

Back to the Well? Untangling the New Debt Accumulation, COVID 19 and Social Crisis in Africa

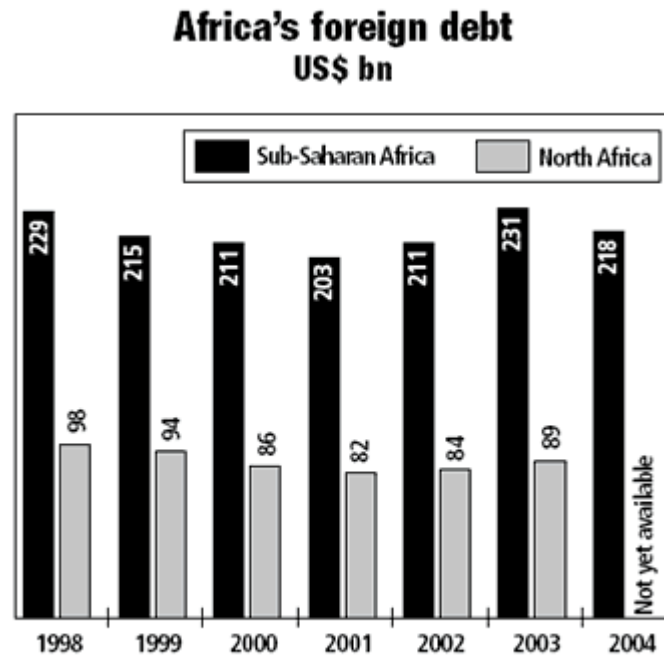
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Outline

- Introduction
- Past regime of debt and impacts
- Current debt accumulation
- Drivers of debt
- Covid and debt
- Implications on social crisis
- Recommendations and conclusions

Previous debt regime

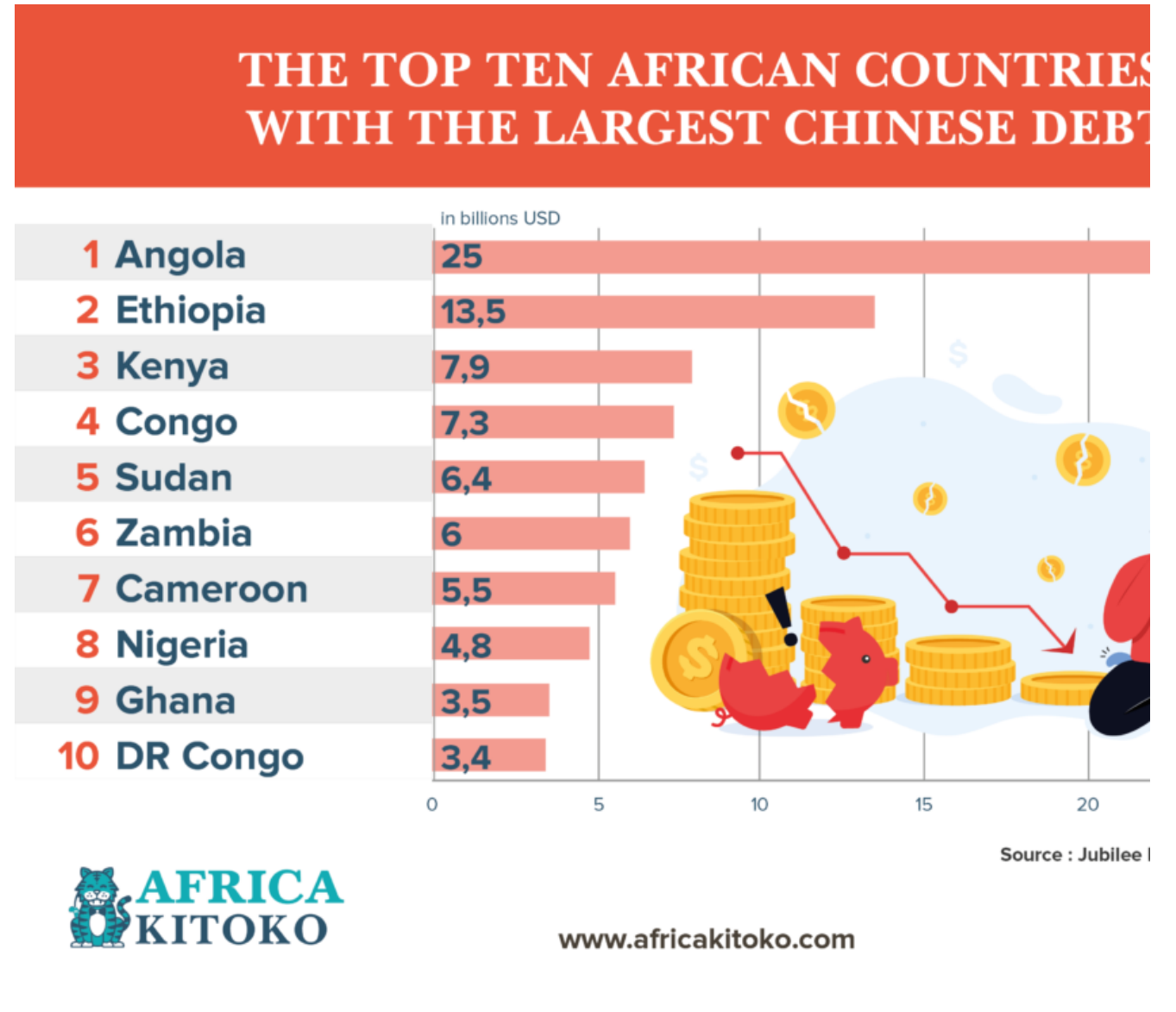


Source: UN Africa Renewal, from data in World Bank, Global Development Finance, 2005.

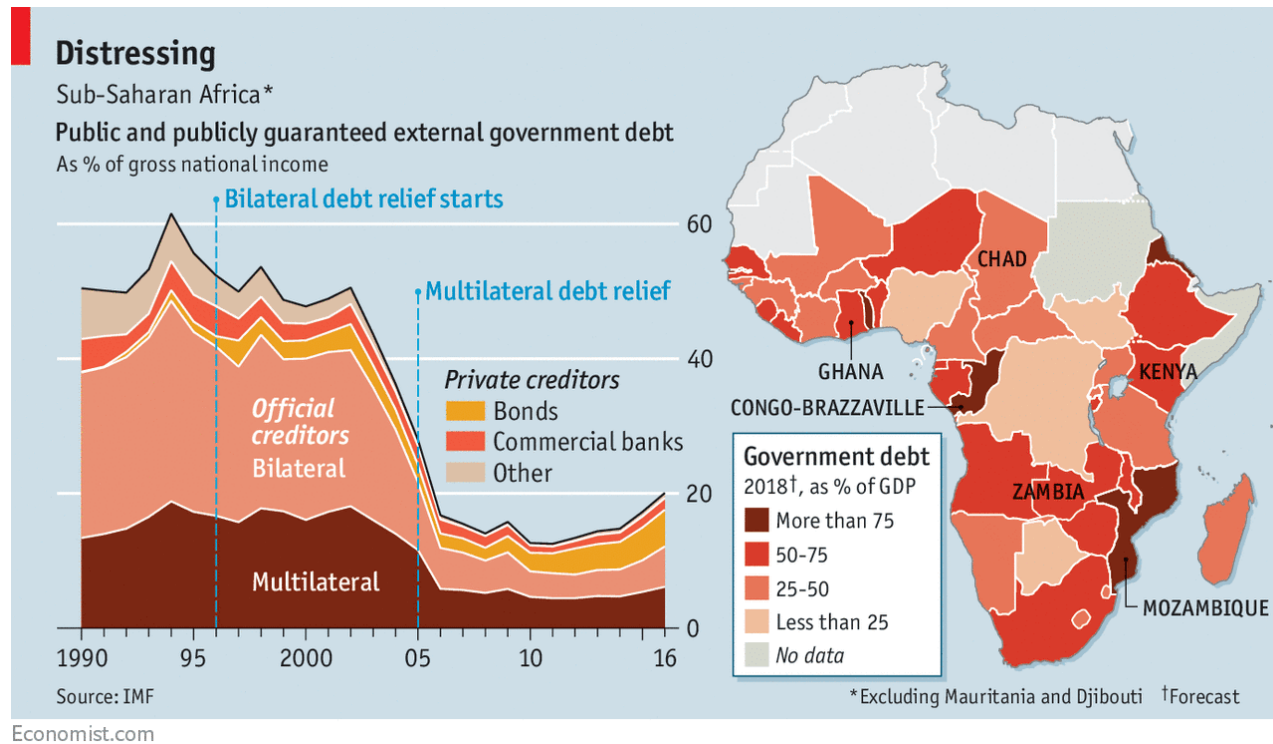
- Previous debt regimes in the 1980s
- Debt reliefs and reforms
- Growth associated with the debt reliefs

Ten most indebted African countries to China

- Mineral dependent-DRC, Zambia, Congo
- Oil exporters-Angola, Nigeria, Ghana
- Commodity –Kenya, Cameroon
- Early industrialization-Ethiopia



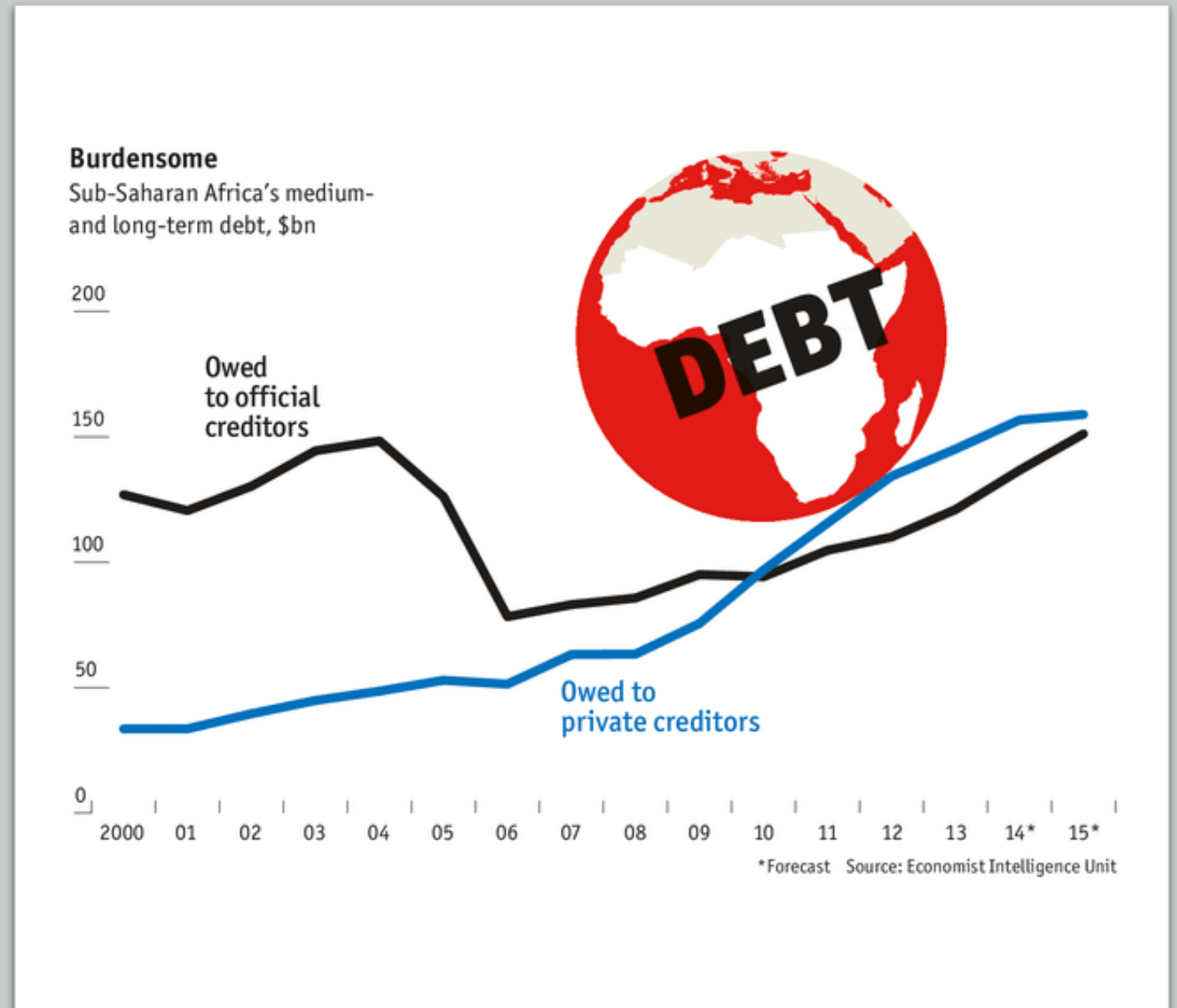
Composition of Debt



- Private creditors-Debt is made up of bonds, commercial banks
- Bilateral debts
- Multilateral debts

Debt regime

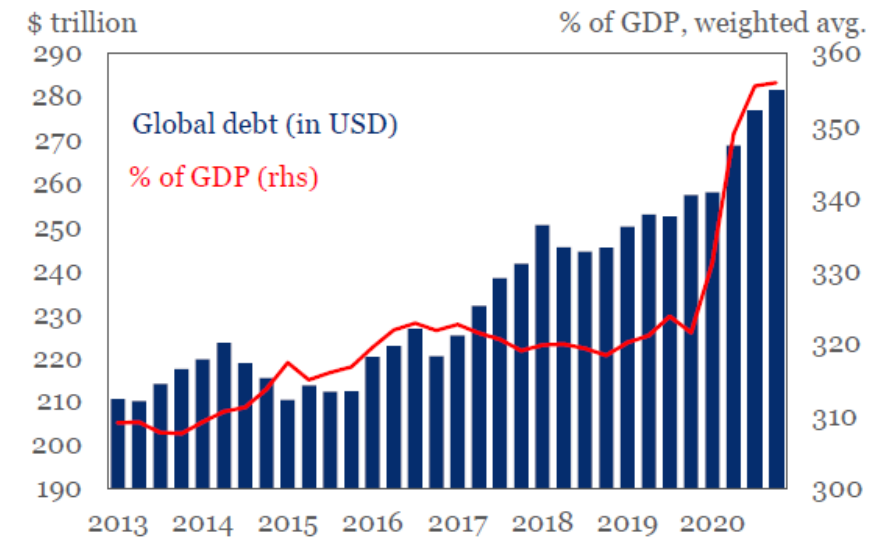
- Private debt increasing
- Debts owed to official creditors are also increasing



COVID 19 related debt

- Globally covid 19 has increased global debt by \$24trillion
- Debt to GDP ration has increased at 355%
- Debts are driven by support to households, businesses

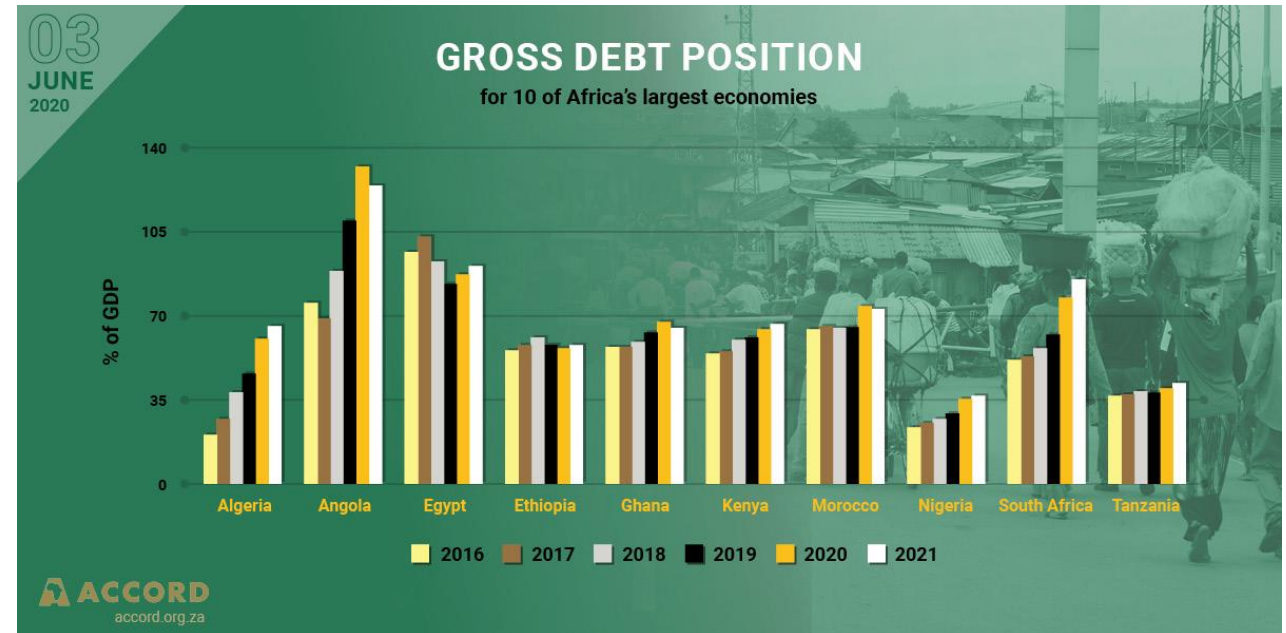
Chart 1: Global debt hits a fresh record high in 2020



Source: IIF, BIS, IMF, National sources

COVID 19 and Debt

- The pandemic has worsened the debt condition in Africa
- The lockdown necessitated new debt regimes
- Low social insurance
- Large informal sector





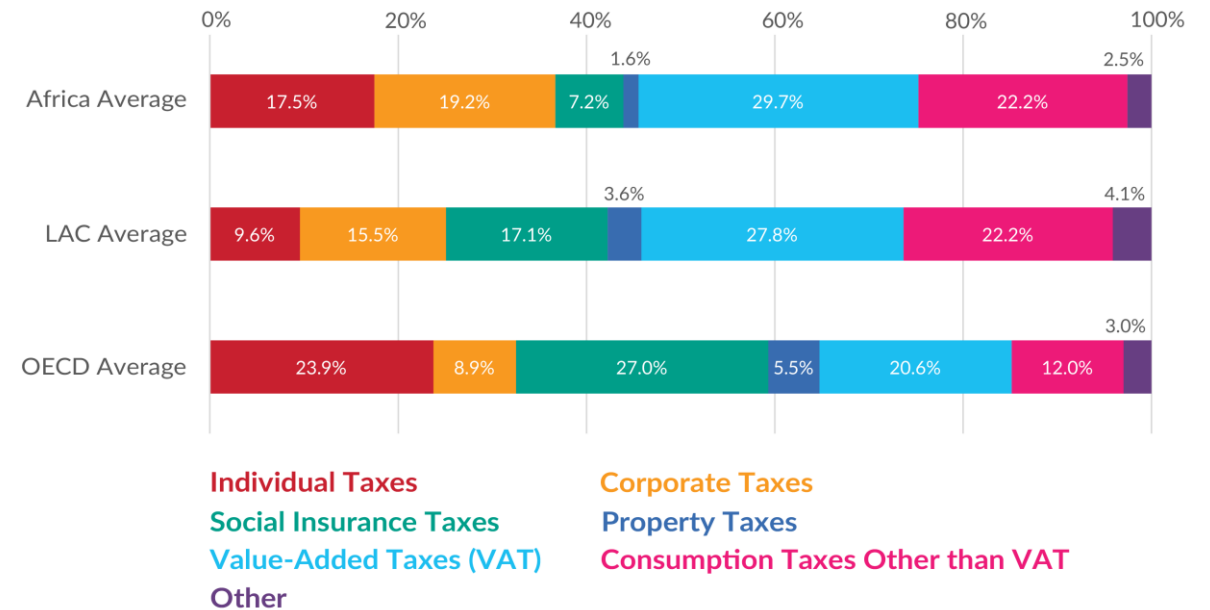
Drivers of debt

- Structural composition of African economies-commodity exports
 - Low capacity for domestic resource mobilization
 - Limited capacity for tax generation
 - Illicit financial flows
 - Lack of transparency in governance –high cost
- 

Comparative tax revenue

VAT Is on Average the Most Important Tax Revenue Source for African Countries

Tax Revenue Sources, 2018



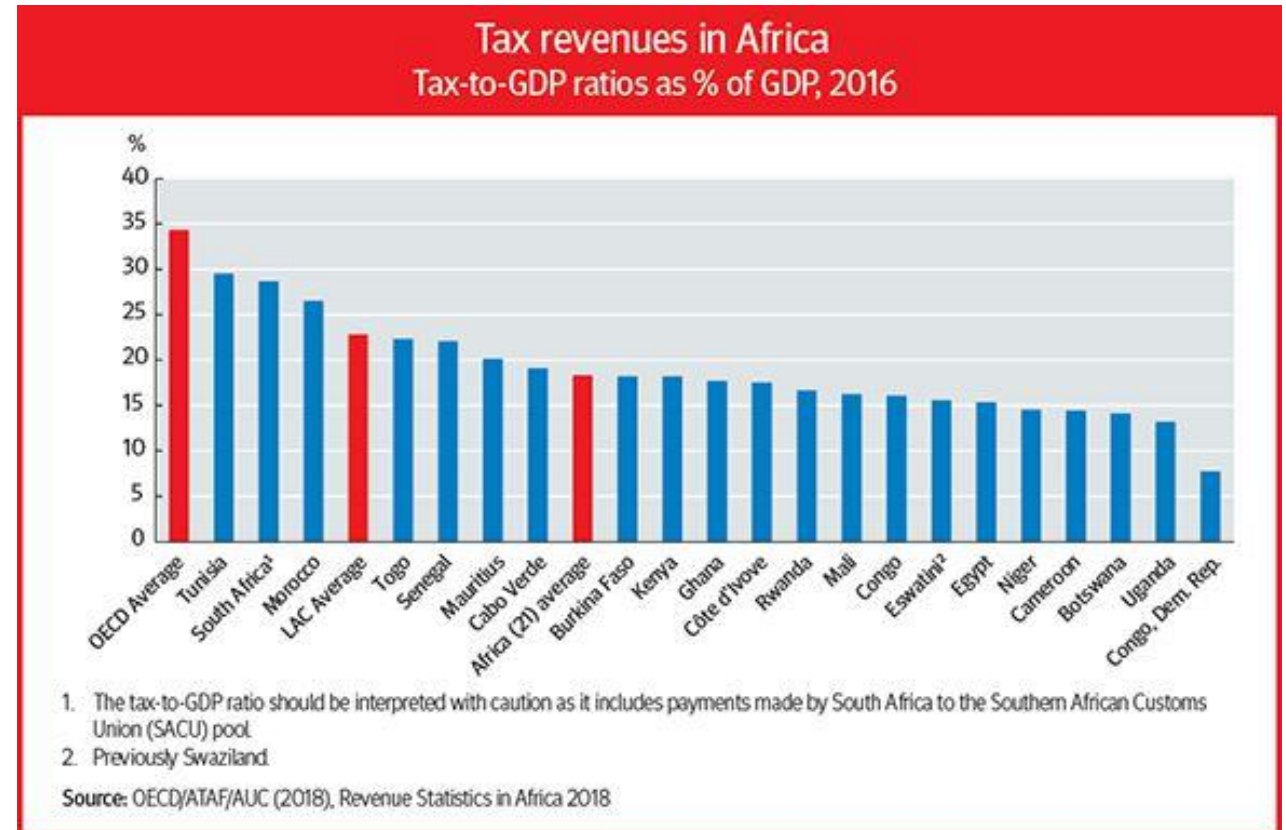
Source: Author's calculation based on OECD/AUC/ATAF, *Revenue Statistics in Africa 2020: 1990-2018* (OECD Publishing: Paris, 2020), <https://doi.org/10.1787/14e1edb1-en-fr>.

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Tax to GDP

- Compared to the OECD, tax revenue to GDP is low
- The large informal sector could be responsible
- Bureaucratic capacity for tax collection
- Loopholes



Illicit Financial Flows (IFFs)
originates mostly from commercial
activities as follows:

\$50bn

Currently, Africa is estimated
to be losing more than \$50 billion
annually in IFFs.



65%
Commercial
Transaction



30%
Organized
Criminal Activities



5%
Corruption



\$1 trillion

Over the last 50 years, Africa is
estimated to have lost in excess of
\$1 trillion in illicit financial flows (IFFs).



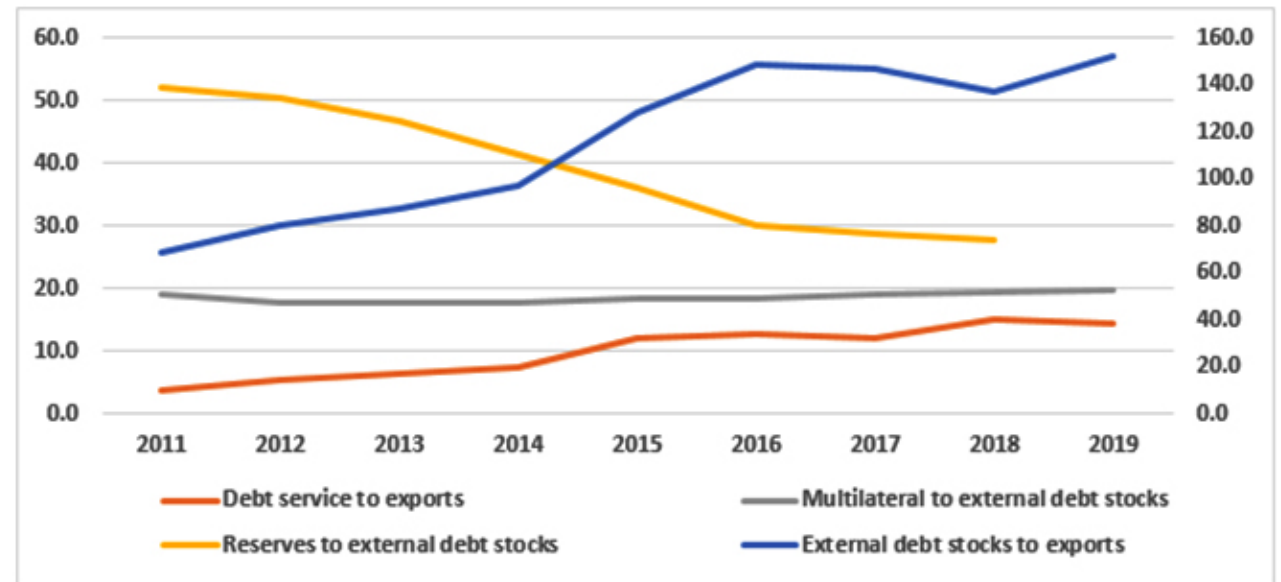
This sum is roughly equivalent
to all of the official development
assistance received by Africa
during the same timeframe.

Illicit financial flows

- Huge IFF makes Africa a net creditor to the world
- Stifles Africa of needed resources
- Affect economic growth

Implications on social crisis

- The cost of servicing debt is increasing
- This has implications for growth enhancing spending
- Lack of spending on economic and social growth could worsen social crisis



Recommendations

- Current debt relief moratorium from the IMF should be sustained
- Debt write-off should be considered
- Improve capacity for domestic resource mobilization
- Improve governance at subnational and national levels
- New global compact for reducing or ending illicit financial flows



Conclusion

- The new debt regime could have strong implications for social crisis in Africa
- Local and international cooperation are required
- AfCTA provides opportunity for new growth opportunities
- Civil society organizations could play more roles in debt management