Africa's Dance with Unsustainable Debt: Is it time for a Comprehensive Mechanism for Debt Restructuring?

By:

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The coronavirus or Covid-19 pandemic is considered one of the most unprecedented and devastating events of the past century, and has gravely impacted the economies of African countries. As African countries increased spending in response to the consequential health and social crises, it has become clear that one of the major legacies of the Covid-19 pandemic will be resultant rising debt levels. The pandemic has again brought to global attention the challenge of Africa’s unsustainable public sector debt levels and economic crises. While Africa’s rising debt levels have been of concern over the past decade, the pandemic has worsened an already worrying situation. For many African countries grappling to contain the virus, the economic impact has been

far reaching. Not only are countries battling to fund nation-wide vaccination programs and deal with the economic impacts of national lockdowns and travel restrictions, default on debt repayments has become inevitable. In this respect, while additionally underscoring the significant roles of debt management and governance, Dr. Akinwumi A. Adesina, the President of the African Development Bank Group, has posited that "…the time for one last debt relief for Africa is now."

In May 2020, the G20 launched the Debt Service Suspension Initiative (DSSI) in response to the Covid-19 pandemic-induced challenges of debt repayment in developing countries. This is a program set up to provide temporary standstills on the repayment of interest and principal of official-bilateral debts of select eligible countries. In addition, the G20 endorsed the "Common Framework for Debt Treatments beyond the DSSI" in November 2020, which aimed at providing more broad-based relief through debt rescheduling and in extreme cases, debt cancellation, as well as encourage private creditor participation. While these programs do provide some relief, (with the DSSI only providing temporary breathing space), countries may still need to negotiate further debt relief or restructurings with the broad array of creditors. With the present debt suspension initiative, the Managing Director of the IMF Kristalina Georgieva, has noted that as a result of "a highly diversified environment with so many different private creditors and other creditors, I must admit, we are not where we should be."

Just over two and a half decades after the launch of the Heavily Indebted Poor Country program (HIPC), which was designed to give many developing countries a clean slate, there is a need for another 'debt jubilee' that goes further than the temporary relief that initiatives like the DSSI offer. However, if history is anything to go by, even with another debt relief program, the continent will again find itself in a similar predicament. As such, the focus today should not only be on finding short term solutions like debt standstills but should entail mechanisms to ensure that countries have access to the necessary resources to tackle the pandemic and their development objectives. Is it again time to re-explore the global governance of debt restructuring? This question is being posed in an effort to revive the discourse on the establishment of an international framework on sovereign debt restructuring.

Today, this debate comes within the context of the global Covid-19 pandemic, which has revealed the dangers of the lack of comprehensive institutional and legal mechanisms versus reactionary responses. This essay is divided into three broad sections. The first explores what the author describes as a glaring gap in the international governance of debt restructuring. Flowing from this discussion, the following section revisits what now seems an abandoned discourse on the establishment of a comprehensive international mechanism on debt restructuring. The third section explores the African perspective on the debate. The paper then concludes with recommendations.

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