Old arguments for debt cancellation in Africa no longer apply

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Two decades ago, the world was in the grip of a great debate over debt and debt cancellation in Africa. Total public debt stock had climbed to nearly $300bn by 2002 from $40bn in the two decades prior. Jubilee Debt Campaigners insisted on immediate cancellation. The Pope concurred.

Today, Africa's external debt alone exceeds $700bn. Campaigners are back asking for cancellation. And the Pope again concurs. It would seem as if nothing at all happened in the intervening 20 years. Yet quite a bit did.

After intense criticism of earlier designs and subsequent brainstorming, additional resources were injected into the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) set up by the Bretton Woods institutions and their rich country partners in 2005. Nearly $125bn, to be precise.

Between 2000 and 2015, 31 African countries (out of 36 beneficiary countries) had substantial portions of their total debt wiped out. For example, both Malawi and Liberia saw 90 per cent of their external debt cancelled. Sierra Leone received about 95 per cent relief. Bigger economies like Ghana experienced a lower, but still impressive, decline in debt stock of about 70 per cent.

It is surprising, in view of these facts, to see a brand new debt cancellation campaign ignore lessons learnt from previous rounds of debt relief and their impact on economic growth and transformation.

Some African countries — including Kenya, Angola and Nigeria — were considered ineligible for HIPC for various reasons. None of them are among the countries, all big HIPC beneficiaries, that have been compelled to seek debt restructuring recently.

Unmissable in this fuzzy picture, however, are the major shifts that have occurred in global development financing. Three decades ago, sub-Saharan African countries owed roughly 80 per cent of their debt to the so called official creditors — rich countries and multilateral finance institutions. Today, I estimate the countries with the biggest debt burdens tend to owe more than 70 per cent of their obligations to domestic private investors, international bondholders and not-so-rich countries such as China, India and Turkey.

Consequently, whatever the merits of the debt cancellation campaigns, yesterday's arguments seem ill-fitting today.

Ghana's dramatic debt restructuring effort of recent weeks began on the domestic front last December. It has involved pensioners and trade unions adamant that not a penny from their bond holdings will go to support the government's debt relief efforts. Seventyfive per cent of Ghana's debt servicing expenses cater for domestic creditors. What would be the point of debt cancellation that failed to address this reality?

Now that Paris Club and Bretton Woods creditors are responsible for a significantly lower proportion of the debt, some campaigners are focusing more on commercial creditors in the west. While it is true that rich banks do hold some African sovereign bonds, quite a lot are also held by institutional funds whose money comes from ordinary pensioners and workers.

It is safe to say that a cancellation campaign in the current circumstances will have to do more than suggest that the creditors won't miss the money. The humanitarian argument about how high debt servicing takes away

money from social services remains compelling, especially in countries such as Ghana and Nigeria where debt service costs are approaching 70 per cent of domestic tax revenues. But questions do arise about where the returns on the borrowed billions have gone.
Ghana's leaders, for instance, have faced widespread criticism for prior- itis- ing a "national cathedral", complete with a "Bible museum" and "bib- lical gardens", that could cost upwards of $1bn, in the middle of a strug- gling debt restructuring exercise. Despite repeated assurances to the IMF, which has pro- vided a bailout to the country roughly every four years since independence, to pass all public spending through a national accounting platform, nearly 90 per cent of Covid-19 expenditures bypassed it.

In 2003, Ghanaian-born economist Elizabeth Asiedu published a paper in which she predicted that debt relief would have minimal impact on the HIPCs due to weak institutions. That prediction now looks prophetic.

However emotionally appealing it may sound, debt cancellation alone will not encourage or enhance efforts, already under way in many African nations despite everything, to demand stronger accountability and force much- needed institutional reform.

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What the World Bank needs to do now

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Extreme poverty leaves people in hunger, without housing or medical care, robbing them of dignity. Deprivation of opportunity has no place in a world with the resources and technology that so many enjoy in abundance. Since its inception nearly eight decades ago, the World Bank has played a transformational role in lifting living standards in every corner of the globe. But as we confront rising poverty and crisis after crisis — from pandemic to conflict to the ravages of a changing climate — the need for a high-performing bank is more urgent than ever.

The institution must now evolve to tackle challenges that its founders couldn't imagine — in the keen understanding of how these priorities intersect. Climate change, pandemics and forced migration are eroding progress for the very people whom development efforts benefit. The tasks ahead of us are intertwined. Their scale means that no institution can do it alone.

We should seize this moment to convert these challenges into greater opportunities for the most vulnerable. Meeting ambitious climate goals doesn't mean sacrificing development or inclusive economic growth. New technologies can help bypass the emissions-heavy pathways of the past — something I recently saw in Kenya, which generates the overwhelming majority of its energy from renewable sources.

Public-private partnerships and investments have enabled renewable energy to become cost efficient. We now need to invest in developing infrastructure, agricultural productivity, food security, and expanding shipping and trucking in a resilient and sustainable manner. We must particularly focus on unlocking the potential of young people, especially in the global south. They deserve economic opportunities and the resulting optimism to better their lives and their countries.

The World Bank can, and must, play a critical role as a force multiplier in coordinating global action. Its talented staff do vital, and often unsung, work every day. The scale of investments required for fighting inequality and climate change, and boosting productivity and growth, is in the many trillions of dollars each year. The bank should build on the recommendations of the G20 Capital Adequacy Framework to stretch every dollar it has. But working alone, it will fall short of what's required. All multilateral development banks must work in tandem to maximise impact.

Still more will be required. The private sector, with its capital and innovation, will be key, as will the partnerships that need strengthening between governments, civil society and private enterprise. The bank can deploy technical knowledge, policy support and financing to serve as a catalyst for mobilising the private sector to help address these challenges.

Managing this will require skills that I believe my background has given me. In the private sector, I've led organisations spanning the globe with tens of thousands of employees and close engagement with the public sector. I've delivered on ambitious goals that required me to transform teams to meet the demands of a constantly-changing world. I've brought together government and business to secure over $4bn in commitments to invest in economic opportunities in Central America and advised an investment fund that channelled over $800mn into emerging green technologies, including in developing countries. I believe that is exactly what the World Bank needs at this critical moment in time.

Effectively leading the bank also requires a deep understanding of the challenges that countries and people face. Right now, I'm on a tour to meet with government officials, development experts, civil society organ-

isations and entrepreneurs to hear their vision for the institution's future. In Ivory Coast and Kenya, I had the privilege of hearing from those who have benefited from the World Bank's work. Residents of Abidjan told me their lives have been transformed by an investment in expanding access to electricity. Young entrepreneurs in Nairobi showed me how they're benefiting from expertise and financing to launch clean tech start-ups.
The opportunity to lead the World Bank would be the culmination of my life's work. I grew up in India in a middle-class family. I received a good education and learnt the value of hard work. But too many people don't get the opportunities I did.

All of the world's citizens deserve a chance to better their lives. We must offer people — and indeed countries — the opportunities they need to succeed, so that everyone can feel the hand of good fortune pushing them forward.