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Intersections

Financing Africa's economic growth

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(MUSIC)

PITA: You are listening to Intersections, part of the Brookings Podcast Network. Before we get to today's episode, two announcements about changes to some of the Brookings' podcasts. First, 5 on 45, which focused on news regarding the Trump administration, will be changing its name and broadening its scope. As The Current, it will bring you smart, timely and quick analysis of breaking news and changing policies across a range of domestic and international issues. If you already subscribe to 5 on 45, you won't need to do anything. You'll see The Current in your list of shows.

Second, this will be the last episode of Intersections as a standalone show. We'll continue to periodically bring you multi-expert interviews through the Brookings Cafeteria podcast. I would like to thank all of our listeners, especially those who have subscribed since the beginning three years ago.

Now, on to today's show.

In the 1990s, the IMF and the World Bank established the Heavily Indebted Poor Countries Initiative to arrange large scale debt relief for qualifying countries. 29 countries in sub-Saharan Africa had their debt wiped out through the Multilateral Debt Relief Initiative. Through these programs, most of the participating countries saw subsequent economic upturns and positive economic and social development. But a decade and a half later, the national debt amongst many African countries is back on the rise. Is history repeating itself? And what are some of the contributing factors? With us today to examine what's happening are Brahima Coulibaly, the senior fellow and director of the Africa Growth Initiative here at Brookings and Lemma Senbet, the William E. Mayer chair professor of finance at the University of Maryland. Lemma is also a member of the distinguished advisory group for the Africa Growth Initiative and was previously the executive director and CEO of the African Economic Research Consortium. Gentlemen, thank you for being with us today.

SENBET: Thank you.

COULIBALY: Thank you.

PITA: Lemma, I am going to ask if you could start us off please with some background on the sovereign debt crisis from the 90s and what the multilateral debt relief initiative accomplished.

SENBET: Yes, as you said earlier, there was massive debt relief for the highly indebted African countries and it's really annoying and kind of disappointing that we are back in the news after 15 years of this massive relief.

But I think one of the advantages of what occurred was there an optic economic recovery. Things stabilized, even the debt level actually went down to 30 percent which is a massive decline because in the vicinity of the initiative, the levels were in the order of 90 percent. So, although we are back in the news, there are differences and there are similarities.

So, in the similarities side, the pace of the accumulation has been very fast so from 30 percent in 2012, we end going, we own 50 percent. Now the 50 percent, by the way, you'd be surprised, is actually much lower than the 90 percent of the previous era.

PITA: Yes, so not quite as bad.

SENBET: Yeah, but I think what that message is lacking is appreciation of the full picture. When you look at the debt accumulation and the consequences that it should have, you have to view it in a very holistic manner, meaning that it's not just the levels but also the servicing of debt, that servicing cost and that actually went up from 5 to 10 percent in a very short span of time, the reason being that – one is good news. The good news is that African countries started accessing international markets and they were actually completely rationed out of those markets in the previous year so that's a very good – and it's in fact accompanied by this African rising syndrome, so part of this debt problem is really news associated with something as good and that good has to be financed and the recovery and the growth initiative needs to be backed up by infrastructure developments, huge infrastructure jobs and that necessitated financing and there are also shocks in 2008 in the global crisis shocks –

PITA: Right.

SENBET: And also, the negative shocks which were in 2014. You also end up having a very negative impact on these countries so again, this budged revenue expenditure got – and the third is that post global crisis, if you know, I am sure you are familiar with this, so there is a low yielding, low interest environment by virtue of policies of the advanced economies. In fact, as of today and so in that kind of loyal environment, there's always an incentive for investors to look for other options so there were actually opportunities for other pre-emerging, including Africa, so there's appetite for higher yield and then these guys are hungry for money so like and heaven so that also ended up leading up to our buildup. I wanted to conclude though what that all means is that some changes, structural changes have actually occurred. What is the structure of the debt itself? Like who is actually lending? So, it's not lending but you have private debt and then access to – and China being also one of the major creditors and then also the maturity structure. The structure of maturity did not really match up long term assets and infrastructure because they have long term cash flows, five to ten years maturity so when you look at the issues of maturity, issue of the debt services enclosed and also the diversity of creditors, you see that there's a big change so you have to look at the totality of that to make comparisons with the previous era. It cannot just be a debt level.

And then maybe one final is, notice that those structural changes have a positive and bright dimension to them as well. That is, now you have a more diversified source of finance and now you have more capability to access markets. In fact, as African countries grow, they have no choice but to do that so the question now is not that they should not be accessing, the question is that things have to be balanced.

PITA: Right.

SENBET: So, you want to make things that are not out of balance. Thank you.

PITA: Thank you. Coul, do you want to weigh on that and some of these contributing factors and what else is going on economically?

COULIBALY: Yeah, no, I think Lemma touched on them quite well but just to gratify, the contributing factors, what I would consider proximate causes, right? So, you had the global financial crisis and what we are noticing is after the crisis itself and the economic collapse that ensued, we begin to see countries running large fiscal deficits and that has begrudgingly contributed to the increase in the level of debt and then before they recovered by 2014 – so the deficit widened even further.

And as Lemma also mentioned, when they came on to the market and took on a lot of foreign currency denominated debt, with the collapse in the economic growth comes also extended depreciations and when the currency has lost its value, it means that the debt you have that is in foreign currency, the domestic currency value of that becomes inflated.

SENBET: Yes.

COULIBALY: So that contributed. But to me, those are what I call approximate causes but the fundamental issue really is that we haven't yet addressed the issue of sustainable development financing for Africa because if you look at even some of the countries that are not commodity dependent, they also saw a run up in debt and a large part of it was basically to finance economic development agenda and I think that is indeed the critical issue. The sustainable financing for Africa – HIPC-era debt forgiveness which caused the debt to drop may have led us – when I say us, as a community, lose sight of the fact that that question still remains; it has not been addressed and that's what's come into the surface.

SENBET: I agree with Coul on this. Let me amplify on the foreign exchange appreciation. That's actually tied to the fact that big run up, when foreign currency increased. And this accounts for 60 percent of the entire debt and they are actually denominated in dollars. I think will come back maybe because as you might have noticed in our writings, we feel strongly that this is reflective of countries' lack of capacity for domestic resource mobilization and also taking incentives away from developing their own financial systems and that is probably one of the key recommendations I will be making moving forward.

PITA: Yes, we definitely want to get to the recommendation portions of things a little bit further on. I do what to ask Coul, maybe for you to weigh in a little bit. There are several countries in Africa that are doing really well economically. I think in this year's force that you'd mentioned that by 2023, half of the world's fastest growing economies will be in Africa. So, are we talking about that these are two different sets of countries, some are doing really well and some have these high levels of debt or how do these play together?

COULIBALY: No, I think even among the countries that are doing well, you have some that have also seen a run up in debt. Really, I think the exception might be three or five countries that didn't see that increase in debt but everyone else has seen an increase. It's a matter of degree and I think that is why. So, the forecast for the countries look relatively bright as you've alluded to. The issue of the debt and how it comes in, it could be along two dimensions. The first dimension is that they run into default that could derail the economic development agenda and then basically cause growth to drop and that bright outlook would not materialize and the second place where debt comes in is if they now need to be more mindful of taking on a lot more debt, then how do they finance the economic agenda and if you don't finance it, how do you achieve the growth rates that you have set for yourself?

PITA: Yeah.

COULIBALY: I think these are the two critical dimensions along which debt matters to the outlook.

PITA: Gotcha.

SENBET: Let me actually add to that also.

PITA: Yeah.

SENBET: Sometimes there is a misconception among the populace that there is something evil about debt. In fact, there is nothing evil about debt. We get into the evil territory when we go out of balance so we need debt, former financing for economic recovery, economic development and also you don't want to have huge debt overhand either because what happens is that it takes away incentives from countries to actually engage in perform – because it gets cannibalized by creditors. So really what we are heading to is while recognizing that these things are actually imperative for developing economic recovery, how do we manage and make sure that everything is actually balanced – for debt management is also key.

PITA: Right.

COULIBALY: And I think that is actually important, particularly in light of the changing and the structure of the debts that you have alluded to so now more Eurobonds, private market, et cetera and the question then is whether this framework is indeed adapted to the new environment of the youth structures of the debt with them being subject now to global market sentiment.

SENBET: I was actually thinking a little bit more deeply about that. In some places it's a reflection of what is good in Africa. Basically, the structure of securities, the design features of that are best practices and for the first time, these guys are actually accessing best practices type design features without having requisite capacity to manage. For instance, if they are not careful, although designing for things which are tagged to commodities would be fine but when they are ill designed, they could be destructive. So, there was one country, which I am not going to mention where the contract was tagged to oil, oil revenue –

PITA: Mm-hmm.

SENBET: And that happens when the price of oil was something like over a hundred and then the price collapsed so then you are left with very low revenue based to repair the debt and for the creditors we are cannibalizing on the social safety net, and there was a crisis, even demonstrations.

COULIBALY: So, Lemma, then I think that's a very good point so in that context then, what would you consider to be an efficient design contract of debt linked to commodity? Because if they are able to link it to the commodities in an efficient way, it could serve as a collateral, the kind that could help lower the cost of debt and therefore could make sense for the, to do.

SENBET: Yes.

COULIBALY: But what should be the designed feature of that kind of contract?

SENBET: It really goes back to the theme. So here, the design features – I said best practices but if they're designed in a way that's incentive. So if you end up designing in such a way that it is – as soon as I get the oil revenue, I get it but if it's tied to price, then price goes downhill, you go downhill so the creditor actually gets money commensurate with the declining price so the price based is one approach that people have actually used but they end up using something that's totally distorted, basically saying as soon as we can make money from oil, I'll come and get it so that's –

COULIBALY: And the other issue I think also around that has been a bit of a lack of transparency sometimes.

SENBET: Yes, yes.

COULIBALY: On the terms on which those kinds of contracts were designed.

SENBET: Yes.

COULIBALY: But conditional on them addressing both the transparency issue as well as also the optimal design of this, they could indeed be a good way to mobilize financing at a cheaper cost.

SENBET: I think this is a team that we should be highlighting. As a result of this crisis of debt, sometimes we ignore the fact that there is a transition going on in Africa. To be in the realm of best practices financing, the rest of the financing, instead of compatible contracts, so the question now is how we sustain this and then what kind of institutional mechanisms and capacity do we need so that we don't go into the dark side of this.

PITA: And also, as you mentioned, a lot of these countries, they are experiencing economic growth. They are using this debt to fund useful things. To fund infrastructure, roads, ports, their telecommunications. How did they help balance, as we have been talking about, needing to take on debt in order to fund these things with the concern? How do you reach that sustainable level?

SENBET: That's actually the most difficult question and in fact, if I get this right, I'll get Nobel.

PITA: We like to go for the easy softball questions here.

SENBET: So basically, your question is one of off mode design and economists come up with theoretical analysis of what they call optimal capital structure in corporate finance and there is also something that's pretty isomorphic to this sovereign debt but really no one knows the optimal level of debt so what they do is you look for some kind of indicators. For instance, people have kind of gotten this idea that 50 percent is kind of a rule of thumb threshold but the danger is that this thinking that wow, but you guys were 90 percent to 50 percent is good. So, then what that means is we look at the entire structure of the contract, the level and how it was designed and what is the pricing environment because it's no longer the case that debt is concessional so they are actually market based which is fine. The market base means that the price will go up. I said so what? If things are being priced correctly and you are not actually playing in that game, then that's fine. The question now is whether or not – if you are not ready for this and the cost goes up out of balance, relative to your revenue generating capabilities, then that's when you started getting in trouble so one thing that we are saying as to why this is something out of looming nature, so if we look at indicators, so we already have some classification done by the IMF. You have a third of African countries which are at distress or high risk of default. That is one indicator and also, we know that there is a private market and I mentioned about the good side. So, it's really a vector of things. It is not like one point in the curvature.

COULIBALY: You are going to learn everything about debt today.

PITA: Yes, I am getting my – I am getting schooled in economics. When we talk about who the creditors are in these instances, you mentioned the 60 percent is foreign currency and of course, one of the big players in this instance is China. Are there concerns about one country being such a large percentage, the foreign holder of debt for many of these countries?

SENBET: You know, China comes up a lot in this conversation but sometimes you get the impression that they actually hold the majority of debt, and that's not true.

PITA: Okay.

SENBET: I think the last numbers – by the way, this may not be 100 percent accurate, I think the numbers that I have seen so far is something like 20 percent of the total. It is still pretty significant, right? So, the debt has contributed a lot in terms of structural development because the gap is almost 100 billion. The infrastructure gap in Africa is huge.

PITA: Yeah.

COULIBALY: I mean the 100 billion that is not funded.

SENBET: Yes, sir.

COULIBALY: But the need might be up to 130 to 170 billion a year.

SENBET: That's right. So, I spend 5 years. I was heading up the African Economic Research Consortium which is the largest economic recession training network in Africa and I was there five years, and a leave of absence so I have a pretty substantial appreciation of the terrain, okay? China is, as you know sort of – again, there is a bright side and there is a dark side and I also had conversation with the Chinese officials on the dark side issue. The dark side issue for me is, again, debt is concessionary, which is fine.

PITA: Tell us what that means.

SENBET: Which means that you get debt at a much-reduced cost, sometimes zero. You get debt from bilateral or multilateral government but not the private market so in fact the concessionary component of debt financing went down for Africa despite the fact that the China part actually went up. But I think what this concessionary financing does is continue positively in the short run because you need the money. Then we conclude that it is also taking away incentives from getting these countries to get the house in order, meaning start thinking about how do I build capacity for domestic resource mobilization? How do I get financial systems into place? And once I had to talk to one Chinese official and I said, "Why don't you at least take part of this money and then help build capacity on these countries." I haven't done precise calculations about the cost benefit but my hunch is that the net present value is positive.

PITA: Okay.

COULIBALY: But China does hold the majority of the debt in a set of countries, right?

SENBET: Yeah, yeah, consultation.

COULIBALY: Like the Republic of Congo.

SENBET: Yes, yes.

COULIBALY: Maybe Zambia.

SENBET: Yes.

COULIBALY: Djibouti.

SENBET: Mm-hmm.

COULIBALY: But I think you're right that for the majority of the African countries, it's not holding most of the debt but if you look at bilateral official partners, its share has gone up quite a lot.

SENBET: Mm-hmm.

COULIBALY: And it now surpasses many other bilateral partners in terms of the debt to Africa.

SENBET: Yes, it's also a growing component of debt, by the way. You're also right but I didn't mention anything about concentration.

COULIBALY: Yeah.

SENBET: I think there are 17 countries which are exposed to China's debt, with some concentration.

PITA: Okay. Speaking of that infrastructure financing, Coul, I was really surprised to read in the policy brief that the two of you wrote that on infrastructure lending in particular, the multilateral development banks haven't really been financing very much of that sector. That seems surprising to me. Can you tell us what's happened there?

COULIBALY: No, no, I was quite surprised myself to actually see that because when I think about multilateral or development banks, I see them having really a competitive advantage in infrastructure financing and then I would have expected them to play a bigger role than what the numbers that I saw and the one number that I saw was basically between 2012 and 2016, they financed only about 3 percent of Africa's infrastructure but at the same time, China, 15 percent and then African national governments 40 percent. No wonder we are having a debt issue.

PITA: Yeah.

COULIBALY: But usually, the private financing that they go to, 5, 10-year bonds are not well suited to finance infrastructure because it tends to have a long term, kind of return profile. So, I would have thought the development banks have scoped a step in this and then play a big role. In particular with infrastructure financing the early phase in project preparation phase can be quite risky and the development banks have really the expertise and the knowledge to be able to assume some of that risk and then help crowd in perhaps more private sector actors. How do we address that?

So, number one, they have to make perhaps infrastructure development a core component of the mandate, I think because for Africa, that is the issue. How do you solve this massive infrastructure and needs and then the second thing then might be whether they are sufficiently capitalized to do that and if they are not, then that conversation needs to be happening at a stakeholders' level, the G20 and other fora. How do you recapitalize the multilateral development banks with guidance that they step up their presence in infrastructure financing?

SENBET: I think what I want to say about development banks though, some experience that there is a political strain with the nation. They have not been very well performing across the entire region, you know.

PITA: Mm-hmm.

SENBET: The reason is that they are in the public domain, even the US, they are politically connected so typically those things are kind of distortionary so I think that in the right set of environment, in the right set of structuring these bonds, I totally agree with what Coul is saying which means they have to be informed. We need to inform. We need to also bring into the picture the African Development Bank.

PITA: Mm-hmm.

SENBET: So, the African Development Bank has pretty robust infrastructure problems. Definitely, this is a small fraction but I think that's one of the priority items and the other thing that they are doing in addition to having their own program, basically work with private creditors or global creditors in terms of mobilizing resources for infrastructure and that's basically using their reputation and their name so I know that there was a large investment forum actually organized a while back, actually this year, on that same issue.

Basically, there are two ways that they can do this, there is direct and there's also indirect, using the bank and the bank's reputation as a way of promoting investment infrastructure but it's still relative to the creditors that Africa is facing now, including Eurobonds.

PITA: Mm-hmm.

SENBET: Multilaterals and bilaterals, that's not a big portion.

PITA: So, I want to make sure we get to your recommendations and you had a lot of them. Step 1 was boosting domestic resource mobilization, restricting profit shifting, cracking down on corruption, boosting domestic savings, increasing tax revenues and that's a lot for step 1. If you guys could sort of walk us through some of these pieces. . .

COULIBALY: I think in some ways, we are happy that there is a lot because it just shows the menu of options –

PITA: Okay.

COULIBALY: That the countries do have. Not every country may have the same set of menus but at least a country will find at least one or two items that makes sense and resonates in the particular context. If you take, for example, tax revenues which is tended to be the most important source of financing for development, most reliable, we are still seeing that they are quite low in Africa, the average is about 15 percent of GDP. When you compare it, for example, to OECD countries, it's about 25 percent of GDP but the two may not be comparable so African countries are at a lower level of development, OECDs are at a higher level of developments, the economic structure of the two could be different.

But what our analysis did was to say even conditional on that, let's look at this level of development, what should be the tax capacity for African countries and we find that it's close to 20 percent so what that means is that there is a four or five percentage point of gross domestic product gap that could still leverage and by basically boosting efficiency in a tax revenue collection, combating corruption, streamlining processes, taking advantage of new technologies now to rule out the middle man and then be more efficient in the collection process. That alone can buy them four to five percentage points of GDP and if you translate that into dollar amount, it's about 110 billion dollars a year over the next say five years.

So that alone is able to plug that infrastructure financing gap that we mentioned so we think that's really an important area to look at and then part of that also has been what's known as profit shipping by multilateral corporations because the simple way to explain this is corporations operate in different countries which have different tax systems so then they would report more profit in lower tax jurisdictions so that's how they are able to evolve profit and a recent study by the IMF quoted by Christine Lagarde actually suggests that it costs developing countries 1. 3 percent of GDP in terms of lost tax revenues because of those profit shifting activities. To put the number on Africa's context given the size of Africa's

GDP maybe 1. 5 trillion if you multiply that by 1. 3 you get something like 20 billion dollars a year lost to profit shifting so that is no small feat.

So, then I think there are initiatives on that at the global level to kind of harmonize the taxation system and I think more effort needs to be made on that front to be able to seal it and then you have the illicit capital flows that emanate from the countries. The numbers always get highly debated but they are illicit so we could never find – put an exact number on it because if you could, you would know where to get it from.

PITA: Right.

COULIBALY: But some estimation methods have put it at around anywhere from 50 to 60 billion dollars a year so that's quite a lot so I think also being able to combat illicit flows through even cooperation between countries where those funds find safe havens for example and then the African economies, as well as African governors are taking steps to strengthen governors to even avoid those funds leaving the continent and then partners helping in the repatriation of those funds that have been stolen would actually be a deterrent for future illicit outflows so once you put all of that together, it looks like it could go a long way to finance much of Africa's development needs and then perhaps any extra could then come from issuing debt but then it wouldn't be the kind of debt that would be unsustainable because the needed would be much less.

SENBET: Yeah, I mean, that is very ambitious, right? The biggest hindrance is again, the political economy so the potential is huge. I mean there is no question. I had a study done by the African Economic Research Consortium, the quality of research – so the first thing I noticed is that Africa is actually a net creditor to the rest of the world and so in the context of these illicit – and then even quite appreciate the roles of multinationals. In fact, they end up becoming more important and they are usually done in a way that is non-transparent in their transfer pricing, profit shifting – so there is a lot of money – I think it's probably either to do with MNCs, multinational corporations, because a lot of them are actually domiciled in the G20 countries.

PITA: Okay.

SENBET: So, at the G20 working group. We tried to actually put this on their agenda and also G7 and Africa. So, I think if there is partnership coming from the creditor of these countries, I think there is room to make an improvement. Even if we get a small fraction of what is out there, even if you discount the numbers by 50 percent, there is still –

COULIBALY: That's exactly right.

SENBET: But the other ones – I was at this meeting in Washington. There is someone that was speaking from the Chamber of Commerce, the US Chamber of Commerce and I was still in Africa and I brought up this issue. Even the Chamber could also play a role but the guy did not want to respond to my question so I think that for everything that we are going to say, there is always a political economy of execution. In fact, part of the things that I noticed in Africa is that ingredients for this big agenda item like regional integration, they are there but somehow they don't get executed so I think on the hopeful side, we are not seeing improved governors, democratization and I think that with that, we will have more opportunities and then we'll have this new –

PITA: Yes, the continental free trade agreement.

SENBET: That's right. That, for instance, for the recommendation I made earlier, the financial sector development recommendation, which I think is really key – that's a huge opportunity for us to pay attention to that and as it turns out, one way that it can be done is by integration of this very thin, very liquid small size markets and that integration is one of the key elements of this new agreement.

COULIBALY: I was going to say so in this whole discussion, I hope we don't leave the impression that we are against African countries issuing eurobonds or coming on to the markets. It's always a matter of degree and whether the risks that come with it have been appropriately incorporated because I think the access on the market is obviously an inevitable aspect of economic development –

PITA: Yeah.

COULIBALY: And along with that access comes greater scrutiny of the economy because now markets watch what you do and that, in turn, may help discipline –

SENBET: Yes.

COULIBALY: Policy makers so I think it's a good thing but when they do issue, and especially for infrastructure, it's important that the maturity structure matches recent experiences of encouraging when we begin to see more of an issue in 30-year bonds moving away from the 5 to 10 year but more toward the 30-year bond. That's an important positive development but in also being able to hedge against currency risks and where appropriate, interest rate risk would shield them more from the swings in global market sentiment so this could all be good practices. Conditional on those, it could lead to a good financing instrument to use to supplement the domestic resources.

SENBET: Again, I think out of the – which is reinforcing what I was saying and what Coul was saying, I think what it underemphasized is a positive dimension of what is going and so the very fact that this is accessing markets, even getting involved with best practices, the design features of that are very welcome so then the issue for us is how do you get this thing going. So, I think that one of the things that we want to discard is this notion that this thing is dirty.

COULIBALY: Yeah.

SENBET: It's not. Even on the design features, we talked about the commodity link.

COULIBALY: Yeah.

SENBET: Yeah, it's not the idea of linkages but the way it's being linked is bad and usually linked from the borrowers to the creditors.

COULIBALY: But Lemma, so in this whole debt discussion, I often have this question –

SENBET: Yeah.

COULIBALY: Posited to me and I know my answer but I want to know yours.

SENBET: Okay.

COULIBALY: Debt has gone up everywhere globally.

SENBET: Yeah.

COULIBALY: Since the global financial crisis. Africa hasn't been an exception. But why is the discussion on debt sustainability and looming debt crisis appears to be concentrated on Africa's situation.

SENBET: I would say – good question by the way. I guess –

COULIBALY: Can I get a good answer?

SENBET: I think two reasons, one of which is really perceptional because there was big massive negative news about these countries, so the very fact that when you see this debt buildup, these guys are coming back, you know. This is global news coming back. I think that's more of a perceptional and not reality. I think on the reality side, just because two countries have the same debt level, doesn't mean that they are in the same situation of capacity to resolve debt so the underlying factors matter. The institutional features matter. Their capacity to generate revenues matter so when debt buildup – even the same level of debt in countries but done in a more fragile and a weak institutional environment that gets more attention.

COULIBALY: And the case in point is Japan, for example.

SENBET: Yeah.

COULIBALY: Where the debt to GDP ratio is close to –

SENBET: Yeah, yeah.

COULIBALY: 240 percent of GDP but they are not experiencing a debt crisis where I don't think an African country would want to even get close to that level without running into –

SENBET: So, context matters and the underlying institutional settings matter.

COULIBALY: Mm-hmm.

SENBET: And it's not one size fits all.

PITA: Those are both really great points. We are running close on time so this is probably a good place to say, you know, what are your final thoughts on this matter. Final – looking forward. How will we know if we have avoided a crisis?

COULIBALY: That's the second Nobel Prize question. I think reflecting really on the question as to whether we really think Africa is headed toward a systemic debt crisis; I think I am more on the optimistic side. Obviously, there is a lot of heterogeneity and we can't rule out that some countries would get into trouble. In fact, some already have gotten themselves also into trouble but when you look at some of the factors I have mentioned earlier as driving the increase in debt, notably the global financial crisis. These are all factors that are dissipating – have come back up along with strengthening of growth, the commodity prices have largely retraced so then what you're seeing is the dynamics that look more favorable so then the current level, which as Lemma mentioned is over 50 percent is actually plateauing and looking forward, the projection is that it's going to gradually moderate back down to maybe about 47 percent or around that area so I am quite optimistic that on average, African countries would make it just fine and we are about to avert the debt crisis but the assessment as to who will get into trouble or not will have to be at the individual country level so that's why I always prefer for those models that assess debt sustainability frameworks to incorporate a big dose of judgment in it and I am always reminded by this interest incurred by Samuelson talking about his colleague, Bob Solo, when he said that I prefer Bob Solo's judgment to an econometric model.

SENBET: Mm-hmm.

COULIBALY: But I would rather have Bob Solo with an econometric model than Bob Solo without one.

SENBET: Oh okay.

COULIBALY: So, the model is useful but we need to bring on board a big dose of judgment.

SENBET: Yeah.

COULIBALY: To be able, and in country specific context, to be able to really assess and try to cap how much debt they can take on or not.

SENBET: I think for me, you know, this conversation that we are having is a good sign because what happens is that unlike, for instance, the global crisis just showed – we are not ready so one of the things that is happening now, in this conversation, is being proactive so when it comes to crises, they are always two dimensions, one is how do you prevent? The other is how do you dissolve once it has already shown up? So, we are not there yet. So, we are actually more in a preventative space which I think is going to make things better, that's what I think. The other thing is we need to resist the temptation of this One Africa syndrome. So, there are cross sectional variations and the positive that Coul is saying would be probably true but there may be some specific cases. My sense is that that buildup – this is probably what we should be doing and our next phase of this visage is related to better economic performance. This guy is coming into this rising syndrome and having the need to finance, and then being actually in the same space as the other countries and with increasing integration of Africans in the globe, which is very welcome.

The question now is do we have the capacity to manage risk? To manage debt. To mobilize resources and help develop finance. That's what we are emphasizing.

COULIBALY: And that's one of the – to pick on one of the points you made about being prepared and I think that's exactly right. This whole conversation is contributing to identifying where we need to be better prepared as opposed to being caught by surprise and the one in particular which had to do with the diversity of the creditor –

SENBET: Yes.

COULIBALY: And the diffusion of the creditor base is going to be a challenge in the event of the debtor or defaulting and we need to have some kind of debt resolution –

SENBET: Yes.

COULIBALY: Because they better club country members, no longer own the majority of the debt and then how do you now have an orderly resolution of any debt default situation is indeed something that needs to be addressed now and what's put in place – a mechanism for resolution –

SENBET: I am glad you brought that up because you see, one of the structural changes with the new era is the multiplicity of creditors.

PITA: Mm-hmm.

SENBET: It used to be targeted, concentrated on bilaterals and multilaterals and now we have private markets. We have Eurobonds. We have China. It's not just Paris clause, we have the non-Paris Clause.

And then, that domestically. What they were talking is also, in a very significant way is domestic, 40 percent. That is in some sense potentially worse because if a country defaults, it can easily default in the domestic. The way it would default is not to pay. They can inflate their currency and so you have like a real default so what happens is that there is a potential of actually domestic bank crisis.

COULIBALY: Is it because that debt is largely owned by domestic bank?

SENBET: Yeah, yeah. A lot of this borrowing is lending is actually by banks. The other thing that actually changed was the countries borrowing heavily also domestically so 60 percent outside, 40 percent inside. Being proactive – in fact that's one of the things that I would put on this G20 agenda is that in the past, I can deal with bilateral guys. I say, Adrianna, we have problems we can solve so how do you coordinate, making this structure and we are saying look, these countries need capacity to help build efficient mechanisms for debt restructuring and that's a very important recommendation.

COULIBALY: Yeah, and I can basically share that this issue is indeed high up on this current G20 agenda.

SENBET: Yeah, yeah.

COULIBALY: I know that because the Africa Growth Initiative here has been involved with that process. We have contributed to some of the policy briefs that are going to inform that agenda.

SENBET: Yeah.

COULIBALY: Again, speaking of being proactive and anticipating areas where we might need to be better prepared.

SENBET: Yes.

PITA: Great. Well that’s wonderful to hear. Gentlemen, Lemma, Brahima, thank you so much for being here today.

Our listeners can of course find more analysis from the two of you. The paper that you wrote “Is sub-Saharan Africa Facing Another Systemic Sovereign Debt Crisis” will be at Brookings.edu.

We will link to it in the show notes and thank you for explaining this to us.

SENBET: Thank you very much.

COULIBALY: Thank you very much.

(MUSIC)

PITA: Thanks for listening. You can find more episodes of Intersections and the rest of the Brookings Podcast Network on Apple or Google Podcasts, on Spotify, Castbox, Stitcher, or your other favorite podcast app and don’t forget to follow us on Twitter @policypodcasts for news and updates.