Centre for International
Governance Innovation

Policy Brief No. 120 — November 2017

Debt Sustainability in African HIPCs
Deteriorating Prospects

Cyrus Rustomjee

Key Points

- From 2000, the Heavily Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI) provided debt relief to 30 eligible African countries; however, several African HIPCs have rapidly accumulated new debt since then.
- Assessments between 2012 and 2015 produced mixed verdicts on the sustainability of new post-HIPC debt. But recent data reveals a clearer picture. While many have maintained debt sustainability, for a growing number, overall risks to debt distress have deteriorated in the past three years and prospects for reversing this trend are diminishing.
- Key policy actions, including greater fiscal effort and new debt management capacities, can help address this challenge for some. But for others, the case for a new debt relief initiative is growing.

Introduction

The HIPC, established by the International Monetary Fund (IMF) and World Bank in 1996, provided multilateral debt relief to several poor, developing countries, mainly in Africa, with unsustainable external debt burdens. The HIPC comprised a two-stage mechanism: a decision point, a formal decision on a country's eligibility for relief, which released interim relief, and was based on several criteria, including a period of good performance under IMF and World Bank programs; and a completion point (CP), when countries received irrevocable debt relief. The HIPC was supplemented in 2005 by the MDRI, which provides complete multilateral relief on eligible debts by the IMF, the World Bank and the African Development Fund.

The HIPC and the MDRI provided beneficiary countries with a comprehensive fresh start. By 2015, of the 39 countries eligible for debt relief, 36 had reached the CP, collectively receiving US$126.6 billion in total nominal debt service relief, including HIPC relief of US$76.4 billion and MDRI relief of US$50.2 billion. Thirty African countries have been the biggest beneficiaries, receiving US$107 billion or 85 percent of total relief (see Annex 1).

As a multilateral initiative, the HIPC has been enormously successful. While in 1996, debt service in eligible countries exceeded health and education spending, by 2016, the latter exceeded debt service by a factor of five. Average debt service paid declined by 1.8 percent of GDP between 2001

About the Author

Cyrus Rustomjee is a CIGI senior fellow with the Global Economy Program. At CIGI, Cyrus is looking for solutions to small states' debt challenges and exploring the benefits of the blue economy. His research looks into how small countries in the Pacific, the Caribbean and elsewhere can benefit from greater reliance on the use and reuse of locally available resources, including those from maritime environments.

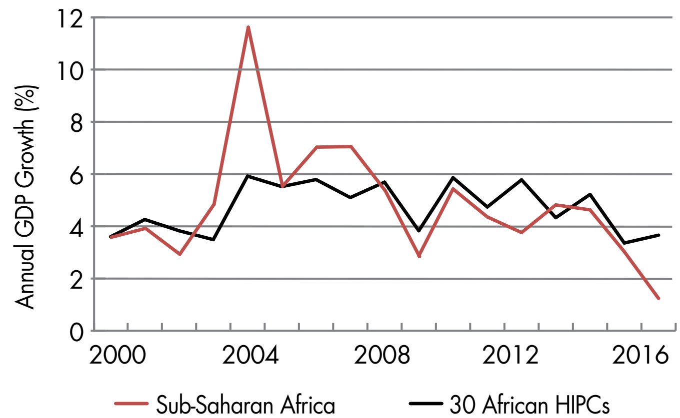
and 2014. Between 2000 and 2012, supported in part by debt relief, Africa's growth rate exceeded 2000 levels in all but two years, with growth rates among 30 African HIPCs regularly exceeding the continent-wide rate since 2008 (see Figure 1).

African countries also benefited from lower external borrowing costs since the 2008 global crisis, catalyzing increased domestic and external debt. External debt stocks grew rapidly, on average by 10.2 percent per year in 2011–2013 (UN Conference on Trade and Development [UNCTAD] 2016). Yet between 2012 and 2015, concerns that African HIPCs might return to unsustainable pre-HIPC levels proved inconclusive. Some assessments pointed to a favourable medium-term outlook for debt sustainability (IMF 2013). They noted that African public debt-to-GDP ratios were at their lowest level in decades due to higher growth rates, low international interest rates and debt relief (Ncube and Brixiová 2015). Others highlighted a deterioration in debt sustainability ratios due to entrenched structural vulnerabilities, potential new threats, persistent large current account deficits, increasing recourse to domestic and external private debt and countries' failure to consider how debt would ultimately be repaid (Mustapha and Prizzon 2014; Ellmers and Hulova 2013). The IMF noted that for eight African HIPC beneficiaries, rapid debt accumulation could return these countries to pre-HIPC debt levels in a few years (IMF 2015). More recently, the IMF emphasized an increase in public indebtedness across African countries (IMF 2017b).

African HIPCs: Escalating Risk of Debt Distress

If earlier assessments presented a mixed picture of emerging risks to debt sustainability, recent data provides more conclusive evidence that for a growing number of African HIPCs, risks have quickly increased. The IMF and World Bank prepare regular (typically annual) country-level Debt Sustainability Analyses. These analyses assess the overall risk of default on debt in four categories: countries in debt distress, or those at high, moderate or low risk of debt distress. A comparison of analyses completed in March 2014 and in August 2017 illustrate the rapid escalation in these risks since 2014 (see Table 1).

Figure 1: Annual GDP Growth (Percent) — Sub-Saharan Africa and African HIPCs



Data source: World Development Indicators (WDI).

Since 2014, risks to debt distress have remained unchanged in 16 African HIPCs and decreased in just two. But in 12 countries, or 40 percent of African HIPCs, debt default risks have deteriorated. While none were in debt distress in 2014, two countries — Chad and The Gambia — now occupy this category. In 2017, eight countries — more than one-quarter of all African HIPCs — are either in, or at high risk of, debt distress, while only four are at low risk. Of the 18 countries now at moderate risk, six were previously considered at low risk in 2014. Table 1 also illustrates that debt risks can deteriorate suddenly: The Gambia, at moderate risk in 2014, is now already in debt distress; while Cameroon, at low risk in 2014, is now at high risk of debt default.

Table 1: Risk of Debt Distress (2014 and 2017)

Risk of Default on Debt	2014	2017
In Debt Distress	(0)	(2): Chad, The Gambia.
High Risk of Debt Distress	(5): Burundi, Chad, Comores, Democratic Republic of Congo, São Tomé and Príncipe	(6): Burundi, Cameroon, Central African Republic, Ghana, Mauritania, São Tomé and Príncipe
Moderate Risk	(14): Burkina Faso, Central African Republic, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Malawi, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Togo	(18): Benin, Burkina Faso, Comores, Democratic Republic of Congo, Congo Republic, Cote d'Ivoire, Ethiopia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Sierra Leone, Togo, Zambia
Low Risk	(11): Benin, Cameroon, Congo Republic, Ethiopia, Liberia, Madagascar, Rwanda, Senegal, Tanzania, Uganda, Zambia	(4): Rwanda, Senegal, Tanzania, Uganda

Data source: IMF (2017c); www.columban.jp/upload_files/data/DE0080_DSAlist.pdf.

Note: Countries shaded in light red denote a deterioration in risk between 2014 and 2017, either from low to moderate risk, or moderate to high risk. Dark red denotes a more severe deterioration, either from low to high risk, or from moderate risk to being in debt distress. Light green indicates an improvement from high to moderate risk.

Restoring Debt Sustainability: Deepening Challenges Ahead

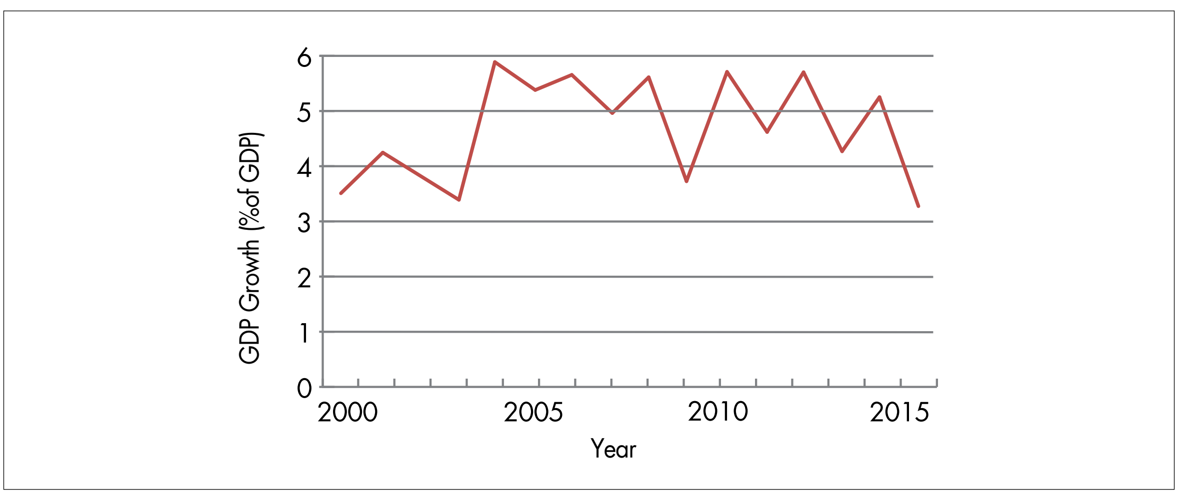
While risks to debt sustainability are escalating across a broad spectrum of African HIPCs, several challenges limit prospects for reversing this trend. These include certain factors that originally contributed to African HIPCs' success since 2000, all of which have simultaneously deteriorated. First, after many years of high growth, consistently in excess of five percent, growth rates have recently declined, registering in 2015 their lowest level since 2003 (see Figure 2). For African HIPCs, the consequences are immediate and severe, including increased sovereign risk and borrowing costs, reduced fiscal space and constrained public investment in infrastructure. Yet African countries require far higher sustained growth rates, estimated at over seven percent over the medium term and average investment rates in excess of 25 percent of GDP, in order to reduce poverty and extreme hunger (UNCTAD 2015b).

Second, while many have relied on high commodity prices to support exports and growth, severe declines in commodity prices since 2014, including a 67 percent decline in oil prices since mid-2014, have exposed this vulnerability. Commodity price declines are estimated to have reduced the African regions' terms of trade by an estimated 16 percent in 2016, reducing economic activity by 0.5 percent and weakening the current account and fiscal balances by an average of four and two percentage points respectively (World Bank 2016).

Third, the composition of African HIPCs' debt has changed substantially since 2000. The share of multilateral debt in total external debt has declined by approximately one-third since 2005 (see Figure 3), as faster growth facilitated increased access to external private capital, enabling countries to diversify funding sources, raise external finance at low interest rates and achieve maturities typically longer than those available in domestic markets and with less conditionality. But this has also introduced large longer-term external risks to debt sustainability, including repayment risk; increased risk of flight to safety should global growth decline or remain subdued; and currency risk, with most new external debt comprising US dollar- and euro-denominated debt.

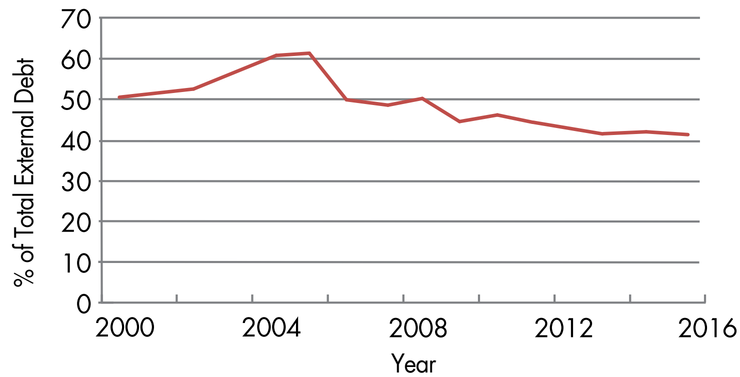
Fourth, since 2007, African HIPCs' debt accumulation occurred during an extended period of low global interest rates. Indeed, a key driver in maintaining debt sustainability between 2007 and 2012 comprised a positive growth rate-interest rate differential. But with global monetary policy tightening, a strengthening of the US dollar, and having accumulated a larger share of dollar-denominated debt in total debt, African HIPCs now face a triple adjustment in managing their external borrowing costs. This has prompted concern that some countries may have laid the foundations for a new African debt crisis (UNCTAD 2015a).

Figure 2: African HIPCs — GDP Growth (2000–2015)



Data source: WDI.

Figure 3: African HIPCs — Multilateral Debt (Percentage of Total External Debt) (2000–2015)



Data source: WDI.

The fifth challenge facing African HIPCs is that recent debt accumulation has been accompanied by only modest fiscal policy support. A study of 28 African countries, including 18 HIPCs, noted that primary balances exceeded those needed to keep the debt-to-GDP ratio at its 2007 level in about half of the countries assessed. For several countries with higher debt burdens, primary balances exceeded those needed to restore debt-to-GDP ratios to sustainable levels (Ncube and Brixiová 2015).

Restoring Debt Sustainability: Options and Key Steps

Early action is needed to avert further broad-based deterioration in overall risks to debt distress. African HIPCs, with support from multilateral and bilateral creditors, can pursue several options.

First, strengthened national capacities are needed to improve skills in national public debt management offices and units in African HIPCs in order to conduct more complex assessments of risks to public debt sustainability, which build on World Bank and IMF Debt Sustainability Assessments, and which better account for rapid changes in debt composition and the increasing depth and sophistication of domestic and international financial markets. New national capacities are also needed to assess, *ex ante*, risks to public borrowing for long-term infrastructure projects, including how debt will eventually be repaid. New capacity initiatives by the World Bank and African Development Bank, which are targeted to support the African HIPCs faced with rapidly deteriorating debt ratios, can support these measures.

Second, with the growth rate-interest rate differential having proved a key driver of debt accumulation and as global interest rates begin to increase, fiscal policy adjustment will need to play a far stronger role in maintaining future debt sustainability.

Third, as debt sustainability indicators deteriorate, additional new reporting modalities are likely to be needed. These would supplement aggregated HIPC-wide data, for example, through the IMF's periodic amalgamated HIPC and MDRI statistical update, with a stronger focus on those African HIPCs with deteriorating debt ratios. This could provide earlier warning of a broader deterioration in debt sustainability among African HIPCs and help identify, at an earlier stage, risks and vulnerabilities common to several African HIPCs. For example, a new annual assessment for African HIPCs with heightened risks, including all countries in or at high risk of debt distress, can help illustrate the scale of the challenge and better identify common macroeconomic, structural and other drivers of debt accumulation.

Finally, earlier analysis suggests that the case for a new post-HIPC and MDRI debt relief initiative, for some African HIPCs, is growing. In 2017, eight are already either in debt distress (Chad, The Gambia) or at high risk of debt default (Burundi, Cameroon, Central African Republic, Ghana, Mauritania, and São Tomé and Príncipe). Among these, five are projected to have unsustainable debt levels in 2022. With large, persistent structural challenges and despite a decade of high growth, high commodity prices and low borrowing costs, fiscal policy adjustment alone is unlikely to resolve the challenge. Instead, and as debt risks deteriorate, new consideration is required to assess the need for eligibility, modalities and potential costs of further debt relief for these countries.

Conclusion

In 2000, the HIPC initiative provided African and other eligible countries with a fresh start. Evidence two decades later indicates that in about half of all African HIPCs, gains have been durable and sustained. But for the balance, risks have re-emerged and are likely to deteriorate further, with some countries facing the real prospect of a renewed debt trap. Several key actions, taken promptly, can help limit further deterioration.

Annex 1: African and Other HIPC and MDRI Debt Relief (2000–2015)

HIPCs	Completion Point Date	HIPC (Nominal Terms)	MDRI (Nominal Terms)	Total (Nominal Terms)
African HIPCs				
Benin	March 2003	460	1,115	1,575
Burkina Faso	April 2002	930	1,185	2,115
Burundi	January 2009	1,366	88	1,454
Cameroon	April 2006	4,917	1,282	6,199
Central African Republic	June 2009	804	284	1,088
Chad	April 2015	260	792	1,052
Comores	December 2012	136	77	213
Congo, Dem. Republic of	July 2010	15,222	1,047	16,269
Congo, Republic of	January 2010	1,738	196	1,934
Côte d'Ivoire	July 2012	3,415	1,822	5,237
Ethiopia	April 2004	3,275	3,279	6,554
Gambia, The	December 2007	112	375	487
Ghana	July 2004	3,500	3,901	7,401
Guinea	September 2012	800	958	1,758
Guinea-Bissau	December 2010	790	124	914
Liberia	June 2010	4,600	261	4,861
Madagascar	October 2004	1,900	2,386	4,286
Malawi	August 2006	1,628	1,567	3,195
Mali	March 2003	895	1,948	2,843
Mauritania	June 2002	1,100	869	1,969
Mozambique	September 2001	4,300	2,026	6,326
Niger	April 2004	1,190	1,042	2,232
Rwanda	April 2005	1,316	499	1,815
São Tomé and Príncipe	March 2007	263	59	322
Senegal	April 2004	850	2,445	3,295
Sierra Leone	December 2006	994	656	1,650
Tanzania	November 2001	3,000	3,821	6,821
Togo	December 2010	360	706	1,066
Uganda	May 2000	1,950	3,502	5,452
Zambia	April 2005	3,900	2,749	6,649

Other HIPCs	Completion Point Date	HIPC (Nominal Terms)	MDRI (Nominal Terms)	Total (Nominal Terms)
Afghanistan	January 2010	1,280	39	1,319
Bolivia	June 2001	2,060	2,833	4,893
Guyana	December 2003	1,354	710	2,064
Haiti	June 2009	213	964	1,177
Honduras	April 2005	1,000	2,726	3,726
Nicaragua	January 2004	4,500	1,916	6,416
Total HIPCs		**76,378**	**50,249**	**126,627**
African HIPCs		65,971	41,061	107,032
Other HIPCs		10,407	9,188	19,595
African HIPCs		86%	82%	85%
Other HIPCs		14%	18%	15%

Data source: IMF (2017a).

Works Cited

Ellmers, Bodo and Diana Hulova. 2013. "The New Debt Vulnerabilities: 10 Reasons Why The Debt Crisis Is Not Over." Eurodad.

IMF. 2013. "Regional Economic Outlook: Sub-Saharan Africa — Building Momentum in a Multi-Speed World." World Economic and Financial Surveys. May. Washington, DC: IMF.

———. 2015. "African Debt since HIPC: How Clean is the Slate?" Discussion Paper No. 2. Macroeconomics and Fiscal Management Global Practice. March. Washington, DC: IMF.

———. 2017a. Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Statistical Update. September. Washington, DC: IMF.

———. 2017b. "Regional Economic Outlook. Sub-Saharan Africa. Restarting the Growth Engine." *World Economic and Financial Surveys*. April.

———. 2017c. "List of LIC DSAs for PRGT-Eligible Countries as of September 01, 2017." www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf.

Mustapha, Shakira and Annalisa Prizzon. 2014. "Is Debt Sustainable in the Post-HIPC Era? A Literature Review." Overseas Development Institute. February.

Ncube, Mthuli and Zuzana Brixiová. 2015. "Public Debt Sustainability in Africa: Building Resilience and Challenges Ahead." African Development Bank Working Paper No. 227. Abidjan, Côte d'Ivoire: African Development Bank.

UNCTAD. 2015a. "Revisiting Debt Sustainability in Africa: Note by UNCTAD secretariat." TD/B/EX(61)/3. April 15.

———. 2015b. "Then and Now: Reimagining Africa's Future. Catalysing Investment for Transformative Growth." Geneva, Switzerland: UN.

———. 2016. *Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa*. Geneva, Switzerland: UN.

World Bank. 2016. "Africa's Pulse: Global Economic Weakness Continues to be a Drag on Africa's Economic Growth." April. www.worldbank.org/en/region/afr/publication/africas-pulse-an-analysis-issues-shaping-africas-economic-future-april-2016.

About the Global Economy Program

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy Program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

With experts from academia, national agencies, international institutions and the private sector, the Global Economy Program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China's role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy Program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

About CIGI

We are the Centre for International Governance Innovation: an independent, non-partisan think tank with an objective and uniquely global perspective. Our research, opinions and public voice make a difference in today's world by bringing clarity and innovative thinking to global policy making. By working across disciplines and in partnership with the best peers and experts, we are the benchmark for influential research and trusted analysis.

Our research programs focus on governance of the global economy, global security and politics, and international law in collaboration with a range of strategic partners and support from the Government of Canada, the Government of Ontario, as well as founder Jim Balsillie.

À propos du CIGI

Au Centre pour l'innovation dans la gouvernance internationale (CIGI), nous formons un groupe de réflexion indépendant et non partisan qui formule des points de vue objectifs dont la portée est notamment mondiale. Nos recherches, nos avis et l'opinion publique ont des effets réels sur le monde d'aujourd'hui en apportant autant de la clarté qu'une réflexion novatrice dans l'élaboration des politiques à l'échelle internationale. En raison des travaux accomplis en collaboration et en partenariat avec des pairs et des spécialistes interdisciplinaires des plus compétents, nous sommes devenus une référence grâce à l'influence de nos recherches et à la fiabilité de nos analyses.

Nos programmes de recherche ont trait à la gouvernance dans les domaines suivants : l'économie mondiale, la sécurité et les politiques mondiales, et le droit international, et nous les exécutons avec la collaboration de nombreux partenaires stratégiques et le soutien des gouvernements du Canada et de l'Ontario ainsi que du fondateur du CIGI, Jim Balsillie.

CIGI Masthead

Executive

President Rohinton P. Medhora

Director of Finance Shelley Boettger

Director of the International Law Research Program Oonagh Fitzgerald

Director of the Global Security & Politics Program Fen Osler Hampson

Director of Human Resources Susan Hirst

Interim Director of the Global Economy Program Paul Jenkins

Chief Operating Officer and General Counsel Aaron Shull

Director of Communications and Digital Media Spencer Tripp

Publications

Publisher Carol Bonnett

Senior Publications Editor Jennifer Goyder

Publications Editor Susan Bubak

Publications Editor Patricia Holmes

Publications Editor Nicole Langlois

Publications Editor Lynn Schellenberg

Graphic Designer Melodie Wakefield

For publications enquiries, please contact publications@cigionline.org.

Communications

For media enquiries, please contact communications@cigionline.org.

Copyright © 2017 by the Centre for International Governance Innovation

The opinions expressed in this publication are those of the author and do not necessarily reflect the views of the Centre for International Governance Innovation or its Board of Directors.

This work is licensed under a Creative Commons Attribution — Non-commercial — No Derivatives License. To view this license, visit (www.creativecommons.org/licenses/by-nc-nd/3.0/). For re-use or distribution, please include this copyright notice.

Printed in Canada on paper containing 10% post-consumer fibre and certified by the Forest Stewardship Council®
and the Sustainable Forestry Initiative.

Centre for International Governance Innovation and CIGI are registered trademarks.

Centre for International Governance Innovation

67 Erb Street West
Waterloo, ON, Canada N2L 6C2
www.cigionline.org

RECYCLED
Paper made from recycled material
FSC® C023070