’ bilateral partners, China is by far the most prominent. This too parallels global trends, as the Chinese Government is now estimated to be the largest official source of development finance in the world, surpassing all multilateral and bilateral lenders (Morris, Parks, and Gardner, 2020a).

Since 2007, China has accounted for more than 40 percent of the rise in global debt, driven in recent years by lending for the Belt and Road Initiative (IIF, 2020b).

In Africa, Chinese loan commitments totalled at least $148 billion between 2000 and 2018, including loans subsidized by the Chinese Government, export credits and commercial loans (Brautigam, Huang, and Acker, 2020). As a result, the share of Africa’s bilateral debt held by members of the Paris Club declined from 15 percent in 2008 to less than 7 percent in 2017 (Coulibaly, Gandhi, and Senbet, 2019). Most Chinese financing in Africa goes to infrastructure projects, particularly transportation, energy and mining (Figure 6) (Soto and Hill, 2020). Chinese loans to resource-rich Angola ($43 billion) represent nearly a third of China’s total commitments in Africa, the majority of which were committed in 2016 as Angola faced significant commodity price shocks. Ethiopia and Kenya have been the next largest recipients of Chinese loans (Brautigam, Huang, and Acker, 2020). Nigeria, South Africa, Sudan, Uganda and Zambia have also received considerable financing through Chinese lending (Figure 7). As discussed later in this section, Chinese loans vary considerably by lender and type of project, though their financing tends to be less favourable than other official creditors. While this trend may enable China to lend at much higher volumes than traditional bilateral lenders (which seek to lend on more concessional terms), it has likely driven the increase in Africa’s overall cost of borrowing in recent years.
Figure 6. Estimated Chinese loan commitments in Africa by sector (US$ thousands), 2020–2018

Source: Johns Hopkins University SAIS-CARI (2020).

Figure 7. Estimated Chinese loan commitments in Africa by recipient country (US$ thousands), 2000–2018

Source: Johns Hopkins University SAIS-CARI (2020).
An important distinction between Africa’s traditional and new creditors is debt transparency. Paris Club membership includes obligations for sharing data on bilateral loan commitments, disbursements and repayments, which is a critical tool for coordinating orderly debt restructuring among creditors. By contrast, the Chinese Government discloses very little data about its foreign financing activities. Most estimates of China’s foreign lending are the result of academic analyses of secondary sources, such as contractor websites and media sources. The China–Africa Research Initiative (CARI) at the Johns Hopkins University School of Advanced International Studies (SAIS), for instance, has tracked 1,077 loan commitments between Chinese financiers and African governments or their SOEs. Although the data do not cover loan disbursements or repayments (and thus do not shed light on outstanding debt exposure), SAIS-CARI estimates that Chinese lending represents about 22 percent of Africa’s public debt stock and 29 percent of debt service (Braithigam, Huang, and Acker, 2020). Another recent multi-year data-gathering effort, however, estimates that as much as 50 percent of China’s loans, portfolio debts and trade credits to developing countries are unreported. Accounting for these ‘hidden debts’ means that China’s outstanding debt claims on the rest of the world may be equivalent to more than 6 percent of global GDP (Horn, Reinhart, and Trebesch, 2019).

Recognizing the challenges and dangers posed by these data gaps have resulted in increased calls for China to join the Paris Club in recent years. At present, China is an observer of the Paris Club, a status that does not require the Chinese Government to share its data. However, in November 2020, China agreed to a G20 proposal to establish a ‘Common Framework for Debt Treatments’, which may result in greater debt transparency in the future, as discussed later in this report.

Another aspect of Chinese lending that could expose borrowers to elevated risks is collateralized lending, i.e. securing repayment on a project loan with a specific asset or revenue stream as collateral. By reducing the creditor’s risk and lowering borrowing costs, collateralized lending allows China to lend higher volumes and often leads to greater use of Chinese goods and services for African infrastructure projects. However, this practice is somewhat misunderstood. According to analysis of China’s collateralized lending in Africa, commodity-secured loans account for 25 percent of the country’s loan commitments to date, three fourths of which are loans to Angola secured by oil exports (Braithigam, Huang, and Acker, 2020). With regards to property being used as collateral, only one case was identified – a Chinese-funded petroleum refinery in Chad. Most agreements instead secure repayment through a future funding stream (e.g. natural resource receipts or other project revenues) or with future exports. The IMF has highlighted the risks of collateralized borrowing, including its potential to complicate sovereign debt restructuring, while noting that related collateral is preferable to unrelated collateral as it preserves some risk-sharing between the lender and the borrower (IMF, 2020f). However, as noted, it is impossible to know the exact nature, scope or terms of China’s lending in Africa without more transparent debt data from the Chinese Government.

The net effect of Africa’s shift in its creditor base is extensively debated. Although new lenders offer a more diversified portfolio of funding sources, the large number of creditors may complicate debt management and would almost certainly complicate debt resolution, as discussed in the next section.

**Increasing cost of debt**

The combination of shifts in debt and creditor composition have made Africa’s debt more expensive over time. While the larger share of private, market-based external debt clearly carries higher debt servicing costs, the shift in bilateral and multilateral creditors has also increased the cost of Africa’s debt. This is because loans from Paris Club bilateral creditors or multilateral institutions such as the World Bank are typically offered on more ‘concessional’ terms (i.e. more favourable interest rates, maturities and grace periods compared with market-based terms). Since 2000, Africa’s share of concessional debt sources has declined considerably (World Bank, 2018).

Recent analysis of global debt trends in LICs suggests that average terms for bilateral loans have become less concessional over time (Lee et al., 2020). Defining concessionality as loans with a grant element of at least 35 percent, the analysis found that only 27 percent of bilateral loans to LICs were offered on concessional terms between 2016 and 2018 compared with 81 percent of multilateral loans. Likewise, only 14 percent of debt service on bilateral loans went towards payments on concessional loans compared with 58 percent of debt service on multilateral loans. Notably, the concessionality of bilateral loans and their debt service was higher during 2007–2018. Although comprehensive data on bilateral loans and their terms are lacking, the Organisation for Economic Co-Operation and Development’s (OECD) Development Assistance Committee (DAC) (a group of 30 traditional bilateral donors that includes most European countries, Japan and the United States of America) has found that loans from DAC members are three times as likely to be concessional as loans from non-DAC members (Organisation for Economic Co-operation and Development [OECD], 2020).
The increasing costs of bilateral debt may be due to China’s increasing role as a creditor. Recent analysis has compared the terms of Chinese loans in 157 countries from 2000 to 2014 to the terms offered by the World Bank. The analysis found that nearly all Chinese loans have some degree of concessionality, but that Chinese terms are, on average, less favourable than World Bank terms, perhaps in part driven by domestic lending practices in China. The average interest rate of Chinese loans in the analysis was 4.14 percent compared with the World Bank’s average interest rate of 2.10 percent. Average maturities were roughly comparable, but the average grace period on Chinese loans (4.8 years) was almost half as generous as the average World Bank grace period (7.7 years) (Morris, Parks, and Gardner, 2020b). Of course, other recent analysis indicates that Chinese loans vary considerably by lender and type of project, and that Chinese domestic interest rates are considerably higher than the OECD average. There is also some evidence that interest rates on some Chinese debt, namely export credits, have substantially decreased during the last decade (Brautigam, Huang, and Acker, 2020). As noted, these trends may enable China to lend at higher volumes, which offers potential advantages for addressing Africa’s large infrastructure gaps and development needs. However, the implications for debt sustainability are more problematic.

Africa’s shift towards more expensive, less concessional debt has caused rising debt service and interest payment costs to consume an ever-larger share of scarce government revenues. From 2013 to 2017, the average interest payments-to-revenue ratio increased from 5 percent to nearly 10 percent for sub-Saharan Africa, and from 2 percent to 15 percent for oil-exporting countries (Figure 8) (IMF, 2018; IMF, 2019d). Increasing debt service without equivalent revenue increases has narrowed governments’ fiscal space, undermined fiscal buffers and constrained public expenditure on social services and the health sector, all of which may have made Africa more vulnerable to large-scale health and economic shocks such as COVID-19.

**Figure 8. Debt service-to-revenue ratio (%), 1990–2018**

Debt risks in the face of COVID-19

Even before COVID-19, many African countries faced significant debt risks (Tables 1 and 2). Africa’s debt levels were only just beginning to stabilize before the sudden and acute economic shock of COVID-19 hit, which has led to rapid debt-to-GDP increases across the continent. As noted, sub-Saharan Africa’s debt-to-GDP ratio was projected to rise to 65.6 percent in 2020. This has accelerated the urgency of addressing Africa’s unsustainable debt burdens.

Seven countries are already in debt distress: the Congo, Mozambique, Sao Tome and Principe, Somalia, South Sudan, Sudan and Zimbabwe. Thirteen others are at high risk of debt distress: Burundi, Cameroon, Cabo Verde, Central African Republic, Chad, Djibouti, Ethiopia, the Gambia, Ghana, Kenya, Mauritania, Sierra Leone and Zambia. In mid-November 2020, Zambia’s ongoing debt restructuring process was thrown off track when the country defaulted on a $42.5 million interest payment on its $3 billion eurobond issued in 2015. Bondholders had rejected its request for a six-month standstill, noting that the Government had failed to assuage investor concerns over a lack of transparency on the country’s other external debts, particularly Chinese loans (Cotterill, 2020).

These lists may grow, as some countries are likely to be accumulating significant arrears and contingent liabilities during the crisis, which will add to the debt burden and further strain public finances. Capacity to repay external debts is currently weakest in Angola and Zambia. Egypt and Ghana also face large eurobond redemptions next year, and Nigeria and South Africa face elevated risks (due to large financing requirements rather than external debt obligations, as most of their debt is domestic). Many other large economies, such as Ethiopia and Kenya, compare unfavourably to their peers.

The IMF and World Bank are conducting updated debt sustainability analyses (DSAs) for many African countries. However, any projections are challenged by the considerable uncertainty around the continued spread of COVID-19, the economic outlook and several unpredictable factors, such as the possibility of currency depreciation and the realization of contingent liabilities (e.g. South Africa’s public electricity utility, Eskom). Other factors, such as the pace of the global economic recovery and restoration of global supply chains, will influence the availability of domestic revenues and fiscal space for debt service. As economies weaken, many African countries face a real risk of debt distress or default, including countries with lower risks. Continued high debt service burdens likewise threaten to constrain fiscal space for the COVID-19 response and post-COVID-19 recovery (Gupta and Barroy, 2020). Large financing gaps in many countries may be difficult to cover, especially in the event of credit downgrades, changing investor risk appetites or worsening global financing conditions that would increase the cost of borrowing for African sovereigns.

Wall of debt

A specific concern is the ‘wall’ of eurobond issuances reaching maturity in the coming years. Several African eurobonds are set to mature in the next decade, with several due in 2022–2023, followed by a steady number between 2024 and 2030. Countries may find it difficult to roll over these bonds in the coming years, depending on the market sentiment towards emerging and frontier markets. If African governments become locked out of international markets, these burdensome schedules of maturing foreign currency debt could pose significant rollover risks, especially given the low foreign exchange reserves, which limit policymakers’ ability to repay external debts from accumulated savings in most countries.

Prior to Zambia’s recent default, the only African countries that had defaulted on eurobonds were Mozambique and the Seychelles, though each successfully engaged with shareholders to restructure the debt and make delayed payments. Other countries have taken alternative approaches: Namibia, for example, has saved hard currency in a sinking fund in preparation for its eurobond due in 2021. The largest African issuers (e.g. Egypt, Morocco, South Africa and Tunisia) all have a track record of bond repayment. More recent issuers (e.g. Côte d’Ivoire, Ghana, Kenya and Senegal) may face higher risks, but all have made efforts to improve their capacity for active debt management in recent years.

Failure to meet debt service obligations by any country could lead to a chain of negative effects, such as credit rating downgrades, pressures on foreign exchange reserves and exchange rate depreciation. These risks may be mitigated in some countries, particularly those that have pursued liability management strategies in recent years (e.g. using eurobond issuances to pay short-dated debt and retire bonds due in the next few years), which have already extended the overall maturity of their debt portfolios.

The acute economic shock of COVID-19 hit, which has led to rapid debt-to-GDP increases across the continent.
Table 1. Pre-COVID-19 Africa debt heatmap (LICs and MICs)

<table>
<thead>
<tr>
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<td>18.5</td>
<td>17.3</td>
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<td>6.6</td>
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<td>28.9</td>
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<td>10.3</td>
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<td>16.8</td>
<td>24.5</td>
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<td>139.6</td>
<td>19.1</td>
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<td>43.7</td>
<td>36.2</td>
<td>156.7</td>
<td>33.0</td>
<td>12.4</td>
</tr>
</tbody>
</table>

**Threshold key**

 nào the IMF-World Bank Debt Sustainability Framework for Low-income Countries (DSF-LIC). Data were recorded from each country’s most recent IMF-World Bank DSA, reflecting end-2019 (or most recent) values. Colours represent how distant each country’s indicators are from their respective IMF-World Bank DSF-LIC thresholds, according to boundaries set by the paper’s authors. Burundi, Eritrea, Libya, Somalia, Tanzania and South Sudan are excluded due to a lack of recent or credible data.

<table>
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<td>For countries with weak debt-carrying capacity</td>
<td>35</td>
<td>30</td>
<td>140</td>
<td>14</td>
<td>10</td>
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<td>For countries with medium debt-carrying capacity</td>
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<td>40</td>
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<td>For countries with strong debt-carrying capacity</td>
<td>70</td>
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**Note:** Table 1 includes African countries assessed by the IMF and World Bank according to the Debt Sustainability Framework for Low-income Countries (DSF-LIC). Data were recorded from each country’s most recent IMF-World Bank DSA, reflecting end-2019 (or most recent) values. Colours represent how distant each country’s indicators are from their respective IMF-World Bank DSF-LIC thresholds, according to boundaries set by the paper’s authors. Burundi, Eritrea, Libya, Somalia, Tanzania and South Sudan are excluded due to a lack of recent or credible data.

---

**Heatmap Key**

- More than 10% above threshold
- Less than 10% above threshold
- Less than 30% below threshold
- 30%–50% below threshold
- More than 50% below threshold
Table 2. Pre-COVID-19 Africa debt heatmap (market-access countries)

<table>
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<th>Country</th>
<th>Public gross financing needs (% of GDP)</th>
<th>Public debt (% GDP)</th>
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<td>Algeria</td>
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<td>Morocco</td>
<td>12.1</td>
<td>64.9</td>
</tr>
<tr>
<td>Namibia</td>
<td>16.7</td>
<td>45.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>5.1</td>
<td>29.1</td>
</tr>
<tr>
<td>Seychelles</td>
<td>24.1</td>
<td>59.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>14.7</td>
<td>62.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>9.5</td>
<td>72.3</td>
</tr>
</tbody>
</table>

Heatmap Key
(colour boundaries set by authors)

- More than 10% above threshold
- Less than 10% above threshold
- Less than 30% below threshold
- 30%–50% below threshold
- More than 50% below threshold

Bank according to the DSA for market-access countries (DSA-MAC). Data were recorded from each country’s most recent IMF-World Bank DSA, reflecting end-2019 (or most recent) values. Colours represent how distant each countries’ indicators are from their respective IMF-World Bank DSA-MAC thresholds, according to the boundaries set by the paper’s authors.
3. Looking Ahead
3. Looking ahead

To avoid these adverse impacts and free up fiscal space for the COVID-19 response, most African countries are exploring ways to reduce their near-term debt burdens.

Prospects for debt relief

Collectively, the African Union (AU) has called for a comprehensive debt relief package in response to the crisis, including debt cancellation. Although broad-scale debt relief in the style of the HIPC Initiative or MDRI is not currently being envisaged by Africa’s creditors, many countries have already received temporary suspensions of some debt service obligations (as described later in this section), and some countries may be engaged in discussions with creditors about broader debt treatments. However, the aforementioned shifts in Africa’s debt dynamics pose significant complications and cloud the overall outlook, as this section explores.

Bilateral creditor efforts

As noted, traditional creditors are extending significant support to Africa for the COVID-19 response, with the IMF, World Bank and AfDB all having extended increased levels of support to help African countries address the pandemic’s near-term costs. Two efforts spearheaded by traditional creditors have also directed support to address debt vulnerabilities:

- In April 2020, the IMF announced debt service relief for its poorest and most vulnerable members through the Catastrophe Containment and Relief Trust (CCRT). Supported by donor contributions, the programme disbursed grants for payment of eligible debt service falling due to the IMF for six months. In October 2020, a second tranche was disbursed, covering the period through April 2021. To date, the CCRT has provided 23 African countries with debt relief totalling $399 million (more than 80 percent of the programme’s total approved amount) (IMF, 2020c).

- Also in April 2020, G20 finance ministers and central bank governors endorsed the Debt Service Suspension Initiative (DSSI), which offered a moratorium on debt service payments due to participating bilateral creditors between May and December 2020 for 73 of the world’s poorest countries. In October 2020, the G20 agreed to extend the DSSI through June 2021. For the 38 eligible countries in Africa, the potential 2020–2021 savings from the DSSI are approximately $11.2 billion, which is more than half the initiative’s total potential global savings. Angola is Africa’s biggest eligible beneficiary, with potential 2020–2021 savings of approximately $4.2 billion, followed by Kenya ($1.4 billion) and Ethiopia ($888 million). In six African countries, the potential 2020 savings (pre-extension) represented more than 1 percent of 2019 GDP: Angola (2.8 percent), Mozambique (2.1 percent), Djibouti (1.9 percent), the Congo (1.4 percent), Mauritania (1.2 percent) and Guinea (1.1 percent). To participate, eligible countries must request debt service suspension from their bilateral creditors. The G20 released suggested terms to guide DSSI implementation, indicating that any bilateral debt service suspension must be NPV neutral, meaning that participating countries must eventually pay the deferred obligations in full, ensuring no creditor losses. Countries must also commit to using the created fiscal space on social, health and economic spending for the COVID-19 crisis response, disclosing all public sector debt and limiting new non-concessional debt during the suspension period, in line with ceilings under IMF programmes and the World Bank’s non-concessional borrowing policies. The IMF and World Bank will support DSSI implementation by monitoring spending and seeking to enhance debt transparency and ensure prudent borrowing by participating countries.

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2 To be eligible for CCRT support, countries must be eligible for concessional borrowing through the IMF’s Poverty Reduction and Growth Trust (PRGT) window and have per capita income below the International Development Association’s (IDA) operational cut-off (currently $1,175) or, for small states with a population of less than 1.5 million, per capita income below twice the IDA cut-off (currently $2,350).
As at late November 2020, 29 African countries have signed up to participate in the DSSI: Angola, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, the Congo, Côte d’Ivoire, the Democratic Republic of the Congo, Djibouti, Ethiopia, the Gambia, Guinea, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda and Zambia. Most of these countries have signed DSSI memorandums of understanding (MOUs) with the Paris Club group of creditors (Paris Club, 2020). More countries may request participation in this initiative following its extension.

These efforts have significant limitations, which are explored in detail later. For instance, several African countries facing significant debt burdens are ineligible for these programmes, while others that are eligible (for the DSSI) choose not to participate, due to concerns that the benefits are too small, the conditions are too stringent or that their participation could damage their creditworthiness. Meanwhile, many CCRT and DSSI beneficiary countries still face significant debt service obligations. Figures 9 and 10 list the 10 African countries with the highest debt service obligations in 2020 and 2021 as a share of 2019 revenue. For several countries, the total potential savings from the CCRT and DSSI are significant; for others, the benefits are marginal, while Sudan (ineligible) and Ghana (eligible but not participating) will not benefit.

### How much countries endorsing the Debt Service Suspension Initiative could save

<table>
<thead>
<tr>
<th>Country</th>
<th>Savings as % of 2019 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>3.1%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.0%</td>
</tr>
<tr>
<td>The Congo</td>
<td>1.3%</td>
</tr>
<tr>
<td>Djibouti</td>
<td>1.6%</td>
</tr>
<tr>
<td>Mauritania</td>
<td>1.2%</td>
</tr>
</tbody>
</table>
Recognizing that the CCRT and DSSI may not be enough given the ongoing impacts of COVID-19, in November 2020, the G20 agreed to establish a ‘Common Framework for Debt Treatments Beyond the DSSI’ (Group of Twenty (G20), 2020a). In the event of debt difficulties in DSSI-eligible countries, a common framework could facilitate timely, coordinated and orderly debt treatment with broad creditor participation, including the private sector. While a significant and welcome development, this effort also has limitations, as discussed in later sections.

Figure 9. Projected 2020 debt service obligations as a percentage of 2019 revenue and estimated savings from CCRT and DSSI

![Figure 9](image_url)

Sources: World Bank (undated a); World Bank (undated b); IMF (2020g).

Figure 10. Projected 2021 debt service obligations as a percentage of 2019 revenue and estimated savings from CCRT and DSSI

![Figure 10](image_url)

Sources: World Bank (undated a); World Bank (undated b); IMF (2020g).
Private creditor efforts

When the DSSI was established, the G20 called on private creditors to participate on comparable terms (G20, 2020b). Working through the Institute of International Finance (IIF), a global association for the financial industry, a group of more than 100 private creditors subsequently agreed to participate on a voluntary, case-by-case basis. The group produced their own terms of reference, thereby indicating that DSSI-eligible countries are free to request debt service suspension. The IIF also released template framework agreements and other tools that could help banks and bondholders execute agreements with countries requesting debt service suspension, while addressing concerns about breaches of contract and cross-default risks (IIF, 2020c; IIF, 2020d). To coordinate private sector views on debt issues in Africa, a group of more than 25 asset managers and financial institutions established the Africa Private Creditor Working Group (Africa Private Creditor Working Group, 2020). Similar to the terms for bilateral debt under the DSSI, the private sector made clear that any potential debt service suspension must be NPV neutral.

To date, however, only one debtor country has requested debt treatment from private creditors – Zambia, which as noted was rejected, resulting in the country’s default in November 2020. Presumably, most countries are reluctant to request suspension on private debt service due to fear of the credit consequences. Since the COVID-19 crisis began, more than a dozen African countries have received downgrades or other negative credit rating actions, including Angola, Botswana, Cameroon, Cape Verde, the Democratic Republic of the Congo, Ethiopia, Gabon, Mauritius, Nigeria, Senegal, South Africa and Zambia. Downgrades only increase the cost of future private borrowing, and given African countries’ steep financing needs amid COVID-19, including to rollover existing debt, governments are understandably fearful of losing access to private financing on the best terms possible.

As alternatives to the DSSI, several proposals to address countries’ private debt burdens emerged throughout 2020, including:

• **Boosting IMF liquidity.** A proposal to issue new allocations of special drawing rights (SDRs), the IMF’s reserve asset available to member governments, could boost global liquidity by more than $1 trillion. This would offer benefits beyond easing countries’ private debt burdens, and would be particularly helpful in cash-strapped developing countries unable to benefit from types of significant monetary expansion being pursued by advanced economies. After the global financial crisis, the Obama Administration supported the creation of $250 billion new SDRs in 2009, an effort that could have been similarly repeated to help address the COVID-19 crisis, but was instead blocked by the Trump Administration, arguing that most of the liquidity created would go to large G20 economies. To address this concern, supporters of the proposal have suggested that large G20 economies could transfer or donate SDRs to LICs with liquidity constraints.

• **Debt exchange mechanism.** The AU, United Nations Economic Commission for Africa (UNECA) and a group of African finance ministers have proposed the establishment of a special purpose vehicle (SPV), underwritten by triple-A rated MDBs or G20 central banks, which would refinance African countries’ private debt obligations and provide investors with new guaranteed securities. This proposal is similar to the 1989 Brady Plan, which converted bank loans into new commercial paper backed by United States Treasury bonds, benefiting mostly Latin American debtor countries (Soto, 2020).

• **Debt swaps.** Despite traditionally only involving bilateral debt, mechanisms to forgive debt obligations in exchange for commitments by the debtor country to use the freed-up resources for specific development goals (e.g. debt-for-climate, debt-for-nature, debt-for-development) could be useful during and after the COVID-19 crisis. Although OECD countries have pursued debt swaps for years to varying degrees of success, such initiatives would be particularly impactful for Africa if they were pursued by a large bilateral creditor such as China, which may be of interest now, given China’s growing role in climate change efforts. Recent analysis has suggested that private creditors may also be interested in debt swaps that fulfill environmental, social and governance (ESG) mandates or provide compensation in the form of carbon credits. Debt swaps would be particularly appealing to countries with high debt burdens and significant climate or nature conservation needs, such as small island states (e.g. Cabo Verde). Across Africa, however, the total volume of debt forgiveness possible through debt swaps may be limited, particularly for private debt (Steele and Patel, 2020).
In recent months, such proposals have gained high-profile momentum (Group of Thirty, 2020). Although promising, it is unclear whether such proposals will be embraced by the private sector (which would likely need to agree to some NPV losses or reductions) or key advanced economy stakeholders (which would likely need to underwrite or subsidize any new mechanisms). Private creditors have highlighted their preference for a case-by-case approach to renegotiating debts, which can expose countries to the risk of some private creditors becoming holdout creditors, thereby prolonging and increasing the cost of debt workouts.

As noted, the G20 included private creditors in its November 2020 proposal for a common framework for debt treatments. The private sector has welcomed this effort, but it remains to be seen how a common framework would address specific private creditor concerns (IIF, 2020e). For example, although the G20 announcement endorses a case-by-case approach, it also leaves open the possibility of NPV reductions and seeks to ensure that private debt is treated on comparable terms to bilateral debt (G20, 2020a).

Efforts by China and other non-traditional creditors

The amount of savings generated by the DSSI in 2020 and 2021 largely depends on how extensively certain non-Paris Club creditors, particularly China, cooperate with the initiative. China is the largest bilateral creditor in 31 DSSI-eligible countries. Despite joining the DSSI in principle, it was not immediately clear how China would implement the initiative (Humphrey and Mustapha, 2020). Some Chinese and other non-Paris Club creditors reportedly took the view that the DSSI did not apply to them, continued requesting debt service payments and asked DSSI participants to comply with more demanding conditions than those required by Paris Club creditors (World Bank, 2020b). For its part, the Paris Club established detailed guidance on how bilateral lending agreements would be revised and published detailed data on the volume of debt service payments suspended by its members.

China’s approach to sovereign debt restructuring will have significant impacts on African debt dynamics for many years to come. As Figure 11 shows, China represents nearly 27 percent of DSSI-eligible countries’ total projected debt service obligations and about 74 percent of projected bilateral debt service from 2020 to 2024. Given the possibility of significant hidden debt, actual levels could be even higher. In the event of debt crises in countries where it is one of the largest creditors, China will have a major influence on any debt restructuring negotiations.

Currently, Chinese lending accounts for more than 25 percent of the debt stocks in seven African countries at high risk of, or already in, debt distress: Djibouti (57 percent), Angola (49 percent), the Congo (45 percent), Cameroon (32 percent), Ethiopia (32 percent), Kenya (27 percent) and Zambia (26 percent) (Brautigam, Huang, and Acker, 2020). China has already restructured debt in four of these countries (Cameroon, the Congo, Djibouti and Ethiopia), which it carried out in 2018 and 2019.

% of at high risk and/or distressed Chinese debt in 7 countries

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Distress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>57%</td>
</tr>
<tr>
<td>Angola</td>
<td>49%</td>
</tr>
<tr>
<td>The Congo</td>
<td>45%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>32%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>32%</td>
</tr>
<tr>
<td>Kenya</td>
<td>27%</td>
</tr>
<tr>
<td>Zambia</td>
<td>26%</td>
</tr>
</tbody>
</table>
Historically, China has preferred to negotiate debt suspensions, restructurings or cancellations bilaterally on a loan-by-loan basis. Despite widespread concerns about Chinese lending practices in Africa, a recent review of China’s approach to debt interventions between 2000 and 2019 found no evidence of ‘asset seizures’, use of courts to enforce payments or the application of penalty interest rates (Acker et al., 2020). Rather, the review found that China cancelled at least $3.4 billion in African debt during this period (almost entirely confined to zero-interest foreign aid loans) and restructured or refinanced approximately $15 billion (including interest-bearing loans, intergovernmental debt and Chinese company loans). Extensions on debt repayment periods were more common than changes in interest rates or principal reductions (haircuts) (Ibid). Most recently, in late September 2020, Angola reached an agreement with three large creditors (including China) on debt reprofiling worth $6.2 billion over the next three years (Strohecker and Bavier, 2020).

Notably, China signed on to the G20’s common framework in November 2020, a significant departure from its reluctance in recent years to join multilateral coordination mechanisms (such as the Paris Club). Much remains to be determined, and at this stage the common framework will only apply to debt treatments in DSSI-eligible countries. If it is effectively and transparently designed and implemented, however – and if it is eventually expanded beyond DSSI-eligible countries – the common framework could begin to address many of the concerns previously highlighted.

**Figure 11. Composition of projected debt service obligations by creditor type for DSSI-eligible countries, 2020–2024**

Source: World Bank (undated b).
Limitations of current efforts

Several features of the CCRT and DSSI limit their effectiveness. Together, these limitations led to widespread calls for more meaningful creditor interventions, which in part resulted in the G20’s November 2020 proposal to establish a common framework for debt treatments beyond the DSSI. Key limitations include:

- **Insufficient size.** Although the CCRT and DSSI offered breathing space for recipient countries in 2020 and early 2021, they are small measures compared with the scale of Africa’s debt burden and the expected economic impacts of COVID-19. Bilateral debt comprised just 37 percent of eligible African countries’ debt service obligations in 2020 (Figure 11). If all bilateral creditors had granted debt service suspension to all eligible African debtor countries from May through December 2020, the median savings would have represented only 0.5 percent of 2019 GDP. By contrast, sub-Saharan African GDP was expected to contract by 3 percent in 2020, though the announced fiscal responses of sub-Saharan governments have already averaged 3 percent of GDP so far. Even with the initiatives’ extensions into 2021, greater efforts will be needed to have a meaningful impact on fiscal space as Africa seeks to recover growth during and after the pandemic.

- **Narrow scope.** With country eligibility based primarily on per capita income, the CCRT and DSSI exclude 16 primarily middle-income African countries, many of which have been particularly hard hit by COVID-19 and its economic impacts, including South Africa and countries in North Africa. These economies, especially those dependent on commodities and tourism, may have heightened exposure to external debt vulnerabilities during the crisis and in the post-COVID-19 period. The initiatives also excluded three countries due to arrears with the IMF or World Bank that pre-date COVID-19: Eritrea, Sudan and Zimbabwe. Eritrea and Sudan are both LICs, while Sudan and Zimbabwe are both already in debt distress, according to the IMF-World Bank Debt Sustainability Framework.

- **Temporary nature.** The decisions to extend the CCRT and DSSI into early 2021 were welcome developments. The G20 has also agreed to reassess whether an additional six-month extension of the DSSI is needed in early 2021 (G20, 2020a). However, as noted, the economic impacts of COVID-19 in many African countries are expected to be protracted, with the AU thus calling for the DSSI to be extended by four years (African Union, 2020). Such temporary debt suspension only addresses Africa’s short-term liquidity crisis though, and does not affect debt stocks or relieve any solvency challenges. Current efforts therefore do little to mitigate Africa’s medium- to long-term debt sustainability risks, especially in the event of solvency issues resulting from significant post-COVID-19 growth slowdowns or loss of market access. Figure 12 shows projected annual debt service obligations during 2020–2026 as a share of 2019 revenues after estimated potential savings from the DSSI. The five countries with the largest values are highlighted and compared against the African average of 14 percent of 2019 revenues over this period. Eleven other countries not shown in the figure have average annual debt service obligations exceeding the African average for this period (listed in descending order, from highest average annual debt service obligations): Gabon, Mauritania, Mozambique, Ethiopia, Cameroon, Cabo Verde, Burkina Faso, Benin, Ghana, Kenya and Guinea-Bissau.

- **Suspension, not relief.** Under the DSSI, participating countries’ bilateral debt service obligations will be suspended for a one-year grace period, after which countries will have five years to service the suspended payments. As noted, the debt service suspension is designed to be NPV neutral, thus ensuring no creditor losses. Repayments will need to take place during a period when many African countries already have significant debt service obligations. During the period of suspension, countries will need to continue borrowing. Although a lot of current borrowing is on more concessional terms (e.g. from MDBs instead of eurobonds), near-term suspension mostly postpones the root problems, rather than addressing them immediately.
COVID-19 and external debt in Africa

- **Limited official creditor participation.** Including DSSI-eligible countries’ debt service payments to MDBs could have provided additional global savings of as much as $7 billion in 2020 and nearly $10.6 billion in 2021, which has led to calls for MDBs to join the initiative. This is highly unlikely, however, due to MDBs’ legitimate concerns about jeopardizing their triple-A credit ratings and the associated impacts on MDB lending headroom.

  MDBs are concerned that DSSI participation would undermine their Preferred Creditor Status (PCS), which ensures that they are paid first if a country is facing debt difficulties.

  According to MDBs, losing PCS could result in immediate one-notch downgrades on their bond ratings, thus increasing their own funding costs and reducing their future lending capacity by about $12 billion annually (Humphrey and Mustapha, 2020). They argue that these consequences strongly negate the one-time temporary benefit that would be gained in the form of breathing space for a subset of countries from their participation in the DSSI. While independent analysis of the rating methodologies used by Standard and Poor’s (S&P), Moody’s, and Fitch suggests that the actual consequences would not be so severe, widespread or long-term, debt suspension by MDBs would very likely reduce their lending capacity during the crisis (when countercyclical MDB financing is critically needed) and potentially undermine PCS in the medium- to long-term, substantially endangering MDBs’ financial models (Ibid). Alternatively, a trust fund programme similar to the CCRT could be established to reimburse countries for their MDB debt service payments, but like the CCRT, would rely on additional donor contributions.

- **Uncertain private creditor participation.** Suspension of private debt service obligations for DSSI-eligible countries could have offered additional potential global savings of $10.2 billion in 2020 and $12.6 billion in 2021 (Ibid). However, significant private debt service suspension under DSSI terms is unlikely due to the voluntary nature of the private sector’s participation, the insistence on NPV neutrality and countries’ fears of potential consequences to their creditworthiness, which could jeopardize or increase the cost of market access at a time when many countries will rely on private borrowing during the crisis and in the post-COVID-19 period, including to refinance maturing eurobonds. The fear of credit rating downgrades is not unfounded: all three major credit agencies have stated that requesting private creditor participation on DSSI terms could lead to negative credit actions. In May 2020, Moody’s placed Ethiopia on negative watch, citing (among other factors) that its participation in the DSSI could result in requests for debt suspension on similar terms from private creditors.

  Given that the DSSI seeks to enhance macroeconomic stability, these perverse consequences highlight some dysfunctionality in global capital markets.

  As noted, some DSSI-eligible countries with market access have already declined bilateral debt suspension due to these concerns, including Benin, Ghana, Kenya and Nigeria, whose declined combined potential DSSI savings total more than $1 billion. Guinea-Bissau, Liberia, Rwanda, Somalia and South Sudan are also not planning to participate in the DSSI. Africa’s eurobond issuers may have additional concerns about breaching the legal terms of bondholder repayment contracts.
The G20’s November 2020 proposal to establish a common framework for debt treatments seeks to address some of these concerns. It addresses the temporary nature of the CCRT and DSSI by recognizing that many LICs will continue to face significant debt vulnerabilities beyond mid-2021. Although MDB participation in the DSSI remains unlikely, the proposed common framework begins to address some concerns related to limited official creditor participation, both by deepening engagement with China and other non-Paris Club creditors and by basing the common framework’s approach to debt treatment on IMF-World Bank DSA. It also seeks to address uncertainty around private creditor participation by including them in the proposal, though, as noted, it remains unclear whether a common framework that envisages NPV reductions and broadly comparable debt treatments will be compatible with private creditor concerns.

The proposal also has its own limitations. Most notably, debt treatments under the common framework will in principle not be conducted in the form of debt relief (e.g., write-offs or cancellations) but rather in the form of debt reprofiling (e.g., softening the terms of debt service, including NPV reductions and tenor extensions) (G20, 2020a). The framework is also narrow in scope, applying only to DSSI-eligible countries. Although some key stakeholders are reportedly open to extending the framework to MICs and small island states, it is unclear whether such an expansion would be endorsed by the entire G20 (Soto, Horobin, and Martin, 2020). In general, the common framework as proposed focuses on enhancing the effectiveness of debt treatments after a country faces debt distress; it is less focused on the prevention of debt crises.

**Figure 12.** Projected debt service obligations as a percentage of 2019 revenue (after potential DSSI savings), 2020–2026

Sources: World Bank (undated a); World Bank (undated b); IMF (2020g).
4. The urgent need for new approaches
4. The urgent need for new approaches

COVID-19’s unfolding economic shocks have laid bare Africa’s growing debt sustainability challenges.

The breathing space provided by the CCRT and DSSI is likely to be insufficient and fleeting, with African governments still facing high external debt service obligations in the coming years amid limited foreign exchange reserves. Depending on future global financial conditions, which will rely on the orientation of advanced economies’ monetary policies, African countries also face the possibility of constrained or more expensive market access, along with the prospect of higher debt servicing costs in the medium- to long-term. The increased risks of debt distress could trigger a domino effect of negative consequences, from credit downgrades to currency crises. In addition to expanding and improving current efforts, there is an urgent need for action that goes beyond traditional approaches.

The economic impacts of COVID-19 will be felt for many years to come, meaning that new ideas are now needed to guard against a wave of future defaults. Although the G20’s recently announced common framework for debt treatments is a significant and welcome development, more must be done to help countries prevent a debt crisis, while creating space for the COVID-19 response and post-COVID-19 recovery. Debt interventions must therefore seek to increase liquidity, enhance solvency and allow for continued, sustainable, countercyclical and growth oriented public investments, including SDG spending.

- Maximize the potential of current efforts
- Expedite the creation of bold new initiatives.
- Tackle the non-transparent debt crisis.
- Increase the concessionality of new debt.
- Ensure private sector cooperation.

- Redefining debt sustainability.
- New creditor coordination mechanisms.
- Financing for SDGs.

- Improving public investment and public financial management.
- Enhancing revenue mobilization.
- Improving debt management.
- Bold new strategies to achieve the SDGs.
Short-term priorities

As a first step, creditors and borrowers should sharpen their focus on the most pressing short-term priorities.

- **Maximize the potential of current efforts.** In the face of an unprecedented global health and economic crisis, more must be done to ensure that all countries have the capacity to protect their populations and their economies. This may require significantly larger debt service moratorium initiatives. African countries should work with their international partners to ensure full CCRT and DSSI participation by all bilateral creditors, expand eligibility to other countries facing severe economic impacts and liquidity challenges due to COVID-19, and extend the initiatives for as long as needed. Instances of non-cooperation should be urgently addressed. Frequent and transparent monitoring and coordination, as called for by the G20, will also be critical, including to ensure that DSSI beneficiaries fulfill their commitment to use the created fiscal space on social, health and economic spending for the COVID-19 crisis response.

- **Expedite the creation of bold new initiatives.** Together with their creditors, African countries should devise creative solutions that go beyond temporary suspensions. The G20’s proposed common framework for debt treatments is an important first step, but more can be done. Proposals to establish an SPV debt exchange mechanism, increase global liquidity through the creation of new SDRs, or enhance the use of debt swap mechanisms should be revisited and adapted as necessary to overcome political constraints. The appropriateness of NPV neutrality should be considered given the extreme economic shocks faced by many countries, including some facing solvency challenges. The possibility of broad new debt relief programmes such as the HIPC Initiative or MDRI should not be abandoned prematurely. Efforts to identify and support countries with particularly unsustainable debt burdens should be expedited.

- **Tackle the debt transparency crisis.** Given the unprecedented risks posed by the COVID-19 crisis and the need for a globally coordinated response, debtor and creditor countries should be encouraged to urgently disclose detailed debt stock and flow data, including SOE debt data. Transparency should be a central design principle for the G20’s common framework and other new mechanisms. Transparent data can also be used to better target debt relief efforts and to establish a more useful early warning system for countries at high risk of debt distress.

- **Increase the concessionality of new debt.** During the crisis and in the post-COVID-19 period, creditors and borrowers should work to increase the concessionality of lending terms for developing countries, especially those facing debt vulnerabilities. Efforts should also be made to establish more sophisticated credit profiles for African sovereigns in order to ensure that perceived risks do not outweigh actual risks and that African countries can access private external financing on the most attractive terms possible given underlying fundamentals.

- **Ensure private sector cooperation.** Private creditors play a major role in Africa’s current and future debt vulnerabilities and must therefore be a more proactive part of the solution. If private creditors are not persuaded to join the DSSI and other initiatives on comparable terms, there is a significant risk that resources freed up by the current efforts (as well as COVID-19-related MDB or IMF support) will be used to service private debt rather than support the COVID-19 response. The generally strong legal protections for creditor rights also expose African countries to the risk of disorderly, expensive, private debt workouts, including the possibility of non-cooperative investor ‘holdouts’ that take aggressive legal actions or pursue asset seizures (IMF, 2020f). By including private creditors in its proposal, the G20’s common framework for debt treatments seeks to deepen engagement with the private sector once countries experience debt distress. But African governments and their international partners should explore opportunities to engage the private sector earlier, as part of broader efforts to address the underlying risks of debt vulnerability.
Long-term priorities

Beyond the immediate near-term, creditors and borrowers should work together on a series of long-term reforms to enhance the sustainable financing of Africa’s development.

- **Redefining debt sustainability.** The COVID-19 crisis exposed the shortcomings of standards for prudent debt practices and sustainable development. These standards must be enhanced and adapted, with the involvement of all creditors and debtors. Unlike previous periods when debt crises were limited in geography and scope, the global nature of COVID-19 has the potential to generate unprecedented economic and financial challenges. The very definitions of sustainable development and sustainable debt may need revision. For instance, relying on export criteria as a measure of solvency or debt-carrying capacity may be impossible during a global economic shock affecting most trading partners and disrupting supply chains. Standards for responsible lending and borrowing should be revisited specifically. Efforts and guidelines for responsible lending driven by the G20, OECD and other international groups should be expanded, made more explicit and applied to private creditors. The COVID-19 crisis may also increase the scope for new public financing mechanisms that entail fewer risks and have less vulnerability to severe exogenous shocks, such as bonds with repayment linked to commodity prices or a country’s GDP, or provisions that offer debt service relief when countries face macroeconomic shocks unrelated to policymaking.

- **Reforming the international debt architecture.** Considering how significantly global debt dynamics have evolved in recent decades, the international architecture for sovereign debt restructuring should reflect the current situation. An IMF assessment of recent debt restructurings found that they were often too little and too late, failing in many cases to bring debtor countries back to debt sustainability and market access (IMF, 2020f). The G20’s proposed common framework is a welcome first step towards addressing the architecture’s shortcomings, particularly creditor coordination, but more must be done. IMF recommendations provide a more comprehensive blueprint for reform, including calls to increase transparency, prevent the use of official resources to bail out private creditors, make the contractual and market-based approach to private creditor debt restructuring more effective, and close key gaps in the current framework through the expanded use of enhanced collective action clauses and trust structures (Ibid). As part of the common framework effort, new global creditor forums must ensure participation by all creditors, including China and the private sector. They must provide fairer and more effective mechanisms for all creditors to exchange information, promote transparency, encourage dialogue and improve debt crisis resolution, while sharpening the focus on sustainable debt practices. Although the IMF, World Bank, G7 and G20 have traditionally led such efforts, new efforts should be inclusive with more willingness to explore alternative arrangements.

- **Financing for SDGs.** With less than a decade remaining, no country in the world is on track to meet all of the SDGs by 2030 (Berteismann Stiftung and Sustainable Development Solutions Network, 2019). Progress is further threatened by COVID-19. Even before the crisis, developing countries’ financing gap to achieve the SDGs was estimated to be $2.5 trillion per year, the majority of which is expected to come from domestic resource mobilization and private flows, since foreign aid levels are not expected to increase significantly. Beyond addressing current debt burdens, efforts must be scaled up to significantly increase sustainable financing for SDG investments. Given that COVID-19 threatens to significantly weaken domestic financing sources, and the potential for a prolonged global economic recession could reduce foreign direct investment, remittances and global investment levels, creative thinking will be needed. Some promising approaches are highlighted.
New strategies for sustainable growth

Africa’s current debt pressures offer an opportunity to rethink the continent’s development strategies while addressing long-overdue weaknesses in economic governance. The continent’s investment gaps and development needs will still exist after the immediate COVID-19 crisis passes, but success will only be achieved if the region can ‘build back better’. Since the debt accumulation model of the past decade is unlikely to produce sustainable growth, African governments should renew their focus on the fundamentals of sound macroeconomic management, while developing bold, new, sustainable growth strategies.

- **Improving public investment and public financial management.** Too often in Africa’s debt history, increased borrowing has been uncorrelated with more productive spending. Governments must make bold efforts to reduce unproductive, non-essential spending and low-priority capital expenditure, including reducing subsidies and cleaning up wage bills. With limited fiscal space, governments must rigorously target the most productive uses for public investment, focusing fiscal policies on producing sustainable growth and shared prosperity. To achieve these goals, stronger public financial management systems are crucial. Improvements in performance-based budgeting, investment planning, auditing and internal controls, and SOE management and oversight can all pay dividends in long-term growth resilience and fiscal sustainability. As part of these efforts, African governments should redouble efforts to improve governance, strengthen anti-corruption institutions, improve transparency, plug leakages and address illicit finance.

- **Enhancing revenue mobilization.** One way to strengthen debt ratios is to reduce the debt burden, while another is to increase debt service capacity. In most African countries, however, domestic revenue generation has not kept up with high growth rates. Africa’s largest economy, Nigeria, for example, has one of the world’s lowest revenue-to-GDP ratios. While increasing tax rates on businesses and individuals will be challenging in a climate of lower growth, it will not be possible for African countries to achieve long-term debt sustainability without serious improvements in domestic revenue mobilization. Significant quick and easy gains are available to most countries through improvements in revenue administration and tax policy reform, including streamlined exemptions, stronger efforts to address tax evasion, and anti-corruption efforts. According to the IMF, addressing corruption in developing countries could unlock nearly $1 trillion in revenue, or 1.25 percent of global GDP (IMF, 2019e).

- **Improving debt management.** The most concrete actions that African governments can take to avoid the next debt crisis is to improve debt management, debt transparency and debt monitoring, including better management of SOE debt and other contingent liabilities. With more prudent debt management, governments can identify and mitigate the most significant fiscal risks by building buffers and better managing refinancing risks. Such reforms can include efforts to develop and deepen local-currency debt markets and ensure an optimal balance between external and domestic debt. To accelerate improvements in debt management, countries should take advantage of technical assistance available from the IMF, World Bank and bilateral partners.

- **Bold new strategies to achieve the SDGs.** Beyond pursuing prudent economic policies to enable sustainable growth, significant efforts are needed to scale up financing for the achievement of the SDGs by 2030. If revenue mobilization is enhanced, new resources must be directed towards implementing SDG commitments. To unlock new sources of financing during a potentially prolonged global recession when private flows may diminish, African governments and their partners must work together to pursue innovative financing mechanisms that address sustainability and ESG concerns. Several promising financing mechanisms already exist that can ensure fiscal sustainability, such as specialized bonds and guarantees, in addition to other financial instruments. The aforementioned debt swaps, for example, offer debt relief and fiscal space for sustainable investments. Also, if well designed, public-private partnerships can expand financing for infrastructure while balancing risks between the public and private sectors. In the health sector, advanced market commitments can strengthen global health supply chains and deliver life-saving medicines to developing countries. In the event of natural disasters, certain forms of disaster risk insurance can mean the difference between devastation and resilience. Green bonds, social bonds and sustainability bonds all pool private capital to finance projects that can help achieve the SDGs, while SDG equity-linked bonds directly invest in listed companies that promote the SDGs. Governments and investors in advanced economies and emerging markets are already pursuing these innovative and sustainable financing mechanisms. To take advantage of these opportunities, African governments should work to deepen local capital markets, strengthen financial sector regulation and expand linkages with global financial hubs and investor bases, including by joining global frameworks, adopting standards and enhancing transparency.
References


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