Africa borrows on the open market

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The decades when the continent couldn't raise major funds on ordinary commercial markets are over, but there are still worries about over-indebtedness.

The nations of sub-Saharan Africa, in the post-independence euphoria of the 1960s, wanted to end the international division of labour under which they exported raw materials and imported manufactured goods. They diversified their economies through industrialisation and improved production capacity, but soon encountered the problem that none (except for South Africa and Rhodesia, now Zimbabwe, both then governed by a white minority) could access international capital markets without the credit rating agencies' approval. They could only use private funds guaranteed by states, bilateral funds lent by the Paris Club (1), and multilateral funds from the IMF, World Bank and African Development Bank (AfDB).At the same time, much-needed export revenue was shrinking, mainly because of a global fall in agricultural commodity prices (the index went from 155 in 1977 to 94 in 2002), while the cost of Africa's imports climbed. In 1979 a rise in US interest rates — a unilateral decision to halt the depreciation of the dollar — significantly worsened Africa's debt burden.

To improve their finances, African nations turned to international institutions, which dispensed their "deadly medicine", imposing development and structural adjustment programmes, financial deregulation, free trade, privatisation, and wage and budget cuts. These programmes proliferated, all prescribing the same neoliberal, free trade mix.

Under the Heavily Indebted Poor Countries initiative (HIPC), launched in 1996, 36 countries (30 in Africa) benefited from debt relief of $76bn on bilateral and multilateral debt. According to the Committee for the Abolition of Third World Debt (CADTM) these measures are window-dressing: sub-Saharan Africa's outstanding debt rose from $2bn in 1970 to $331bn in 2012. Over the same period, repayments totalled $435bn, four times the capital borrowed (2).

The vultures circle

African countries have also had to contend with vulture funds, which cheaply buy up the debt of states in trouble on the secondary market. They wait for these countries to show signs of improvement (for example, the end of political instability) then take them to court in the UK or US to recover the original debt plus interest and penalties for arrears. A first wave of these actions hit Africa between 2000 and 2008. The exact number is hard to calculate because states prefer to guard their reputations by avoiding the media and negotiating with vulture funds out of court.

According to the IMF, 17 cases are in progress against heavily indebted poor counties, 15 in Africa (3). In 2014 a decision by the ninth circuit of the US Court of Appeal found in favour of the Democratic Republic of the Congo (DRC) against the vulture fund FG Hemisphere Associates. In a lower court, FG Hemisphere had won the right to seize the assets of the DRC's Société Générale des Carrières et des Mines (Gécamines) on the grounds that the company was responsible for the debts of the state that controls it. FG Hemisphere had demanded $104m under an unpaid electricity supply contract.

Since the financial crisis, vulture funds have turned their attention to European markets, without entirely losing interest in Africa. In 2010 the AfDB created the African Legal Support Facility (ALSF) to make governments aware of the importance of the legal dimension of debt management. The ALSF emphasises the need for expert advice.

Two recent developments have aroused both hopes of progress and fears of re-indebtedness. The first is the interest in Africa from rapidly industrialising countries such as China, India, South Korea, Malaysia, Turkey and Brazil. Since the early 1990s, their imports of raw materials and exports of low-priced manufactured goods have brought real benefit to the continent. This has expanded Africa's

options for economic growth and given it the chance to reduce its outstanding debt through rising export revenue.

This is how Nigeria — the continent's largest economy — was able to pay back $12bn of the $18bn it owed to Paris Club creditors in 2005. In 2009 Angola became China's biggest African trading partner. China cancelled Angola's debt of 67.38m yuan ($10m) and ended import duty on 466 categories of Angolan products. China's African investment strategy mirrors the distribution of natural resources: oil in Sudan, Angola and Nigeria; coal and platinum in South Africa; copper and cobalt in the DRC and Zambia.

Risks and opportunities

Though growing Chinese involvement creates opportunities, it also poses risks. The Chinese have taken control of some local industries, and thereby control of export quotas to western markets for African products, such as textiles. China is looking closely at Ethiopia, where textile exports have risen by 257% in a decade. China's cooperation model comes as a package, combining direct investment, preferential loans (which include a "donated" component, in principle at least 35%), trade and public aid. Without a detailed breakdown, it isn't always possible to know if the preferential loans are included in the debt total or whether they are a component of aid. Given the scale of this type of lending, there are worries about African nations' future debt burden if the Chinese decide not to treat the preferential loans as aid.

The second major development is that Africa is now opening up to the capital markets. Several countries now have credit ratings — Congo-Brazzaville, Côte d'Ivoire, Egypt, Ghana, Kenya, Mozambique, Uganda, Rwanda, Senegal and Zambia — and most of their ratings are equal to or higher than those of industrialising countries such as Turkey, Brazil and Argentina. International investors' interest has grown, and they regard most of these African nations as high-yield intermediary markets. National institutional investors — banks, insurance companies and pension funds — and private local investors are also active.

Since 2007, some African countries have raised bond capital directly, including Senegal ($200m), Gabon ($1bn) and Ghana ($750m), a trend likely to grow. Kenya is issuing $25bn of bonds for the construction of a second port, a 2,000-km gas pipeline and a new road to transport oil from South Sudan (4). In Ethiopia, the Renaissance Dam was funded with securities financed by Ethiopians.

Rwanda has attracted capital through bond issues (by the state or institutional investors): the central bank issued its first dollar loans in 2013. According to the Bloomberg index, investors have had a return of 9.3%, well above the 6.6% rate of emerging markets. As Aboubacar Fall, until recently president of the management board of the African Legal Support Facility, said: "This financial success is largely due to the high quality of the structural reforms that Rwanda has undertaken over a number of years, as well as the diversification of its economy" (5).

According to the credit rating agency Fitch, sovereign debt issues by sub-Saharan states should reach $6bn in 2015, after a record $6.25bn last year. Kenya, Côte d'Ivoire, Ghana and Senegal plan to raise between $500m and $1.5bn in eurobonds this year. Zambia, with $1bn, has also now approached the international markets.

Christine Lagarde's fears

This resumption of borrowing could lead to a new debt crisis. The head of the IMF, Christine Lagarde, met African financiers, finance minsters and the governors of the Central African Bank last year at a conference in Maputo (Mozambique), and said: "Governments should be attentive and prudent, so as not to overload their countries with public debt." It represented "an additional vulnerability" as well as an "additional source of funds" (6).

The risk of over-indebtedness is, however, limited. Public finances have improved; Benin, Togo, Guinea-Bissau, Burkina Faso and Côte d'Ivoire are running budget surpluses; inflation had been

tamed, foreign currency reserves and savings have increased and external debt has been reduced. So, in the view of Tiémoko Meyliet Koné, governor of the Central Bank of West African States [BCEAO], "the prospects for growth in the West African Economic and Monetary Union [UEMOA] are favourable [7]. They show that debt should remain stable in the majority of member states" (8). The UEMOA countries anticipate paying off $4.9bn of their debt in 2015. The BCEAO forecasts a growth rate of 7.2% in the sub-region, compared to 6.6% in 2014, while the IMF reckons on growth of 5.8% for the whole of sub-Saharan Africa this year.

To raise the funds for the massive investment programmes, especially in agriculture, energy and infrastructure, African governments, public and private companies are increasingly resorting to borrowing on national, regional and international capital markets. Public investment, essential if Africa's economy is to catch up, has now taken its place in national policies.