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WORKSHOP
"PREVENTING DEBT CRISES AND ITS NEGATIVE SOCIAL IMPACTS"
Palacio San Martín (Arenales 761-CABA)
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Rising debt levels in West Africa – A threat to the achievement of the Sustainable Development Goals (SDGs)?

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Introduction

Africa negotiated and committed to the Sustainable Development Goals (SDGs) with a Common African Position (CAP). This was a reflection of the Continent's "Agenda 2063" which came as a response to a number of development delays, gaps and challenges suffered in the past. These particularly include Infrastructure inefficiencies that cost Africa billions of dollars annually and stunt economic growth. The Programme for Infrastructure Development in Africa (PIDA) is seen as a solution and means to promote regional economic integration by building mutually beneficial infrastructure in Energy, Transport, Information and Communication Technology (ICT) and Trans-boundary Water. It is expected to bring more international trade and job creation.

This Africa's development option is justified by the fact that with low levels of intra-regional economic exchange and the smallest share of global trade, the continent is the least integrated one in the World. Infrastructure thus appears as Africa's top priority. But the challenge is that an estimated annual investment of USD 93 billion is required for Africa to meet its infrastructure needs – USD 40.92 billion (44 per cent) for energy, USD 21.39 billion (23 per cent) for water and sanitation, USD18.6 billion (20 per cent) for transport, USD 9.3 billion (10 per cent) for ICTs and USD 2.79 billion (3 per cent) for irrigation.

Resource mobilization to meet such a challenge necessarily goes along with borrowing, in a global financial context where the trend is progressively dominated by private financing. But after the difficult HPIC[1] era, Sub-Saharan Africa is probably again slipping into a new debt crisis. According to the IMF, 40 per cent of the region's countries are presently at high risk of debt distress. All African countries are thus urged to raise taxes to provide more scope for paying ever increasing interests. It is at the same time believed that any future debt relief will be much more difficult than in the past, because of the rising weight of commercial sources of lending.

How can the SDGs be attained in such conditions? The rising debt levels in West Africa for instance could be a threat to the achievement of the Sustainable Development Goals

1 Highly Poor Indebted Countries

(SDGs). The situation and solutions may not be as simple as generally described. This paper tries to explore a different perspective.

The debt crisis in Africa: A different perspective

The traditional appraisal

It is nowadays feared that many African countries will become stuck in a debt trap, undermining economic development, less than 15 years after the Multilateral Debt Relief Initiative, which led to the cancellation of debt for countries that met economic-management and poverty-reduction criteria, though IMF and World Bank HIPC related facilities and programmes. Even though debt ratios are still below the levels that led to HIPC, the risks are believed, "higher because much more of the debt is on commercial terms with higher interest rates, shorter maturities and more unpredictable lender behaviour than the traditional multilaterals"[2].

In 2017, the IMF said that a higher number of African countries had breached one of the fund's thresholds for debt or servicing burdens, putting them into the IMF category of highly vulnerable to default. Chad, South Sudan, the Republic of Congo and Mozambique for instance moved into "debt distress" which means they have defaulted or could not service their debts. The reason of this situation is known to be almost totally linked to the global drop in commodity prices, at a certain point in time. West Africa is not spared by that situation and Commodity exporting countries like Nigeria are facing difficult situation due to a plunge in revenues from oil extraction.

The public debt burden in low-income countries is estimated to have increased by 13 percentage points of GDP, in the past five years. In one of its reports, the IMF noted that the deterioration in fiscal balances over time does not reflect a scaling up of investment,[3] whilst countries like Ghana and Gambia had upward spending and others, including Côte d'Ivoire and Senegal, had borrowed in foreign currencies and were finding debt hard to finance after a significant depreciation. Additionally, substantial fraud and corruption, including the reporting of previously undisclosed debt, where the state is responsible for contingent liabilities of state-owned enterprises, have exacerbated the situation in many countries.

Debt burdens figures are however much lower today than the level that totals triggered previous relief initiatives. The figures are also not strictly comparable because African governments had defaulted on those debts and were not paying interest. Moreover, interest costs have risen sharply over the past decade, because of more reliance on costly private borrowing, doubling to hit 20 per cent of tax revenues. In that context, IMF officials at the last spring meetings in Washington urged African countries to increase the efficiency of public expenditure, hand over public investment to the private sector, and fully implement fiscal consolidation plans, including seeking new revenues from consumer taxes.

The real issue with debt crisis

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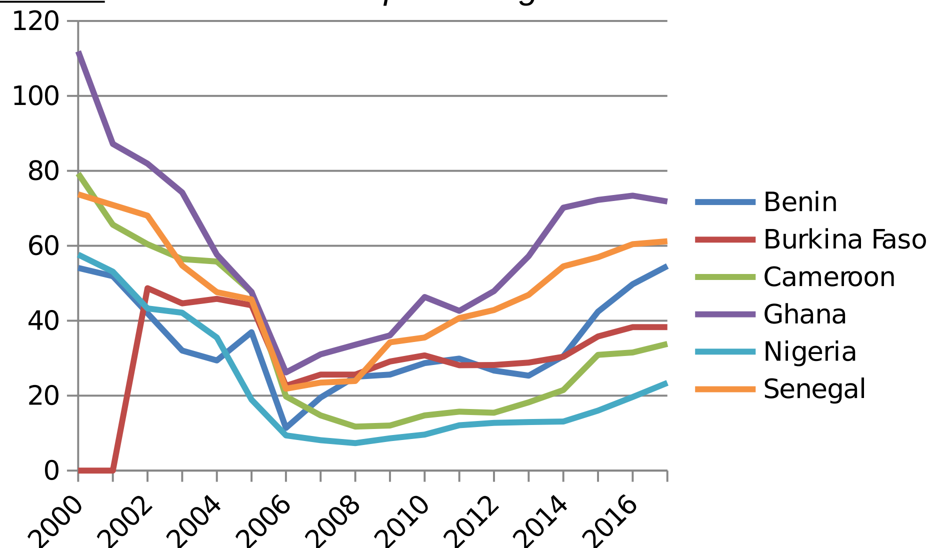
2 Masood Ahmed, President of the Centre for Global Development, a development think-tank, who led the World Bank's Heavily Indebted Poor Countries Initiative in the 1990s.

3 IMF Fiscal Monitor, a twice-yearly survey of governments' balance sheets

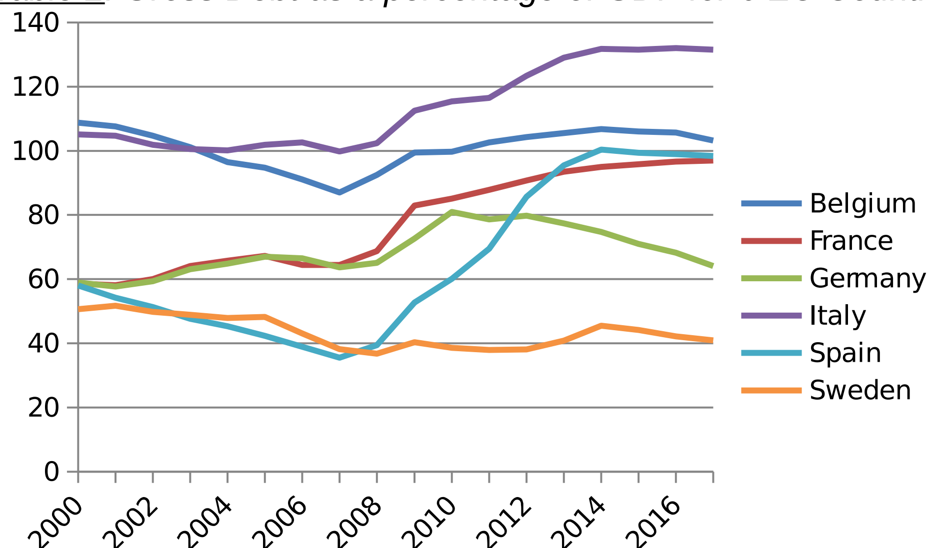
Looking at SDGs' achievement challenges, the real concern about the debt situation in West Africa is not so much the high level of the debt stock or its structure, than the destination of the borrowed resources. Above all, it is the structural economic options that matter, in terms of productive strategies and setting. A comparative look at the trends of Gross Debt as a percentage of GDP, for a sample of developed countries on the one hand, and developing countries on the other hand, would suggest another story.

Table 1: Gross Debt as a percentage of GDP for Cameroon and 5 ECOWAS Countries



Source: *IMF*

Table 2: Gross Debt as a percentage of GDP for 6 EU Countries



Source: *IMF*

Nigeria for example recorded a government debt equivalent to 21.30 percent of the country's Gross Domestic Product in 2017. Government Debt to GDP averaged 32.42 percent from 1990 until 2017, reaching an all-time high of 75 percent in 1991 and a record low of 7.30 percent in 2008. Despite these indications that suggest that the country should be better that many in the sample group of developed countries, Nigeria is by IMF analysis standards ironically believed to be debt stressed and has had to seek debt restructuring.

We get back to a past situation which tends to repeat itself over time. What happened before the HIPC era is back again.

By definition then, Nigeria fell under the 17 countries under the group considered to be Highly Indebted Countries (HIC's) in terms of nature and severity of her debt crisis as identified under the original Baker Plan of 1985. By July 1986 the government was compelled to launch a World Bank and IMF supported Structural Adjustment Programme (SAP) to help relieve the country of its external and internal debt problem SAP policy attracted for the country trade and investment policy loan of $450m and $500m between 1986 and 1989.

Conclusion

The Central purpose of external debt management therefore, is to match a Country's foreign borrowings (size and terms) with overall performance and ability to pay while leaving sufficient margin for unforeseeable development needs to avoid balance of payment crisis. The issue actually is all about the destination of the borrowed resources. If these are used to effectively finance development, then there are chances that human capital will be built with positive effect on the productive system. Africa can succeed in its transformative agenda only if the whole structure of African economies is changed, to avoid being dependent on global market manipulations by big Western institutions that repeatedly generate financial crisis.