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AFRICA'S SOVEREIGN BOND DEBTS: ALTERNATIVE TO DEAD AID AND CATALYST FOR DEVELOPMENT

Felister Saliku Kivisi
PhD. Candidate, Department of International Relations
United States International University-Africa
Email: fkivisi@gmail.com

Abstract

Purpose: The study sought to examine viability of sovereign bond debts, the alternative to foreign aid, which Dambisa Moyo calls 'Dead Aid', for financing economic development in Africa.

Methodology: The research is a desk research via the qualitative methodology where information was derived from published scholarly works of various authors on the issue of aid, debt and development of African countries.

Findings: The study shows that several African countries, such as Angola, Kenya, Zambia, Côte d'Ivoire, Senegal and Gabon have ventured into international capital markets and accessed the sovereign bond debts. Second, these countries' debts have grown exponentially while most of their economies are still commodity based and have not grown in tandem with the debt. Volatile commodity prices have made it difficult for some of these countries to raise enough resources to service these debts. Some of the debt is now maturing and these countries are now potentially facing debt crises akin to what they went through in the 1990s.

Unique contribution to theory, practice and policy: Since 2006, many African countries have issued debt in the international bond markets but are now faced with prospects of default and accumulation of excessive debts. This has the potential of wiping out the gains achieved under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI), which sought to reduce debt levels for the beneficiaries of these initiatives. Accessing international bond markets is not a panacea for Africa's development problems. Indeed it seems to compound the African Sovereigns' problems by creating conditions for future debt distress. Deliberate policy decisions and efforts are required in managing the risks that come with these kinds of debt.

Keywords: *Debt, Aid, International Bond Markets, Risk, Sustainability*

1.0. INTRODUCTION

1.1Background to the Study

Most of the countries of Africa gained independence in the 1960s and immediately embarked on their development agenda. To finance the development projects, these countries were offered foreign aid mainly by the departing colonial powers. These countries have, however, continued to remain poor and underdeveloped. This state of affairs has been a source of many epistemological debates with many scholars offering their considered opinions on why this is so. In the 1970s for instance, the dependency theory was the main theme around which Africa's underdevelopment revolved. In the 1980s and 1990s, many African countries had to undertake rescheduling of their debts as they were not able to service them. Their economies continue to be largely commodity-based and the prices of their commodities are decided in international commodities markets where they have no say. Industrialization, upon which the Western world's developed economies are built is negligible. Moyo (2009) argues that dependency on this 'dead aid' and poor governance has put Africa in this unenviable position. She puts forward suggestions to get Africa out of this problem.

1.2Statement of the Problem

African countries have received foreign aid since independence in the 1960s. Moyo (2009) criticizes the aid that African countries receive in form of bilateral and multilateral debt and grants terming it addictive and non-productive and argues that it is the reason for Africa's underdevelopment. She labels it 'dead aid'. Coupled with endemic corruption in African countries, dead aid has failed to move the recipient countries towards development. Moyo (2009) proposes that aid to the African aid-dependent countries should be permanently stopped to force them to find alternative funding sources such as borrowing from the international bond markets. This paper argues that accessing international bond markets is not a panacea for Africa's development problems. Indeed it compounds the African Sovereigns' problems by creating conditions for future debt distress. The research, therefore, helps to interrogate the prescription given by Moyo (2009) to Africa's problem of underdevelopment and how to raise resources to finance development.

1.3Dead Aid

The Central thesis in Moyo (2009) is that foreign aid, which she labels 'dead aid', is the cause of Africa's underdevelopment and poverty. The aid in question here is neither the humanitarian nor the emergency aid that is put together in times of calamities. Rather, it is the bilateral and multilateral loan and grant aid that is given in form of loans for projects and budget support to the African countries. Provision of such loans and grants on easy terms to countries, led by

leaders who are not accountable for the resources received, fuels the African economic problems as most of it benefits only the corrupt individuals. Indeed Moyo (2009) argues that over US$1 trillion has been sent to Africa yet Africa is poorer and her growth slower than it was when most of the African countries gained their independence from colonialism beginning with Ghana in 1957 and most of the others in the 1960s.

In addition to dependency on aid, Africa's development problems are partly a product of the poor investment climate in many countries of the continent. Private sector investment is frustrated by the never-ending bureaucracy which leads to the inordinate long time it takes to obtain the necessary approvals to set up. In the meantime, entrepreneurship spirit is killed off by the aid model. Moyo (2009) avers that if the governments found it essential to raise taxes from the private sector then they would make efforts to ensure that this sector thrives. The governments, being too reliant on aid, have not considered other ways of raising resources. Besides, Africa is a high inflation environment and the governments have to finance the high costs of fighting the inflation whose origin is all the aid money coming in.

The other issue that Moyo (2009) raises is the political situation of the African countries pointing out that political leadership is highly contested for. This is because, in the absence of a private sector or with only a weak one, the government ends up being the only one managing a country's resources. There, therefore, arise various factions that are in constant competition to capture the state as that is where the money is. This, coupled with lack of transparency and commitment to the rule of law, explains the constant political crisis in the various countries on the continent where leaders who have been in power for long, propped up by the aid model, do not want to leave.

In addition, Moyo (2009) is of the view that the aid model, being an open ended commitment, is fundamentally faulty in that the recipient African countries do not envisage its end. Consequently, the governments have no incentives to plan for the future because of the notion that aid will always be available and their budgets are very dependent on aid with no efforts being made to generate their own revenues to replace budget financing through aid. The financing through aid does not create conditions conducive for development as Moyo (2009) also cites Africa's endemic corruption as a negative factor in the development process. Due to corruption the aid money sent to Africa is stolen by corrupt leaders or ends up financing non-productive uses. The evidence for this wastage of resources are the many white elephant projects around the continent.

Likewise Moyo (2009) argues that compounding Africa's development problems is the problem of debt burden. This causes the African governments to spend up to $20 billion in interest payments every year. To compound the problem, the lenders such as the World Bank are not willing, by design, to stop more aid coming to Africa. They continue to lend, receive interest

from the borrowers and re-lend to them. Even where debt relief has been given to these countries, for instance by cancelling existing debt, new debt has been given to them and hence the cycle is perpetuated.

Surprisingly though, the economic problems are not only experienced by the poor countries but the resource-rich ones as well. Moyo (2009) avers that resource rich countries such as the oil exporting countries suffer from the Dutch disease and the oil curse. Though they receive large inflows from their oil, their export sector is killed off by appreciation of the local currencies which makes their exports expensive. The poor countries that receive billions of dollars in aid money on the other hand find that the aid distorts their export markets making their exports expensive and uncompetitive.

Consequently, Moyo (2009) proposes that foreign aid to the aid-dependent countries on the continent should be permanently stopped after a definite deadline to enable them to find alternatives for financing their budgets. Specifically, the recommendation is for the African countries to access the international bond markets which offer a transparent system that holds issuers accountable. Moyo (2009) recommends that the African countries approach the capital markets in the Middle East and China where the attitude towards Africa is of investment and business approach their risk can be better priced than in the Western markets where the attitude towards Africa has been that of pity.

This paper argues that accessing the international bond markets is not the solution as it presents other challenges to the debt issuers. Accessing international bond markets has not only contributed to the rapid growth of debt exposing the issuing countries to refinancing risks but also to other risks such as interest rate risk and currency risks. The African countries that have issued bonds in the international bond markets, made easier by their low debt levels, some of them after undergoing the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt reduction initiatives, have quickly accumulated debt and even requested for International Monetary Fund (IMF) assistance to forestall defaults on their debt.

2.0EVOLUTION OF AFRICAN DEBTS AND ISSUANCE OF SOVEREIGN BONDS

The aid model that Moyo (2009) campaigns against was put in place in the 1960s as Africa emerged from colonialism. Unlike Western Europe that benefited from the Marshall plan, Africa was offered aid from both the former colonial masters and the Bretton woods institutions. It is an open ended model where African countries receive aid in terms of grants and long term, low-interest debt with no indication that this could come to an end. The Sub-Saharan African countries have, therefore, been heavily dependent on external grants and concessional loans, what Moyo (2009) calls ‘dead aid’, for funding capital spending and government deficits. The debt kept on growing to the point that by the 1980s the African countries, especially the Sub

Saharan ones, were struggling under the debt burden and many defaulted and had to undertake debt rescheduling (Fosu 2011). Debt rescheduling was at the time promoted as a debt relief measure and was undertaken under the Paris and London clubs initiatives.

The Bretton Woods institutions together with other multilateral and bilateral and commercial lenders came together to offer further debt relief to the Highly Indebted Poor Countries (HIPCs) and in 1996 they began the HIPC and Multilateral Debt Relief Initiative (MDRI) initiatives. Out of the thirty six countries that received the debt relief under these initiatives, thirty were African countries that went through these initiatives and received the full amount of debt-relief for which they were eligible (World Bank and IMF 2015). These initiatives significantly reduced the debt burden of the HIPCs. As at September 2017, the total relief provided to the HIPCs under the HIPC Initiative was estimated to have cost the creditors US$76.9 billion, while it is estimated that the four multilateral creditors who provided relief under the MDRI paid up US$42.4 billion by end-2015 in present value terms (IMF 2017).

As the African countries accessed the debt relief, exogenous factors emanating from the United States and spread to Europe in 2007 were to change the course of history by opening up the sovereign bond issuance space for the African sovereigns. Lane (2012) explains that there were several phases of the global financial crisis that shook the global financial markets. In August 2007 the global financial markets experienced the beginning of the first phase of the global financial crisis. The collapse of the Lehman brothers brought about a more acute phase of the crisis and by the late 2008 and by early 2009, the crisis reached a severe phase, shaking both Europe and the United States. Countries such as Greece, Ireland and Portugal were driven out of the bond markets (Lane 2012). Investors soon sought other areas and commodities such as gold, bonds and US dollar or Euro currency instead of stock and housing markets. Africa was one of the places that attracted these investments and the African countries began receiving favourable reception in the international capital markets.

The developing countries on their part were driven to the capital markets to seek alternative sources of funding for social and developmental infrastructure by the 2008 economic crisis (Hambayi, 2016). This was largely as a result of the shrinking of the bilateral loans and grants from European and American countries mainly because the western donors were now facing substantial fiscal challenges and scaling back the flows to sub-Saharan Africa significantly (Mu *et al*., 2013). For instance, World Bank (2017) reports that net debt flows to Sub Sahara Africa, excluding South Africa, fell in 2015 by 16%. Many African countries decided to issue sovereign bonds in the international bond markets. Some of these countries are beneficiaries of the HIPC and MDRI initiatives (World Bank 2017). They have, nevertheless, received attention and acceptance in the capital markets.

Sovereign bonds, though attractive, come with significantly higher borrowing costs than concessional debt does. That notwithstanding, an increasing number of developing countries have resorted to sovereign-bond issues. The African countries have found out that sovereign bonds, usually denominated in dollars sometimes present a far cheaper way of raising resources than local lending rates. Despite the higher borrowing costs, they prefer the bonds to the direct low-rate loans from government aid groups as these often come with conditionalities (Hakim, 2014). Conditionalities and demand for accountability make the traditional bilateral and multilateral aid sources less attractive. Politicians would prefer money that gives them latitude to do what they want while leaving the problems that come with it to the future generations. Additionally, Official Development Aid (ODA) and concessional lending have proved inadequate in meeting Africa's infrastructure needs and achieving and maintaining the levels of sustained growth required to significantly reduce poverty (Stiglitz & Rashid, 2013).

At the time the African countries started issuing sovereign bonds, there developed a narrative on African economic prospects. The positive narrative of Africa's economic prospects titled 'Africa Rising', supported by high commodity prices, sound economic policies and improved governance positively powered the quest for profitable investments (Tafirenyika 2015). Consequently, several African countries found themselves eligible to issue international sovereign bonds and raise money.

As the African issuers are attracted to the bond markets, the question that begs an answer is why lenders, on their part, suddenly find these countries desirable in spite of their historical inability to pay debts because of wars, political upheaval and economic tumult and the past campaigns for debt cancellation (Hakim 2014). Africa has not always been able to raise money through bond issuances. Indeed, Tafirenyika (2015) argues that about a decade ago, this was not possible to do so as African countries' economies were considered too risky by international investors and most of them were not even rated by the rating agencies. Even when these countries were allowed to issue bonds, except for South Africa, none of their debt has received 'investment grade' rating. That would mean that their securities are under the non-investment-grade or 'junk' category signalling significant default risk.

It would seem that these investors are seeking high yields. The global financial crisis and the US Federal Reserve Bank and European banks' response to the crisis by quantitative easing have driven interest rates to record lows forcing the investors searching for yield to venture into markets that they would otherwise not transact in. Hakim (2014) and Tafirenyika (2015) argue that in the prolonged low-yield regime, investors have decided that they would rather take on lowly-rated sovereign Eurobonds in the developing countries, called 'Emerging Markets' (EM), than wait to get meaningfully higher yields on safe assets. This also offers the investors a chance to diversify risks while reaping higher returns and the Africa Rising narrative gave them the confidence to

invest in Africa.

Scholars such as Stiglitz and Rashid (2013), Hakim (2014), Tafirenyika (2015), Olabisi and Steinn (2015), Hambayi (2016) and others have noted that before 2006, no sub-Saharan African country had accessed international bond markets. First to venture into the markets in 2006 was Seychelles that opened up the way for the other sovereigns to do the same. It was quickly followed by Ghana, which raised $750 million in October 2007, becoming the first in sub-Saharan Africa, outside South Africa, to issue the bonds. Ghana was later joined by nine others that includes Gabon, the Democratic Republic of the Congo, Côte d'Ivoire, Senegal, Angola, Nigeria, Namibia, Zambia, and Tanzania. It should be noted, though, that Tanzania accessed the market through private placement and not the conventional bond issuance. By February 2013, these ten sovereigns had raised a cumulative total of US$ 8.1 billion from their debut bonds with an average maturity of 11.2 years and an average coupon rate of 6.25 in comparison to their existing external debts which averaged an interest rate of 1.6% with an average maturity of 28.7 years (Stiglitz & Rashid, 2013).

In 2014, first-time issuers, Ethiopia and Kenya also went into the capital markets to issue bonds and raised $1.5 billion and $2 billion respectively. Kenya's entry into the bond market in June 2014 was one of the largest ever debut deals from an African country (Manson 2014; Tafirenyika 2015). Practically all the bond sales have been hugely over-subscribed, indicating the investors' appetite for risk in emerging markets.

Data from Bloomberg shows that some of the countries such as Ghana, Côte d'Ivoire, and Senegal have been to the market again to issue for a second and third time after their debut issuances. Others, such as Kenya in December 2014, have accessed the markets again after their first issuance through a tap. Kenya raised an additional US$ 750 million in the tap sale. In February 2017, Côte d'Ivoire, issued a two tranche bond and raised US$ 1.25 billion with a coupon of 6.25 percent and Euro 625 million with a coupon of 5.125 percent thus opening up the prospects of issuance of bonds in Euros as opposed the traditional issuance in US dollars.

3.0 RISKS INHERENT IN THE SOVEREIGN DEBT ISSUANCE AND DEVELOPMENT PROSPECTS FOR AFRICAN COUNTRIES

Tafirenyika (2015) summarizes in four points the attractiveness of Sovereign bonds for sub-Sahara African issuers. Firstly, they offer an alternative source of finance. Secondly, they are not subject to the conditions usually attached to loans from the rich countries and multilateral organizations. Thirdly, the critical infrastructure can be financed at cheaper costs than raising resources from domestic markets and finally that the bonds carry less stringent terms with reasonable periods of repayment. When these positive points are considered they make a very good case for borrowing from the capital markets for the African sovereigns and stoppage of

'dead aid' as advocated for by Moyo (2009).

Conversely, sovereign bonds are not without risks to the issuers. These include exchange rate, interest rate and liquidity risks. Exchange rate risk is usually high for bonds denominated in 'hard currency' such as US dollars, the Euro, the Japanese yen or Sterling Pounds and it is the most material risk for African countries' sovereign bonds issued to date because most of them have been issued in dollars (Tyson, 2015). Côte d'Ivoire has even diversified and in February 2017, has issued a bond denominated in Euro.

Exchange rate risk relates to the need to service the loan during its life in hard currency. This puts pressure on the issuers as they have to ensure they generate adequate local resources to repay their loans. Since the resources are usually raised in local currencies, the issuers find it a challenge especially when the hard currencies appreciate against the local currencies. This increases the loan repayment in local currency equivalent and makes the debt costly or unpayable in the worst case scenario (IMF 2014). This is best demonstrated by the long-term depreciation and short term volatility that affected the sub-Sahara region making this risk more probable (Tyson 2015). The long term nominal depreciation averaged 3-4 percent annually between 2000 and 2013 which was an equivalent of 44 percent cumulative devaluation (IMF 2014). Currencies such as Ghanaian Cedi and Nigerian Naira both depreciated by more than 20% in 2014 with the depreciation peaking at 60% (Tyson 2015).

The second risk that face the sovereign bond issuance is the interest rate risk. This risk is high for bonds issued with floating rate interest rates. Floating rate interest has two sides to it. On the one hand, they can lead to cost savings if interest rates fall. On the other hand, and this is where the risk is, the costs of these bonds rise if the rate increases. The sovereign issuers need to be conscious of this fact as low rates prevailing under the financial crisis are not the norm and indications are that the rates will only rise.

The third risk that African sovereigns need to keep in sight is the liquidity risk. This risk is high for bonds with bullet repayment. Liquidity risks include refinancing and roll-over risks. At maturity, the issuer may wish to refinance the existing debt and, therefore, seek new borrowing to pay off the old debt. The refinancing risk is the risk of refinancing at unfavourable terms such as punitive interest rates and shorter maturities (IMF 2014b). The roll-over risk is the risk that there may be no takers of the new bonds being issued to take out the maturing bond leaving the issuer with the burden of raising resources through alternative means to repay it or defaulting.

Velde (2014) identifies other risks as carry costs risks and debt sustainability risks. The cost of carry is the risk that may not appear obvious to the issuers. This risk occurs when the funds borrowed are not immediately put to use due to project implementation delays which implies that they start paying interest on money that is not being productively used. Debt sustainability risk is

the one brought about by the inability of the sovereign to manage its debts or when it spends the proceeds of the issuance unwisely and does not have funds to repay the bond when it matures.

4.0. AFRICA'S EXPERIENCE WITH SOVEREIGN BONDS

The risks notwithstanding, since 2007, Sub-Sahara African sovereigns have increasingly issued bonds in the international bond markets in an apparent disregard to the debt crisis that some of them underwent in the 1980s and 1990s. Indeed Stiglitz and Rashid (2013) question whether short sighted financial markets are not working with short sighted governments to lay down the groundwork for the world's next debt crisis.

This stems from the apparent higher costs of borrowing for the African sovereigns. The attraction for the sovereigns is the advantage offered by issuing bonds in international capital markets as the money does not come with conditionalities and it is disbursed in full on the closing date. Considering that this borrowing comes at a cost that is higher than ODA, it is incumbent on the borrowers to spend the money wisely if they are to achieve the development that Moyo (2009) proposes. Indeed Presbitero et al (2016) and Olabisi and Stein (2015) argue that African sovereigns issue their debt at a higher premium and it can be as high as more than 100 basis points even though market volatility affects all countries in the same way (Presbitero et al., 2016). This is the more reason why wise spending should be a key consideration.

Prudent use of the money, however, is something to worry about as many sub-Saharan African countries have a history of fragile institutions and corruption (Hakim 2014). Sometimes, what the money will be used for is not usually very clear, raising the possibility that part of it could be misappropriated or used in non-productive sectors. Zambia for instance unwisely spent a substantial portion of the money from the sovereign debt on salary increases for its public servants while Mozambique borrowed $850 million for its national fishing industry but instead spent the money on military boats and equipment (Tafirenyika, 2015). It therefore, becomes a challenge for future generations to repay loans whose use and benefits can neither be identified nor justified.

While accessing the international capital markets is also advantageous for the issuers in that they can quickly access finances to employ for quick infrastructure development, the sources of repayment cash need to be steady. With African sovereigns, however, most of their economies are commodity-based (Bailey, 2016). These commodities are mainly agricultural products such as coffee, tea and cocoa, oil and metals such as iron ore, copper and platinum. Angola and Nigeria, for example, depend on oil exports, while Zambia depends on copper exports that accounts for more than two-thirds of her total export earnings (Stiglitz & Rashid, 2013). Other examples include Ghana's dependence on gold and cocoa and the DRC on raw minerals.

Relying on commodities leaves these economies vulnerable to external shocks. The recent low prices regime was occasioned by the slowdown in China's growth and her reduced demand for the raw materials (Bailey, 2016). Low commodity prices after the boom have negatively impacted on these countries' ability to service their debts. The fact that both Zambia and Ghana have already appealed to and received assistance from the IMF in repaying debts acquired through sovereign bonds is an indicator that not very good prospects await the African sovereign bond issuers.

Considering the risks named above, therefore, the proposal by Moyo (2009) that Africa should access the bond markets, though good in terms of quick access to resources, is not the solution to Africa's underdevelopment. No country has developed from just producing raw materials. Indeed Rogoff (2016) argues that results from internet searches on the topic of Africa's industrialization only brings up links to articles and essays on its failure to do so unlike searches on Europe and Asia that brings up success stories. So whether they issue bonds or not, as long as the base of their economies remain raw materials, then status quo will remain. The international political economy structure will remain as it is with the developing countries dictating the rules of engagement.

Again, there is always the risk of a huge debt burden leading to debt overhang. Currently, external debt in the bond issuing sub-Sahara African countries still looks sustainable thanks to the debt reduction initiatives such as MDRI and HIPC. However, if the borrowing spree continues, Africa faces a future with unmanageable debt. Undoubtedly, this risk may grow especially if sub-national authorities and private-sector entities gain similar access to the international capital markets, considering that one of the reasons why the sovereigns issue debt for the first time is to provide a benchmark against which such entities can go into the markets.

Such issuances by sub nationals and the private sector could result in excessive borrowing. Nigerian commercial banks for instance already issued international bonds; in Zambia, the power utility, railway operator, and road builder were planning to issue as much as $4.5bn in international bonds by 2015 (Tafirenyika 2015). Too heavy a debt burden is unlikely to be catalytic in the development of the sub-Sahara African economies. Indeed the IMF managing director Christine Lagarde in 2014 warned African countries against accruing high debt (Tafirenyika 2015; Hambayi 2016).

Further, sovereign bonds are usually issued in foreign currency such as dollar or Euro. As discussed earlier in this paper, the exchange rate risks, liquidity and interest rate risks are increasing for the African sovereigns. This does not mean that they were not part of the African economic problems but they have increasingly become apparent as the countries struggle to meet their debt obligations. The increased sovereign bond issuance is likely to see a continued increase

in these risks. Africa needs to identify and manage the risks if the borrowing is to be of relevance in their development process. Barring such measures, neither sovereign bond issuance nor 'dead aid' will bring development to the continent.

Generally, with 'dead aid' there was always a chance of renegotiating the debt and most of the Least Developed Countries (LDCs) repeatedly rescheduled their loans to the western lenders. Currently, though debt sustainability is an important factor when countries issue debt in the international capital markets, Bulow and Rogoff (1988) argue that Sovereign debt is unsecured and not pegged to ability to repay. However, the lenders have legal or other direct sanctions they can exercise against a defaulting sovereign borrower such as the ability to impede a country's trade or seizing its financial assets abroad (Bulow & Rogoff, 1988).

Such punitive measures could lead to reduced capital markets access, which appears very likely to be African sovereigns' fate if they continue to issue debt in disregard to their ability to generate resources to repay the loans. As Moritz Kraemer, quoted in Hakim (2014), argues that one is a successful participant in the international capital markets not when one issues the first bond, but when the issuer has repaid it and that time is still to come for the African bond issuers. Stigliz and Rashid (2013) note that signs of default stress were already showing in March 2009, for instance when, less than two years after their issue, Congolese bonds were trading for 20 cents on the dollar, pushing the yield to a record high. In the same vein, in January 2011, Côte d'Ivoire became the first country to default on its sovereign debt since Jamaica in January 2010 and In June 2012, Gabon delayed the coupon payment on its $1bn bond, pending the outcome of a legal dispute, and was on the verge of a default (Stiglitz & Rashid 2013). All this is an indication that sovereign bonds should be issued cautiously or a debt crisis is eminent.

4.1Other Sources of International Borrowing

Moyo (2009) also advises the African sovereigns to look to the Middle East and China to issue their bonds rather than issue in the traditional United States and Europe markets. Moyo (2009) argues that these new markets have large capital reserves and will be able to price African risk better than Western markets. This, however, has not been the case. The African countries have not rushed to these markets as they have to the Western ones. The Islamic markets have a sharia-compliant instrument, the *sukuk* bond, which has not been taken up by the issuers basically because of the little understood asset-inked structure of the bonds that entails lease and buy-back transactions. Senegal, South Africa, Côte d'Ivoire and Togo are among the countries that have issued *sukuk* bonds but on a small scale.

The large capital reserves that Moyo (2009) urges the African countries to borrow for their development finance have not been easily accessible. With the fall of the oil prices, the Middle Eastern countries have turned to liquidating their wealth funds are beginning to turn to the

international capital markets as a source of finance. Liquidity in the Middle East capital markets is not as high as Moyo (2009) thinks. China on its part, has only developed a *panda* bond but is yet to come up with debt instruments that can be of assistance to the African sovereigns in the capital markets. China has gone the traditional lending route and the Exim Bank of China is the institution set up by the Chinese government to manage the lending. These markets may not provide the required liquidity and maturity structures for the African sovereign issuers who are mainly looking for benchmark-size issuance and medium to long term maturities.

5.0. CONCLUSIONS AND RECOMENDATIONS

5.1 Conclusion

Money raised from the international capital markets has to be prudently used if Africa is to become an important contributor to the global political economy failing which she will continue to be seen as a drag and the international system structure will remain as is. The West will continue to dictate the terms of engagement and Africa's chance of significantly influencing the international system will at best remain minimal and Africa will remain 'a scar on the world's conscience'. Dead aid or sovereign bonds, Africa's development is a long and difficult journey. A lot more needs to be done on the political front in fighting corruption, reviewing Africa's development model and borrowing and using the proceeds prudently in order to develop.

5.2 Recommendations

Since 2006, many African countries have issued debt in the international bond markets but are now faced with prospects of default and accumulation of excessive debts. This has the potential of wiping out the gains achieved under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI), which sought to reduce debt levels for the beneficiaries of these initiatives. Accessing international bond markets is not a panacea for Africa's development problems. Indeed it seems to compound the African Sovereigns' problems by creating conditions for future debt distress. Deliberate policy decisions and efforts are required in managing the risks that come with these kinds of debt. Further, good governance, accountable regimes and deliberate and sincere action against corruption are pre-conditions for proper use of the funds raised and the desired economic growth. Most importantly, African countries' policy makers need to rethink the development model that is currently underpinned by commodity-based economies.

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