Warning signs from Africa? – Sanjay G. Reddy

Debt crises are an ever-present risk for developing countries. In the case of sub-Saharan Africa, the post-independence build-up of debt to official creditors – be they governments, the World Bank or the IMF – led to a debt crisis in the 1980s and 1990s. This was only alleviated due to a combination of debt relief – under the Highly Indebted Poor Countries Initiative, with conditions that the recipients adopt free-market policies – and the resumption of growth in the 2000s. The latter was primarily due to a commodities boom, bolstered by robust global economic growth.

But the spectre of a debt crisis once again haunts sub-Saharan Africa. The total value of outstanding debt in the region has almost doubled between 2008 and 2016, to more than 450 billion dollars, of which more than a fifth is to private lenders. The continued accumulation of debt at the current pace, especially if accompanied by low commodity prices and higher global interest rates, may eventually cause some countries to be unable to repay their debts. This will greatly threaten economic and social investment and make it unlikely that the UN's Sustainable Development Goals, which depend on significant gains in sub-Saharan Africa, can be achieved.

Damningly, the world has failed, despite recurrent international debt crises, to establish either principles for creditors that would diminish the accumulation of unsustainable debts, or a debt resolution mechanism that could deal with such crises effectively when they arise. Increasingly, when private creditors lend to developing countries, the arrangements contain 'collective action' clauses that bind both parties to accept decisions by a sufficient majority. Although this may reduce future risks, it cannot substitute for a set of background principles governing the accumulation of sovereign debt, and, in the event of crisis, bringing about its orderly restructuring (including write-offs).

Such principles should protect the most essential forms of government spending – those relevant to protecting vulnerable populations – and require a sharing of risks between debtors and creditors, much as domestic bankruptcy law ensures. There has been considerable discussion, within academic circles and international agencies, about the logical and practical basis for such principles. It is time to codify and implement them. Otherwise, in the event of a global economic downturn or other events causing debts to become unsustainable, development both in Africa and globally will be severely challenged.

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