The financial statecraft of debtors:
A diversified financing landscape and the bargaining power of African sovereign borrowers

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The financial statecraft of debtors

Theoretical paper, asking:

- Does access to a wider range of lenders give sovereign borrowers greater bargaining power in loan negotiations? Why?

- What explains variation in this bargaining power across sovereign borrowers?

Outline

1. **Overview**: New lenders to African sovereign borrowers
2. **Existing literature:** International relations of a diversified financing landscape
3. **Theoretical framework:** Financial statecraft of debtors

A diversified financing landscape for African sovereign borrowers

– Since early 2000s, transformation in financing available to African sovereign borrowers

– "Traditional lending":
  - Multilateral development banks, especially World Bank
  - Bilateral creditors in the OECD DAC
  - Bank lending

– "New" financing:
  - "Non-traditional" bilateral creditors: China, India, Brazil
  - Sovereign bond markets

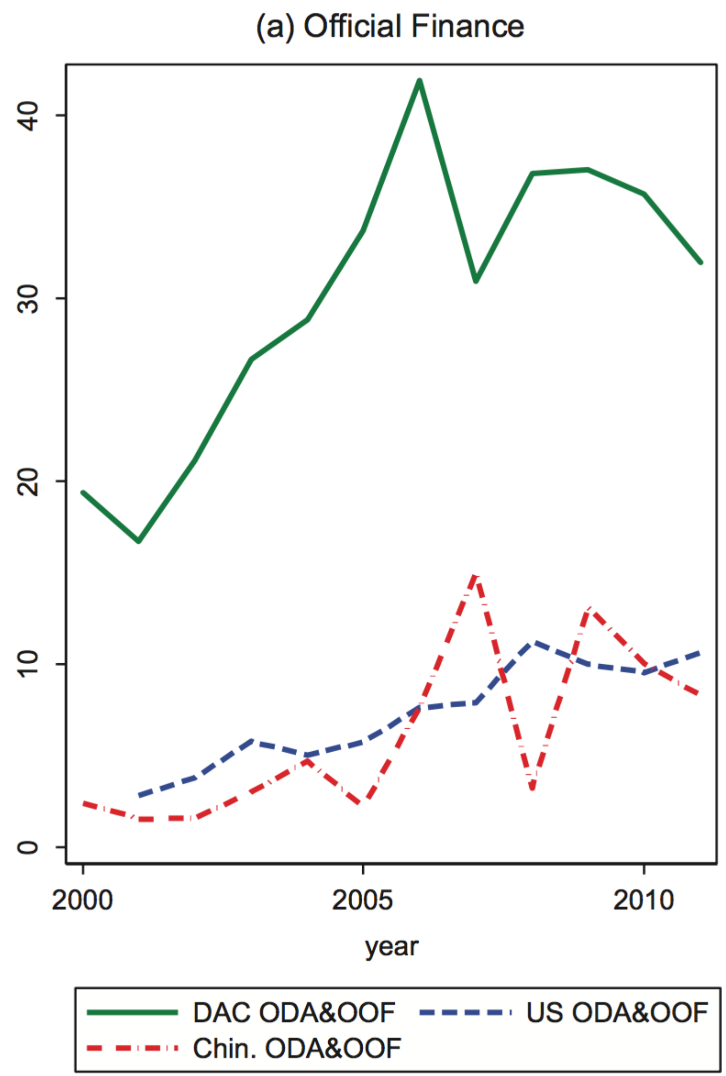
A diversified financing landscape for African sovereign borrowers: New bilateral lenders

- OECD DAC official finance to Africa 2000-2011:
  - $361 billion
- Chinese official finance to Africa 2000-2011:
  - $73 billion

- 45 of 49 sub-Saharan African countries receiving loans from China

- Indian lending concentrated in East Africa; Brazilian lending in Lusophone countries

A diversified financing landscape for African sovereign borrowers: New bilateral lenders



Strange et al. (2015)

A diversified financing landscape for African sovereign borrowers: New bilateral lenders

– New donors stress "non-interference" and "win-win" deals

(Mawdsley, 2012)

– Loans are disbursed faster and in larger volumes

"I have found that a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we have dealt with the Chinese authorities"

Abdoulaye Wade, President of Senegal, 2000-2012

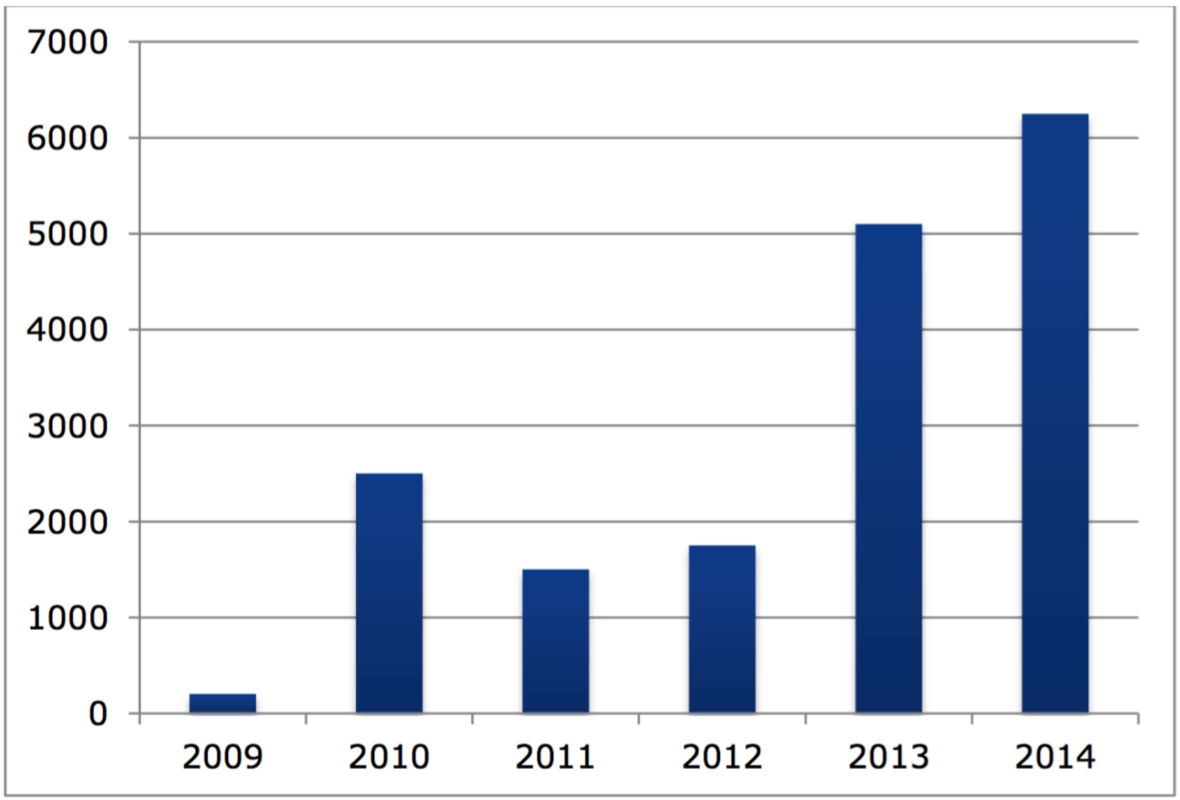
A diversified financing landscape for African sovereign borrowers: Sovereign bond markets

- African bond issues increased over 2000s, especially since the global financial crisis
  - Since mid-2000s: 17 sub-Saharan African countries have issued sovereign bonds
  - New sovereign bond issues in 2014 exceeded $6.25 billion
  - 17 sub-Saharan African countries had credit ratings in 2014, only 4 in 2003

- Inflows driven by global low interest rate environment and enthusiasm about "Africa Rising"

A diversified financing landscape for African sovereign borrowers: Sovereign bond markets

Sub-Saharan African sovereign bond issues (million USD)



Tyson (2015)

International relations of a diversified financing landscape

- "emerging donors are introducing competitive pressures into the existing system"

Woods (2008)

- "Africans welcome this new heightened rivalry for their attention and partnership"

Rotberg (2008)

- "African states can…play donors and investors off against each other"

Power & Mohan (2010)

International relations of a diversified financing landscape

- Assumption in the IPE/IR literature: New lenders increase "policy space" or "leverage" of borrowers

- But, two gaps:
  1. What mechanism allows borrowers to extract leverage from alternate lenders?
  2. What explains variation in the gains experienced by lenders?

Financial statecraft of debtors

- Where might we observe greater "policy autonomy" or "leverage" of African sovereign borrowers?
    - In the terms of loans from traditional lenders, because borrowers have greater bargaining power?
    - But, interest rates, maturity and grace periods unlikely to vary
    - Bargaining power likely to shape the *conditionality* of traditional lending

Financial statecraft of debtors

– *How* does a diversified financing landscape translate into greater bargaining power over loan conditionality?

– Alternative lenders give borrowers *outside options,* giving them
  1. Holding power, and
  2. Threats to defect

– Economic/financial statecraft literature primarily focused on *creditors,* but debtors can also use financial ties to their advantage

Financial statecraft of debtors

- What explains *variation* in the success of financial statecraft?

- Financial statecraft requires threat to "defect" to alternative lender to be
  1. Meaningful – Lenders want to maintain (semi-)exclusive relationship
  2. Credible – Borrowers have access to alternative and could use them instead

- Therefore, two attributes of borrowers matter:
  1. Strategic significance
  2. Regime consolidation

Financial statecraft of debtors

- *Strategically significant* borrowers can make meaningful threats to defect
  - Lenders want to maintain (semi-)exclusive relationship to ensure relationship
  - Lenders offer lenience on conditionality as payment for favors from strategically significant borrowers

- Insights from:
  - Literature on adjustment lending

    Biersteker (1993); Kahler (1993); Haggard & Kauffman (1989)
  - Literature on African regimes in international relations

    Bayart (1993); Clapham (1996)

Financial statecraft of debtors

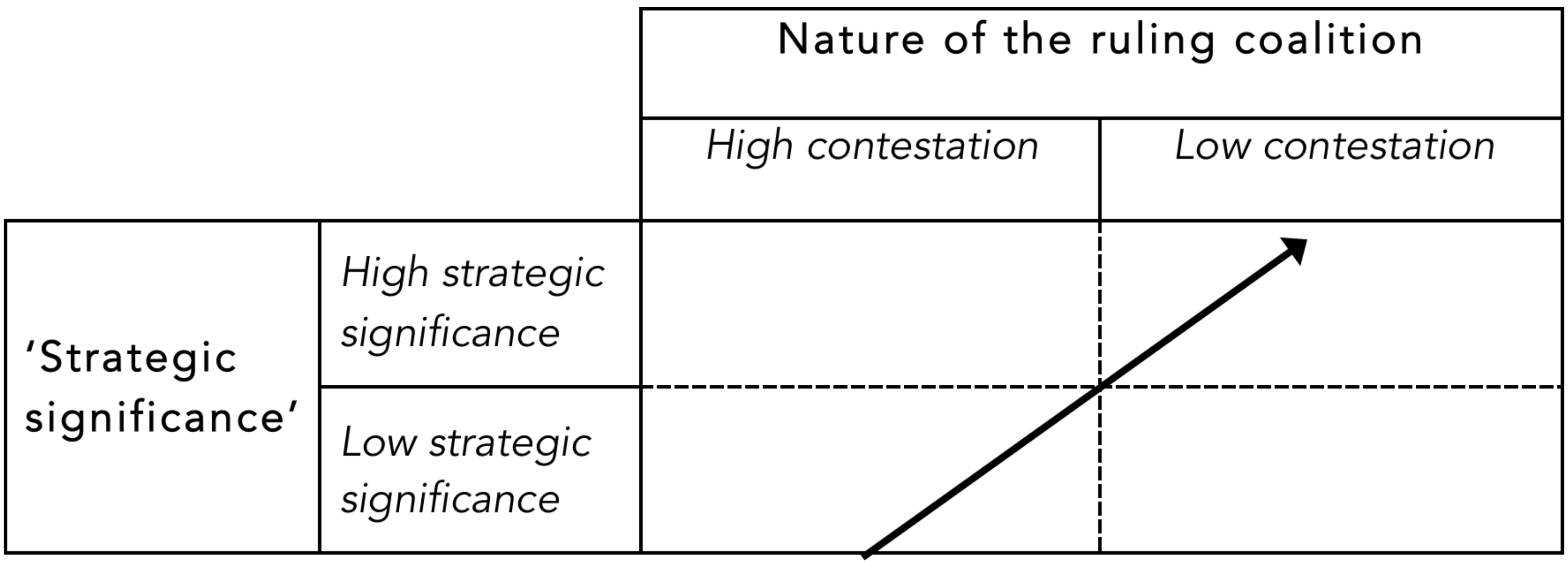
- Borrowers with *consolidated regimes* can make credible threats to defect
  - For credible threats borrowers have to be able to turn down financing
  - Consolidated regimes have fewer patronage payments to make
  - Consolidated regimes have more coherent policy positions, borrow to fund these

- Insights from:
  - Political settlements literature

Khan (2010); Whitfield et al. (2015)

Financial statecraft of debtors

– Explaining variation in success of financial statecraft of debtors



Conclusion

- Alternative lenders have the *potential* to increase borrowers' bargaining power over conditionality with traditional lenders

- Variation in success of financial statecraft determined by:
  - Strategic significance
  - Nature of ruling coalition

- Future empirical tests
  - Quantitative analysis across sub-Saharan (developing country?) borrowers
  - Case studies: Ghana, Kenya, Ethiopia

Thank you

Comments very welcome:

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