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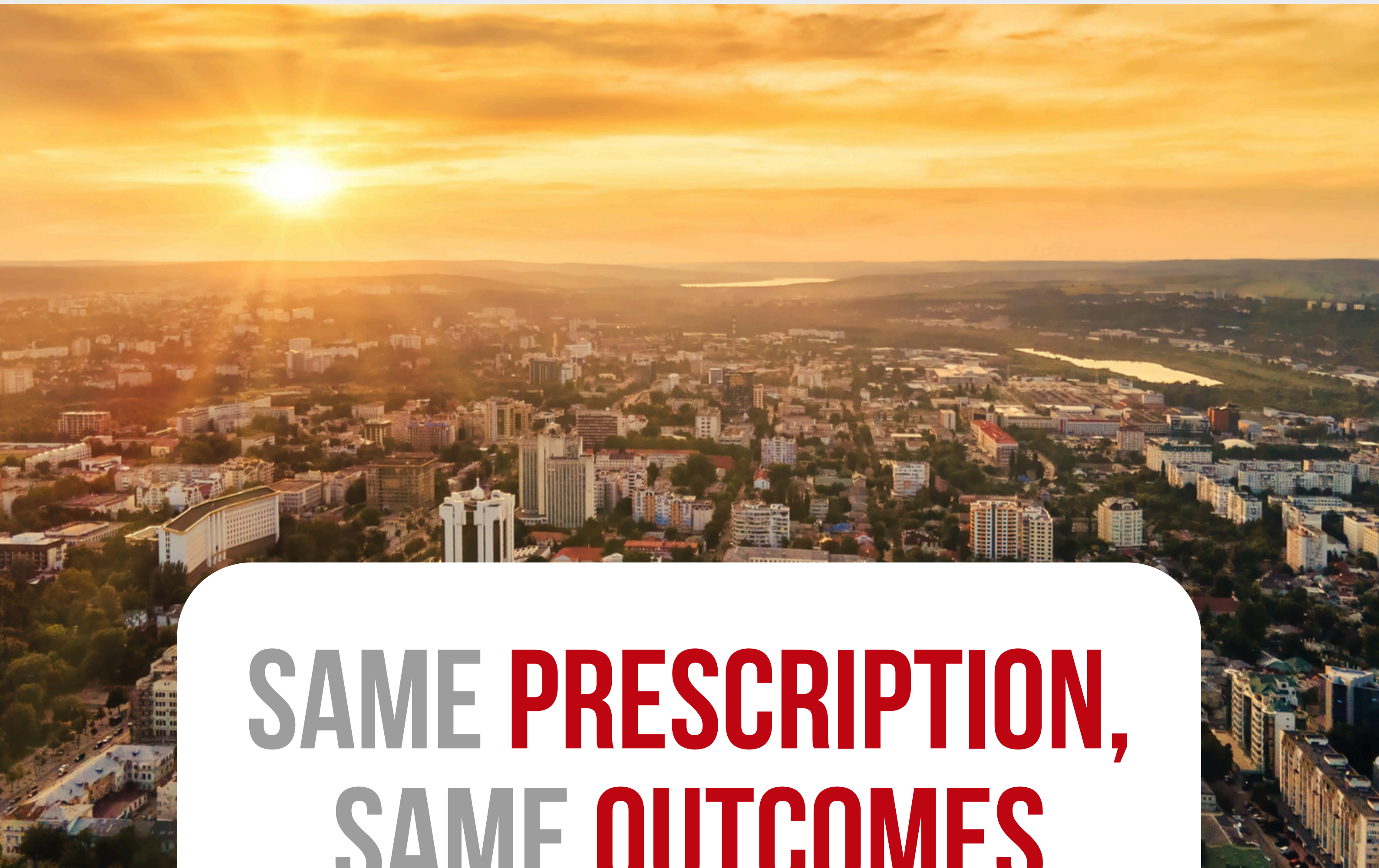

SAME PRESCRIPTION, SAME OUTCOMES

AN ANALYSIS OF RECENT AUSTERITY TRENDS DURING A DEBT CRISIS IN AFRICA

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Executive Summary

This study analyzes trends in public debt and austerity in Africa, focusing on the period immediately preceding the COVID-19 pandemic (2018–19) to date (2023/2024). More specifically, it centers on countries at high risk of defaulting on their debt, those that have defaulted on their debt repayments during the pandemic and post-pandemic period, and those currently undertaking debt restructuring. The study further analyzes fiscal policy measures adopted by indebted countries, focusing on their impact on social spending and the well-being of populations in Africa. The selected countries for this study are Zambia, Ghana, Malawi, and Kenya.

Key findings

- For all the studied countries, their debt stock has been steadily rising since the pre-pandemic period. Due to the high cost of non-concessional external borrowing from emerging lenders during the late 2000s and 2010s, external debt servicing (both principal and interest payments) increased significantly over the last decade, peaking between 2018 and 2022.

- Countries with access to international financial markets have drastically increased their non-concessional borrowing as Zambia and Ghana have demonstrated; both owe private creditors a significant amount of their overall external debt stock. Ghana's debt repayments owed to private creditors in 2022 surpassed those owed to other creditors (69% of external debt service).

- A comparable trend is observed even with countries that primarily borrow from official lenders, such as Malawi and Kenya. Malawi's commercial creditors hold a lower proportion of the country's external debt (26%) than official multilateral lenders (64%). However, the country's debt repayments to commercial creditors have surpassed those made to other lenders in recent years. Kenya's 2024 debt repayments to commercial lenders account for 60% of its external debt service.

- This high debt-servicing burden is directly linked to the high cost of borrowing. African countries pay much higher interest rates for debt from private lenders, far exceeding the rates that countries in other regions pay.

- With the significant shift in debt composition in countries like Zambia and Ghana, where commercial creditors hold a substantial amount of debt, restructuring their debt under the Common Framework has been a lengthy and complex process.

- The impact of excluding multilateral lenders from debt restructuring processes is felt more in debt restructurings for countries like Malawi where multilateral creditors hold the largest share of external debt. Between 2023 and 2029, 67% of Malawi's debt service will go to multilateral lenders.

- In countries undertaking debt restructuring, there has been an increase in social spending since the pandemic, most notably in Zambia. However, for some countries like Malawi and Ghana, there was minimal or hardly any increase in real terms.

- The cost of delayed debt restructuring for indebted countries is more aggressive austerity. Kenya recorded more significant social spending cuts in recent years than the other studied countries.

- Despite the increased funding allocated to social protection programs for some countries, the resounding message is that these programs should be highly targeted. There is evidence of rising poverty levels amidst multiple shocks, including inflation. As a result, the increasing number of new poor people in these countries face the risk of being excluded from receiving adequate social protection amidst the ongoing economic downturn.

- The studied countries are primarily adopting reactionary responses to the shocks rather than working towards achieving universal access to social services and social protection to ensure their citizens are protected from economic and social hardships. These responses are likely to further exacerbate the inequality between African countries and more advanced economies, with the former continually falling behind.

- It is noteworthy that these countries are implementing some progressive measures aimed at taxing the wealthy, including corporate tax reforms. However, the studied countries are also adopting vast revenue reforms with adverse impacts on their citizens' welfare, such as indirect taxes like the value-added tax (VAT) and taxes affecting livelihoods and small businesses. However, the impact of indirect taxes on inequality, largely felt by low-income earners and households, cannot be downplayed, especially amidst an economic downturn and low levels of government support through social safety nets.

- Interestingly, a number of the studied countries are adopting environmental taxes as a fiscal tool to increase revenue. While the rationale behind these taxes could be to raise funds for climate action, it is highly probable that these funds are leaking out as debt repayments.

- The ongoing trends of debt and austerity pose a significant risk to the futures of children and youth in Africa. Africa's children and youth, who are barely covered under social protection programs, are exposed to risks and vulnerabilities during debt crises. The narrow focus on protection of the 'most vulnerable' has excluded the working-class population, including youth, from buffers to shield them from poverty and vulnerability.

1.0 Introduction

This study analyzes trends in public debt and austerity in Africa, focusing on the period immediately preceding the COVID-19 pandemic (2018–19) to date (2023/2024). More specifically, it centers on countries at high risk of defaulting on their debt, those that have defaulted on their debt repayments during the pandemic and post-pandemic period, and those currently undertaking debt restructuring. The study further analyzes fiscal policy measures adopted by indebted countries, focusing on their impact on social spending and the well-being of populations in Africa. The selected countries for this study are Zambia, Ghana, Malawi, and Kenya.[1]

As demonstrated by previous debt crises, austerity has had a negative impact on growth and development in indebted countries, but its proponents have continued to prescribe it as a primary policy solution for countries to restore debt sustainability. This report does not delve into these arguments, which have been the subject of several previous studies.[2] Rather, it seeks to demonstrate how the current wave of austerity is manifesting in several African countries. It illustrates how austerity is a result of a combination of neoliberal economic policies and the current debt architecture's weaknesses, which keeps countries in debt overhangs.

The report is presented in seven sections.

Section 1 introduces the report.

Section 2 discusses the methodology used for the research.

Section 3 briefly discusses the debt situation in the selected countries.

Section 4 covers the austerity trends, looking at the IMF adjustment plans of the studied countries, budget and expenditure trends, and revenue reforms over the past few years.

Section 5 discusses the impact of austerity on citizens of the selected countries.

Section 6 concludes, makes recommendations, and suggests areas for further research on the subject.

1. While Malawi has not defaulted on a scheduled payment (unlike Zambia and Ghana), the country is currently in arrears with its private creditors, particularly the Trade and Development Bank (TDB). See IMF, Malawi: Second review under the staff-monitored program with the Executive Board Involvement and request for an arrangement under the Extended Credit Facility (ECF), Nov. 2023.

2. See, e.g., Nona Tamale, Adding Fuel to Fire: How IMF Demands for Austerity Will Drive Up Inequality, Briefing Paper, Oxfam Int'l (Aug. 2021). See also Nona Tamale, Debt Restructuring under the G20 Common Framework: Austerity Again? The Case of Zambia and Chad, in How to Reform the Global Debt and Financial Architecture (James Thuo Gathii ed., 2023).

2.0 Methodology

The study analyzes fiscal policy measures adopted by indebted countries with a focus on their impact on social spending. It centers on the period immediately preceding the COVID-19 pandemic (2018–19) to date (2023/24), during which some of the studied countries defaulted on debt payments or commenced debt restructuring. The data informing this study was collected through a desk review of multiple sources, including annual national budgets and IMF reports (particularly Article IV consultation reports and loan programs), as well as other government and international organizations' reports pertaining to debt and budget trends. The data collected and analyzed in this study was related to budgetary allocations and expenditures, revenue reforms, debt indicators, and progress in debt restructuring, as well as the studied countries' adjustment plans as agreed upon with the IMF.

Specifically:

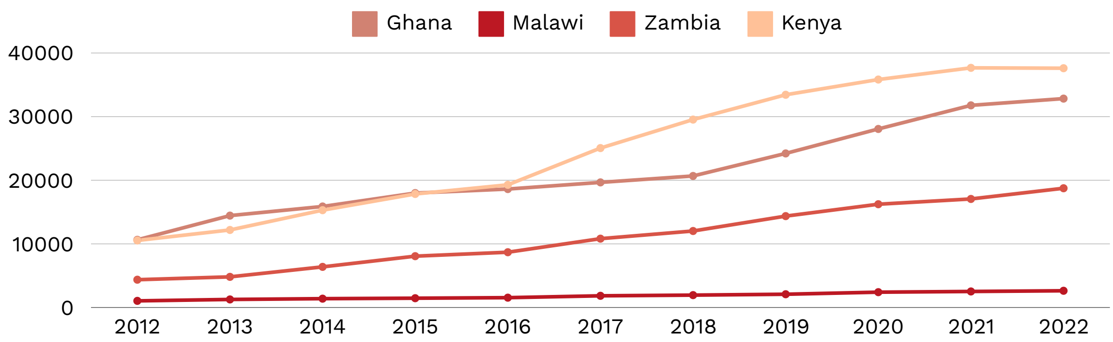
- Public debt data was obtained from IMF country reports, World Bank international debt statistics, UNCTAD World of Debt data, and the studied countries' government policies and reports.
- Data on the studied countries' adjustment plans was obtained from IMF country reports.
- Data on budget trends and revenue measures was obtained from country budget statements and national reports prepared by government ministries, departments, and agencies (MDAs), as well as local and international organizations.

2.0 Debt trends

The debt burdens and associated servicing costs for the studied countries have risen drastically over the past decade. Malawi's total public debt increased to approximately 76% of GDP in 2022 (from 60% in 2018).[3] Ghana's debt rose to 93.3% of GDP in 2022 (from 63% in 2019), while Zambia's debt-to-GDP ratio by the end of 2022 stood at 122% of GDP (from 65.4% in 2017).[4] Similarly, Kenya's debt-to-GDP ratio increased to 73% by the end of 2023 (from 45.7% in 2015).[5]

Zambia's and Ghana's external debt stocks rose more than threefold over the past decade (2012–22), peaking between 2018 and 2022 (Figure 1). Malawi's external debt-to-GDP ratio of 35% represents an increase of over 80% during the past decade.[6] For all the studied countries, their debt stock has been steadily rising since the pre-pandemic period (2017–18). Except for Malawi, the studied countries enjoyed market access during the past decade and borrowed from bondholders, including during the pandemic.[7] Kenya recently issued a US$1.5 billion Eurobond at a coupon rate of 9.75% (yield of 10.3%),[8] which is much higher compared to its 2014 and 2021 issuances at 6.87% and 6.3%, respectively.[9]

Figure 1: Public external debt stock (2012–22) (US$ millions)



Source: World Bank International Debt Statistics.[10]

3. IMF, Malawi ECF 2023, supra note 1.

4. IMF, Ghana 2023 Article IV consultation, Jan. 2024, and IMF, Zambia 2023 Article IV consultation, July 2023.

5. IMF, Kenya 2023 Article IV consultation, Jan. 2024.

6. IMF, Malawi ECF 2023, supra note 1.

7. Ghana issued Eurobonds in 2020 and 2021. See IMF, Ghana, 2021 Article IV consultation, July 2021. Kenya also borrowed a Eurobond in 2021. See https://www.theeastafrican.co.ke/tea/business/kenya-targets-world-bank-loan-to-clear-eurobond-balance-4588780#:~:text=In%20May%202019%20Kenya%20raised,percent%20and%208%20percent%20respectively.

8. Central Bank of Kenya, Recent Monetary and Financial Developments, Wkly. Bull., Feb. 16, 2024, https://www.centralbank.go.ke/uploads/weekly_bulletin/1936571086_Weekly%20CBK%20Bulletin%20February%2016%202024.pdf.

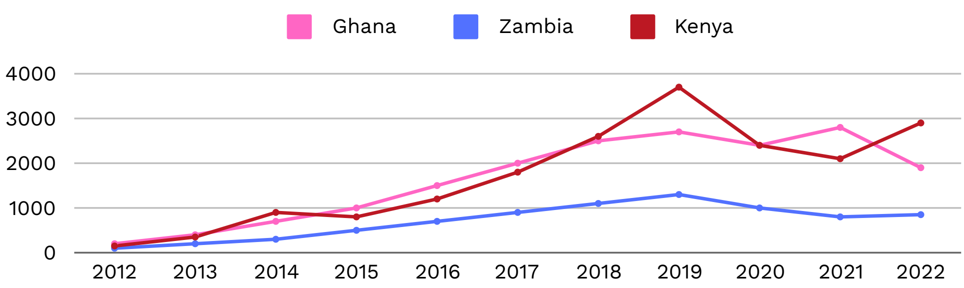
9. Kenya Treasury, Kenya Eurobonds Issuance Date, Maturity Date, Coupon and Amount, https://www.treasury.go.ke/wp-content/uploads/2023/03/Outstanding-Eurobonds.pdf (last visited Dec. 22, 2024).

10 Includes public long-term and short-term external debt and publicly guaranteed sector debt and excludes the use of IMF credit and SDR allocations. It should be noted that the data on Malawi does not include debt owed to its commercial creditors, particularly Afreximbank and the TDB—funds that were originally borrowed from its domestic markets but are presently counted as part of its external debt. For more, see IMF, Malawi Request for disbursement under the Rapid Credit Facility (RCF) and request for a staff monitored program with Executive board involvement, Nov. 2022.

Due to the high cost of non-concessional external borrowing from emerging lenders[11] in the late 2000s and 2010s, external debt servicing (both principal and interest payments) increased significantly over the last decade, peaking between 2018 and 2022 (Figure 2). This was particularly true for Zambia, Ghana,[12] and Kenya.

Zambia made its highest debt repayments in 2019 before the pandemic, representing a whopping increase of 605% from 2012 (Figure 2). Ghana's debt servicing peaked during the pandemic, in 2021, representing a very significant increase of 597% from 2012 (Figure 2) and a 736% increase in interest payments alone.[13] Kenya's debt servicing rose sharply in 2018, peaked in 2019 due to a Eurobond repayment,[14] and has since remained high (Figure 2), accounting for 59% of revenue in 2023.[15] Countries that mainly borrow from official creditors are also facing this problem. For instance, Malawi's debt repayments were projected to reach 47% of its revenue in 2023.[16] These high debt payments have negatively impacted spending on social sectors in the studied countries, such as for health and education as illustrated in the following section of this report.

Figure 2: External debt servicing (principal and interest payments) (2012–22)



Source: World Bank International Debt Statistics.

The high debt repayments over the past decade are closely related to the changes in the creditor composition since the late 2000s. Private creditors hold almost half of the debt stock (44%) in Africa.[17] Countries with access to international financial markets have drastically increased their non-concessional borrowing as Zambia and Ghana have demonstrated; indeed, both owe private creditors a significant amount of their overall external debt stock (Figure 3). Ghana's debt repayments to private creditors in 2022 surpassed those owed to other creditors (69% of external debt service).[18]

11. David Mihalyi & Christoph Trebesch, Who Lends to Africa and How? Introducing the Africa Debt Database (Kiel Inst. for the World Econ., Kiel Working Paper no. 2217, Apr. 2023).

12. It should also be noted that, unlike the other studied countries, Ghana did not participate in the G20 Debt Service Suspension Initiative (DSSI), which offered a suspension of official bilateral debt between 2020 and 2021 despite being eligible, due to a fear of market access loss. See Fitch Ratings, Common Framework Access Could Lead to Sovereign Debt Default, Fitch Wire, Feb. 16, 2021, https://www.fitchratings.com/research/sovereigns/common-framework-access-could-lead-to-sovereign-debt-default-16-02-2021.

13. World Bank, International Debt Statistics – Ghana (2023), https://datatopics.worldbank.org/debt/ids/countryanalytical/GHA.

14. James Anyanzwa, Kenya Targets World Bank Loan to Clear Eurobond Balance, The East African (Apr. 13, 2024), https://www.theeastafrican.co.ke/tea/business/kenya-targets-world-bank-loan-to-clear-eurobond-balance-4588780#:~:text=In%20May%202019%20Kenya%20raised,percent%20and%208%20percent%20respectively.

15. Kenya Treasury, Kenya Annual Debt Management Report FY 2022/23, at 18.

16. IMF, Malawi ECF 2023, supra note 1.

17. UNCTAD, A World of Debt Report 2024: A Growing Burden to Global Prosperity (2024), https://unctad.org/publication/world-of-debt.

18. IMF, Ghana request for an arrangement under the Extended Credit Facility (ECF), May 2023.

Table 1: External debt composition of the studied countries 2022 (by creditor category) (%)

	Ghana	Zambia	Malawi	Kenya
Multilateral creditors	26.2	21.4	64	46.8
Bilateral creditors (Paris Club)	11.2	7.9	0.09	10.1
Bilateral creditors (Non-Paris Club)	5.6	25	10.3	18
Commercial creditors (including bondholders)	57	45.2	22	25.1

Source: IMF country reports (2023 and 2024).

A comparable trend is observed even with countries that borrow primarily from official lenders. Malawi's commercial creditors hold a lower proportion of its external debt (26%) compared to official multilateral lenders (64%) as of 2022 (Figure 3).[19] However, its debt repayments made to commercial creditors have surpassed those made to other lenders in recent years. The IMF has projected that commercial creditors will receive 77% of the country's external debt repayments in 2023.[20] Kenya's 2024 debt repayments to commercial lenders account for 60% of its external debt service.[21]

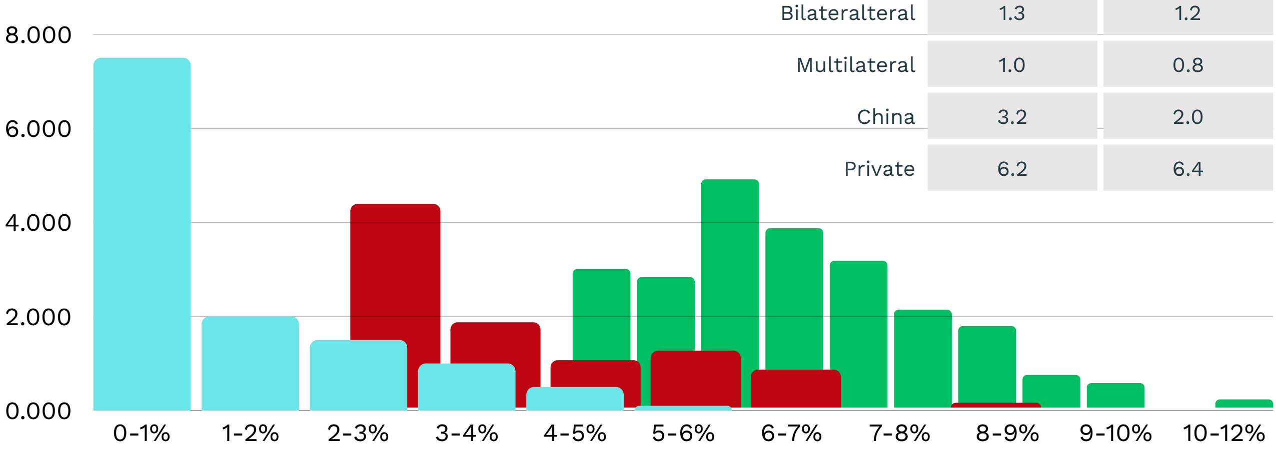
This high debt-servicing burden is attributed to the high cost of borrowing. African countries pay much higher interest rates for debt from private lenders, far exceeding those that other creditors impose. Recent data on borrowing by African governments reveals the average interest rates that the various lender groups have levied: 1% for multilateral lenders, 1.3% for bilateral lenders (excluding China), 3.2% for Chinese lenders, and over 6.2% for private lenders (Figure 3). In addition, according to recent United Nations (UN) data, the cost is much higher for African countries than for other regions (Figure 4).

19. IMF, Malawi ECF 2023, supra note 1.

20. IMF, Malawi first review under the staff-monitored program (SMP) with Executive Board involvement, July 2023.

21. IMF, Kenya, 2023 Article IV consultation, supra note 5.

Figure 3: Distribution of interest rates across creditor groups in Africa



	Interest Rate	
	Mean	**Median**
Bilateralteral	1.3	1.2
Multilateral	1.0	0.8
China	3.2	2.0
Private	6.2	6.4

Source: David Mihalyi and Christoph Trebesch, Kiel Institute for the World Economy (2023).[22]

Figure 4: Bond yields of developing and developed countries (2020-24)

Source: UNCTAD 2024.[23]

The creditor composition has also significantly contributed to some of the studied countries' delays in debt restructuring. In addition to coordination challenges, governments are expected to obtain a deal comparable to that offered by bilateral creditors from their private lenders, whose priority is earning a high return on their investments.[24]

22. Mihalyi & Trebesch, supra note 11, at 10.

23. UNCTAD, A World of Debt Report 2024, supra note 17.

24. Id.

4.0 Sovereign debt defaults and debt restructuring

The rise in debt burdens and servicing, coupled with multiple overlapping shocks including the COVID-19 pandemic, climate shocks, and the cost-of-living crisis, exacerbated the liquidity pressures and debt vulnerabilities of several African countries. The studied countries are among those that have been most affected, with some eventually defaulting or going into arrears during the past four years.Some of the studied countries showed warning signs of debt vulnerability as early as 2018 (Figures 1 and 2). As such, they required significant support during the shocks that followed, particularly debt relief and financial support to avert the current debt crisis.

Between 2020 and 2021, Ghana's efforts to maintain market access and avoid a credit downgrade by opting out of participation in the G20 Debt Service Suspension Initiative (DSSI), proved to be futile, as the country eventually defaulted in 2022. The recent defaults demonstrate the need for reform of the global debt architecture to offer substantial support to countries requiring timely debt workouts or restructuring with their creditors.

Box: Recent sovereign defaults in Africa

Zambia (2020)

Zambia was already on an unsustainable debt path by 2019, prior to the pandemic.[25] The country defaulted on its Eurobond payment on November 14, 2020. The government had requested a temporary debt suspension from its creditors in mid-2020 and eventually obtained debt relief from bilateral creditors under the G20 DSSI. Its efforts in September 2020 to reschedule interest payments owed to its private creditors were unsuccessful.[26] At the time of default, the total public debt accounted for 150% of Zambia's GDP.[27] Several factors contributed to the debt crisis, including high non-concessional borrowing to finance infrastructure projects and high contingent liabilities coupled with such numerous shocks as the fall in commodity prices (copper in 2015-16), drought (2019), and COVID-19 (2020).[28]

Ghana (2022)

Between 2019 and 2021, while Ghana was at high risk of debt distress, its debt remained sustainable according to the IMF, citing its favorable market access as an advantage.[29] The country had issued nine Eurobonds by 2019 (26% of external debt at the time).[30] Ghana issued additional Eurobonds in February 2020 (US$3 billion) and March 2021 (US$3 billion at a higher interest rate and lower maturity than previously).[31] During this period, the high debt levels were attributed to a fall in commodity prices (oil and cocoa), contingent liabilities, low domestic revenue, increased non-concessional borrowing, both external and domestic debt, and the impacts of external shocks.[32]

Faced with a crisis,[33] the Ghanaian government launched a domestic debt exchange (DDE) on December 5, 2022, to restructure its domestic debt. Closely after, on December 19, 2022, Ghana suspended its debt repayments to external commercial and official bilateral creditors.[34]

25. IMF, Zambia 2019 Article IV consultation, Aug. 2019.

26. IMF, Zambia request for an arrangement under the Extended Credit Facility (ECF), Sept. 2022.

27. Id.

28. Id.

29. IMF, Ghana 2019 Article IV consultation, Dec. 2019.

30. Id.

31. IMF, Ghana 2021 Article IV consultation, supra note 7.

32. Id. See also IMF, Ghana 2019 Article IV consultation, supra note 29;
IMF, Ghana request for disbursement under the Rapid Credit Facility (RCF), Apr. 2020.

33. The country was grappling with multiple challenges, including loss of market access in late 2021, limited access to finance, shrinking international reserves, currency depreciation, and rising inflation. See IMF, Ghana request for an arrangement under the Extended Credit Facility (ECF), May 2023.

34. Id.

Zambia, Ethiopia, and Ghana applied to restructure their debt under the G20 Common Framework for Debt Treatments beyond the DSSI (Common Framework). Several concerns have been raised about the Common Framework, including its slow and lengthy process,[35] which is likely to protract the debt problem and result in the adoption of harmful austerity measures. Other criticisms include the lack of transparency, a continuation of power imbalances between the lenders and borrowers, the lack of measures to enforce the participation of commercial creditors, and an exclusion of multilateral debt.[36]

Box: A brief on progress in debt restructurings: Zambia, Malawi, and Ghana

Zambia

In mid-2020, the government appointed financial and legal advisors to help prepare a comprehensive debt restructuring strategy and requested a temporary debt service standstill from all external creditors. Zambia subsequently signed a Memorandum of Understanding (MOU) for the G20 DSSI with Paris Club creditors and was able to reach an agreement on DSSI terms with some other non-Paris Club official, bilateral, and commercial creditors. However, with increasing fiscal pressures and liquidity shortfalls, Zambia defaulted on its Eurobond. The Zambian government suspended most of its external debt servicing in November 2020, except the multilateral debt and loans for priority projects.[37]

Zambia requested a debt treatment under the G20 Common Framework in January 2021 and wrote to all private creditors announcing the need for a debt treatment. In mid-2020, bondholders established a creditors committee, and the Official Creditor Committee (OCC) under the G20 Common Framework was formed in June 2022. With the OCC's financing assurances, the IMF approved a loan of US$1.3 billion in August 2022.[38]

Zambia signed an agreement with official creditors in October 2023 to restructure US$6.3 billion. The agreement includes a state-contingent clause with a trigger linked to the country's debt-carrying capacity. If Zambia continues to have a low debt-carrying capacity (DCC), official creditors have agreed to increase the maturity and reduce interest on debt owed to them. On the other hand, if Zambia's DCC improves upon evaluation in 2025, it will trigger accelerated principal repayments and higher interest payments.

The Zambian government's initial agreement with its bondholders was rejected by official creditors for failing to meet the comparability-of-treatment requirement. It later secured a deal to restructure US$3 billion with bondholders in March 2024 through a bond exchange.[39] *The deal also included a state-contingent clause on one of the bonds linked to Zambia's DCC; exports and revenue; a 20% debt haircut; and cash debt relief.*[40] *Zambia is still negotiating with other private creditors at the time of writing.*

35. Kristalina Georgieva & Ceyla Pazarbasioglu, The G20 Common Framework for Debt Treatments Must Be Stepped Up, IMF Blog (Dec. 2, 2021), https://www.imf.org/en/Blogs/Articles/2021/12/02/blog120221the-g20-common-framework-for-debt-treatments-must-be-stepped-up.

36. Daniel Munevar, The G20 "Common Framework for Debt Treatments beyond the DSSI": Is It Bound to Fail? (Part 1), Eurodad (Oct. 22, 2020), https://www.eurodad.org/the_g20_common_framework_for_debt_treatments_beyond_the_dssi_is_it_bound_to_fail.

37. IMF, Zambia 2023 Article IV consultation, supra note 4.

38. Id.

39. "An agreement in principle between [the] Government and the Steering Committee of Bondholders was reached on March 25, 2024, and the consent solicitation was initiated on May 13, 2024. Subsequently, on June 11, 2024, the government exchanged its three outstanding Eurobonds (due 2022, 2024, and 2027) for two new amortizing bonds [US]$1.72 billion with a final maturity in 2033 and [US]$1.36 billion with a final maturity in 2053 in the base case scenario." See IMF, Zambia third review under the arrangement for an Extended Credit Facility (ECF), June 2024.

40. Id.

Malawi

Prior to the pandemic, there were warning signs of Malawi's debt problems, including its high risk of debt distress, the notable increase in its non-concessional debt, and domestic borrowing to fund infrastructure, elections, and disaster relief after Cyclone Idai.[41]

From 2021, the highest proportion of debt service was primarily linked to commercial creditors (79% in 2021 and 72% in 2022).[42] *Malawi began its debt negotiations with its creditors in 2021, including with the Trade and Development Bank (TDB) and African Export-Import Bank (Afreximbank). By 2022, the country's debt was deemed unsustainable, and Malawi was still undergoing debt restructuring with its commercial creditors and re-profiling its bilateral debt. Malawi was in arrears with the TDB and has continued making payments to Afreximbank.*[43]

The negotiations have been slow. In 2023, Malawi received financing assurances from its largest bilateral creditor, Spain,[44] *and reached an agreement with China to restructure US$200 million in June 2024.*[45] *It is still negotiating with the commercial lenders and other bilateral creditors.*[46]

Ghana

Among the studied countries, Ghana is the only country that has undertaken a comprehensive restructuring of both its domestic and external debt.

In December 2022, Ghana launched a domestic debt exchange (DDE) covering all local currency debt (medium- and long-term) and suspended its debt repayments to external commercial and official bilateral creditors on December 19, 2022.[47] *By February 2023, phase 1 of the DDE was completed and was estimated to have resulted in cash debt relief of approximately GHS50 billion.*[48] *It entailed an exchange of 85% of the face value of bonds held by investors (besides pension funds), which was approximately 28% of the total domestic debt.*[49] *The terms of the new set of bonds were a combined average maturity of 8.2 years and coupons of up to 10% (30% average net present value [NPV] reduction), while individual bondholders were offered an exchange of their bonds for shorter-term debt with higher coupons.*[50]

While it was agreed in initial discussions to exclude bonds held by pension funds (approximately 20% of the debt eligible for the exchange)[51] *in phase 2, which was completed in September 2023, these bonds (as well as Cocobills and US$-denominated domestic debt) were also exchanged for new bonds.*[52] *According to the IMF, the overall expected debt service savings from the domestic restructuring occurring between 2023 and 2026 is US$8 billion.*[53]

41. IMF, Malawi second and third reviews under the three-year extended credit facility (ECF) arrangement, Dec. 2019.
42. IMF, Malawi 2021 Article IV consultation, Dec. 2021.
43. IMF, Malawi Request for disbursement under the Rapid Credit Facility (RCF), supra note 10.
44. IMF, Malawi ECF 2023, supra note 1.
45. Wezzie Gausi, Malawi,China Seal Debt Pact, Times Group (June 27, 2024), https://times.mw/malawi-china-seal-debt-pact/#:~:text=Malawi%20and%20China%20have%20signed,of%20an%20existing%20loan%20agreement.
46. World Bank, Malawi, in Macro Poverty Outlook (MPO) (Oct. 14, 2024).
47. IMF, Ghana ECF 2023, supra note 33.
48. Id.
49. Id.
50. Id.
51. Id.
52. IMF, Ghana 2023 Article IV consultation, supra note 4.
53. Id.

In December 2022, Ghana suspended debt repayments to external commercial and official bilateral creditors and applied to restructure its debt under the G20 Common Framework. Ghana's ongoing external debt restructuring primarily covers its commercial and bilateral debt (excluding debt for some social projects), and negotiations are underway. Financing assurances were obtained from the official bilateral creditors in May 2023, thus unlocking IMF funds. Following the provision of financing assurances in May 2023, Ghana reached an agreement with bilateral creditors to restructure US$5.4 billion.[54] *In October 2024, Ghana agreed with its bondholders to exchange fifteen Eurobonds worth US$13 billion for five new bonds, with a 37% haircut on some claims (US$5 billion) and US$4.3 billion debt service relief until 2026.*[55]

A cash debt relief of US$10.5 billion is expected from the external debt restructuring to fill the external financing gap between 2023 and 2026 under the IMF arrangement.

With the significant shift in the debt composition for countries such as Zambia and Ghana, where commercial creditors hold a substantial amount of debt (Table 1), restructuring their debt has been a lengthy and complex process, especially when bringing commercial creditors to the negotiation table. Delays in debt restructuring processes prolong the crisis for indebted countries that have limited and affordable financing options, thus necessitating more debt relief in the medium term. For instance, for Zambia, even if it obtained the expected debt relief, the IMF envisions that it will still need more debt relief between 2026 and 2030.[56] Interestingly, even for countries like Malawi where multilateral creditors hold a larger percentage of debt, borrowing from commercial creditors at non-concessional rates has been a thorn, as demonstrated by the high debt-servicing costs. Similarly, in Kenya, commercial creditors have consistently received the largest proportion of external debt repayments since 2018.[57]

Malawi, where multilateral creditors hold the largest share of the country's external debt, has also been affected by creditor coordination dynamics. First, the impact of excluding multilateral lenders from debt restructuring processes is felt even more.[58] Between 2023 and 2029, 67% of Malawi's debt service will go to multilateral lenders.[59] In addition, there is an ongoing debate around the classification of its creditors—namely, the TDB and Afreximbank as commercial creditors—and whether these institutions should also enjoy preferred creditor status (PCS) and exclude the debt owed to them from restructuring.[60]

54. African Sovereign Debt Justice Network (AfSDJN), Ghana Reaches Draft Agreement with Official Creditors on Debt Restructuring under the Common Framework, Afronomicslaw.org (Mar. 6, 2024), https://www.afronomicslaw.org/print/pdf/node/2807.

55. Press Conference: Completion of the Exchange Offer and Consent Solicitation, Mohammed Amin Adam, Ghana Ministry of Finance (Oct. 3, 2024), https://www.mofep.gov.gh/sites/default/files/speeches/Press_Conference_-_Completion_of_Consent_Solicitations.pdf; see also Fitch Ratings, Fitch Assigns Ghana's New USD Bond 'CCC+' Rating: Upgrades LTLC IDR to 'CCC+,' Rating Action Commentary, Oct. 10, 2024, https://www.fitchratings.com/research/sovereigns/fitch-assigns-ghana-new-usd-bonds-ccc-rating-upgrades-ltlc-idr-to-ccc-10-10-2024.

56. IMF, Zambia second review under the arrangement under the Extended Credit Facility (ECF), Dec. 2023.

57. Kenya Treasury, Kenya Annual Debt Management Report 2023, at 35.

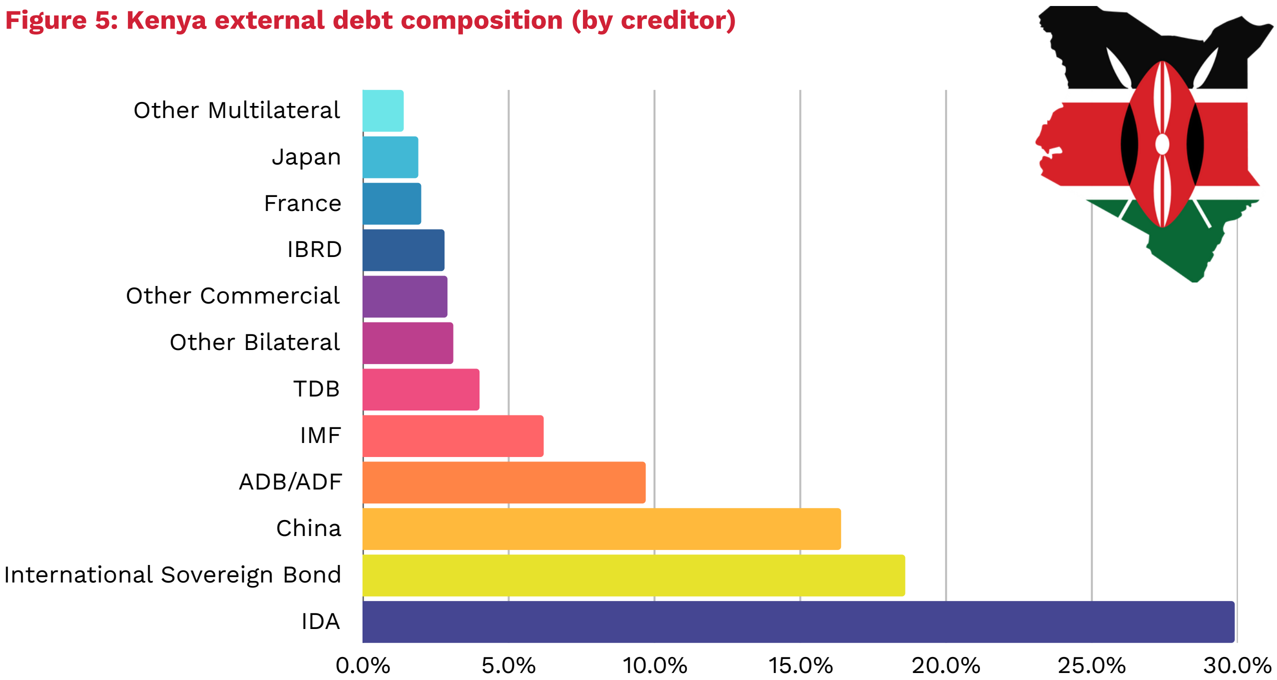
58. Marina Zucker-Marques, Locked in Crisis: Why Malawi Can't Achieve Meaningful Debt Restructuring, Debt Relief for a Green and Inclusive Recovery (DRGR) (Dec. 6, 2023), https://drgr.org/news/locked-in-crisis-why-malawi-cant-achieve-meaningful-debt-restructuring/.

59. Id.

60 PCS is not backed by law but has been accepted as a custom among financial actors. The justification for the exclusion of multilateral creditors is that they lend to countries at concessional rates and continue to lend even during debt crises when other creditors are reluctant to do so. To date, there is no conclusive position, although the African Union has defended these institutions' PCS. See Tetsekela Anyiam-Osigwe, Choosing Creditors: The Politics of Government Borrowing in Malawi, Princeton Sovereign Finance Lab (PSFL) Policy Brief 24-3 (July 2024); see also Press Release, Afreximbank, AAMFI welcomes AU Ministers' Decisions on African Multilateral Financial Institutions Preferred Creditor Status (Aug. 1, 2024), https://www.afreximbank.com/aamfi-welcomes-au-ministers-decisions-on-african-multilateral-financial-institutions-preferred-creditor-status/.

Recognition of their PCS would essentially exclude over 85% of Malawi's external stock debt from restructuring (Table 1), rendering it impossible to negotiate a meaningful workout.[61] This raises the broader question about the strict application of the multilateral lenders' PCS, especially during debt workouts where it is evident that their exclusion from participation would likely result in a shallow restructuring.

Figure 5: Kenya external debt composition (by creditor)



Source: Kenya Public Debt Management Report (2023).

Kenya is in a comparable situation, as its largest external creditor is the World Bank (30%), followed by bondholders (19%), and China (16.4%) (Figure 5). This debt composition coupled with the Common Framework's weaknesses could potentially explain Kenya's apprehension to request debt treatment and, in the alternative, opt to continue borrowing at high costs to repay debt. There is a reasonable expectation that, similar to Zambia's experience, Kenya would engage in a prolonged restructuring process due to the difficulties associated with creditor coor dination. Particularly, the disagreement between China and private creditors can be anticipated, exacerbated by the absence of mechanisms to enforce creditor participation.

The IMF's primary advice to these countries when undertaking restructuring is to carry out fiscal consolidation alongside seeking more financing and debt negotiations with creditors as discussed in the following section. Thus, it appears that where external financing and debt relief are not forthcoming, countries are expected to undertake deeper adjustments, which are in turn felt largely by their populations.

61. Zucker-Marques, supra note 58.

5.0 Austerity trends

Neoliberalism has shaped economic decision-making in Africa for decades.[62] Beginning in the 1980s, African governments widely adopted neoliberal policies based on the advice of international financial institutions like the IMF, such as social spending cuts, privatization, and deregulation, resulting in adverse effects on lives, livelihoods, and economies.[63] The focus of this report is fiscal austerity, also commonly referred to as 'fiscal consolidation' or 'adjustment.' To date, it remains the IMF's primary policy prescription for countries reducing debt burdens and deficits.[64] In the context of debt, in typical IMF programs, countries commit to undertaking expenditure and revenue reforms with the ultimate aim of meeting their debt repayment obligations.

Strands of neoliberal logic are mirrored in the present-day austerity policies of the four indebted countries examined in this study. Virginia school neoliberalism particularly encouraged the adoption of regressive consumptive taxes over wealth taxes, like those levied on income and property.[65] Taxes such as the value-added tax (VAT), which scholars like Cooper have argued "blur the boundaries between taxation and punishment for the very poor,"[66] continue to feature in IMF loans and advice despite evidence of their impact on the poor. On public spending, supply-side economics is particularly cautious about expenditures on public services while approving high government spending for financial asset holders—for instance, through subsidies and tax incentives.[67]

In recent years, there has been a notable emphasis on the protection of social spending amidst IMF adjustment, including in the IMF's own policies. The IMF Social Spending Strategy 2019 recognizes the importance of social spending in reducing poverty and inequality, with a focus on health, education, and social protection sectors.[68] Since the pandemic, the IMF has used social-spending-related taglines such as "spend what you must, but keep the receipts" and, more recently, "make fiscal policies people-focused."[69] The IMF is also increasingly promoting progressive taxes, such as capital income and property taxes.[70]

62. See Thandika Mkandawire, The Spread of Economic Doctrine and Policymaking in Postcolonial Africa (2014) 57 Afr. Stud. Rev. 171, 173 (2014).

63. See ActionAid International, Fifty Years of Failure: The IMF, Debt and Austerity in Africa (Oct. 6, 2023), ActionAid International.

64. Era Dabla-Norris et al., Global Public Debt Is Probably Worse than It Looks, IMF Blog (Oct. 15, 2024), https://www.imf.org/en/Blogs/Articles/2024/10/15/global-public-debt-is-probably-worse-than-it-looks.
See IMF, A Strategy for IMF Engagement on Social Spending, Policy Paper No. 2019/016 (2019); see also IMF, Operational Guidance Note for IMF Engagement on Social Spending Issues, Policy Paper No. 2024/022 (2024).

65. Melinda Cooper, The Rise of Neoliberal Public Finance, Law & Political Economy (LPE) Project (Sept. 2, 2024), https://lpeproject.org/blog/the-rise-of-neoliberal-finance/.

66. Id.

67. Id. See also James Gathii, Representation of Africa in Good Governance Discourse: Policing and Containing Dissidence to Neo-Liberalism, 15 Third World Legal Stud. 65, 87 (1999). Gathii expounds on the hostility to social spending "regarded as an inefficient cost to the economy."

68. See IMF, A Strategy for IMF Engagement on Social Spending, Policy Paper No. 2019/016 (2019); see also IMF, Operational Guidance Note for IMF Engagement on Social Spending Issues, Policy Paper No. 2024/022 (2024).

69. Chady El Khoury et al., Checking the Receipts from Pandemic Related Spending, IMF Blog (May 20, 2021), https://www.imf.org/en/Blogs/Articles/2021/05/20/blog-052021-checking-the-receipts-from-pandemic-related-spending; see also Kristalina Georgieva, A Low-Growth World Is an Unequal, Unstable World,IMF Blog (July 23, 2024), https://www.imf.org/en/Blogs/Articles/2024/07/23/a-low-growth-world-is-an-unequal-unstable-world.

70 Georgieva, supra note 69.

Notwithstanding this promotion, research has shown that there is often a mismatch between the IMF's stance on policies at the global level and country practice. For instance, several studies revealed that numerous African countries were undertaking austerity during and in the immediate aftermath of the pandemic.[71]

This section of the report highlights findings from analyzing the studied countries' current adjustment plans under their respective IMF loan programs. This section also traces how adjustment plans are being implemented at the country level, dissecting recent expenditure and revenue reforms in the studied countries' annual budgets.

Overview of austerity trends in the studied countries

A key issue that cuts across the ongoing restructurings for some of the studied countries is the 'too little, too late' problem. For Zambia, there were telltale signs from IMF surveillance as early as 2019 (before the pandemic) that the country's debt was on an unsustainable path, but the country continued to make debt payments during the pandemic until its eventual default.[72] The IMF noted in 2019 that "the risk of debt distress has increased substantially, but the authorities remain current on their debt service obligations and reiterated their commitment to remain so."[73] It remains clear that for countries with unsustainable debt, repayments rank highly among their priorities, a position that the global financial system closely guards. This is aptly demonstrated by an excerpt from Zambia's Article IV consultation in 2019, prior to its 2020 default:

> In addition, several mitigating factors in [the] staff's judgment could help avert a distress event in the near term. First, the authorities are determined to prioritize debt payments over other obligations and in line with the constitutional priority of debt service payments are proactively identifying resources… to achieve this (emphasis added).[74]

Fiscal adjustment is at the core of the IMF's Extended Credit Facility (ECF) programs on which debt restructuring with external creditors is hinged. The programs typically include a mix of revenue and expenditure adjustment measures, such as public expenditure cuts, public wage freezes, and the targeting of social protection programs (Table 2). Part of the logic underpinning the adjustment program is the more 'aggressive' the plan, the higher the investor confidence in the country.[75] As such, for indebted countries, undertaking austerity is an indication of their willingness to retain market access, posing risks for countries that fail or opt not to implement these policies despite their unpopularity among their citizens.

71. Tamale, Adding Fuel to Fire, supra note 2; see also Isabel Ortiz & Matthew Cummins, Global Austerity Alert: Looming Budget Cuts in 2021–25 and Alternative Pathways, Initiative for Policy Dialogue (Apr. 29, 2021).

72. IMF, Zambia 2019 Article IV consultation, supra note 26.

73. Id.

74. Id. at 11. This confirms the argument by Lima that the legal assumptions in the IMF and World Bank debt sustainability assessments (DSAs) prioritize and treat "legal claims over debt assets as senior to any other types of legal claims, including those associated with the human rights obligations of states." See Karina Patricio Ferreia Lima, Reforming the International Monetary Fund's Debt Sustainability Assessments towards Achieving the UN's Sustainable Development Goals (SDGs): A Crucial Post-Pandemic Recovery Agenda, 2 Afr. J. Int'l Econ. L. 32, 42–44 (2021).

75. IMF, Ghana ECF 2023, supra note 33. The IMF noted that, "faced with large development needs and an intricate social and political environment, the government's fiscal policy response has been insufficient to maintain investor confidence."

Countries are expected to ensure support for the most vulnerable individuals and groups when implementing their adjustment plans (Table 2). However, it's important to look at budget trends to ascertain how this expectation is playing out at the domestic level when countries are faced with skyrocketing debt servicing. For instance, several of the studied countries have committed to rationalizing programs under their social sectors for the coming years (Table 2).

This report highlights some of the expenditure and revenue reforms that the studied countries have adopted under their adjustment programs. It also analyzes budget trends to determine the extent to which countries are protecting crucial social spending and cushioning their populations from the adverse effects of adjustment, particularly poverty and inequality. The data on the expenditure and revenue reforms, as well as social spending, was drawn from IMF reports, including loan documents, reviews, and Article IV surveillance reports for Ghana, Malawi, and Zambia, covering 2019–24.

Expenditure measures

Table 2: Composition of some of the expenditure measures in recent IMF loan programs and surveillance reports

 **Zambia** (ECF 2022 and Article IV 2023)	 **Ghana** (ECF 2023 and Article IV 2024)	 **Malawi** (ECF 2023)	 **Kenya** (Article IV 2023)
Target: Reduce expenditures by 4% of GDP (2022–25).[76] **Measures:** Remove fuel subsidies. Reform agricultural subsidies. Reduce public expenditures. Move from the Farmer Input Support Program (FISP) to an e-voucher system (electronic input support system). Prioritize social, health, and education spending.	**Target:** Reduce expenditures by 2.1% of GDP (2022–26).[77] **Measures:** Review and rationalize public expenditures. Reform and freeze wages (comprehensive assessment of public sector wages, including in the education and health sectors). Reduce capital expenditures. Reduce transfers to statutory funds (reduce the cap on the share of revenue that can be received). Target social programs for vulnerable households Recalibrate the expenditure portfolios of MDAs responsible for social spending (shift composition of spending towards targeted and well-designed interventions).	**Target:** Reduce expenditures by 2.7% of GDP (2023–27). **Measures:** Rationalize expenditures while protecting social spending. Implement wage freezes (except in health and education sectors). Reform subsidies: phase out the Affordable Input Program (AIP), a fertilizer and seed subsidy program. Target measures to support low-income households.	**Measures:** Review and rationalize public expenditures—both recurrent and capital spending. Privatize some state-owned enterprises (SOEs). Freeze wage bills.

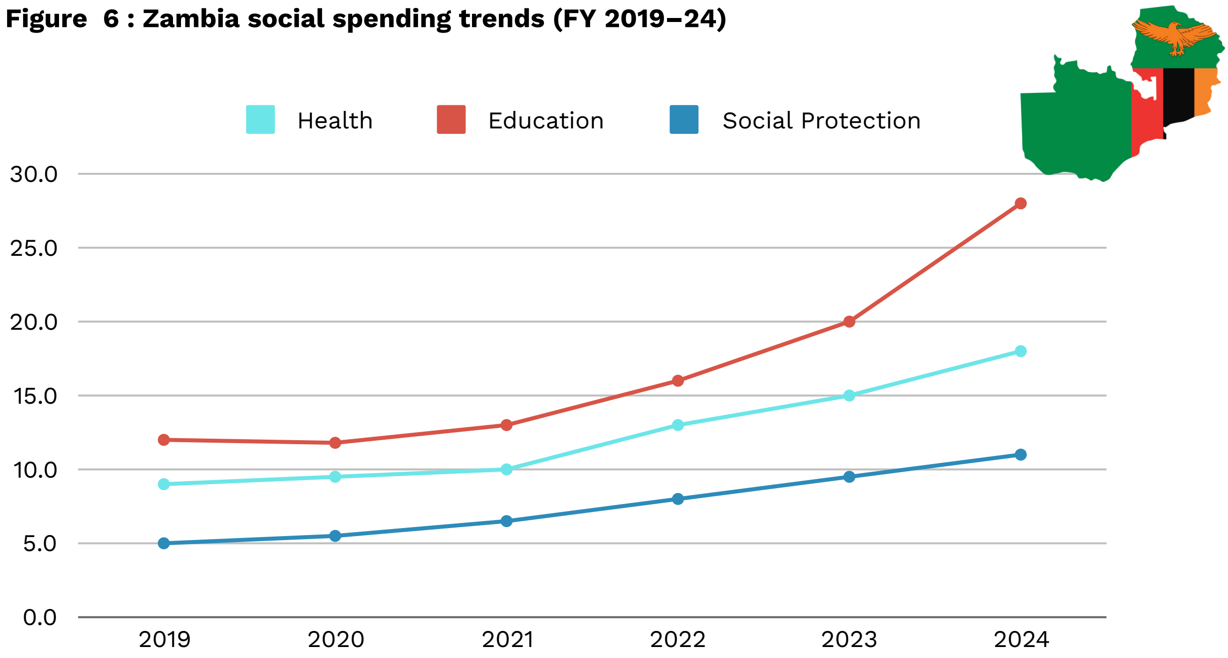
Source: IMF loan programs and Article IV surveillance reports of the studied countries.

76. On a cash basis; see IMF, Zambia ECF 2022, supra note 26.

77. Reduction in expenditure on a commitment basis; see IMF, Ghana ECF 2023, supra note 33.

The studied countries have undertaken to adopt a mix of several expenditure reforms, including cuts in recurrent and capital expenditures, wage bill reforms, subsidy reforms (particularly fuel and agricultural subsidies), and the further targeting of social programs. Particularly for the countries undertaking debt restructuring, there has been an increase in social spending in the years since the pandemic, most notably in Zambia. However, for some countries like Malawi and Ghana, there was minimal or hardly any increase in real terms. Kenya recorded more significant social spending cuts in recent years compared to the other studied countries.

Figure 6 : Zambia social spending trends (FY 2019–24)



Source: Zambia annual national budget speeches (2019–24).

Although Zambia defaulted on its debt and has been restructuring it since 2021, its expenditures on health, education, and social protection have displayed an upward trajectory over the past three years. Budgetary allocations for social spending increased significantly from 2022 to 2024. Specifically, the health and social protection budgets increased by 15% and 44%, respectively, in real terms (adjusted for inflation) in 2023 (Figure 6).[78]

There are potential reasons behind this increase in social spending amidst an economic downturn. First, after peaking in 2019, there was a notable drop in debt servicing in 2021 and 2022, creating fiscal space to increase the country's social sector budgets. Zambia defaulted and suspended its debt repayments to most external creditors—particularly, private and bilateral creditors in October 2020.[79] Secondly, in addition to receiving some concessional funding in 2022,[80] Zambia also used its 2021 Special Drawing Rights (SDR) allocation of US$1.3 billion to support its budget expenditures in 2022 and 2023, boosting its social spending.[81]

78. UNICEF, Zambia Social Protection Budget Brief (2023), and UNICEF, Zambia Health Budget Brief (2023).

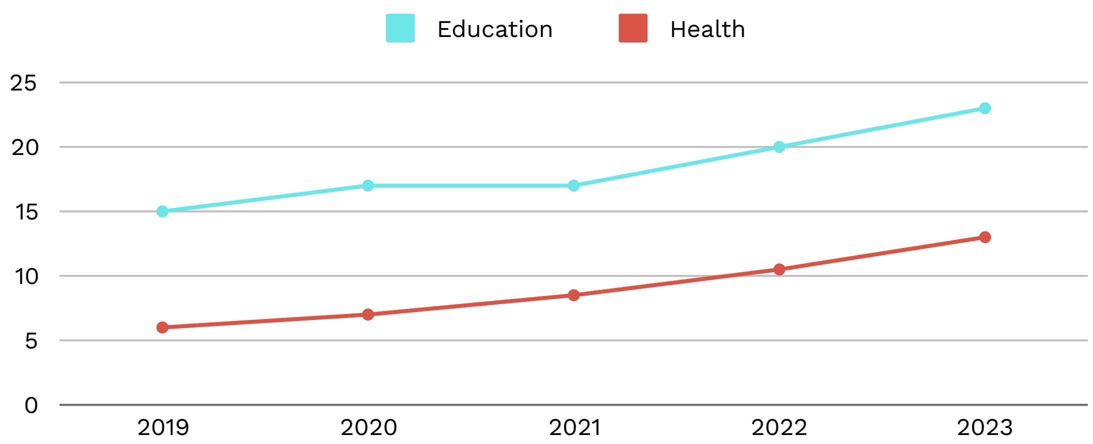
79. Multilateral creditors and a few lenders funding priority socio-economic projects have continued to receive payments. See IMF, Zambia second review under the ECF, supra note 56.

80. In 2022, Zambia received IMF funding under an ECF arrangement (US$185 million as the first disbursement) as well as World Bank Group IDA support for COVID-19 recovery (disbursements worth US$740 million). See Press Release, World Bank, Zambia to Receive $275 Million in Support of Macroeconomic Stability, Growth and Competitiveness (Oct. 25, 2022), https://www.worldbank.org/en/news/press-release/2022/10/26/zambia-to-receive-275-million-in-support-of-macroeconomic-stability-growth-and-competitiveness.

81. See IMF, Zambia second review under the ECF, supra note 56. See also IMF, Zambia 2023 Article IV consultation, supra note 4. The 2021 SDR allocation was used for budget financing in 2022 and 2023 (50% of the allocation for each year). Some of the sectors that benefited from the funding included pension (payment of pension arrears), health (purchasing drugs and medical supplies), and social protection (the Social Cash Transfer [SCT] and Food Security Pack programs).

At the time, Zambia's poverty rate stood at 60% of the population, especially in the rural areas.[82] Zambia is among the southern African countries that have been affected by the El Niño drought, resulting in high food prices and acute food insecurity, with 23% of the population at high risk in 2024.[83]

Figure 7: Ghana health and education sector spending trends (FY 2019/20–2023/24)



Source: Budget data from UNICEF annual sectoral budget briefs (2019–23).

Ghana also defaulted on its external debt payments, halted debt servicing, and commenced its debt restructuring in 2022. Its health and education sector budgets have been increasing since 2021 compared to the pre-pandemic period (Figure 7). Following the default and commencement of restructuring in 2022, there was a notable increase in FY 2023/24 budgetary allocations for both sectors in nominal terms (39% increase for health and 21.5% increase for education) (Figure 7). In real terms, however, there was a slight increase of 7% for funding in the health sector and a 6.1% decrease in education funding beginning in 2022.[84] The proposed wage freezes, including in the health and education sectors (Table 2), could cripple delivery of quality public services and worsen poverty and gender inequality. Analyzing the impact of a wage bill freeze under Ghana's 2015 IMF program, a 2021 ActionAid report revealed that the Ghanaian government spent double the amount of its public wage bill on debt servicing, thus failing to meet the country's staffing requirements.[85]

The human impact of the ongoing debt crisis is glaring. Ghana's 2024 poverty levels are expected to be the highest recorded in over a decade and will remain high for the coming years.[86] Further, 30.3% of the population was living on less than US$2.15 a day in 2023, up from 24.8% in 2021, and this figure is likely to increase to 32.9% in 2024 and 33.2% in 2025.[87]

82. World Bank, Poverty and Equity Brief – Zambia, Apr. 2024, https://www.worldbank.org/en/topic/poverty/publication/poverty-and-equity-briefs.

83. Id.

84. UNICEF, Ghana 2023 Education Budget Brief (2023); UNICEF, Ghana 2023 Health Budget Brief (2023).

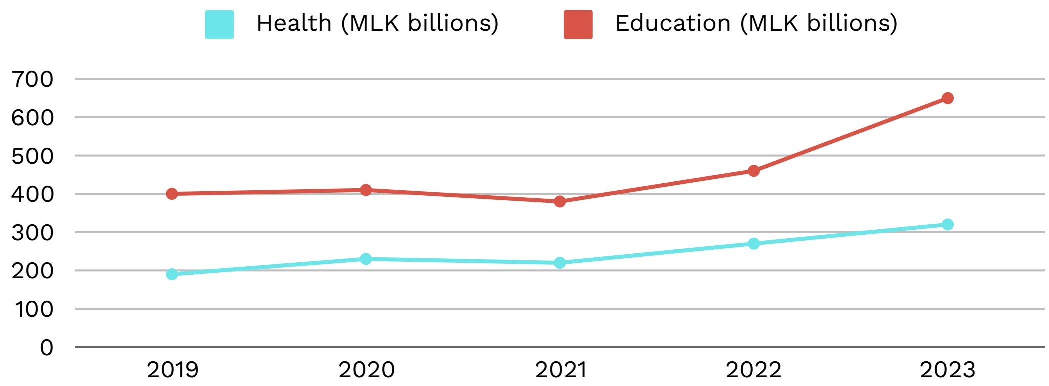
85. ActionAid, The Public versus Austerity: The Wage Bill Constraints Policy Brief (Nov. 2021), https://ghana.actionaid.org/sites/ghana/files/publications/POLICY%20BRIEF%20-%20The%20Public%20Vs.%20Austerity%20Wage%20Bill%20Constraints.pdf.

86. World Bank, Macro Poverty Outlook for Ghana (Apr. 2024), https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099511304052410274/idu116b0ae3f1bc1814c72180a31430cf589e607.

87. Id.

In 2022, the year Ghana defaulted, there was a sharp rise in food and electricity (by over 100%) prices the following year, worsening the cost of living for low-income households.[88] Approximately 850,000 people fell into poverty due to rising food prices, and the number of people facing food insecurity increased to 823,000, representing one-quarter of the Ghanaian population.[89]

Figure 8: Malawi health and education spending trends (FY 2019/20–2023/24)



Source: Budget data from UNICEF annual sectoral budget briefs (2019–23).

Compared to earlier years, Malawi's health spending decreased in 2021 when the country was declared to be in debt distress but rose in nominal terms beginning in 2022 (Figure 8). Notwithstanding this increase, Malawi's health expenditures remain inadequate and fall short of the targets set in its national health policies.[90] The budgetary allocation for education, which also decreased in 2021, increased between 2022 and 2023 (30% in nominal terms and 5% in real terms) (Figure 8).[91] Like Zambia and Ghana, Malawi had some breathing space to slightly increase health and education spending, having suspended some debt repayments, including to the TDB.[92]

Malawi's social protection more than doubled in 2024, largely due to the World Bank's support.[93] However, social protection funding remains low compared to the need and is heavily reliant on donors (over 95%), putting the country in a precarious situation given its fiscal constraints.[94]Compared to the other studied countries, Malawi's poverty rate is the highest with over 70% of the population living on less than US$2.15 a day[95] and over 450,0000 new people expected to fall into poverty in 2024.[96]

88. World Bank, Poverty and Equity Brief – Ghana (Apr. 2024), https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/current/Global_POVEQ_GHA.pdf.

89. Kwabena Gyan Kwakye et al., Price Surge: Unravelling Inflation's Toll on Poverty and Food Security (2023), 7th Ghana Economic Update, World Bank Group.

90. UNICEF, Health Budget Brief 2023/24: Building a Resilient and Sustainably Financed Health System in Malawi (2023).

91. UNICEF, National Budget Brief 2023/24: Investing in Human Capital in Malawi (2023).

92. IMF, Malawi 2021 Article IV consultation, supra note 43. See also IMF, Malawi ECF 2023, supra note 1.

93. UNICEF, Social Protection Budget Brief 2023/24: Building a Shock Sensitive Social Protection System in the Face of Frequent Shocks (2023).

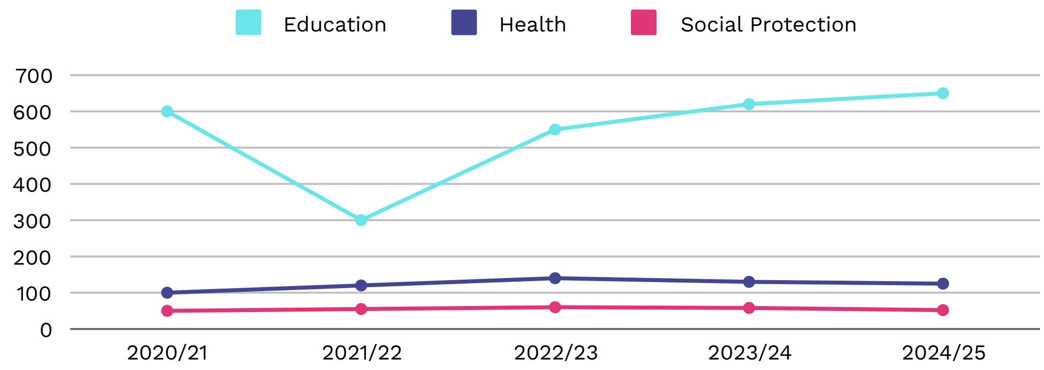
94. World Bank, Reforming with Urgency: Malawi's Path to Economic Stability, Malawi Econ. Monitor (July 2024).

95. World Bank, Macro Poverty Outlook for Malawi (Oct. 2024), https://thedocs.worldbank.org/en/doc/bae48ff2fefc5a869546775b3f010735-0500062021/related/mpo-mwi.pdf.

96. World Bank, Poverty and Equity Brief – Malawi (Apr. 2024), https://www.worldbank.org/en/topic/poverty/publication/poverty-and-equity-briefs.

Amidst its ongoing, protracted, debt restructuring negotiations, the country has been affected by climate- and weather-related shocks, resulting in high food prices and wide-scale food insecurity, which is disproportionately affecting low-income households. The World Food Programme estimated that almost 40% of the population was likely to face acute hunger in 2024.[97] In March 2024, the country's president declared a state of disaster in several districts in response to the impact of the El Niño drought, which left nine million people in need of humanitarian assistance.[98]

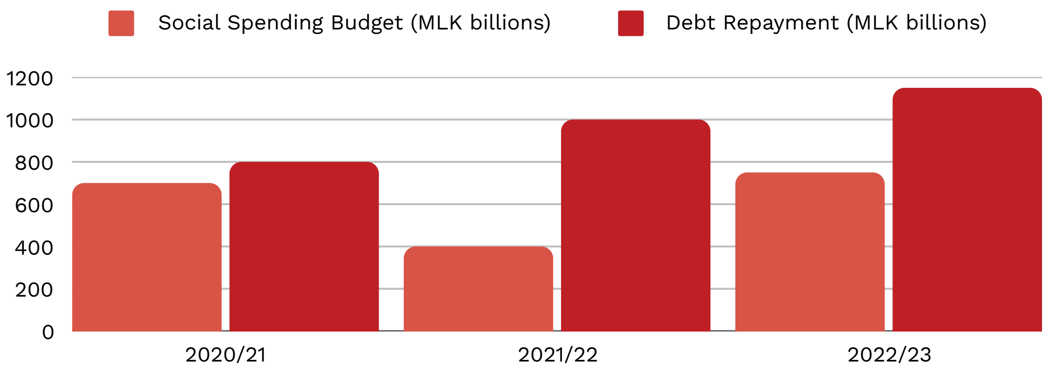
Figure 9: Kenya health and education spending trends (FY 2019/20–2023/24)



Source: Kenya budget statements (2020/21–2024/25).

While Kenya's education sector budget doubled in 2022, its health and social spending slightly increased but has been on a downward trajectory over the past two years (Figure 9). On the other hand, Kenya's debt servicing has been on an upward trend, notably 31% of its budget in 2023, and it has consistently exceeded its social spending (education, health, and social protection combined) since 2020 (Figure 10).

Figure 10: Kenya's social spending versus debt repayments



Source: Kenya annual debt management report (2023) and annual budget statements.

97. World Food Programme (WFP), Urgent Action Critical as Malawi Faces Severe Drought (May 2024), https://www.wfp.org/news/urgent-action-critical-malawi-faces-severe-drought.

98. UNICEF, Malawi Highlights, Humanitarian Situation Report No. 3 (2024). https://www.unicef.org/media/159911/file/Malawi-Humanitarian-SitRep-No.03-30-June-2024.pdf.pdf.

This trend is expected to continue in 2024, with projected debt servicing of US$10.449 million (equivalent to Kshs. 1.327 billion), far exceeding the combined social spending budgetary allocation of Kshs. 815 billion.[99] Consequently, in the 2024/25 budget, key programs that benefit women, girls, older persons, persons with disabilities, and low-income earners and households have faced budget cuts (Table 3). For instance, despite a slight nominal increase in education sector funding, the funding for critical programs such as free primary education and school meals has been reduced (Table 3).

Table 3: Kenya proposed budget cuts FY 2024/25 (Kshs. billions)

KSHs. Billion	Free primary education	School meals	Free maternity healthcare	Medical cover for older persons and PWDs	Hunger Safety Net Programme
2024/25	9.1	2	2	0.86	1.5
2023/24	12.5	4.9	4.1	1.7	5.6
2022/23	12	1.96	4.1	1.8	5.1
2021/22	12	1.8	4.1	1.8	4.1
2020/21	12.4	1.8	4.1	1.8	2.5

Source: Kenya annual budget statements (2020/21–2024/25).

The Hunger Safety Net Programme (HSNP), under which cash transfers are provided to vulnerable households in northern Kenya, the majority headed by women, has also faced cuts despite the positive outcomes registered for its beneficiaries with respect to food security, education, and income levels.[100] The impact of these cuts is dire and has serious poverty and inequality implications. The poverty rate in Kenya stands at 36%, with higher rates recorded in arid areas in part due to climate-related shocks that affect agricultural productivity, resulting in food insecurity.[101] Survey data compiled in 2023 indicated that 55% of households skipped meals, up from 24% in March 2022, due to drought coupled with the cost-of-living crisis, thus posing a risk of malnutrition, especially for children.[102] While the national average of children under five facing chronic undernutrition in Kenya is 18%, children in counties that benefit from the HSNP are affected more—Turkana (23%), Marsabit (19%), and Mandera (21%).[103]

99. IMF, Kenya 2023 Article IV consultation, supra note 5.

100. Kenya National Drought Management Authority (NDMA), HSNP Program Overview, https://ndma.go.ke/hunger-safety-net-programme-hsnp/#:~:text=The%20Hunger%20Safety%20Net%20Programme,River%2C%20Isiolo%2C%20and%20Samburu.

101. World Bank, Poverty and Equity Brief – Kenya (Apr. 2024), https://www.worldbank.org/en/topic/poverty/publication/poverty-and-equity-briefs

102. Id.

103. Kenya National Bureau of Statistics, Kenya Demographic and Health Survey: Key Indicators Report (2022), at 42.

In Kenya's ongoing IMF ECF, some of the affected programs are covered as priority social spending under its social spending floor, which should at minimum be safeguarded during the program to mitigate the impact of adjustment. These programs include free primary education, school meal plans, free maternity care, and universal health coverage. The proposed cuts are not only contrary to Kenya's human rights obligations and development goals but also to the IMF strategy on social spending. The IMF indicates that the target on social spending is typically structured to "ensure increases in social spending during the program period both in nominal and real terms."[104] This issue was raised in a recent 2023 Oxfam report, revealing that despite encouraging countries to increase their social spending during their loan programs, the IMF push for austerity has led countries to instead cut their social spending.[105]

As illustrated in the budget trends above, the cost of delayed debt restructuring for indebted countries is more aggressive austerity. This is demonstrated by the case of Kenya compared to the other study countries (Zambia, Ghana and Malawi) which undertook or have ongoing debt workouts, during which they suspended some debt repayments, particularly to private creditors and some bilateral creditors. While the budget data reveals that the countries that are restructuring their debt have increased their social spending, notable concerns still exist.

The quality and adequacy of social spending in these countries is missing the mark in two main ways. Firstly, besides Zambia, the other countries that registered increases in social spending primarily increased their allocations in nominal terms (without taking inflation into account). While these slight increases in social sector investment may check the box in the adjustment program of safeguarding "priority social spending," investment in these countries' national development priorities is still greatly inadequate. In reality, these countries have significantly regressed from the pre-pandemic period. In Ghana and Malawi, the percentages of their budgetary allocations for education have fallen since the pre-pandemic period, with debt servicing making up a greater proportion of their budgets. In Ghana, education expenditures as a percentage of the budget fell from 17.9% in 2019 to 10.9% in 2023.[106] In Malawi, education funding as a percentage of the budget fell from 25% in 2018/19 to 16% in 2023/24,[107] and health expenditures increased only nominally in 2023/24.[108] Even with social spending floors in their IMF programs, as in Kenya's case, the minimum investment is not guaranteed when the country faces the dilemma of choosing between meeting the needs of its citizens and making debt repayments.[109]

Secondly, despite the increase in funding allocated to social protection programs for some countries, the resounding message is that these programs should be highly targeted. There is evidence of rising poverty levels in all the studied countries amidst multiple shocks, including inflation, the high cost of living, and climate- or weather-related disasters. Despite their vulnerability to climate shocks, the existing social protection programs have low coverage, typically below the actual need, or the adequacy of the benefits requires adjustment to better support households (taking inflation into account).[110]

104. IMF, Operational Guidance Note for IMF Engagement on Social Spending Issues (2024); see also IMF, A Strategy for IMF Engagement on Social Spending (2019).

105. Alexandros Kentikelenis & Thomas Stubbs, IMF Social Spending Floors: A Fig Leaf for Austerity, Oxfam International (2023).

106. UNICEF, Ghana Annual Sectoral Budget Brief on Education, 2023; UNICEF, Ghana Annual Sectoral Budget Brief on Health, 2023.

107. UNICEF, supra note 93. The country continues to make high debt repayments as a proportion of the budget – 24%, compared to 16% on education, 9% on health, and 11% on agriculture.

108. Id.

109. See the information above on Kenya's expenditure measures. See also Kentikelenis & Stubbs, supra note 105.

110. In Ghana, it was indicated that there is need to expand the program to cover more beneficiaries. See IMF, Ghana 2023 Article IV consultation, supra note 4. For Malawi, the World Bank has recommended a review of the amount offered to better reflect the country's current economic reality. See World Bank, Reforming with Urgency: Malawi's Path to Economic Stability, Malawi Econ. Monitor (July 2024).

As a result, increasing numbers of new poor people in these countries face the risk of exclusion from adequate social protection amidst the ongoing economic downturn. In addition, the studied countries are primarily adopting reactionary responses to the shocks rather than working towards achieving universal access to social services and social protection. This circumstance is likely to further exacerbate inequality among African countries, especially between low-income countries and more advanced economies, with the former continually falling behind.

Revenue reforms

A 2024 IMF analytical paper noted that previous adjustments in Africa typically entailed more expenditure cuts than revenue measures, which negatively impacted growth and widened inequality.[111] The IMF recommended more revenue-based adjustments than expenditure cuts in crucial sectors, noting that the latter are typically already underfunded.[112] For this reason, it is unsurprising that the studied countries have adopted aggressive tax measures under their finance bills over the past few years, as conditionalities under their IMF programs, or on the IMF's advice (Table 4).

It is noteworthy that these countries are implementing some progressive measures aimed at taxing the wealthy, including reforming corporate tax policies. For instance, in 2023, Malawi increased corporate income tax on profits exceeding MWK ten billion for commercial banks.[113] In addition, Ghana froze tax waivers for foreign companies in 2023 and reviewed its tax exemptions for mining and oil companies.[114]

However, the studied countries are also adopting vast revenue reforms, which have adversely impacted their citizens' welfare (Table 5). These reforms have ranged from indirect taxes, such as the value-added tax (VAT), to taxes affecting livelihoods and small businesses. One example is the rise in charges for banking and financial transactions, including mobile money services. Zambia increased the levies on mobile money transactions in 2024,[115] while Kenya proposed adding VAT to some banking services and transactions and increasing the excise duty on money transfers, including mobile money in its 2024 Finance Bill.[116] Research has demonstrated that these measures have a negative impact on financial inclusion, especially for low-income individuals and groups.[117] The poverty and inequality implications of consumption taxes in Africa, like VAT, have also been documented over the past decades,[118] including by the IMF.[119]

111. Physical investment spending cuts were more "politically palatable than cutting sensitive items such as public employment, wages and untargeted subsidies." See IMF, Cutting Budget Deficits in Sub-Saharan Africa without Undermining Development, in Regional Economic Outlook: Sub-Saharan Africa – A Tepid and Pricey Recovery (2024).

112. Id.

113. See Malawi 2024/2025 Budget Policy Statement. This was extended in 2024 to profits earned by all businesses exceeding this threshold.

114. Ernst & Young, Tax Highlights of Ghana's 2023 Budget Statement and Economic Policy Provided, Tax News Update, Nov. 30, 2022, https://taxnews.ey.com/news/2022-1780-tax-highlights-of-ghanas-2023-budget-statement-and-economic-policy-provided.

115. PKF Zambia, Zambia 2024 Tax Highlights, PKF Global, https://www.pkf-zambia.co.zm/media/s5spiigb/pkf-zambia-2024-budget-tax-highlights.pdf (last visited Dec. 22, 2024).

116. Afronomicslaw, Afronomicslaw Submission on the Kenya Finance Bill 2024, Afronomicslaw.org, https://www.afronomicslaw.org/category/analysis/afronomicslaw-submission-kenya-finance-bill-2024 (last visited Dec. 22, 2024).

117. Id.

118. For a recent analysis of consumption taxes in Africa, see Marie-Louise Aren, The Reform of the Global Debt Architecture: Investigating the Connection and Impact of IMF-Recommended Consumption Tax Policy on Africa's Rising Public Debt Levels, in insert title of this book (ed., 2025).

119. See IMF, Cutting Budget Deficits in Sub-Saharan Africa, supra note 111. The paper highlighted some adverse impacts of revenue measures, such as more political difficulty in their implementation as compared to expenditure cuts as well as the VAT's poverty and inequality implications.

Table 4: Some tax reforms affecting basic commodities and services in the studied countries

Proposed Revenue Reforms in the IMF loan programs and surveillance reports (2022–24)	
VAT	Broaden the VAT base (Zambia). Increase VAT by 2.5%, from 12.5% to 15% (Ghana). Eliminate VAT exemptions and zero ratings for business inputs (Malawi).
Taxes on basic commodities	Raise excise duty and levies on selected goods, including fertilizers (Zambia). Raise fuel taxes (Malawi). Add a motor vehicle circulation tax (Kenya). Provide import duty relief for selected agricultural inputs (Ghana).
Taxes on financial transactions, including mobile money	Introduce a mobile money transaction levy (Zambia). Increase excise rates for money transfers and telecommunications data services (Kenya).
Environmental taxes	Increase the carbon emission tax by 10% (Zambia). Introduce green/environmental taxes (emissions tax and plastics and packaging tax) (Ghana).

Source: IMF loan programs and Article IV surveillance reports of the studied countries.

Compared to other countries that have gradually passed revenue reforms over their restructuring periods, Kenya's Finance Bill 2024 presented a broad array of regressive tax reforms.[120] The bill incorporated several tax proposals agreed upon with the IMF in an attempt to increase domestic revenues to meet the country's debt repayments.[121] Presented amidst the high cost of living and inflation, Finance Bill 2024 sparked discontent among citizens and triggered countrywide protests led by Kenya's youth. At the time of writing, the president of Kenya had conceded to citizen pressure and declined to assent to the Finance Bill.

The studied countries have also adopted a range of environmental taxes as part of their recent revenue reforms. Malawi proposed to introduce a tax on secondhand vehicles in 2024, while Kenya attempted to levy a motor vehicle charge in its 2024 Finance Bill as agreed with the IMF. Other environmental taxes include those on emissions and plastics and packaging (Ghana) and an increase in carbon taxes and excise duty on plastics (Zambia).[122] Kenya also attempted to charge an eco-levy on multiple daily-use consumer goods, such as batteries and phones.[123] While some proposals are targeted at environmental protection, it is evident that these taxes increase the cost of living and could exacerbate poverty, especially in the absence of social safety nets.

120. For an analysis of the harmful impact of the proposed revenue measures, see Afronomicslaw, Submission on the Kenya Finance Bill 2024, supra note 116.

121. See James Thuo Gathii, Alternatives to Kenya's Austerity and the Militarized Response to the GenZ Revolution, Afronomicslaw.org (June 26, 2024), https://www.afronomicslaw.org/category/analysis/alternatives-kenyas-austerity-and-militarized-response-genz-revolution.

122. See IMF, Zambia second review under the ECF, supra note 56.

123. Afronomicslaw, supra note 116.

5.0 Other findings

a) Protection of vulnerable populations

Numerous studies have exposed the effects of austerity on people's well-being and livelihoods across social groups. Austerity can exacerbate existing inequalities, as its effects are often felt disproportionately by certain individuals and groups exposed to vulnerabilities due to class or gender dynamics. Inequality is often associated with expenditure-based austerity rather than adjustment through revenue measures,[124] a position that the IMF also espouses.[125] This potentially explains the aggressive tax measures proposed in the highly contested Kenya Finance Bill 2024. However, the impact of indirect taxes on inequality, largely felt by low-income earners and households, cannot be downplayed, especially amidst an economic downturn and low government support through social safety nets.

While the IMF programs of the studied countries lay out plans to safeguard social spending during adjustment—with a focus on the health, education, and social protection sectors—this report has demonstrated that indebted African countries continue to prioritize debt repayments over investment in their social sectors. On average for the studied countries, Zambia excluded, financing for key sectors has largely remained stagnant or has decreased over the past five years.

The IMF's position that vulnerable populations should be protected during adjustment is far from reality. There is a disproportionate impact of expenditure cuts and revenue measures on women and girls. Cuts affecting public services and social protection programs also largely affect women, who are more reliant on these services.[126] In Kenya, cuts affecting welfare protection, such as free maternal healthcare and social safety nets that support women, are among the contentious gendered measures featured in the 2024 budget. The Kenyan government also proposed introducing taxes with the effect of increasing the cost of sanitary towels despite national data indicating the correlation between menstrual hygiene and girls' access to education.[127]

124. Tidiane Kinda et al., Austerity and Inequality: The Size and Composition of Fiscal Adjustment Matter, Centre for Economic Policy Research (CEPR) (Feb. 7, 2018), https://cepr.org/voxeu/columns/austerity-and-inequality-size-and-composition-fiscal-adjustment-matter.

125. IMF, Cutting Budget Deficits in Sub-Saharan Africa, supra note 111.

126. Dana Abed & Fatimah Kelleher, The Assault of Austerity: How Prevailing Economic Policy Choices Are a Form of Gender-Based Violence, Oxfam International Briefing Paper (2022).

127. Kenya Ministry of Gender, Culture, the Arts and Heritage, Sanitary Towels Programme, https://gender.go.ke/sanitary-towels-program/ (last visited Dec. 22, 2024).

The studied countries are vulnerable to and have suffered severe climate shocks that have affected their economic growth amidst financing constraints.[128] Coupled with debt vulnerabilities, they are forced to remain in the debt and climate vulnerability trap. Limited access to climate finance has resulted in increased borrowing to fund climate action. High debt repayments due to the higher cost of borrowing associated with climate risks erode these countries' fiscal space to finance climate action or implement emergency responses in the aftermath of disasters.[129] The austerity measures that the studied countries have adopted are potentially affecting the same members of the population who are most impacted by climate change. For instance, Zambia's and Malawi's elimination of agricultural subsidy programs is likely to mostly affect rural populations that benefit from such support, as these programs provide a buffer from ongoing drought and food insecurity.[130]

Interestingly, a number of the studied countries are aggressively adopting environmental taxes as a fiscal tool to raise revenue. This action poses a dilemma for highly indebted countries like Kenya, which are vulnerable to climate shocks. While the rationale behind these taxes could be to raise finances for climate action, it is highly probable that, for multiple reasons, these funds are leaking out as debt repayments.[131] For instance, in Kenya's Finance Bill 2024, the government proposed the introduction of an eco-levy on multiple daily-use consumer goods, which would sharply increase their costs. However, in the same bill, the government reversed several tax exemptions on selected goods aimed at promoting environmental protection, which had been introduced the previous year. In addition, there is a lack of transparency about the use of the collected funds and whether they would be specifically allocated for meeting the country's environmental protection goals and targets.

The practice of utilizing revenue measures in adjustment programs is catching on in African countries as the IMF has recommended.[132] However, it is likely to continue to face strong resistance, like in Kenya. Therefore, it is reasonably expected that indebted countries will instead opt for deeper budget cuts in the future.

b) Impact on future generations

The ongoing trends of debt and austerity pose a significant risk to the futures of Africa's children and youth. Children are particularly affected by austerity measures, such as spending cuts in programs designed to safeguard their futures and promote their health and well-being, such as public education and school meals. Revenue measures, including increases in the taxation of internet services, also worsen the already wide global digital divide, further disadvantaging African children and youth.

128. All the studied countries rank among the bottom eighty in terms of both vulnerability to climate change impacts and readiness with regard to climate adaptation. See Notre Dame Global Adaptation Initiative (ND-GAIN), https://gain.nd.edu/our-work/country-index/rankings/ (last visited Dec. 22, 2024).

129. Transforming Climate Finance in an Era of Sovereign Debt Distress (James T. Gathii, Adebayo Majekolagbe & Nona Tamale eds., 2024). For Malawi, both domestic and external debt is spent on recurrent expenditures and emergency spending when natural disasters occur. See IMF, Malawi ECF 2023, supra note 1.

130. Both countries plan to phase out their agricultural subsidy programs and instead channel support through other social protection programs. See IMF, Malawi ECF 2023, supra note 1, and IMF, Zambia ECF 2022, supra note 26.

131. This leakage of climate finance as debt service payments has been highlighted as a potential dilemma that indebted countries that are trying to transition their economies face. See Ishac Diwan et al., A Bridge to Climate Action: A Tripartite Deal for Times of Illiquidity, Finance for Development Lab (FDL) Policy note 14 (Jan. 2024).

132. See IMF, Cutting Budget Deficits in Sub-Saharan Africa, supra note 111.

Over 70% of the population in Africa is under the age of thirty, yet the quantity of decent jobs remains low, with one in every three paid workers earning less than the median wage.[133] International Labour Organization (ILO) research has revealed that youth are also more vulnerable to unemployment than adults during economic downturns.[134] Youth and children in Africa, who are barely covered under social protection programs, are exposed to economic shocks during debt crises.[135]

It is unsurprising that Kenya's youth, who initially challenged the tax proposals in the Kenya Finance Bill 2024, demanded broader domestic reforms. High levels of poverty and unemployment exacerbated by corruption and low government support amidst difficult economic times are all contributing factors. The Kenya case is not an isolated one. Youth protests against unpopular economic policies have also been staged in other highly indebted countries over the past decade, including Ghana, Sudan, and Mozambique.[136] The imposition of austerity, with a narrow focus on protecting the 'most vulnerable,' has excluded the working-class population, including youth, from buffers to shield them from poverty and vulnerability. Such buffers include social protection, access to quality public services, and support for small businesses, among others.

Given the importance of public policy decision-making in determining the future of a country's youth population, it is essential to provide this group with access to this information. However, the opaqueness of public financial information remains a hindrance to public accountability. It is extremely difficult to gather information on budgetary allocations and expenditures in some of the studied countries. This points to the value of developing a resource where information on budget expenditures and debt in Africa can be easily retrieved. This effort has the potential of significantly enhancing public education on public finance, a necessary preliminary step towards holding governments accountable.

133. ILO, Global Employment Trends for Youth 2024: Decent Work Brighter Futures 57 (2024).

134. Id.

135. According to UNICEF, by 2020, only 16% of children in Africa were covered by social protection; see Enkhzul Altangerel, Five Things You Should Know about Social Protection for Children, UNICEF (2020), https://www.unicef.org/turkiye/en/stories/five-things-you-should-know-about-social-protection-children#:~:text=Coverage%20rates%20vary%20significantly%20across,are%20covered%20by%20social%20protection.

136. Kim Harrisberg et al., Kenya Protests Echo a Year of Youth Uprisings across Africa (2024), https://www.context.news/socioeconomic-inclusion/kenya-protests-echo-a-year-of-youth-uprisings-across-africa; see also Tafadzwa Maganga, Youth Demonstrations and Their Impact on Political Change and Development in Africa, 2020/2 Conflict Trends 28 (2020), https://www.accord.org.za/conflict-trends/youth-demonstrations-and-their-impact-on-political-change-and-development-in-africa/.

8.0 Conclusion

This study has analyzed the trends in austerity for some of Africa's indebted countries—specifically, Ghana, Kenya, Malawi, and Zambia. It has highlighted the debt problems affecting these countries and the current challenges associated with this unfair global debt architecture that centers on debt repayments to creditors. The slow, ongoing debt restructurings are yet again providing support to indebted countries that are 'too little, too late.' As this report has demonstrated, countries are stuck between a rock and a hard place—doomed if they opt to restructure (loss of market access, lengthy negotiations, and protracted debt distress as seen in Zambia and Ghana)—and doomed if they don't (more aggressive unpopular austerity measures and no breathing space from debt repayments as seen in Kenya).

The narrative that the imposition of austerity is inevitable, despite its negative impact on the well-being of populations of indebted countries, persists to date. This report re-echoes the numerous calls for reform that include exploring alternatives to austerity, such as addressing the loopholes in the global tax framework,[137] adopting alternative assessments of debt sustainability that are not hinged on austerity,[138] creating an independent sovereign debt restructuring mechanism to ensure timely, fair, and efficient restructuring,[139] and providing adequate debt relief to indebted countries, which includes debt cancellation.[140]

This report concludes with recommendations for further research. For example, there is a need to further explore proposals on austerity-free debt resolutions for indebted African countries. In addition, the impact of measures adopted under ongoing adjustment plans remain understudied, including energy sector reforms, monetary policy measures, and proposed cost-saving measures such as public-private partnership (PPP) reforms. Finally, given the rising trend of domestic borrowing in Africa, there is a need to conduct a deeper analysis of the long-term risks posed by the sharp increase in domestic borrowing, particularly how it contributes to the recurring debt-austerity trap in Africa.

137. See Tax Justice Network, Why African Countries Seek UN Tax Convention (2024), https://taxjusticeafrica.net/resources/news/why-african-countries-seek-un-tax-convention. See James Thuo Gathii, supra note 121.

138. Karina Patricio Ferreia Lima, supra note 74, at 8–9.

139. How to Reform the Global Debt and Financial Architecture (James T. Gathii ed., 2023).

140. Id.