IDA AFRICA WATCH

Volume 15

June 29, 2017

AFRICAN DEBT: HOW MUCH IS TOO MUCH?

By George F. Ward

Mozambique's debt-to-GDP ratio, 2007–2016. (Source: "Mozambique Government Debt to GDP," tradingeconomics.com, http://tinyurl.com/ycwntzcy.)

Government indebtedness has been an issue for African countries for decades. During the 1970s and 1980s, African countries borrowed heavily. By 1990, continent-wide indebtedness had grown to $270 billion, a level then widely viewed as unsustainable. Beginning in 1996, 30 sub-Saharan African countries were able to cancel $100 billion in debt through the Heavily Indebted Poor Countries Initiative (HIPC), a joint program of the International Monetary Fund (IMF) and the World Bank. The HIPC helped to reduce debt to sustainable levels. After years in which debt levels remained relatively low, questions about debt sustainability have recently again begun to arise. Given the importance of access to capital for development, it is worth examining whether these concerns are well founded. What is the current African debt situation? How much debt is too much? *more...*

Ambassador (ret.) George F. Ward is editor of Africa Watch and a Research Staff Member at the Institute for Defense Analyses.

MUTINIES IN IVORY COAST REVEAL DEEP MILITARY DIVIDES

By Dr. Alexander Noyes

French President Emmanuel Macron, left, welcomes Ivory Coast's President Alassane Ouattara in Paris, France, Sunday, June 11, 2017. Ouattara worries that recent mutinies and resulting political instability threaten the country's economic trajectory and reputation with investors. (Source: AP Photo/Francois Mori.)

On May 12, 2017, a group of 8,400 soldiers in Ivory Coast mutinied over delayed bonus payments, leaving two people dead and nine injured. The mutiny began in the country's second-largest city, Bouake, where soldiers took to the streets and erected barricades, cutting off access to the city. The revolt spread to other areas of the country, including Abidjan—Ivory Coast's commercial hub and largest city—where soldiers took control of the ministry of defense and military headquarters. After a deal was struck with President Alassane Ouattara's government on May 16, the soldiers returned to the barracks. A similar mutiny took place in January of this year. Do these recent mutinies threaten stability in one of the world's fastest growing economies? *more...*

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IDA's three federally-funded research and development centers provide objective analyses of national security issues and related national challenges, particularly those requiring scientific and technical expertise.

IDA's Africa team focuses on issues related to political, economic, and social stability and security on the continent.

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Patterns of African Borrowing

The African debt that accumulated to crisis levels in past decades was held mainly by Western governments and banks and by international financial institutions. In recent years, those sources of capital have been joined by two additional ones—Chinese loans and the international sovereign debt market.

Although the level of Chinese lending to Africa has sometimes been exaggerated, there is no question that it has been substantial. According to the China-Africa Research Initiative at Johns Hopkins University, the Chinese government, banks, and contractors extended $94.4 billion worth of loans to African governments and state-owned enterprises from 2000 to 2015. Although reliable numbers are not available, Chinese lending has probably increased since that time.

As noted by Africa Watch in August 2015, the international bond market has recently become attractive to African nations for several reasons, which include low interest rates. In 2014, the interest rate on a dollar-denominated bond issued by Côte d'Ivoire was set at a level comparable to that paid by Great Britain. Such favorable terms were available in large part because Western investors were hungry for greater yields than were to be found in traditional markets. Sovereign bonds have another advantage: unlike concessional loans by donor countries, they do not come with strings related to good governance attached. According to one source, African sovereign bonds issued from 2006 through September 2014 amounted to $25.8 billion.

Is There a Debt Problem?

Even though borrowing from China and issuance of sovereign debt on the international market has bent the curve of African government indebtedness upward, the question remains whether another African debt crisis is in prospect. Data compiled by Trading Economics confirm that debt levels throughout Africa are generally rising. In most of the 51 African countries listed, however, the increase in debt-to-GDP ratios has been gradual. Only seven African countries have debt-to-GDP ratios greater than the rich country average of 80 percent. According to the Trading Economics data, the median African debt-to-GDP ratio is 37.6 percent, which is Rwanda's quite moderate ratio.

Despite the prevalence of moderate indebtedness, at least two problems are connected to government debt in Africa. The first is the risk of default. Other African countries are in arrears to the IMF and other international financial institutions, but

Mozambique is the only African country to have recently defaulted on its sovereign debt. It missed a sovereign debt payment of $119 million due on March 21, 2017, to Credit Suisse Group AG. That was the second missed payment by Mozambique in the same number of months.

Mozambique's current debt-to-GDP ratio is around 130 percent. Its debt problem is the result of profligate borrowing based on the hope that future natural gas revenues would be able to cover debt repayments. A recent audit by Kroll, Inc., concluded that more than $1 billion of the funds raised for the benefit of state-owned companies could not be accounted for. As *Africa Watch* has previously reported, depressed natural gas prices worldwide make Mozambique's future ability to cover its arrears problematic.

Although other African countries have avoided Mozambique's dire straits, the levels of government debt service obligations elsewhere are cause for alarm. This is the second problem linked to government debt. As Akinwumi Adesina, the president of the African Development Bank, pointed out last year, "An indebted Africa cannot be a rising Africa." Of the 20 countries with the highest ratios of foreign debt payments to government revenues, eight are in Africa. Angola leads the way, devoting 44 percent of its government revenues to debt service. Thus, although Mozambique is the only country in default, others are at risk of falling into that status. Even if they do not, their debt service costs are crowding out needed investments in infrastructure and economic development.

What Can Be Done?

As noted above, although only a few African countries have immediate debt concerns, many more need to bolster their abilities to service their rising levels of sovereign debt. Time is limited, because many of the recent African sovereign debt obligations will begin to mature within 5 to 6 years. It is likely, although not certain, that refinancing those obligations will entail paying higher rates of interest.

In the meantime, African governments should work to enlarge their "fiscal space." The latter is a "fundamentals-based measure of the risk of sovereign debt default" devised by Moody's Analytics. Fiscal space is the difference between a nation's sovereign debt-to-GDP ratio and the limit beyond which the nation will default unless policymakers take unprecedented steps. In modern economies, governments are able to cope with debt problems through fiscal policies, by raising taxes and curbing expenditures. In many African countries, however, fiscal space is limited. Modern taxation systems such as income or value-added taxes are either absent or poorly administered. Local capital markets are weak or nonexistent. Subsidies of basic commodities often represent a large proportion of government expenditures and cannot be reduced without political pain and the risk of social instability. Nevertheless, despite these obstacles, the extent to which African governments use the time available to modernize their fiscal systems and develop local capital markets will likely be the crucial determinant of success or failure in managing the continent's debt.

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French President Emmanuel Macron, left, welcomes Ivory Coast's President Alassane Ouattara in Paris, France, Sunday, June 11, 2017. Ouattara worries that recent mutinies and resulting political instability threaten the country's economic trajectory and reputation with investors. (Source: AP Photo/Francois Mori.)

Background

Ivory Coast is a lower-middle-income country located in West Africa with a population of 22 million and a gross domestic product (GDP) of $31 billion. It is the leading exporter of cocoa in the world. Although the country has been plagued by coups and civil wars—most recently in 2010–2011 when an electoral conflict left 3,000 dead and displaced 500,000—since 2011 the country has rebounded, enjoying relative political stability and rapid economic growth. In 2016, Ivory Coast was the second fastest growing economy in the world, with a GDP growth rate of 8.5 percent. Yet the Ivorian security sector has been unable to move beyond rivalries and divides forged during years of civil conflict, as evidenced by a number of large-scale mutinies launched by soldiers over the past several years.

Series of Mutinies

In contrast to coups, mutinying soldiers do not aim to unseat the head of government. Mutinies are usually launched by the rank and file. They have occurred quite frequently in Ivory Coast. According to one count, mutinies have taken place in 1990, 1993, 1999, 2000, 2002, 2003, 2008, and 2014. The group that mutinied in January 2017 was composed of former rebels who fought with Ouattara in 2011 and were subsequently integrated into the military. The mutineers seized control of three major cities, attacking police stations and a state-owned broadcasting network. Businesses and schools were forced to close. Disturbances were also recorded in a number of other cities throughout the country. The mutineers demanded back pay for time spent fighting for Ouattara, bonuses, and better living quarters.

Ouattara capitulated to the soldiers' demands, striking a deal that sent the soldiers back to the barracks. Under the deal, the soldiers would be paid in two installments—the first for 5 million CFA francs each (approximately $8,000), with a second payment of 7 million CFA to be paid at a later date. Ouattara also fired his security chiefs (the heads of the army, gendarmes, and police). But the government delayed in making the second payments, leading the group to launch a further mutiny in May. Sergeant Seydou Kone, the mutineers' spokesperson, issued their demand: "We want our 7 million and that's it." Following another round of negotiations, the government agreed to pay the mutineers their remaining 7 million CFA, but in two installments (the first for 5 million, the second for 2 million).

Factionalized Military a Threat to Economic Growth?

This history of mutinies underscores the deep divides, legacies of the country's civil wars, that remain in Ivory Coast's security services. Currently, a variety of factions within the military are allied to different political and military patrons.

According to the scholars Jeremy Allouche and Oswald Padonou, one faction is aligned with Ouattara, while another supports former rebel leader Guillaume Soro (who is currently president of the National Assembly). A further grouping remains allied to former president Laurent Gbagbo. Other former regional rebel commanders also continue to hold sway. Since the group of recent mutineers helped put him in power in 2011, Ouattara remains somewhat beholden to them, as evidenced by his acquiescence to their demands. As the scholar Mike McGovern argues, Ouattara "was going to be walking this tightrope where those who brought him to power by force were always going to be in a position of calling their own shots."

Ouattara is concerned that the recent mutinies and resulting political instability will hurt the country's economic trajectory and reputation with investors. After the January revolt, Ouattara warned, "I want to say that this way of making demands is not appropriate… .In fact, it tarnished the image of our country after all our economic development efforts." According to some observers, the mutinies have already done just that. Mark Bohlund, a Bloomberg economist, said to "expect more apprehension about Ivory Coast" from foreign investors.

Conclusion

While last month's deal to end the latest mutiny is welcome, recent academic research suggests that Ivory Coast is likely to remain susceptible to further such episodes, which could raise the risk of renewed conflict. Indeed, Maggie Dwyer, a scholar who has conducted research on mutinies in West Africa, found that mutinies tend to beget further mutinies, even when a deal is struck: "Additional mutinies regularly occur, even after a deal is reached, when other units in the military see it as a successful way to improve their conditions." Dwyer also finds that mutinies are rarely just about pay, but often indicate deep military divides. She argues, "Rather than simple pay revolts, mutinies should be viewed as representing deep distrust between the ranks, which usually has historic roots." To consolidate Ivory Coast's recent political and economic gains and avoid a slide back toward instability, Ouattara and the Ivorian government should consider genuine security sector reforms that tackle the underlying factors dividing the country's military.

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