INDEBTED AFRICA

CHINA'S ROLE IN GETTING AFRICA INTO AND OUT OF DEBT

INTRODUCTION

- Africa has fewer Covid19 infections and deaths than predicted
- However, the economic impact will still be devastating
- Sub Saharan economy will shrink by 3.2%
- 14 million more Africans will be pushed into extreme poverty
- GDP per capita will recover to 2019 levels at best by 2024 at worst by 2030
- African governments lack the revenues to re-inflate their economies which rich countries have

DEBT DISTRESS PRE COVID19

- Many African countries were over indebted even before Covid19
- Many over-borrowed, usually to build large infrastructure projects
- Commodity prices tanked and the global economy shrank pre Covid19
- Before Covid19, 8 African countries were already in debt distress
- Another 13 were at high risk of debt distress
- 14 faced moderate risk of debt distress

COVID19 HAS AGGRAVATED DEBT DISTRESS

- IMF predicts 19% surge in global public debt to reach 101.5% of GDP
- For low income developing countries that would be 48.2% of GDP
- African government revenues are estimated to drop by $45 billion dollars in 2020 from pre Covid19 forecasts
- Debt service costs likely to increase to $40 billion annually
- African debt expected to increase by 4.4% points of GDP
- Loan defaults are likely and Zambia seems to be already there

THE DSSI REMEDY?

- G20 and Paris Club announced the Debt Service Suspension Initiative in April 2020
- It will suspend debt service payments on official bi-lateral loans from G20 and Paris Club members from 1 May 2020 to 31 December 2020
- This initiative is to help low income countries manage the pandemic
- Freed up money to be used only to address health, social and economic fallout from the pandemic
- 38 African countries are eligible for the DSSI and 29 have joined

DSSI LIMITATIONS

- Several DSSI eligible countries – like Nigeria, Kenya, Ghana and Rwanda have opted out
- These countries have access to private capital markets which they may not tap under the DSSI terms
- They also fear being downgraded by credit rating agencies if they participate
- Only Paris Club and China among major creditors have joined
- Private creditors and the multi-lateral development banks have not joined DSSI

WHY MDBs AND PRIVATE CREDITORS HAVE NOT JOINED THE DSSI

- Private creditors hold 45% of sub Saharan Africa's public and publicly guaranteed debt
- Multi-lateral banks hold 30%
- China hold 22% and the Paris Club only 5%
- But private creditors say they fear losing income, opportunity costs and downgrading if they participate
- MDBs say they risk losing their exceptionally high credit ratings and that this will increase interest rates for poor countries
- The MDBs - particularly the World Bank and IMF have instead disbursed grants or concessional finance to DSSI countries
- The World Bank says these disbursements are nearly 10 times the $500m in debt service payments it is owed by DSSI countries

CHINA'S SPECIAL ROLE

- China has greatly increased lending to Africa this century mainly to finance infrastructure
- China's has collateralised some loans with commodities – such as oil in Angola
- This has provoked accusations by US and others of "debt trap" diplomacy – a plot to seize African assets such as ports
- Ambassador Chen on Tuesday 13 October dismissed what he called "3 fallacies" – "debt trap fallacy, strategic asset plundering fallacy and neo-colonialism fallacy"
- The China Africa Research Initiative (CARI) has closely examined China's Africa loans and concluded the suspicions are overblown

CHINA'S ROLE IN THE DSSI

- China's participation in the DSSI has also been controversial
- Beijing says its public banks will participate – but not the China Development Bank (CDB)
- It claims CDB is a private bank and private banks of other countries are not participating
- But some private creditors, G7 countries and World Bank president, David Malpass have sharply criticised this stance
- They say the CDB is state owned and government controlled and so should participate
- China has retorted by criticising the World Bank for not participating
- Many suspect this contretemps is really about the wider political spat between US and China as Malpass is a Trump appointee

THE CDB IN PERSPECTIVE

- CARI believes the CDB should participate in the DSSI because essentially it is a policy bank
- It also says CDB is not such a major creditor to Africa except to Angola
- In Angola a DSSI participant CDB accounts for about 75% of all official Chinese loans
- Of China's $148 billion in loans to African government and SOEs between 2000 and 2018, 37 billion was from CDB while most – 82 billion – was from China Export Import Bank (EXIMBANK) which participates in the DSSI
- Ambassador Chen said EXIM Bank had so far signed debt suspension agreements with 11 African countries

THE CDB IN PERSPECTIVE continued…..

- Ambassador Chen said China would also waive interest free loans due to mature by end 2020 for 15 African countries
- CARI says the focus on CDB obscures the larger issue that multilateral and bond holders that are not currently providing debt relief will collect 61% of debt service of African DSSI countries this year
- China will collect only 27% this year

NON DSSI AFRICAN COUNTRIES

- 16 African countries did not qualify for DSSI
- Eritrea, Zimbabwe and Sudan disqualified as they are in arrears to the World Bank or IMF
- The remaining 13 are middle income countries not deemed to need DSSI support
- But they owe over $6.8 billion in debt service in 2020
- The debt relief advocacy (EURODAD) says they are being "left out to weather the crisis mostly by themselves"
- Even South Africa (not eligible for DSSI) and despite having received a $4.3 billion IMF emergency loan fears hitting a closed door when it eventually returns to capital markets

DSSI – WILL IT CREATE FUTURE PROBLEMS?

- EURODAD says DSSI countries will have to borrow a lot more to repay the postponed debt service
- When deferred DSSI payments become due in 2022, 2023 and 2024, the 68 DSSI beneficiary countries already have pre-existing loan repayments of $115 billion due
- DSSI is simply kicking the can down the road and debts should be cancelled and not just suspended
- Ramaphosa as AU chair has called for the DSSI to be extended and for African debt to be cancelled

GOING BEYOND THE DSSI

- The Paris Club is considering extending DSSI and the G7 has already decided it should be extended
- G7 has proposed a framework for future debt treatments beyond the DSSI to be adopted by the G20 and Paris Club
- Private creditors should fully participate in this debt relief
- Former SA finance minister, Trevor Manuel, now an AU special envoy is for mobilising international support to help Africa combat Covid19 and its economic fallout
- He is fairly optimistic that the IMF will agree to pool and reallocate IMF special drawing rights from richer countries to poorer ones

CONCLUSION

- The DSSI though helpful does not go nearly far enough to address Africa's huge health needs and repercussions
- DSSI is likely to defer well short of $5 billion of the total $17.5 billion debt service obligations in 2020 of the 29 DSSI African countries
- It does not address at all Africa's middle income countries
- The risk remains of several defaults with devastating long term economic repercussions
- The global community urgently needs to address not only Africa's liquidity problems but its looming underlying solvency crisis