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Debt

Africa: plummeting commodity prices might lead to a new debt crisis

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In 2014, Rwanda and Ethiopia, two of the world's poorest countries, sold public debt bonds on the financial markets of the most industrialized countries. While still unstable after civil wars and with debt payments suspended hardly three years ago, the Ivory Coast also managed to find private lenders willing to buy those securities. This was unprecedented in the last 30 years. Kenya [1] and Zambia also issued debt securities.

Debt Euphoria

This turns out to be quite a unique international situation: with a lot of liquid assets at hand and very low interest rates in their region, Northern financial investors are looking for attractive returns. Senegal, Zambia and Rwanda promise a return of 6-8% against their securities. Therefore, they are attracting financial companies willing to invest their cash temporarily, even at high risks. In 2014 the countries of sub-Saharan Africa managed to sell their public debt securities for $ 7 billion in international financial markets [2]. That's a record.

The governments of sub-Saharan countries are euphoric and they are trying to convince their people that good days are just around the corner while, in reality, the situation could take a dramatic turn. These governments are quite heavily indebted, and when the situation deteriorates they will ask their people to foot the bill.

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In any case, it should be noted that today, a major portion of the taxes collected by the government from the people (through VAT and income taxes) is used to service the debt rather than improve the citizens' living conditions. In most countries, public expenditure to pay off the governments' debts is more than the budget allocations for health and education, which is a scandal.

Moreover, the debt securities sold by the governments on the international financial markets have certain contractual clauses which could become quite explosive in the future. For example, the number of accelerated payment clauses in the contracts is growing by the day. What does that mean? If a country gets into financial trouble, holders of debt securities may claim an early refund from the authorities. That can only aggravate the country's situation. Besides, all the contracts see to it that in case of dispute, the competent legal authority to settle disputes is located in countries such the US or the UK and not in the indebted country.

A maximum number of people and organizations must feel the urgency of this state of affairs, so that they resist and force the authorities to publicly disclose the contents of the contracts.

The debt situation deteriorates

Among the sub-Saharan countries that have floated the largest number of debt securities on the international markets, oil-exporting countries (starting with Nigeria) are faced with an almost 50% drop in oil-prices. Now, over 70% of government revenues come from selling oil. This curtails their ability to repay now or in the future. Therefore, lenders (private banks from the North, investment funds, the richest 1% in Africa, etc.) are getting nervous and have started to sell off their holdings in the secondary or over-the-counter debt market. Since they are selling the securities, those who are buying them at a discounted price are doing so with a handsome profit in mind. With the scarcity of lenders, the governments of these countries have to repay their new loans at higher rates now.

Let us take Nigeria's case. Its revenue decreased sharply in 2014 due to the drop in oil-prices between June and December. In 2014, the value of the local currency Naira was devalued by 15% against the US dollar. The foreign exchange reserves of the Central Bank of Nigeria have also dropped significantly [3]. In December 2014, the Central Bank issued public debt securities maturing 10 years later with 16% returns [4]. It is not difficult to imagine what this means: a portion of Nigeria's income, which will grow by leaps and bounds, must be devoted to service debts against a backdrop of plunging revenues. As a result austerity measures will get worse.

Angola, another oil-exporting country, is in a similar predicament. Confronted with a budget deficit for the first time since 2009, their government has just announced a significant reduction in the subsidies on fuel prices enjoyed by the population. This will increase the cost of public transport, provisions, etc.

Not only oil-prices dropped in 2014, the prices of silver and copper also fell by 16% and 18% respectively. Cotton prices suffered a heavy drop of 28% over the year [5]. Rubber prices also plunged [6] and iron-ore prices fell by 51%.

To sum up, many of the Sub-Saharan African countries are patting their own back today for their economic performance, but they are least concerned about working towards a sound improvement of their citizens' living conditions. This somehow recalls the previous major debt crisis which broke out in 1982.

The crisis of 1982

The outbreak of the 1982 crisis resulted from the combined effect of two factors: lower prices charged by the peripheral countries for their exports to the global market, and the enormous rise in the interest rates [7]. Revenues were plummeting but more payments had to be made overnight. Indebted countries declared that it was getting hard for them to pay. Major private banks immediately refused to grant new loans and demanded overdue payments. The IMF and the major industrialized capitalist countries granted new loans so that private banks could get their money back and a series of bankruptcies was prevented.

Since then, the IMF has been imposing structural adjustment plans with the World Bank's support. The IMF and the Northern governments are threatening to stop further loans to any indebted country that refuses the adjustments. Therefore, those who have been advising the peripheral countries since 1982 to suspend debt payments and create a front of indebted countries were absolutely right. Had the Southern countries established this front, they would have been able to dictate terms to their dismayed creditors.

By choosing to pay under the IMF's humiliating conditions, indebted countries transferred to the North's financial capital a sum that amounts to several Marshall Plans. [8] Adjustment policies result in key elements of national sovereignty being gradually abandoned. This means that the concerned countries are more and more dependent on the most industrialized countries and their corporations. None of the countries implementing structural adjustment has been able to achieve high growth rates in a steady fashion. Social inequalities have increased everywhere, even in "adjusted" countries.

The IMF adjustment programs have three objectives:

1) Ensuring debt-repayment.
2) Establishing structural reforms leading to a liberal economy, a gateway for the international markets and a check on the State's involvement.
3) Allowing the indebted countries to have gradual access to private loans via the financial markets, but ensuring that they remain indebted.

Let us not wait for another outbreak

A citizens' debt-audit must not be kept at bay till another crisis triggers off. We must start asking urgent critical questions: what happened to the money that landed in the form of various loans? What conditions were laid down when those loans were granted to the governments? How much interest has been paid and at what rate? How much of the principal has been repaid? How could the debt grow massively without the people actually realizing what was happening? How were the loans channeled? What portion was diverted, by whom and how? Who borrowed and in whose name? Who are the creditors and what was the role of each of them? What are the mechanisms behind the various transactions of the State? Who decided to apply for the loans and in what capacity? How could private debts become public, who are the intermediaries and organizations responsible? Who benefited from the bogus projects run with borrowed money? What crimes have been committed with this money? Did the lenders know what would be done with the money? Why not start criminal, civil or administrative proceedings?

Only a small portion of the loans has contributed to the "development" of the countries involved
 Overall, an evaluation of the achievements of the Sub-Saharan African countries and the amounts they paid, like other parts of the world, brings us to a remarkable conclusion: only a small portion of the loans has contributed to the "development" of the countries involved. Much of the borrowed money bolstered networks of corruption (in both the global South and the North) through commissions and kickbacks and enriched oligarchs whose flamboyant lifestyle is at odds with the surrounding poverty and misery. This also made the richest 1% even wealthier, who in turn invested their ill-gotten money in tax havens, mostly in Europe. These loans have also financed white elephants, much-hyped but useless and overpriced projects. Apparently this took place via public guarantees granted to major private companies through devices set up by export credit agencies in creditor countries.

People bore the brunt, and still pay a heavy price while enduring the negative effects of this odious debt contracted by submissive states that do not protect, educate and care for their people, but deprive them instead of water, electricity, and other basic commodities.

It is for the sake of these people that the CADTM, and all other associations ready to co-operate, want to make way for citizens' battles so that we can have a clear picture of the situation: open accounting books for the debt, in other words carry out citizens' debt audits to identify the illegitimate, illegal and / or odious part that the people must refuse to pay. It is also necessary to identify the perpetrators of fraudulent acts that led to the debt and / or unjust personal enrichment. The culprits must be prosecuted.

Alongside a debt audit, an alternative development model that gives priority to humanity and nature should also be implemented.

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[1] *Bloomberg Agency*, http://www.bloomberg.com/news/2014-12-12/jpmorgan-sees-kenya-debut-opening-path-for-corporate-eurobonds.html article consulted on 3 January, 2015.

[2] *Financial Times*, “Oil slump sours Africa debt sweet pot” http://www.ft.com/intl/cms/s/0/5634... Published on 31 December, 2014 and consulted by me on 3 January, 2015.

[3] *Bloomberg Agency*, http://www.bloomberg.com/news/2014-12-03/opec-batters-nigeria-to-gabon-bonds-as-oil-drops.html article consulted on 3 January, 2015.

[4] See the official website of the Central Bank of Nigeria http://www.cenbank.org/rates/govtsecurities.asp

[5] See *Boursorama*, http://www.boursorama.com/actualites/2014--50-sur-le-petrole-forte-baisse-des-matieres-premieres-51d25b9f7f9b67ddbebc15b8dd310a6a , article consulted on 3 January, 2015.

[6] See *Les Échos* http://www.lesechos.fr/finance-marches/marches-financiers/0204047470783-matieres-premieres-baisse-sans-precedent-depuis-2008-dans-le-sillage-du-petrole-1079146.php article consulted on 3 January, 2015.

[7] Translated from *Les Chiffres de la dette 2015* by Pierre Gottiniaux, Daniel Munevar, Antonio Sanabria and Eric Toussaint, pg. 9. http://cadtm.org/Les-Chiffres-de-la-dette-2015

[8] The Marshall Plan is an economic reconstruction program proposed in 1947 by George C. Marshall, US Secretary of State. With an initial budget of $ 12.5 billion (about $ 100 billion in 2014) in the form of grants and long-term loans, the Marshall Plan allows 16 countries (including France, Great -Britain, Italy and the Scandinavian countries) to use the funds for reconstruction after the Second World War.

