

ÁFRICA : THE UNSUSTAINABLE BURDEN OF DEBT AND HOW TO GET OUT OF IT

EXECUTIVE SUMMARY

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ÁFRICA : LA TRAMPA DE LA DEUDA Y CÓMO SALIR DE ELLA

LA INSOSTENIBLE CARGA DE LA DEUDA AGRAVADA POR LA PANDEMIA DEL COVID-19

THE UNSUSTAINABLE BURDEN OF DEBT WAS AGGRAVATED BY THE COVID-19 PANDEMIC

Africa was not long spared by the Covid-19 pandemic that submerged the world. The new virus first appeared in Africa in mid-February 2020, almost three months after the first case of Covid-19 in China. On 13 April 2020, French president Emmanuel Macron made an announcement that did not cost him anything: he proposed a massive cancellation of African debt to support the continent's struggle against the virus. A few hours later, the G20 merely offered a suspension of payment for the poorest countries. Yet public debts had sharply increased all over the world.

Today, over a third of the countries of the South are either over-indebted or in default. 60% of African countries spend more on repaying their debts than on health care, thus not meeting local needs. And the war in Ukraine is hitting African countries hard as they face rising commodity prices. Debt is therefore a hot topic. What is the impact of the Covid-19 pandemic on the indebtedness of southern countries? What is the responsibility of the International Financial Institutions and of countries of the North for this predicament? Can the temporary suspension of repayment that was granted solve the debt issue faced by African countries, which has been further aggravated by the Covid-19 pandemic? Are there no alternatives?

The present study focuses on the development of indebtedness in Africa. But the analysis can easily be extended to other countries of the South. It shows that the coronavirus pandemic and its many consequences aggravated a former situation of indebtedness but was not its cause. The pandemic

was the catalyst, though all the ingredients of a new financial crisis have been present for several years, at least since 2017-2018. It highlights the dramatic social and economic consequences of the current health crisis, as well as its huge impact on public finances and indebtedness, both in the North and in the South. Finally, it shows that what the International Financial Institutions (IFI) have contributed are false solutions and that there are alternatives. More fundamentally, it demonstrates that the logic of the capitalist system has to be questioned to get to the roots of African countries' indebtedness.

SURVEY OF AFRICAN STATES' PUBLIC DEBTS

One third of African States are either over-indebted or on the brink of over-indebtedness.

The stock of Sub-Saharan Africa's external public debt increased from \$305bn in 2010 to \$702bn in 2020, i.e. from 24 to 40% of the region's GDP, and from 76 to 156% of its exports.

In 2022, the continent had to pay in all \$44bn in interest to its external creditors. In some African countries the debt service amounts to 60% of their revenues and countries spend more in repaying their debts than in essential services such as health care, education, providing decent jobs, access to electricity and clean drinking water.

Moreover, Sub-Saharan Africa has become the arena of clashing interests between traditional creditors and emerging powers, further entangling it in a spiral of indebtedness.

ECONOMIC AND SOCIAL CONSEQUENCES OF THE PANDEMIC

GDP contracted by 2.1% in 2020, external financial flows (foreign direct investment, official development assistance, remittances from the diaspora) fell drastically, most currencies depreciated and external debt shot up correspondingly, food insecurity increased in some regions and 490 million Africans, mainly women, would face extreme poverty by the end of 2021, bringing to 40.2 the percentage of Africans living on less than US\$1.90 a day, an indicator that is underestimated and highly debatable.

African countries, already unable to meet local needs due to high debt repayments, now faced a new debt crisis, aggravated by the Covid-19 pandemic and caused by three main historical factors:

FROM THE ILLEGAL TRANSFER OF COLONIAL DEBT TO SAP

The debt process in African States goes back to the colonial period when imperial centres illegally bequeathed to newly independent countries the debts they had contracted in their own interests, making them both illegal and illegitimate. Independent countries had few options to finance their ideals of national construction and were compelled to contract debts. Moreover, the debt policies of the former colonies were encouraged by the international context of the Cold War, both on an economic and a political level. The debt stocks of African countries steadily increased, often tipping into over-indebtedness.

The situation was aggravated by the neoliberal structural adjustment policies imposed by the World Bank and the IMF in the 1980s-1990s, conditioned on "structural reforms," mainly fiscal austerity measures and liberalization of the economy. The debt stocks of African countries have steadily increased, often reaching levels of over-indebtedness and resulting in the first debt crisis at the end of the 1970s and early 1980s.

THE FALSE SOLUTIONS BROUGHT BY INTERNATIONAL FINANCIAL INSTITUTIONS

The solutions proposed by creditors to curb the debt crisis have all proved counterproductive. As early as 1996, faced with the fact that the Sub-Saharan states were mired in over-indebtedness aggravated by the imposition of structural adjustment plans (SAPs), creditors, through the Bretton Woods institutions, launched the Heavily Indebted Poor Countries Initiative (HIPC). In 2005, creditors launched the Multilateral Debt Relief Initiative (MDRI), which focused on the full cancellation of 100% of the multilateral debt of heavily indebted poor countries that had reached the HIPC completion point. Instead of solving the debt crisis in Africa, these initiatives exacerbated it.

More recently, the measures announced following the Covid-19 pandemic by the Paris Club and the G20 - such as the Debt Service Suspension Initiative (DSSI) for the so-called poorest countries - have so far been largely insufficient. Indeed, these measures have been limited to either temporarily suspending the repayment of a tiny part of the debts of the 73 countries classified as «low-income», or to restructuring part of these debts on a case-by-case basis. There is a risk that the moratorium, as well as the new loans ostensibly granted to fight the effects of the pandemic, are used to pay private and multilateral creditors as a priority, instead of meeting the urgent needs of the populations on the ground.

NEW CREDITORS AND ILLICIT FINANCIAL FLOWS

Private creditors, who are by far the majority, are not forced to cancel their claims; they are simply invited to do so. As a result, the debt services due to private creditors in 2020 and 2021 have been paid. For example, these have been virtually kept out of the DSSI.

The amount of loans that China has granted to African countries has steadily grown, almost quadrupling in less than ten years, rising from \$40bn in 2010 to \$153bn in 2019. China now holds a third of the bilateral external public debt of the countries of the South.

Finally, in Africa, part of the benefits made during periods of strong growth went out illegally, favouring the tax optimization of large companies, which made the countries attractive to foreign investors.

TOWARDS A COMPLETE RENEWAL OF RELATIONS BETWEEN EUROPE AND AFRICA

Las relaciones de África con la Unión Europea (UE) y los tratados que de ella emanan se basan eminentemente en relaciones de poder coloniales y neocoloniales a las que hay que oponerse. El Convenio de Yaundé de 1963 entre los entonces 6 Estados miembros de la Comunidad Económica Europea (CEE) y 18 Estados africanos, es el primero de una serie de tratados que han mantenido las especializaciones económicas establecidas por las administraciones coloniales en cultivos comerciales, en monocultivos, generalmente reservados a la exportación, para los mercados de las metrópolis coloniales europeas. Esto se hace generalmente a expensas de los pequeños cultivos para la autosuficiencia alimentaria en estos países. La ayuda al desarrollo de la UE no ha desarrollado a África ni ha promovido su independencia económica, sino que, por el contrario, ha servido para engrasar los mecanismos de reproducción de la dependencia de las economías africanas.

Broadly speaking, the CADTM considers that we have to fight for the implementation of an anti-capitalist programme, including a number of fundamental measures that challenge the logic of the capitalist system, to get at the roots of African countries' indebtedness.

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WHAT CAN BE DONE TO DEAL WITH THE DEBT TRAP?

In view of these findings, which show that international solutions are inadequate and in fact fuel global inequalities, the study puts forward a number of proposals for structurally solving the debt problem in Africa, among them:

Cancel all public debts and refuse any conditions demanded by creditors

Carry out an audit of public debt with citizen participation

Take unilateral action to ensure effective protection of human rights

Lift private patents for access to health for all

Put an end to unfair tax arrangements

Introduce a legitimate borrowing policy with socialized banks

Implement a genuine policy of reparations



The Left in the European Parliament

Rue Wiertz 60 B-1047 Brussels

www.left.eu