Seventy Ninth Sovereign Debt News Update: African Ministers Urge Global Financial Institutions to Be More Responsive to Africa’s Debt Crisis

By:

The African Sovereign Debt Justice Network

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Meeting at the side-lines of the 2023 World Bank Group (WBG) and International Monetary Fund (IMF) Spring Meetings which took place in Washington DC from the 10th to the 16th of April 2023, African Ministers have called for a reformed global architecture, urging the IMF and World Bank to provide real and sustainable solutions to Africa’s debt conundrum. The African Finance Ministers is urging global institutions to do more to deliver for African countries.

Earlier, at the margins of the Economic Commission for Africa’s (ECA) 55th Conference of African Ministers of Finance, Planning, and Economic

Development held in Addis Ababa-Ethiopia in March 2023, African Ministers of Finance, Planning and Economic Development called for decisive action to reform the global debt architecture to enable the investments needed for achieving sustainable development and climate goals around the world. The African Minsters acknowledged that the G20 Common Framework had not effectively supported nations in debt distress and urged the G20 to *urgently overhaul the Common Framework to make it more effective, time-bound, and transparent while providing debt service standstill for applicants*.

Voicing concerns over rising debt vulnerabilities in Africa following the Spring Meetings, Hon. Nadia Fettah Alaoui, Minister of Finance of Morocco, said "*We applaud the World Bank Group and International Monetary Fund for their openness to reform and urge them to continue to listen to stakeholders especially from Africa, a continent of 1.5 billion people that receives the majority of resources from these institutions…now is the time to put a plan of action in place for real and sustainable change that better serves Africa's people*".

Zambia, which has been in default since 2020 when it became one of the first major sovereign casualties of the COVID-19 pandemic era, exemplifies the "urgency" of addressing its debt burden. In early April 2023, Zambia's Finance Minister, Situmbeko Musokotwane, bemoaned that *Zambia is being "punished" for a failure to complete debt restructuring that is not its fault, but its two main creditors, China and international bondholders*. The Finance placed blame on the creditors, confirming that "[t]his is no fault of ours, it is the fault of those we engaged with".

African Ministers have therefore outlined five (5) specific and achievable asks that will aid in the transformation of a system that has grown less capable of effectively addressing the difficulties that African nations face in the modern world.. These are:

1. **Increase the amount of low-interest money available to countries, and make sure it stays available over the long term**. The International Development Association (IDA) fund of the World Bank is an essential source of funding for the world's poorest nations, many of which are found on the African continent. While IDA needs to expand to keep up

with the many, converging problems that nations are experiencing, it faces a financing cliff in 2024 which must be avoided at all costs. African Finance Ministers have requested that the World Bank's shareholders and management produce a strategy by the June 2023 Summit for a New Financing Pact that expands IDA and assures sufficient funding for the SDGs. This could entail early replenishment, using bond markets to close the financing shortfall, or finding alternative ways to maintain and expand IDA.

2. **Re-channel IMF Special Drawing Rights (SDRs) to the African Development Bank (AfDB)**. According to the IMF, SDRs are an international reserve asset whose value is "based on a basket of the world's five leading currencies - the US dollar, euro, yuan, yen, and the UK pound." Rechannelling these assets to the AfDB will increase the value of these assets and provide much-needed liquidity to African nations. This will in turn enable the AfDB to increase its lending fourfold under the proposed framework for rechannelling, as opposed to continuing to lend SDRs through the IMF at less than one-to-one value. African Finance Ministers have requested that the five shareholder countries jointly agree to re-channel SDRs to the AfDB and that IFIs and international decision-makers support the move, by the end of June 2023.
3. **Sustain the IMF’s Poverty Reduction and Growth Trust, (PRGT) with additional financing**. With the help of this vehicle, low-income nations can manage their balance of payment difficulties by receiving short, medium, and long-term loans without paying interest. The current worldwide crises have only increased the need for the PRGT. African finance ministers have requested that a practical solution be in place by the World Bank/IMF Annual Meetings in October 2023 in order to increase the accessibility of this help. This approach may involve selling IMF gold, which would need the approval of 85% of the IMF Executive Board, or governments lending SDRs to create income, keeping in mind the current fiscal strains on all countries.
4. **Overhaul the Common Framework and find a real solution to the debt crisis**. In light of the severity of the debt crisis that African countries are experiencing and the inefficiency of the Common Framework mechanism, it is no longer possible to make minor adjustments to the current system given the. The world needs new systems that enable swift

debt relief and create room for nations to pursue new, more environmentally friendly growth avenues. Before the World Bank/IMF Annual Meetings in October 2023, the African Finance Ministers have requested that the strategy be totally re-evaluated and new methods proposed.

5. **Confirm the African Union as a full member of the G20**. The African Union, which represents 1.5 billion people worldwide, ought to sit at this international body's decision-making table. By the end of 2023, when Brazil will have the G20 Presidency, African finance ministers have requested that all G20 leaders declare their support for the AU gaining full membership.

The group of African Finance Ministers that proposed the foregoing action points will now seek to work closely with a broader cohort of African Finance Ministers and in partnership with the African Union, the UN Economic Commission for Africa, and the African Development Bank to advocate for decisive action in the coming months ahead of the Fall World Bank/IMF Annual Meetings which return to Africa for the first time in fifty years in October 2023 in Marrakesh, Morocco.

Following the full-fledged meeting of the new Global Sovereign Debt Roundtable (GSDR), held during the spring meetings Global creditors, debtor nations, international financial institutions and private creditors have agreed to take steps to jumpstart and streamline long-stalled debt restructuring efforts, including through improved data sharing and clearer timetables. In a joint press statement, the World Bank, International Monetary Fund and India, (the current president of the Group of 20 (G20) major economies), committed to continuing to *work closely together and with other partners to further support the international response to the current debt challenges*. Meanwhile, the attention is on Zambia as Lusaka's official creditors, which include China, are getting closer to signing a memorandum of understanding on debt relief to the country in May. Zambia is hoping for more than $8 billion of debt relief in a restructuring widely seen as a key litmus test case of the G20's Common Framework vehicle. In Zambia's case, modalities of debt relief are expected to come in various forms, including maturity extensions, grace periods on payments or reduced interest rates.

The AfSDJN reiterates its calls for creditors such as the World Bank, International Monetary Fund, and the G20 to move away from lender-dominated decision making and work towards definitive and long-term solutions for and together with African countries affected by heavy debt burdens.

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