Debt: to get, to bet or to fret?

As the Open Society Initiative for Southern Africa’s (OSISA) regional conference on southern Africa’s conundrum opened in Johannesburg today, there was little agreement in the conference room. One word – conundrum – kept both speakers and the audience poles apart as they attempted to decipher what the word means in a context of rising debt levels, state bureaucratic ambivalence and a changing outlook on development goals.

Speaking at the conference, the United Nations (UN) Independent Expert on Foreign Debt and Human Rights, Juan Reviu Bohoslavsky, said the rapid growth of external debt ratios in several countries requires action for a debt crisis to be avoided. He outlined how current debt sustainabiity analyses ignore potential returns from investment in human and social capital. Such returns could translate into, for example, spending on primary and secondary education, health services and social protection.

Said Bohoslavsky: “progress on rooting out poverty, hunger and preventable disease should not be under mined by elevated debt service costs.... International debt relief has not been able to spill over into the attainment of international development goals.”

Also speaking during the conference opening session, Director for Africa and West Asia at International IDEA, Professor Adebayo Olukoshi, said recent episodes of debt distress in various African countries are cause for concern. However, Olukoshi expressed reluctance to accept that Africa – or southern Africa at least – was, indeed, in a debt conundrum.

“There’s no agreement that there is a conundrum. Most of the traditional sources of economic analyses on the African continent are actually generally up-beat. Maybe Africans are less up-beat about Africa. Outside of the continent, there is an air of optimism that has persisted in spite of the recent slow-down in African economies,” said Olukoshi.

On his part, Velaphi Mamba, Team Leader for the Economics and Social Justice (ESJ) Cluster at OSISA emphasized the notion that debt is not an abstract concept but a lived reality for millions of poor citizens across southern Africa. It is these citizens, he said, who carry the heaviest burden of debt and bear the brunt of its effects. “The question of debt is a question about the daily lives and lived experiences of people in our region. It is about access to education, access to health and access to clean water,” said Mamba. Africa Regional Office (AIRO) Director at the Open Society Foundations, Mulhti Namonyi concurred with Mamba and reminded delegates of the dire fiscal, geopolitical and human development consequences of irresponsible debt taken by various African states. Namonyi called for more transparency on African countries’ indebtedness and an evaluation of negotiating capacities of various Africa states. Wanyeki added that debt is transparent,” asked Wanyeki.

OSISA Executive Director, Siphasami Malunga emphasized the linkages between politics and economics by highlighting how the maturity of a democracy impacts the levels of transparency. “Economics and finance have always been a preserve of a few, but everything is interconnected. The economy is political; politics is economics,” Malunga said. Over one hundred people are gathered in Johannesburg, South Africa for the two-day conference, which runs from 2 to 3 July.

For more information about the conference, please see: www.osisa.org/debtconference
RE-POLITICISE THE DEBT DISCOURSE

African countries are currently facing an increasingly difficult lending global framework. The contemporary rise of nationalism and populism in traditional lending countries, coupled with the emergence of non-traditional creditors and market-based financing has further complicated the international architecture for accessing debt facilities.

According to Zimbabwe’s former Minister of Finance, Honourable Tendai Biti MP, “debt is increasingly becoming more sophisticated whilst our ability to control the elite who are all the forefathers of contracting this debt is weakening.” Biti added that across the continent’s debt, civil society and citizen engagement on economic and financial issues is weak despite inherent links to politics. There is, Biti added, need to therefore demystify the debt conversation so as to ensure that ordinary citizens are included in the discourse and can mobilise against reckless and irresponsible borrowing.

African countries, it would seem, need to devise their own solutions if they are to successfully resolve the debt conundrum they find themselves in. Necessarily, the imperative for doing so would require numerous political questions to be answered. Invariably, therefore, the debt question ought to be re-politicised. This was the sentiment expressed by Brian Kagoro. Speaking on the same panel as Biti, Brian Kagoro (Open Society Foundations) said there was need to broaden the understanding of debt, recognising it not only as a legal and financial issue, but also as a political issue which is related to the broader economic and political challenges of inequality, migration and militarisation. Kagoro further intimated that discourse on rising debt levels needed to move from debt management to debt governance. He also encouraged the creation of a pan-African strategy that reflects Africa’s capabilities for research and analysis. In this regard, Kagoro insisted, for example, that “data is a political tool” which Africans need to start using as they re-politicise the debt discourse.

The second panel of the Southern Africa Debt Conundrum conference focused on the role of the financial institutions in the debt problems facing countries in the global south. The panel was made up of representatives from the Third World Network Africa (Yao Graham), African Development Bank (George Karach) and African Women’s Development and Communication Network (Memory Kachambwa).

The speakers noted the challenges posed by the rise of China as a new player in the African debt infrastructure. Owing about 20% of the continent’s debt, China’s strategy as a global capital exporter in the global economy has involved both continuities and discontinuities with the approach of traditional lenders such as the International Monetary Fund (IMF).

The model has involved loan agreements that are overwhelmingly based on bilateral high-level negotiations, mired in lack of transparency and little to no consultation with the citizenry through constitutional mechanisms such as National Parliament. In this context, Memory Kachambwa highlighted the tendency of loan agreements to focus on physical infrastructure to the detriment of social infrastructure. She also questioned the role of the African Development Bank (AfDB) in providing leadership for a more balanced, fair and democratic lending system, particularly noting the need for women to be involved in decision-making processes. She further questioned the role of credit rating agencies as private corporatisations based in the global north with no accountability to global citizens.

African governments and citizens from the perspective of African countries, the speakers noted, the debt architecture needs a more multilateral framing. As Yao Graham noted that “while China deals with Africa as a continent, the continent does not deal with China as a bloc.” This urgency will require both looking inwards – with a more coordinated regional strategy to address the debt crisis – as well as outwards, through a more effective advocacy the reform of the IMF as the global lender of last resort.

The PPP dilemma in Africa

African’s financial and economic crisis, coupled with lack of funding for infrastructural and public services has intensified the growth in appetite for public-private partnerships (PPPs). In recent years, the outsourcing of essential public services has been promoted as a catalyst for sustainable development. However, PPPs, which are contractual agreements between the government and the private sector, have been a cause for highly charged debates and discussions. At OSISA’s regional conference on debt, the panel discussion on PPPs lived up to this billing.

Caroline Eric from the World Bank explained that PPPs are an opportunity for blended financing, enabling governments to deliver services which would otherwise not be available. She further emphasised that public-private partnerships are key for improving the efficiency, robustness and quality of public services. Nevertheless, Eric was quick to caution that PPPs have their own financial costs and risks hence the model needs to be interrogated further.

However, Dr. Farwell Bokosi from the African Forum and Network on Debt and Development (AFRODAD) and Lebohang Pheko from Trade Collective made a case for states to be sceptical with the PPP approach. Bokosi lamented that very few PPPs have delivered the development outcome that they set out to deliver. “PPP’s are more expensive than the public services, they are difficult to negotiate and renegotiate, they are risky, lack transparency and come with limited accountability,” said Bokosi.

General consensus seems to suggest that PPPs are not always bad. However, there is need for exercising caution. Before promoting more intensive and widespread adoption of the model, there is need to develop and implement clear rules for their use in terms of where PPPs can be applied and what government can take on as risk, among other things.

Multilateral solutions to a multilateral problem

The panel highlighted the inadequacy of traditional lenders such as the IMF in providing leadership for a more balanced, fair and democratic lending system. They pointed to the need for more coordinated regional strategies to address the debt crisis. In this context, the speakers noted the importance of involving women in decision-making processes. Kachambwa highlighted the role of the African Development Bank (AfDB) in providing leadership for a more balanced, fair and democratic lending system. She also emphasized the importance of credit rating agencies as private corporatisations based in the global north with no accountability to global citizens.

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Southern Africa’s debt conundrum should prompt a return to basics

By Rumbidzai M. Masango

Africa’s rising debt levels pose a significant threat to development. Statistics show that what was foreign debt of approximately US$170-210 billion for sub-Saharan Africa between 1995-2005 (when the G7 debt relief lowered it by 10 per-cent) has risen to nearly US$470 billion by 2018 (Jubilee Debt Campaign, 2018). According to The Economist, public debt has climbed above 50% of the Gross Domestic Product (GDP) in at least half of sub-Saharan Africa. The risk of a massive economic crash is growing.

This scenario is exacerbated by sluggish economic growth and the increase of debt as a share of GDP. For policymak-ers and development practitioners, such a combination presents significant challenges, especially when considering the role and impact of debt. To be fair, debt can – and should – foster economic growth and development. However, where such debt is acquired recklessly and without due consideration to terms and conditions for repayment, consequences can be dire. Therefore, much emphasis should be placed on how debt is acquired, managed and deployed as a tool for sustainable development.

Since 2013, the International Monetary Fund (IMF) has expressed concern regarding rising debt levels in low-in- come countries. In the after- math of the debt write-off for Heavily Indebted Poor Coun- tries (HIPC’s), multilateral institutions such as the IMF had hoped debt levels for low-income countries would become more manageable, creating a conducive environment for sustainable debt and development. How- ever, statistics show that at least 70 per-cent of low-in- come countries recorded even greater deficits in 2017 than during the period 2010-2014.

For example Zambia, a bene- ficiary of the IMF’s 2005 HIPC scheme, now has public debt at approximately 59% debt-to-GDP ratio. South of the Zambezi, Zimbabwe’s debt accounts for 75% of its GDP, with domestic debt having increased from US$4 billion to US$7.7 billion between November 2017 and August 2018. Mozambique and Mauritania have debt-to-GDP ratios near or above 100 percent. For Madagas- car and Namibia, public debt is approximately 41% (2017), a stark increase for Namibia which had a debt-to-GDP ratio of 23.2% in 2014. Recent debt figures for Angola are not known as the government is yet to under- take a public debt audit. However, in 2016, the debt-to-GDP ratio in Angola was estimated at 79%. These statistics are largely reflective of the prevailing picture across the rest of the contin- ent. For example, countries such as Burundi, Cameroon, Central African Republic, Ethiopia, Burundi, The Gambia, and Ghana currently exhibit similar trends and high risk of GDP declines. As an attempt to restore macroeconomic stability, debt sustainability and steer their countries towards economic growth, most governments have made a case for austerity measures. Thus, over the last two years, governments such as Angola (January 2018), Mozambique (December 2017), Swaziland (November 2018), Zambia (May 2019) and Zimbabwe (November 2018), have introduced austerity measures. The rationale is that by spending less, government is able to repay its external debts and improve their ratings with credit agencies. Because of their nature, however, austerity measures are harsh and often result in undesirable economic conse- quences, which include lack of – or reduced – access to social services, increased taxes, unemployment and decreases in household consumption and spending.

Furthermore, most austerity measures, once introduced, have wide-ranging implica- tions on the extent to which political, social, economic and cultural rights are both enjoyed and protected. For example, decreases in government spending have an adverse effect on margin- alised groups, especially those further impacted by economic disenfranchise- ment. Women, in particular, are the most impacted by rising debt levels across Africa. In addition, the unresolved debt question has also result- ed in high youth unemployment and poverty levels in the region. And, in most cases austerity measures are target- ed at poor citizens while government, bureaucratic and political elites continue to live and spend lavishly using State resources.

So, what is to be done? In short, nothing less than a holistic approach can arrest rising debt levels and redirect southern African countries towards a path of sustainable debt and development. As such, civil society activists, policymakers, development practitioners, journalists and the wider public need to consider various ways of bringing discussions on south- ern Africa’s debt conundrum into the mainstream. Evidently, there is need to interrogate current debt narratives within Africa in relation to external actors, some of which wield significant power over African countries because of the former’s indebtedness. More importantly, interrogating existing narratives creates the opportunity to develop alter- native pan-African narratives, strategies and solutions that promote transparent, accountable borrowing and lending as well as efficient public spending that is prem- ised on sustainable develop- ment, of which a key feature is the advancement and protection of human rights, not least among these, social and economic rights.

It is precisely for this reason that the Open Society Initia- tive for Southern Africa (OSISA), is hosting a two-day conference on southern Africa’s debt conundrum. We strongly believe that by going back to basics, and by pursu- ing models of democratic developmental States, we can collectively create opportunities that can resolve our regional debt crisis and set southern Africa and the rest of the continent on a path towards sustainable debt and development.

Rumbidzai M. Masango is the Programme Manager: Economic Justice at the Open Society Initiative for Southern Africa (OSISA).

For information about OSISA regional debt conference, please visit www.osisa.org/debtconference

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