Eighty First Sovereign Debt News Update: The Big Funding Squeeze: Analyzing the IMF'S Austerity plans for Africa's Deteriorating Debt Situation

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The confluence of higher global interest rates, elevated sovereign debt spreads, and exchange rate depreciations, among other factors, has created a funding squeeze for many countries in sub-Saharan Africa. This challenge comes on top of policy struggles from the ramifications of the COVID-19 pandemic and the cost-of-living crisis. Reflecting these concerns, the International Monetary Fund (IMF) on 14 Friday 2023 published its 2023 Regional Economic Outlook (REO) for sub-Saharan Africa titled 'The Big Funding Squeeze', projecting the region to have positive economic prospects but also serious economic challenges due to a "big funding squeeze." This update first summarizes the IMF's prescriptions. It then analyses these prescriptions. The AfSDJN's analysis of the IMF's prescriptions is that they will entrench its austerity measures in Africa rather than resolving the underlying dynamics that have created the increasing indebtedness. Further, the IMF's prescriptions presuppose that merely opening further finance – including in the form of both domestic and external debt – that will more than anything else enrich the global finance industry is a viable solution. This analysis further shows how fiscal consolidation in some African countries has led to considerable cuts in a country's public expenditure thus hampering these countries' ability to provide public services.

Notably, persistent global inflation and tighter monetary policies have led to higher borrowing costs for sub-Saharan African countries and have placed greater pressure on exchange rates. Indeed, no country has been able to issue a Eurobond since spring 2022. Besides, the interest burden on public debt is rising, owing to a greater reliance on expensive market-based funding combined with a long-term decline in aid budgets. In this disturbing context, the IMF, in its 2023 REO, noted that the financing options of Sub-Saharan Africa have significantly deteriorated over the past year, warning that if no measures are taken, this shortage of funding may force countries to reduce fiscal resources for critical development like health, education, and infrastructure, holding the region back from developing its true potential.

According to the IMF, the acceleration in the tightening of global monetary policy, prompted by the rapid pick up in global inflation after the onset of Russia's war in Ukraine, has led to higher interest rates worldwide and raised borrowing costs for sub-Saharan African countries, both on domestic and international markets. Additionally, borrowing costs have increased significantly over the past decade, with interest payments as a share of revenue doubling over the same period. At 11 percent of revenues (excluding grants) for the median sub-Saharan African country in 2022, interest payments are about triple those of the median advanced economy.

Structural shifts behind this increase in borrowing costs include a decline in aid budgets to the region that led some countries to turn to market-based finance, which is more expensive. Increased integration in international debt markets and deepening of domestic financial markets also made it easier to contract more private domestic and external debt on non-concessional terms. Moreover, inflows from China, for a while a significant source of financing, have declined markedly more recently. As a result, "crisis is hitting the region hard," a prognosis that reflects a decline in global economic development.

However, according to the report's findings, sub-Saharan Africa would expand faster than wealthy nations. In particular, Sub-Saharan Africa is poised to grow at 4.2 percent in 2024 from 3.6 percent in 2023. Almost four-fifths of the countries are projected to register a growth pickup in 2024, driven by higher private consumption and investment.

The report concludes with four key policy recommendations to help mitigate the projected economic distress in the region. These are:

- Enhancing public financial management by revenue mobilization, a process that entails raising more money through taxes, tariffs, fees, fines, and other sources of revenue, in order to finance public services and infrastructure projects in sectors like healthcare, transportation, and social welfare.
- Calibrating the pace of monetary policy to contain inflation by adjusting the rate by which central banks raise interest rates, until inflation is firmly on a downward trajectory, and on track to reach the central bank’s target range. In particular,

1. In cases where countries are still experiencing very high inflation, continued acceleration, or significant volatility, authorities need to continue to tighten policy rates decisively because these countries are susceptible to second-round effects and de-anchoring of inflation expectations. Tackling both after they become entrenched will be very difficult.

2. In countries that have signs of inflation peaking, but where inflation is still relatively elevated, authorities need to steer monetary policy cautiously until inflation is firmly on a downward trajectory, and inflation projections return within the target band of the central bank in the medium term

- Resisting exchange rate pressures, including an elevated share of foreign-currency debt and weakly anchored inflation. They have to adjust to new fundamentals of higher global interest rates and tighter financing conditions that are expected to last into the foreseeable future.

- Responding to climate change without sacrificing basic needs. It is important that resources allocated towards climate change do not crowd out those devoted to basic needs and other development goals. Therefore, in order to mobilize the additional climate financing to the region, African countries ought to:

1. Unlock more concessional finance;

2. Increase private climate finance;

3. Leverage concessional finance to catalyse private finance.

A few considerations to take note of from these policy recommendations. First, according to the IMF, successful revenue mobilization efforts often require pursuing revenue administration reforms and improving the design of tax policies, including by expanding the base for value added tax. However, as an austerity measure, by increasing revenue mobilization through collection of regressive taxes, the state is reduced to a mere revenue-generating organ, solely 'operating for the interests of its lenders, with the people viewed as cogs in its wheels.' For instance, in Zambia, Jubilee Zambia described the Heavily-Indebted Poor Countries (HIPC) conditionalities – which included fiscal consolidation – as a 'surgery' on the economy, which resulted in freezing of employee wages and income tax hikes consequently provoking strikes. This means that the debtor country loses its ownership of national development strategies even as international human rights are lost in this process. A country's ownership of its national development strategies is the bedrock of development effectiveness. However, such country ownership should not be construed to mean some 'form of national commitment (or buy-in) to the policy reforms advocated by international financial institutions' as it is often construed. Instead, it implies the national Governments should have the ability to freely choose the strategies which they design and implement, and take the lead in both policy formulation and implementation.'

Secondly, by way of country illustration, fiscal consolidation in Ghana saw the country make considerable cuts in public expenditure under the IMF programme that ended in April 2019, hence the commitment to a national social protection floor was affected by a 77 per cent drop in the 2019 Budget for the Ministry of Gender, Children and Social Protection. As a result, the provision of public services in Ghana, both in urban and rural areas, was hampered by the IMF-backed austerity policies that increased rather than reduce gender inequalities. ActionAid's review of the agreements between the IMF and the government of Ghana indicated that, apart from extremely limited social safety nets for those in extreme poverty, social, gender and human rights impacts are not assessed in the design of adjustment programmes.

Finally, it is imperative that the IMF, together with the World Bank, be on the vanguard advocating for climate needs being primarily financed through grants and in-kind support. Most climate finance programs contribute to the unnecessary unsustainable debt levels of African countries as over 70% is provided as loans. Ironically, Africa is responsible for less than 4% of the global greenhouse gas emissions, yet it is warming more quickly, its glaciers are retreating faster, and its rate of sea-level rise is higher than the global mean. This consequently means that African countries need more finances to address these climate-related challenges. As a result, Sub-Saharan African countries will have to take on almost USD 1 trillion in debt over the next decade. This means that African countries will continue to be trapped repaying vast sums to their creditors every year, hampering their ability to respond to the mounting impacts and costs of the climate crisis. At the same time, extreme climate events and insufficient grant-based climate finance are forcing indebted countries deeper into debt, keeping many locked in fossil fuel production, as the main source of income to guarantee debt service payment, and creating a vicious cycle that can be impossible to escape.

Consequently, the debt burdens of African countries make it exceedingly difficult for these countries to address the impacts of climate change, provide basic services to improve the wellbeing of their people, and participate in the new global economy. Furthermore, the cost of borrowing to address climate priorities has also become exceedingly expensive. Ironically, contrary to the promise of the UNFCCC regime, the punitive cost of climate change is being borne by the least developed countries in the world, mostly found in Africa. In the absence of real debt relief and automatic debt standstills in the event of extreme climate events, compounded by prolonged and complicated restructuring processes, climate finance-recipient countries are at risk of entering a vicious cycle of indebtedness and vulnerability in which they incur further debt liabilities to address their climate needs yet spend more on debt repayments than addressing their climate vulnerabilities and building the required resilience.

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