Sovereign Debt Crisis and Africa's Economic Sovereignty

Is the African Repo Market the Solution?[1]

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Several African countries are currently struggling with unsustainable public debts. This is not the first time that several countries on the continent are facing a debt crisis. The first major debt crisis emerged in the early 1980s and was only addressed by a series of debt cancellations between 2005 and 2007, through the Multilateral Debt Relief Initiative (MDRI) and the Heavily Indebted Poor Countries (HIPC) Initiative. Today, several countries, in the aftermath of the Covid-19 pandemic, have found themselves with a huge debt burden, with many countries either in debt distress or on the threshold of their sovereign debt becoming unsustainable.[2] Several countries have now approached the IMF for support to restructure public debt.

This chapter looks at the current debt crisis on the continent, focusing on whether the proposed Africa repo market is a viable solution to this recurring challenge. It argues that while the "African repo market" has potential to provide some relief to some heavily indebted countries, it will not address the challenges which underlie the debt crisis in Africa. While the Liquidity and Sustainability Facility (LSF) may make available cheaper development finance and improve the liquidity situation in a

1 This chapter is based on an unpublished working paper submitted to the African Debt Network in 2022.

2 African Development Bank Group (2021). *African Economic Outlook 2021: From Debt Resolution to Growth – The Road Ahead for Africa*. Tunis: AfDB.

few countries, it will not address the crisis poorer countries on the continent are facing. The main reason for this is that the Africa repo in its current form will only reproduce on the continent a discriminatory development financing structure (which currently defines the global financial system). It is further argued that the sovereign debt crisis in Africa is merely a symptom of a fundamental economic problem – the lack of economic resilience as a result of specializing in the production and export of primary commodities. Economic and monetary sovereignty in Africa can only be achieved by addressing the structural weakness of African economies which are still underpinned by the colonial economic logic.

Analysis of recent debt dynamics on the continent suggest that the current debt crisis is slowly eroding African countries' economic and monetary sovereignty, as was the case during the 1980s and 1990s when the debt crisis at that time led to the implementation of the Structural Adjustment Programmes (SAPs). The loss of economic and monetary sovereignty is not only manifested in the conditionalities attached by the international financial institutions (IFIs) to debt relief programmes, but also in African countries being pushed to make decisions that place them in economic situations where they perpetually remain highly prone to debt crises. Policies and strategies that can help African countries transform the structure of production to create resilient economies are undermined by the debt relief programmes.

Concerns around the rising levels of sovereign debt in Africa have resurfaced in the last decade, making headlines in international and local news media. After the MDRI and the HIPC debt cancellation between 2005 and 2007, public debt in most African countries declined, with the average public debt-to-GDP ratio dropping from over 100% in 2000 to below 30% by 2010 (see Table 10.1).[3] Although public debt levels declined in most countries, the MDRI did not deal with the root cause of the problem; sovereign debt levels have sharply risen again in many countries, leading to fears around debt sustainability amid the rising cost of debt

3 Senga, Christian; Cassimon, Danny & Essers, Dennis (2018). Sub-Saharan African Eurobond Yields: What Really Matters beyond Global Factors? *Review of Development Finance* 8, 49–62.

servicing.[4] The onset of the Covid-19 pandemic aggravated the debt situation, forcing many African governments to borrow in order to respond to the economic, social and health challenges caused by the pandemic.

Africa's Sovereign Debt Crisis: An Overview

The issue of sovereign debt in Africa has generated a rapidly growing body of literature, which can be classified into six major strands. The first strand of debates has focused on the sustainability of public debt.[5] The major concern this raises is that the rising levels of debt together with rising costs of debt servicing are likely to undermine the developmental efforts in most countries. As shown below in the case of Zambia, some countries are spending more than a third of public expenditure on debt servicing. This diverts resources from other critical services such as education, health and social protection.

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4 Economic Commission for Africa (2021). *Launch of the Liquidity and Sustainability Facility (LSF), Glasgow, Scotland*. Accessible at: https://www.polity.org.za/article/launch-of-the-liquidity-and-sustainability-facility-lsf-glasgow-scotland-2021-11-04; Heitzig, Chris; Ordu, Aloysius U. & Senbet, Lemma (2021). Sub-Saharan Africa's Debt Problem: Mapping the Pandemic Effects and the Way Forward. *Working Paper.* Africa Growth Initiative-Brookings; Gabor, Daniela (2021a). *The Liquidity and Sustainability Facility for African Sovereign Bonds: A Good ECA/PIMCO Idea Whose Time Has Come?* Accessible at: SocArXiv Papers | The Liquidity and Sustainability Facility for African Sovereign Bonds: a good ECA/PIMCO idea whose time has come? (osf.io).

5 Coulibally, Brahima (2021). Debt Sustainability and Financing for Development: A Key Post-Covid-19 Challenge. *Foresight Africa*, 9–12 International Monetary Fund (2021). *Regional Economic Outlook – Sub-Saharan Africa: Navigating a Long Pandemic*. Washington, DC: IMF; United Nations Conference on Trade and Development (UNCTAD) (2022). *Financing for Development: Mobilising Sustainable Development Finance beyond Covid-19*. Accessible at: Financing for development: Mobilizing sustainable development finance beyond COVID-19 | UNCTAD.

The second strand of issues which have emerged in the last five years is the impact of the Covid-19 pandemic on African economies.[6] African governments have been forced to borrow from local and international markets to support measures implemented to respond to the challenges caused by the pandemic. Data presented below confirm the rise of public debt in several countries in the aftermath of Covid-19. While several countries were already in debt distress even before the pandemic broke, there is no doubt that it contributed significantly to the rising debt burden on the continent.[7]

The third major area of concern is that African sovereign bonds are incurring higher interest rates compared to countries with similar economic fundamentals.[8] This is largely connected to the unfair way in which the global financial system treats poorer countries, which are penalized for being poor. They are made to pay higher interest rates because they have weaker economic fundamentals, while richer countries pay the lowest premium on their sovereign bonds. The unfair treatment of African countries in the global financial system has been widely known for a long time now, with the United Nations Secretary General, António Guterres, confirming in a report published on 12 July 2023 that "Countries in Africa borrow on average at rates that are four times higher than those of the United States and even eight times higher than those of Germany".[9]

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6 See World Bank (2022). *International Debt Statistics.* Accessible at: https://www.worldbank.org/en/programs/debt-statistics/ids.

7 See UNCTAD (2022), op. cit.; World Bank (2022), op. cit.

8 Olabisi, Michael & Stein, Howard (2015). Sovereign Bond Issues: Do Africans Countries Pay More to Borrow. *Journal of African Trade* 2, 87–109; Gabor (2021a), op. cit.; Fofack, Hippolyte (2021). The Ruinous Price for Africa Pernicious Perception Premium. *Africa Growth Initiative Working Paper*. Brookings Institute, Washington, DC.

9 United Nations Conference on Trade and Development (UNCTAD) (2023). A World of Debt: A Growing Burden to Global Prosperity. *A Report by the UN Global Crisis Response Group*. Accessible at: https://unctad.org/system/files/official-document/osgmisc_2023d4_en.pdf.

The fourth issue is related to the third, and involves the behaviour and influence of Credit Rating Agencies (CRAs) on Africa's sovereign debt. Several analysts have noted that Africa suffers from the perception bias which in most cases has nothing to do with the real economic fundamentals on the ground.[10] As a result of this, rating agencies sometimes act on their poor perception of African economies, a situation that contributes to raising the cost of borrowing in Africa. This has been attributed to an over-inflated risk assessment of African sovereign debt, leading to a phenomenon which has been referred to as the "perception premium"[11] or simply the "African Premium".[12] This reflects the international capital markets' open bias against African sovereign bonds.

The fifth issue that has been highlighted in the literature is around the growth of domestic sovereign bond markets (see Table 10.2).[13] This has been lauded as a positive move because it reduces the risk associated with foreign- currency-denominated bonds, which exacerbates the cost of debt servicing when the local currency depreciates against major global currencies.

The sixth issue is the call to reform the global financial system. In the wake of the current sovereign debt crisis, there have been growing calls to restructure the global financial system to promote fair access to

10 Barta, Zsofi & Johnston, Alison (2017). Rating Politics: Partisan Discrimination in Credit Ratings in Developed Economies. *Comparative Politics Studies* 00(0), 1–34; Broto, Carmen & Molina, Luis (2014). Sovereign Ratings and Their Asymmetric Response to Fundamentals. *Documentos de Trabajo* 1428; Chirikure, Nora; Ambimbola, Olumide & Chelwa, Grieve (2022). How the Big Three Rating Agencies Impact African Countries. *Economy and Society Policy Brief.* APRI Africa Policy Research Institute.

11 Fofack (2021), op. cit.

12 Gabor (2021a), op. cit.

13 Dafe, Florence & Essers, Dennis (2017). Localising Sovereign Debt: The Rise of Local Currency Bond Markets in Sub-Saharan Africa. *SOAS Working Paper Series* 202. University of London; Essers, Dennis; Blommestein, Hans J. & Cassimon, Danny (2014). Local Currency Bond Market Development in Sub-Saharan Africa: A Stock Taking Exercise and Analysis of Key Drivers. *Institute of Development Policy and Management Working Paper* No. 2014/08. University of Antwerp.

development finance resources.[14] Calls to restructure the global financial system have come not only from NGOs, but also from governments of developing countries as well the United Nations itself.

Trends in Africa's Sovereign Debt

In terms of the current sovereign debt crisis in Africa, available evidence shows that public debt in many African countries has been rising at alarming rates in the last decade, with the situation becoming critical following the outbreak of the Covid-19 pandemic as countries scrambled to find resources to cover the pandemic-induced expenditure.[15] This is partly evident in the number of countries in debt distress rising from 8 in 2014 to 18 in 2020, with public debt-to-GDP ratio rising to an average of 58% of GDP for the continent[16] and to an average of 70% for the sample of countries discussed in this chapter (see Table 10.1).

To provide a sense of the dynamics of the crisis of sovereign debt in Africa, this section presents an overview of public debt in 18 selected African countries. The 18 countries are selected on the basis that they have been active in the international bond market, and they have accumulated relatively large public debt, most of which is foreign debt (see Table 10.2). From the sample of countries presented here, it is evident that most of them, except Kenya, Namibia and South Africa, entered the new millennium with a huge debt burden, defined as public debt of more than 60% of GDP.[17] For countries such as Angola, DRC, Republic of

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14 Stiglitz, Joseph (2020). Point of View: Conquering the Great Divide. *Finance and Development*, September 2020; Tiftik, Emre & Mahmood, Khadija (2021). Covid Drives Debt Surge – Stabilisation Ahead? *Global Debt Monitor*. 17 February 2021.

15 UNCTAD (2022), op. cit.

16 For countries such as Angola, Congo Republic, Ghana, Mozambique, Seychelles, South Africa and Zambia, public debt is higher than the average for the region (see Table 10.1).

17 The IMF uses 60% of GDP of public debt as a threshold for determining whether a country has a sustainable public debt or not. Debt distress is determined by looking at several indicators including projected public revenue, economic

Congo, Mozambique, Seychelles and Zambia, their debt-to-GDP ratio was over 100% in 2000, and the large portion of this was external debt. Although the debt levels in most countries dropped after the MDRI, most of these countries were subjected to more stringent regulatory measures attached to the debt relief package.

From 2010 onwards, public debt started to rise steadily in most countries, reaching 73% of GDP in 2020, but declined slightly to 69% in 2021 and 2022. For the sample of countries presented in this chapter, the average sovereign debt levels grew by 50% between 2010 and 2015, doubling in countries such Zambia, Namibia, Mozambique, Gabon and Cameroon (Table 10.1). Rising public debt in African countries mirrors the global trend after the onset of the Covid-19 pandemic, which pushed up sovereign debt as countries implemented measures to respond to it. At the global level, the average public debt-to-GDP ratio rose from 88% in 2019 to 105% in 2020.[18] For advanced economies, debt-to-GDP ratio increased to 124% in 2020, and close to 140% for the USA.[19]

In the case of the sample of countries discussed here, increased public borrowing began before the pandemic. If we look at the five-year average, we see that the average annual rate of public debt growth doubled from 7% in the 2011–2016 period to over 14% in 2016–2019 (Figure 10.1).

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growth, debt-to-GDP ratio, foreign currency reserves, current account position, etc. (IMF 2021).

18 Tiftik & Mahmood (2021), op. cit.

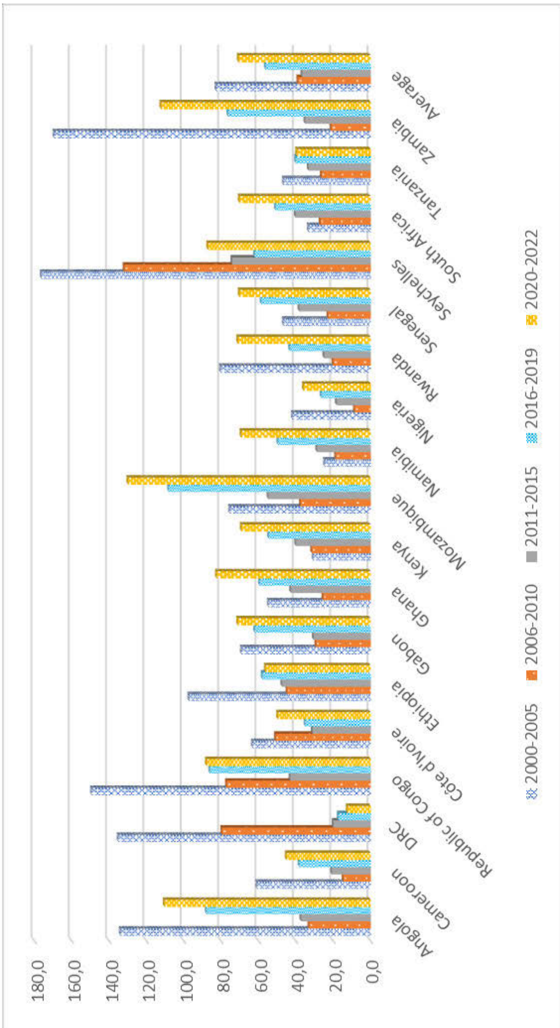
19 Gaspar, Vitor; Medas, Pepdor & Perrlli, Roberto (2021). Global Debt Reaches a Record $226 Trillion. *IMF Blog*. Accessible at: https://www.imf.org/en/Blogs/Articles/2021/12/15/blog-global-debt-reaches-a-record-226-trillion.

Table 10.1: Sovereign Debt to GDP Ratio (%), 2000–2022.

	2000	**2005**	**2010**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Angola	1339	1335	37.2	57.1	75.7	69.3	93.0	113.6	136.5	103.7	90.8
Cameroon	79.3	47.7	14.7	32.9	33.3	37.7	39.6	42.3	45.8	45.8	43.8
DRC	135.0	101.5	30.6	17.0	19.5	19.2	15.1	15.0	15.2	11.9	10.1
Congo Rep	145.0	99.8	43.5	74.2	91.0	94.2	77.1	81.7	101.1	85.4	76.9
Côte d'Ivoire	74.0	58.2	45.6	29.5	31.7	33.5	36.0	38.8	47.7	50.2	51.1
Ethiopia	93.6	78.2	39.6	54.5	54.9	57.7	61.1	57.9	55.4	57.1	n/a
Gabon	72.5	49.3	21.3	44.7	64.2	62.9	60.9	59.8	77.4	72.1	63.7
Ghana	80.2	34.0	34.5	53.9	55.9	57.0	62.0	62.6	78.9	83.5	84.9
Kenya	27.9	28.4	39.1	44.4	46.7	54.8	57.3	59.0	67.6	69.7	70.2
Mozambique	100.5	62.4	39.6	87.4	119.9	99.6	107.1	105.4	128.5	133.6	127.6
Namibia	20.4	26.0	16.0	41.3	44.8	43.2	50.4	59.6	65.3	69.9	72.6
Nigeria	57.6	18.9	9.4	20.3	23.4	25.3	27.7	29.2	35.0	35.7	36.9
Rwanda	86.0	59.0	18.8	32.4	36.6	41.3	44.9	50.2	60.1	74.8	78.2
Senegal	57.5	36.1	28.5	44.5	47.5	61.1	61.5	63.8	68.7	71.9	70.1
Seychelles	177.8	144.1	82.2	67.1	69.1	62.1	59.1	57.7	96.5	81.9	82.8
South Africa	37.9	29.6	31.2	45.2	47.1	48.6	51.6	56.3	69.4	68.8	72.3
Tanzania	n/a	46.1	27.6	39.2	39.8	40.7	40.5	39.0	39.1	39.7	39.6
Zambia	261.0	75.7	18.9	65.8	61.0	66.3	80.4	97.4	128.7	101.0	106.8
Average	96.5	62.7	32.1	47.3	53.5	54.1	57.0	60.5	73.2	69.8	69.3

Source: Author based on data from International Debt Statistics database.

Figure 10.1: Five-year average public debt-to-GDP ratio (%,) 2000–2022.



Source: Author based on data from International Debt Statistics database. Note: Data for Namibia and Seychelles not available.

Apart from the DRC and Republic of Congo, public debt in all selected countries increased between 2006 and 2020, with countries such as Angola, Mozambique, Ghana, Zambia, Rwanda and Namibia experiencing sharp increases over this period (Figure 10.1). Average annual public debt growth rate for the 2020–2022 period rose by 10 percentage points from 14% before the Covid-19 pandemic to 24%. In half of the countries in the sample (Cameroon, Cote d'Ivoire, Ghana, Namibia, Nigeria, Rwanda, Seychelles and Zambia) average annual public debt growth rates doubled compared to the growth rates before the onset of the Covid-19 pandemic, reflecting the pandemic-induced borrowing.

It is also evident from the trends in sovereign debt that the larger share of Africa's debt is foreign debt, although the share of domestic debt is rising, accounting for slightly more than half of total debt in 2022 from just about a third in 2005 (see Table 10.2).[20] The rising share of domestic debt in total debt points to the growth of local capital markets in a number of countries, especially countries such as South Africa, Nigeria, Namibia and Kenya, where domestic borrowing has been a significant part of sovereign debt (see Table 10.2).

20 Note that the external debt reported in the international debt database only captures official debtors; it excludes other external source of sovereign debt in Africa such as China. If this is taken into account, the level of sovereign debt would higher than presented in Table 10.2.

Table 10.2: Sovereign external and domestic debt as percentage of GDP.

	External debt (% of GDP)			Domestic debt (% of GDP)			Domestic debt in total debt (%)		
	2005	2010	2022	2005	2010	2022	2005	2010	2022
Angola	29.4	29.3	43.1	104.1	7.9	47.7	78.0	21.2	52.5
Cameroon	30.4	8.2	31.0	17.3	6.5	12.8	36.3	44.2	29.2
DRC	91.9	22.4	13.2	9.6	8.2	-3.1	9.5	26.8	-30.7
Congo Rep	57.0	15.9	25.1	42.8	27.6	51.8	42.9	63.4	67.4
Côte d'Ivoire	48.3	34.0	36.0	9.9	11.6	15.1	17.0	25.4	29.5
Ethiopia	47.8	19.9	23.0	30.4	19.7	n/a	38.9	49.7	-
Gabon	34.5	16.8	34.8	14.8	4.5	28.9	30.0	21.1	45.4
Ghana	25.9	14.4	43.2	8.1	20.1	41.7	23.8	58.3	49.1
Kenya	22.6	17.4	31.2	5.8	21.7	39,0	20.4	55.5	55.6
Mozambique	54.5	36.1	71.0	7.9	3.5	56.6	12.7	8.8	44.4
Namibia	4.1	4.3	16.7	21.9	11.7	55.9	84.2	73.1	77.0
Nigeria	19.7	1.2	9.4	-0.8	8.2	27.5	-4.2	87.2	74.5
Rwanda	50.5	13.6	46.8	8.5	5.2	31.4	14.4	27.7	40.2
Senegal	31.9	21.8	47.0	4.2	6.7	23.1	11.6	23.5	33.0
Seychelles	52.9	49.3	29.4	91.2	32.9	53.4	63.3	40.0	64.5
South Africa	6.8	8.6	18.8	22.8	22.6	53.5	77.0	72.4	74.0
Tanzania	37.0	8.6	27.3	9.1	19.0	12.3	19.7	68.8	31.1
Zambia	75.1	7.3	36.8	0.6	11.6	70.0	0.8	61.4	65.5
Average	40.0	18.3	32.4	22.7	13.8	36.3	36.2	43.1	52.4

Source: Author based on data from International Debt Statistics database.

There are many factors which have contributed to rising sovereign debt in Africa. These include low public debt following the debt cancellation after 2007, and robust economic growth resulting from rising commodities prices on the global market between 2003 and 2014, which signal stronger capabilities among African countries to service debt.[21] Other factors include the expansionary monetary policy adopted in most advanced economies after the 2008/2009 financial crisis, which reduced borrowing costs by lowering interest rates. This pushed investors to look for high yields on investments, largely in emerging markets.[22] Low interest rates on the global financial markets partly explain why we are seeing a shift in the composition of Africa's external debt from predominantly concessional borrowing to the dominance of private capital markets after the 2009 financial crisis.[23] It has been estimated that the number of African countries borrowing on international markets increased from 3 in 2003 to 21 by 2020.[24] Although concessional borrowing is still a large proportion of Africa's public debt, there has been significant growth of the non-concessional borrowing component, which is sometimes interpreted as a sign of confidence in the growth prospects of African economies.[25]

The dynamics of the high debt burden are characterized by a vicious circle in which a country's need for financing rises with rising borrowing costs. This is mainly due to the unfavourable risk assessment which low-income countries in Africa and the Global South receive from creditors. For example, in the case of Zambia, the country's default on the US$42.5 million debt service in 2020 led to skyrocketing yield on its sovereign bonds. The rising interest rates on debts has pushed up the cost of servicing debt in most countries, with debt servicing in Zambia rising 'almost

21 African Development Bank Group (2021), op. cit.

22 World Bank Group (2020). *Debt Report 2022*. Second Edition. Accessible at: World Bank Document.

23 Dafe & Essers (2017), op. cit.; IMF (2021), op. cit.; African Development Bank Group (2021), op. cit.

24 Fofack (2021), op. cit., 13.

25 African Development Bank Group (2021), op. cit.

thirteenfold in a decade from $63 million per year to more than $804 million annually by the end of 2019'.[26] For Zambia, this was worsened by the depreciation of the local currency (Kwacha), which by the end of the first quarter in 2021 had lost 22.7% of its value against the dollar compared to the same quarter in 2020.[27] In 2020 alone, the country was expected to pay US$4 billion in debt servicing and payment of arrears, which is close to 25% of its GDP. The average public debt service-to-public revenue ratio in Africa was 19% in 2019 but rose to more than 25% in 2021.[28]

The Africa-Wide Repo Market

In the wake of the current debt crisis, several measures have now been proposed to address the challenges associated with unsustainable public debt. With specific reference to Africa, the creation of the African repurchase (repo) market (the LSF) has been proposed and was launched in November 2021 by the Economic Commission for Africa (ECA). The main objective of the LSF according the ECA is to provide 'African governments with a liquidity structure on par with international standards so as to address the African continent's specific Eurobond issuance needs'.[29] The ECA expects the African repo market to address the challenge of rising cost of sovereign debt, and it is estimated that through the LSF, African governments will save up to US$11 billion over the next five years as a result of the lower borrowing costs option.

Analysts acknowledge that the idea of an LSF is a potentially good initiative, but there are doubts on whether the African repo market in its proposed form can address the cost of borrowing for African countries.[30] While the LFS is certainly work in progress, and it is not possible at this stage to assess its actual impact on the sovereign debt crisis in Africa; a

26 Fofack (2021), op. cit., 14.
27 Ibid.
28 African Development Bank Group (2021), op. cit., 59.
29 ECA (2021), op. cit.
30 Gabor (2021a), op. cit.

number of observations can be made based on the proposed structure and operation of the facility.

The African repo market is envisioned to work as a facility where private investors can borrow against African sovereign bonds at concessional interest rates. A private investor with an African sovereign (Eurobond or local currency bonds) can borrow from the LSF by pledging these bonds as collateral. In a conventional capital market, private investors seeking to buy or holding African sovereign bonds often rely on their own funds or raise funds for investment from capital markets, usually at higher interest rates. What the African repo anticipates is to attract private investors into African sovereign bond market by making available resources from which they can borrow against these bonds. According to the ECA, since the private investors holding African bonds will be able to borrow at lower interest, it is expected that the LSF will ultimately lower African governments' cost of accessing development finance.[31] The ECA expects the LSF in Africa to prioritize liquidity first, with risks (collateral evaluation) coming in as a second priority. Below is a description of how the LSF is expected to operate:

> Whereas public and private repo lenders use haircut as a risk management tool [and therefore prioritize assessment of risk], the LSF would first prioritise the liquidity of sovereign bond markets, albeit without giving up entirely on risk management aspects. This is why the LSF would set concessional haircuts at below market levels (prioritising liquidity) but would retain [collateral evaluation] a rating-based methodology (presumably to account for the credit rating of the private borrower and the creditworthiness of the issuer of sovereign collateral).[32]

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31 Economic Commission for Africa (ECA) (2020). *Building Forward Together: Financing a Sustainable Recovery for the Future of All*. Addis Ababa: ECA.

32 Haircut is the difference between the money value given to the seller (borrower) and the value of collateral the asset provides as guarantee, as assessed by the lender (buyer) (Gabor (2021a), op. cit., 8).

In theory, the LSF creates three main opportunities. One is that it can make sovereign borrowing transparent and potentially cheaper, but not cheaper for all countries. Second, it has the potential to be an indirect vehicle for accessing long-term development finance necessary to support the transformation of African economies. Third, the LSF has the advantage of being a regional facility designed to further African interests, which are often overlooked or discriminated against in international markets. But the LSF in its current form has three major weaknesses.

First, while the ECA sees the LSF as a game changer that deviates from the current global financial architecture which prioritizes risk evaluation over liquidity, the proposed LSF modalities and structure are not radically different from the 'Wall Street Consensus'.[33] As noted above, the lowering of interest rates does not mean the private investors will overlook their 'perceived' risks of African sovereign bonds. There is a high possibility that the perceived risks of African sovereign bonds would raise the LSF interest rates, and thereby raising borrowing costs. This would eventually undermine the priority put on liquidity, especially for poorer African economies. The European Central Bank adopted a similar measure, but between 2010 and 2012 it raised interest on the repo by demanding additional collateral, which led to the dampening of the mood for private investors.[34] The LSF might face a similar scenario, which is likely to undermine its priority on liquidity because the need to cover the perceived risk of the least liquid economies override liquidity as a priority.[35]

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33 Gabor, Daniela (2021b). The Wall Streat Consensus. *Development and Change* 52(3), 429–459.

34 Cullen, Jay (2017). The Repo Market, Collateral and Systemic Risk: In Search of Regulatory Coherence. In: Chiu, Iris H.-Y. & MacNeil, Iain G. (eds.). *Research Handbook on Shadow Banking*. Amsterdam: Elgar, 85–116.

35 Euroclear Bank (2009). *Understanding Repos and Repo Markets.* Accessible at: un titled (ypfsresourcelibrary.blob.core.windows.net); Bank for International Settlement (BIS) (2017). Repo Market Functioning. *CGFS Papers* 59; Garbo (2021a), op. cit.

Second, even if the LSF has a genuine focus on liquidity, as long as the lending and borrowing modalities are linked to the current models of risk evaluation and collateral structure, this will not help most African economies, which suffer a perception bias in the current risk evaluation framework. For this to work, one must find a different system of evaluating risk and collateral requirement or decouple the need for liquidity from risk assessment. Such a mechanism calls for a fundamental shift from the current risk evaluation models. This is fundamental because it is always economies perceived to be at high risk of default which face serious liquidity constraints, and as a result face the prohibitively high cost of borrowing. Thus, stating that liquidity will be prioritized while at the same time sticking to the conventional risk evaluation models does not help poor countries. Unless the LSF can find a way to delink liquidity needs from risk assessment, it will be difficult to provide cheaper access to development finance resources for poorer African countries. As long as the LSF sticks to the current risk assessment and credit rating criteria, it will be reproducing the same system, where the richer countries have access to less expensive development financial resources while the poorer nations are pushed into default-driven borrowing. In this sense, the LSF will still favour relatively advanced economies on the continent by allowing them to borrow at lower interest rates but imposing punitive borrowing costs on poorer African countries which desperately need to borrow at lower costs. Given the proposed structure and operation of the LSF, it is likely that it will reproduce the same inequality we have seen in global finance architecture.

Thirdly, the financing of the LSF is problematic. The ECA is counting on donors – Organisation for Economic Co-operation and Development (OECD) central banks, multilateral and regional development banks, IMF (Special Drawing Rights) – to provide the initial capital for the LSF. But it is not clear that these funders will be willing to make any substantial amounts available to support the African repo market. Even if they do make funds available, that would mean that they would apply the conventional global capital market framework, which does not give the LSF much room to deviate from the norm. If these institutions make available the funds needed for the LSF to operate, they will impose their own view of how the facility should operate. Most likely they will bring the LSF within the ambit of the established CRA structure, which takes us back to square one.

If past experiences are anything to go by, there is no ground to believe that these funders will commit substantial resources to the African repo market without the accompanying regulatory discipline.[36] There are other concerns raised about the LSF, including the point that its status in relation to central banks on the continent is not yet clear and that the LSF operations might be in direct conflict with and may even undermine the work of central banks.

Conclusion

Although there is heterogeneity among African countries, the current levels of debt in several countries have reached alarming proportions. Public debt-to-GDP ratios for countries such as Ghana, Kenya, Mozambique, Namibia, Senegal, South Africa and Zambia were much higher in 2020 than they were in 2000. The rising cost of debt servicing in most of the countries has meant that an increasingly higher proportion of public resources are being committed to meeting sovereign debt obligations, thereby diverting the limited resources available from efforts to promote economic transformation and funding social services. For example, in the Zambian case, the government was expected to spend 47% of total public revenue in 2022 to service debt and pay arrears. While the LSF has the potential to help countries such as Zambia with crippling public debt, the facility in its current form has several shortcomings which makes it difficult for poorer African countries to benefit from this initiative. Its proposed structure is likely to lead to the same effects as the global financial system, which punishes African countries for being poor. Efforts intended to effectively address the African debt crisis

36 Williams, Matthew S. (2008). The Bush Administration, Debt Relief, and the War on Terror: Reforming the International Development System as Part of the Neoconservative Project. *Social Justice* 35(3), 49–65.

need to understand the complex nature of the twenty-first-century global economy underpinned by a sophisticated financial sector whose activities exacerbate global inequality and marginalization.