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## From Old-Donor Debt Relief to Emerging Lenders in Africa

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- ◆ China helps growth and debt sustainability in Africa through debt relief, infrastructure investment and higher exports.
- ◆ China and other emerging lenders should engage in a debt transparency initiative that considers such growth effects.
- ◆ This will encourage emerging lenders to co-operate with the 'international community' on Africa's debt sustainability.

To sustain its growth, China needs natural resources: oil, industrial metals and, increasingly, agricultural resources. Resource-rich Africa can deliver. China has become, by a large margin, the largest creditor in the group of "new" donors active in Africa. "Old" donors have been accusing China of "free-riding" on the development efforts deployed by the international community and to impairing debt sustainability in low-income countries (China has also granted debt relief). Moreover, China's financing activities are assured of being responsible for enhanced corruption, impaired democracy, and hence debt tolerance weakened by China's finance.

In May 2007, G7 Finance Ministers released the *G8 Action Plan for Good Financial Governance in Africa* declaring themselves ready to "...commit to applying responsible practices in our lending decisions. To this end, we urge all borrowers and creditors to share information on their borrowing and lending practices. The *debt sustainability framework*, developed by the IMF and the World Bank, provides an important guiding tool for decisions on new borrowing and lending and we encourage its broad use by all borrowers and creditors as a way to prevent new lend-and-forgive cycles". The document carefully avoided naming and blaming specific countries, but it is no secret that China was on Finance Ministers' minds.

OECD Development Centre research<sup>1</sup> argues that "free-riding" by China on the debt relief granted through bilateral and multilateral initiatives is hardly visible. The major beneficiaries of new lending, mostly through official export credits (from both China's and OECD agencies) are the resource-rich countries (Angola, Nigeria, Sudan) that did

not (directly) benefit from Western debt relief. Moreover, China has also granted debt relief and its subsidised export buyer credits would be considered as concessional by current aid-reporting standards.

What the West is to the HIPC (Highly Indebted Poor Countries initiative), China is to the resource-rich countries, but the channels through which lower debt ratios are achieved are very different. China impacts on debt ratios through stimulating exports and growth. Indeed, the Middle Kingdom has a positive impact on debt tolerance through stimulating exports, infrastructure investment and GNP. To be sure, debt vulnerability is still a concern in African raw material exporters, in view of their low governance scores and their exposure to real external shocks, such as a major drop in oil prices. However, even Angola and Sudan, the two African countries where the presence of China is most strongly felt (and which have not benefitted from debt relief), show big improvements in their debt indicators.

The OECD Development Centre study questions whether the *joint World Bank-IMF Debt Sustainability Framework* (DSF) is the right way to engage the new lenders and donors. *First*, the DSF in its current set-up may encourage underreporting by IDA-only countries to escape "penalties" in the form of IDA volume discounts; it thus contributes to lack of reporting transparency. *Second*, the DSF is

1. Helmut Reisen and Sokhna Ndoye (2008), "Prudent versus Imprudent Lending Post HIPC and MDRI to Africa: From Debt Relief to Emerging Lenders", forthcoming, OECD Development Centre *Working Paper* No. 268 [www.oecd.org/dev/wp](http://www.oecd.org/dev/wp)

pegged to governance indicators that are subject to criticism and at odds with other governance indicators. *Third*, analyses of debt sustainability have to be based on broader determinants, namely those that drive endogenous debt dynamics (such as growth and currency effects), than is the case under the DSF. *Fourth*, therefore, the DSF has to integrate the growth effects of new lending in order to escape its current anti-lending bias. Finally, the anti-lending bias conferred by the DSF is also reinforced by the fact that the DSF ignores remittances as an important revenue item and public assets as an integral part of net public worth.

In order to encourage China and other merging lenders and donors to co-operate with the “international community”, a broadening of the DSF concept of debt sustainability is

not only required, but also sensible. Crucially, a view has to be integrated to what extent China’s broad economic impact is purely temporary, or whether it is of longer duration (the so-called raw material *super cycle*). These elements, central determinants of African debt dynamics past and present, are absent from the DSF.

Ultimately, more transparency and less debt vulnerability from foreign capital movements must be brought about by African governments and regional organisations such as the African Union and NEPAD. Arguments made from outside Africa – be it the G8, the Bretton Woods institution or the OECD donors grouped in the DAC – will not tilt the balance toward more transparency and higher debt tolerance.



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