Doves, Vultures and African Debt in the Time of COVID-19

By:

Danny Bradlow

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The Corona virus is creating Sub-Saharan Africa's worst social and economic crisis since at least the Second World War. The WHO is projecting that the number of Corona virus cases in Africa could increase from a few thousand to 10 million in the next 3-6 months. If these predictions are accurate, this pandemic would overwhelm African countries' health systems, devastate their economies and threaten millions of people with unemployment, hunger and homelessness. Researchers estimate that the crisis could result in 500 million people falling into poverty around the world. Many of these people will be in Africa. This situation would also undermine global efforts to control the pandemic.

World leaders are sufficiently worried. Recently, eighteen African and European leaders stated that "only a global victory that fully includes Africa can bring this pandemic to an end." They called for a $100 billion economic support package for Africa. They also support an "immediate moratorium on all bilateral and multilateral debt payments, both public and private” until the pandemic has passed.

The international community is beginning to respond. At their recent meeting, the G20 Finance Ministers and Central Bank Governors agreed that they would suspend debt service payments for the poorest countries from 1 May until the end of 2020. The suspension would cover all their official bilateral credits. The suspension will be implemented either through a rescheduling of the payments or a refinancing so that the suspended payments would be repaid over a three year period beginning after a one year grace period. The G20 left open the possibility of a further suspension of debt payments after 2020. The G20 also called on both multilateral creditors and private creditors to suspend their debt service payments due from the same countries on comparable terms.

The IMF and the World Bank have both welcomed this initiative. The IMF has announced that it is expanding its emergency support to its member countries. It also will offer qualifying poor countries relief on all payments owing to the IMF for 6 months through its Catastrophe Containment and Relief Trust. The World Bank has greatly expanded the amount of financing that it will provide to its member countries. It has announced that it will be providing $160 billion over the next 15 months, of which $50 billion will be allocated to the poorest countries, to help its member states deal with the pandemic. However, it has said that it can only provide debt relief if its member states fully compensate it for the resulting cost.

In addition, the African Development Bank has created a $10 billion Covid 19 response facility. While these actions will no doubt help African countries deal with the impact of this crisis, they are not sufficient. First, the support is being provided in the form of debts rather than grants. Consequently, while they provide Africa with more resources to deal with the acute phase of the public health crisis, they will ultimately add to Africa’s debt burden.

Second, it is not yet clear how Africa’s private creditors will respond to the G20 initiative. The Institute for International Finance, which represents 450 of the largest financial institutions in the world has said that it supports the call for a 6 month suspension of debt payments owed by the poorest countries. However, neither the Institute nor its members have explained the terms on which they will implement such a suspension. They have also given no indication on whether they would commit to suspend trading in their debt instruments.

This is problematic because African countries owe about $130bn in long-term debt to private creditors. This is about one third of Africa's total debt but it accounts for about 55% of the annual interest payments owed by Africa to its creditors. Most of this debt is in the form of bonds. Their price has fallen on financial markets. For example, Angolan and Zambian debts were recently trading at around 35c on the dollar.

Given that the IMF is predicting that the region's economy could contract by 1.6% in 2020, the worst performance on record and the WTO projects that world trade could contract by 13-32% this year, it is likely that the price of African bonds will remain depressed. Unfortunately, these discounted prices do not affect Africa's debt service obligations.

This creates a situation ripe for exploitation by speculators. They can buy the cheap bonds with the expectation that they will be able to demand full repayment from the debtor governments — and to sue any debtor that demurs. These vultures have earned exorbitant profits with this strategy in the past. They have used it against approximately 12 African countries and a number of other countries around the world, most famously Argentina.

Some states have passed laws to discourage these vultures. But they are adept at using their debt holdings to browbeat debtor countries into prioritising their debt over other obligations, including to their own citizens.

To mitigate the risk of speculation, I have proposed that the international community should create a Debts of Vulnerable Economies Fund (a "DOVE" fund) to help African countries deal with their private sector debt. The fund could be created by an African institution such as the African Development Bank or the African Union. The fund should be financed by governments, foundations, financial institutions, companies and individuals. In order to demonstrate its independence from both debtor countries and creditor institutions it should be managed by an independent board representing all stakeholders. The fund would do two things.

First, it would buy the debt of qualifying African states on financial markets at the market price (i.e. with the current steep discounts) and promise to implement a debt standstill on the debt it holds. The standstill would continue until the global health crisis abates. The fund would also commit that once the global economy begins to grow again it will work with African debtors to ensure that the debt is not an undue burden on their efforts to rebuild their economies. These actions and their possible impact on the price of the debt should help deter the speculators.

Second, the DOVE fund would advocate that all other private sector creditors commit to a debt standstill for as long as the crisis lasts and, on a case by case basis, to consider renegotiating the debt after the crisis ends. It should remind them that leading financial institutions, such as Blackrock, and business groupings, such as the US Business Roundtable, chaired by JP Morgan Chase CEO Jamie Dimon, have recently argued that companies, including financial institutions, should serve the interests of all their stakeholders and should not prioritise the interests of their shareholders. Their stakeholders include their borrowers and those innocent third parties – such as citizens – affected by their actions and decisions.

Moreover, many of the financial institutions that hold African country debt have environmental, social and human rights policies that require them to comply with all applicable international standards, such as the Principles on Responsible Investing, the UN Guiding Principles on Business and Human Rights and the Equator Principles in their operations. They also confirm that they respect all international human rights conventions.

This crisis is an opportunity for them to show that these public statements are not mere rhetoric but represent a meaningful change in their way of doing business.

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[1] SARCHI Professor of International Development Law and African Economic Relations, Centre for Human Rights, University of Pretoria, South Africa, Email: danny.bradlow@up.ac.za