SPECIAL REPORT:

CONFUSION OVER DEBT RELIEF AS PRIVATE CREDITORS REJECT MORATORIUM

The G-20 and Paris Club moratorium on loan servicing faces rejection by many African governments that seek more extensive debt relief measures. Meanwhile, private creditors warn that the G-20 proposal risks unnecessary costs and will thwart future access to capital. EXX Africa explains which countries are eligible for debt relief and highlights the examples of Nigeria and Kenya to demonstrate that the one-size-fits-all approach may not be effective in avoiding defaults.

On 15 May, the Africa Private Creditor Working Group (AfricaPCWG) was formed by prominent emerging market creditors to help heavily indebted African nations coordinate responses to the economic impact of the novel coronavirus. The Working Group was launched to coordinate the views of over 25 asset managers and financial institutions representing total assets under management in excess of USD 9 trillion, such as Farallon Capital Europe, Aberdeen Asset Management, Amia Capital, Greylock Capital Management, and Pharo Management.

These private creditors have criticised a G-20 plan for blanket relief that has suspended payments on official loans to wealthier countries, saying that broad-based measures would risk unnecessary costs and thwart future access
to capital. The creation of the Working Group is likely to further confuse the prospect of a coordinated approach by public and private creditors to prevent a debt crisis in Africa.

**Questions over debt moratorium**

Last week, the chair of the Paris Club, which is a group of officials from major creditor countries that provides debt solutions to struggling debtor countries, said that the world’s wealthiest economies might need to pardon the debts of some low-income nations and help rework the obligations of larger developing countries if the coronavirus pandemic ravages their finances. In April, the Paris Club alongside the G-20 group of nations agreed to freeze debt payments for the 77 poorest countries from May 1 to the end of the year. There are 39 African countries that are currently eligible to receive International Development Association (IDA) resources and these countries qualify for the G-20 debt moratorium.

However, there has been confusion over the debt moratorium as some countries have rejected the plan as being insufficient to stave off another debt crisis. For example, Uganda has said it would prefer debt cancellation to help rebuild its economy after the fallout from the coronavirus pandemic, rather than rescheduling of payments. IDA countries have been slow to make applications for the debt payments freeze, while some of the least developed countries (LDCs) marked by the United Nations have expressed interest in applying for debt relief. Some LDCs are not eligible for IDA relief, such as Angola. More developed economies like South Africa have been at the forefront of demanding debt relief from creditors, yet is neither IDA eligible, nor listed as an LDC. This has created some uncertainty over the fairness of the eligibility criteria for the debt moratorium.

Borrowing by developing countries has soared to a record USD 55 trillion in 2018. Yet Africa is the primary focus of calls for debt relief or cancellation, despite the continent having a relatively low average debt-to-GDP ratio. Most

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**WHICH AFRICAN COUNTRIES QUALIFY FOR G-20 & PARIS CLUB DEBT RELIEF?**

![Map of African countries qualifying for G-20 & Paris Club debt relief](image)

1. **African countries that are currently eligible to receive International Development Association (IDA) resources**
2. **Least developed countries (LDC)**
3. Inactive countries no active IDA financing due to restricted non-accreditation status.
4. **Blend countries:** IDA-eligible but also creditworthy for some borrowing from the International Bank for Reconstruction and Development (IBRD).
5. Borrowing on small economy terms.
6. Borrowing on blend credits from the IDA and IBRD.

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economies hover around the 50 percent to 60 percent mark, which is deemed to be manageable by the International Monetary Fund (IMF). Other developing countries outside of Africa have questioned whether Africa warrants a second round of debt relief following 2005, when the G-8 group of nations wrote off billions in developing country debt.

Meanwhile, the G20 has urged private creditors to match their proposal to allow the poorest nations to suspend debt payments for the rest of the year. However, private creditors like those now united in the Working Group, have warned that a one-size-fits-all solution would be counterproductive. Two examples of large African economies illustrate the complexities of offering debt relief without a clear unified approach that includes all stakeholders and creditors (See SPECIAL REPORT: AFRICA LOBBIES FOR DEBT SWAP TO AVOID WAVE OF SOVEREIGN DEFAULTS).

NIGERIA – GROWING NEED TO INCREASE TAX TAKE TO BOOST REVENUES

Nigeria’s President Muhammadu Buhari recently warned that the country could struggle to fund its expenses unless it’s able to raise the tax take. At about 7 percent of GDP, Nigeria has one of the lowest tax collection ratios in the world. Fiscal revenues have also undershot targets by at least 45 percent a year since 2015. Meanwhile, expenditure has doubled to more than USD 19 billion over the past five years. As a result, the government’s income shortfall was 51.9 percent in May due to lower oil and non-oil inflows.

Spending has been largely supported by borrowing both from the domestic and international markets. Total borrowing as a proportion of GDP is about 21 percent, but that is now likely to rise. Total debt stood at USD 81.2 billion at the end of March this year, from about USD 65 billion in 2015. The budget deficit has been filed by borrowing both from the domestic and international markets. Debt owed to non-Nigerian lenders now stands at USD 25.2 billion. Debt service costs on these loans now consume more than half of actual revenues, at a total cost of USD 5.7 billion in 2018. The IMF has warned that without major revenue reforms, debt could rise to almost 36 percent of GDP by 2024 and interest payments could make up 74.6 percent of revenue.

In response, President Buhari has given additional powers to Finance Minister Zainab Ahmed to increase tax revenues. Ahmed has plans to increase consumption tax to 7.5 percent from 5 percent to boost revenues. A five percent consumption tax on online transactions will also come into effect from January, which would earn the government USD 3.6 billion every quarter. Ahmed said last week that the cabinet had approved a revised budget of USD 27.2 billion, only slightly lower than the USD 27.4 billion budget approved in December by President Buhari. With global oil prices plunging, the government had initially said this year’s budget would shrink by about 15 percent and that it would switch to domestic naira borrowings. However, Ahmed said last week that the reduction amounted to just USD 185 million in order to boost fiscal stimulus as the economy contracts. The government expects the economy, which recently recovered from a 2016 recession, to shrink by 3.4 percent this year (See NIGERIA: BUHARI, THE UNLIKELY REFORMIST PRESIDENT).

The budget will be financed from local and foreign borrowings as well as proceeds of privatisations amounting to USD13.6 billion to plug the deficit. International lenders include the
IMF, which last month approved USD3.4 billion in emergency financial assistance for Nigeria, as well as the World Bank, the Islamic Development Bank, and Afreximbank. Ahmed has since specified that the IMF facility will be paid back over a period of five years with three and a quarter years moratorium with an interest cost of one percent. It is through hiking tax revenues and increasing multilateral borrowing that Nigeria seeks to maintain spending levels, while the country has also supported a one-year debt moratorium as offered by the G-20 and Paris Club (See SPECIAL REPORT: MULTILATERALS TO THE RESCUE IN AFRICA).

KENYA – CHINESE LOANS DRIVE ‘HIGH’ RISK OF DEBT DISTRESS

On 12 May, the IMF raised Kenya’s risk of debt distress to high from moderate due to the impact of the coronavirus crisis. The Fund moved Kenya debt distress risk from ‘low’ to ‘moderate’ in October 2018, citing the government’s public investment drive and revenue shortfalls in recent years. This means it believes there is a moderate chance Kenya will default on debt repayments – this risk is now rated as being high. The main concern for Kenya’s debt position is the country’s massive loans to China which it has been unable to restructure. China is Kenya’s largest lender, accounting for 72 percent of all its foreign debts. The country spent USD 8 billion in 2019 to service its debts, becoming the third indebted country behind Angola and Ethiopia.

Kenya’s debt stood at 63.7 percent of GDP at the end of last year, up from 50.2 percent at the end of 2015, driven up by gaping budget deficits that were caused by large infrastructure projects such as a new railway line. The government has responded to the crisis with a range of fiscal measures, including cuts to value-added and income taxes, which have worsened a number of indicators. However, the Fund has said that Kenya’s debt load remains sustainable and earlier in May it approved USD 739 million in emergency funding for Kenya to help it tackle the COVID-19 crisis.

However, the crisis exposes an economy already weighed down by rising public debt – standing at USD 60 billion as of September 2019 – years of missed revenue collection targets, and a budget deficit hovering at more than six percent of GDP. Patrick Njoroge, the governor of the Central Bank of Kenya, said the country would seek more than USD 1 billion in emergency funding from the IMF and the World Bank to prop up its slowing economy. Treasury Cabinet Secretary Ukur Yatani has also warned of an underperformance in revenue of USD 658 million in the remaining three months before the end of the fiscal year. Yatani is due review the national budget and make spending cuts.

From an economic perspective, the main concern in the medium term is that slowing growth will constrain the government’s ability to service debt, which is now consuming over a third of current revenue. Kenya’s public debt has increased massively due to heavy borrowing to finance infrastructure projects. If Kenyatta wants to push ahead with his ‘Big Four’ agenda, he would risk taking on even more debt and stoking inflation that would drive fresh socio-economic protests. As healthcare spending is boosted and government revenue comes under even greater pressure, the government’s ‘Big Four’ legacy agenda is likely to stall this year, while politicking heats up towards the 2022 elections (See KENYA: POLITICS AND ECONOMIC POLICY TO DETERMINE IMPACT OF CORONAVIRUS).
INSIGHT

According to the latest available data, South Africa, Angola, Ghana, Kenya, Ethiopia, Nigeria, and Cote d’Ivoire have debt service obligations of more than USD 1 billion on public and publicly guaranteed external loans. These countries now have an immediate need to boost revenues, cut spending, and seek multilateral and other sources of financial support. However, each country requires a different solution to avoid loan defaults. For Nigeria, this means seeking more domestic revenues and relying heavily on multilaterals. Meanwhile, Kenya will need to seek a restructuring deal with Chinese lenders in order to avoid distress on its loan payments.

The current G-20 proposal offers only a hiatus on repayment of this year’s debt servicing to official creditors. The proposal simply pushes little more than USD 12 billion in debt interest payments to next year. Africa’s biggest spike in Eurobond redemptions is not due until 2024-25, although several substantial principal payments on African sovereign debt fall due between 2020 and 2022. Failure to agree on debt relief is illustrated by the

PUBLIC AND PUBLICLY-GUARANTEED EXTERNAL DEBT SERVICE BY TYPE OF CREDITOR, 2018 (USD million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Official Creditors</th>
<th>Private Creditors</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bilateral</td>
<td>Multilateral</td>
<td>Bonds</td>
</tr>
<tr>
<td>South Africa</td>
<td>0</td>
<td>638</td>
<td>10,518</td>
</tr>
<tr>
<td>Angola</td>
<td>4,145</td>
<td>93</td>
<td>169</td>
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<tr>
<td>Ghana</td>
<td>496</td>
<td>115</td>
<td>1,087</td>
</tr>
<tr>
<td>Kenya</td>
<td>675</td>
<td>598</td>
<td>259</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>619</td>
<td>180</td>
<td>66</td>
</tr>
<tr>
<td>Nigeria</td>
<td>158</td>
<td>275</td>
<td>911</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>630</td>
<td>75</td>
<td>393</td>
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<tr>
<td>Tanzania</td>
<td>219</td>
<td>169</td>
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<tr>
<td>Zambia</td>
<td>225</td>
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<td>Gabon</td>
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<tr>
<td>Mozambique</td>
<td>301</td>
<td>79</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: World Bank
complexities of debt structures compared to 2005, when G8 nations wrote off billions in developing country debt.

Since then, Africa has since gone through several rounds of unsustainable borrowing. The continent’s external debt payments doubled from 2015 to 2017 to 11.8 percent. Debt-service obligations range from dollar-denominated Eurobonds and Chinese countertrade deals to bilateral project loans and trade credits, as well as obligations to the IMF and World Bank. Although the bulk of Africa’s debt is now owed to governments and multilateral institutions, the IMF will play a key arbiter role in the negotiations. Some countries like Mozambique, Zambia, and Republic of Congo have purposefully not disclosed massive opaque borrowings which has tarnished their creditor reputation. The US also opposes any debt relief for countries that have borrowed heavily from China, with US Secretary of State Mike Pompeo accusing Beijing of using loans for political control in Africa.

Of Africa’s overall debts of around USD 365 billion, around a third is owed to China. China’s government, banks, and companies lent about USD 143 billion to Africa between 2000 and 2017, much of it for large-scale infrastructure projects. Chinese lending now dwarfs World Bank loans in Africa. China makes up 33 percent of external debt service in Kenya, 17 percent in Ethiopia and 10 percent in Nigeria. China refuses to deal within the IMF structure in regards to its lending practices.

Moreover, in contrast to 2005, when the issue was public debt, today 32 percent of total external debt and 55 percent of external debt service payments are estimated to be commercial. Also, unlike during global financial crisis in 2008-09, when Africa’s economies had larger buffers than now to protect against a downturn, this time round Africa has a more complex set of debt liabilities, including a higher proportion of commercial debt, less concessional debt, as well as substantial amounts of hidden or under-counted domestic obligations.

As the prospect of coordinated debt relief fades, the African proposal seeking to set up a common facility, a special purpose vehicle to convert the debt into longer-term instruments. However, bondholders would need to agree to the restructuring, while at least one major multilateral would need to guarantee the new bonds, which is unlikely without US sanction. If the proposal fails, some of Africa’s largest economies are set to default later this year and beyond.

> General Government Gross Debt: 2020

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