Independent Development Evaluation
African Development Bank

Debt burdens and building economic resilience of African countries: Effective approaches for International Financial Institutions

Overview of the Debt burden and African countries' resilience in the current crisis context

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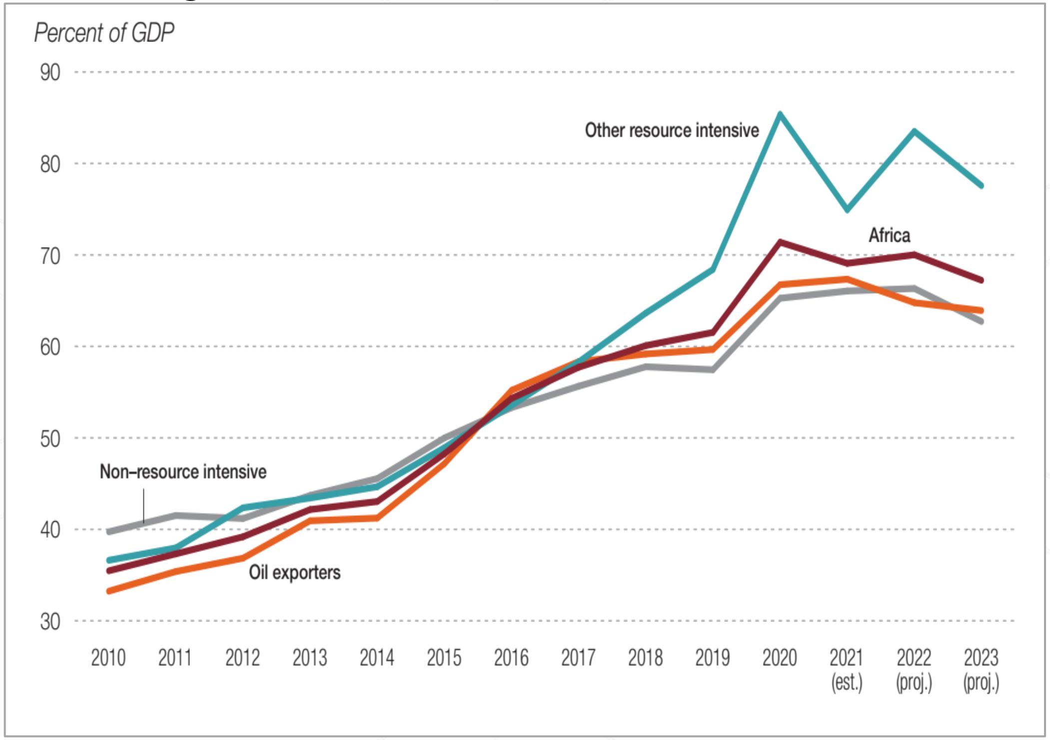
Outline

- Introduction- crises and fiscal implications
- Rising debt vulnerabilities
- Implications of rising debt levels
- Sustainable debt management
- Role of IFIs
- Conclusion

Elevated debt levels, despite economic recovery and debt relief initiatives

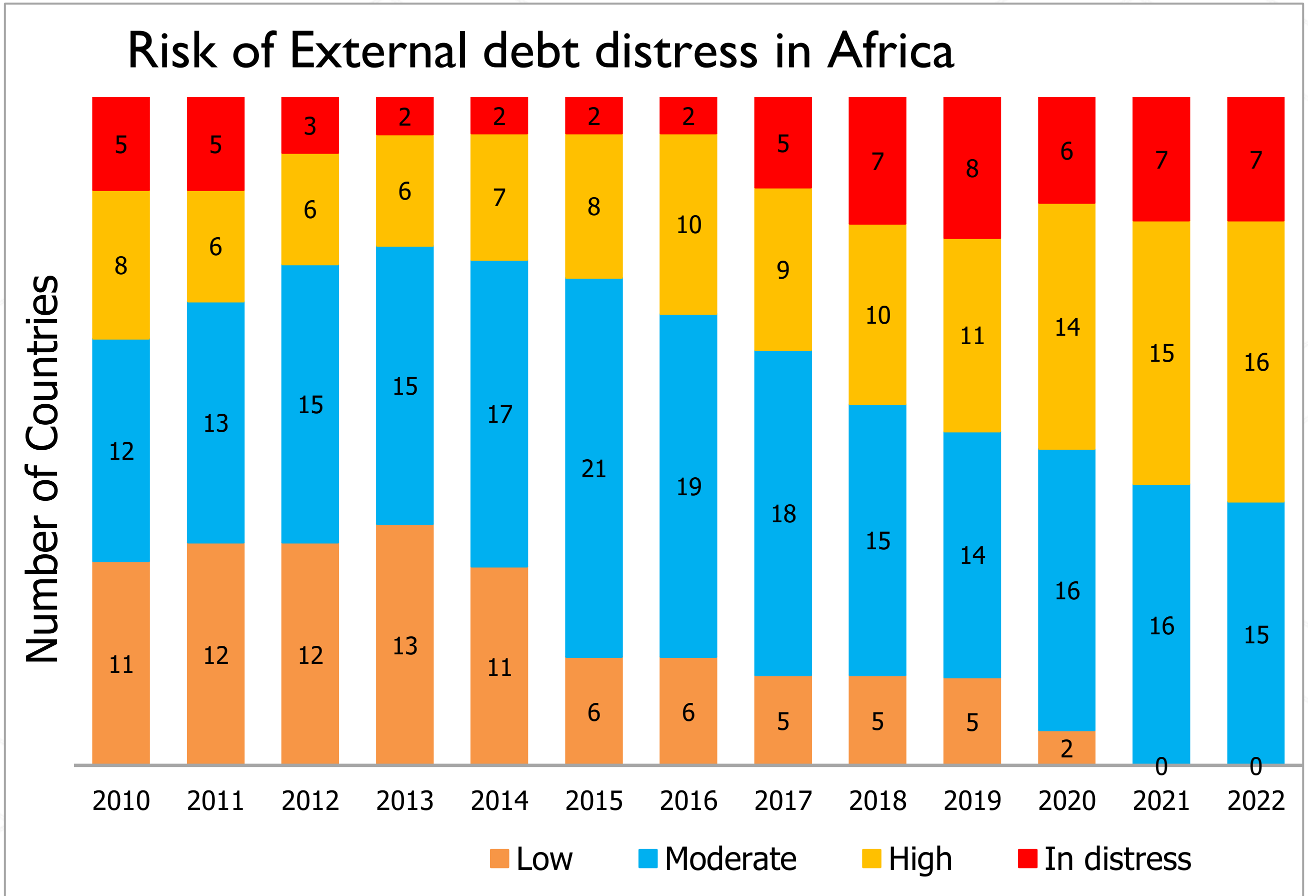
- Africa's gross public debt increased from 36 – 71.4% of GDP between 2010 and 2020
- Rate of increase slowed in 2021-due to temporary liquidity support to countries and rebound in GDP growth rates
- Overlapping fiscal challenges stemming from COVID-19 recovery, increasing climate change impacts, heightening security spending, inflation, and global market volatilities set to exacerbate vulnerabilities.
- Debt-to-GDP ratio likely to rise by 10 to 15% in the short to medium term

Gross government debt as a share of GDP, 2010-2023



Rising debt vulnerabilities…

- Increasing number of countries in debt distress.
- As of April 2022: Out of the 38 countries for which Debt Sustainability Assessments were available:
  - 16 countries were in high risk of debt distress;
  - 7 were already in debt distress
  - 15 had a moderate risk of debt distress



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
In distress	5	5	3	2	2	2	2	5	7	8	6	7	7
High	8	6	6	6	7	8	10	9	10	11	14	15	16
Moderate	12	13	15	15	17	21	19	18	15	14	16	16	15
Low	11	12	12	13	11	6	6	5	5	5	2	0	0

Higher cost of debt servicing- debt relief initiatives…

- Debt service payments now (in 2022) account for an average of 18 percent of total government revenue

- In 2020, over 21 African countries had external debt payments as a share of government revenues of over 14 percent, and in 5 of these countries, the ratio was over 30 percent.

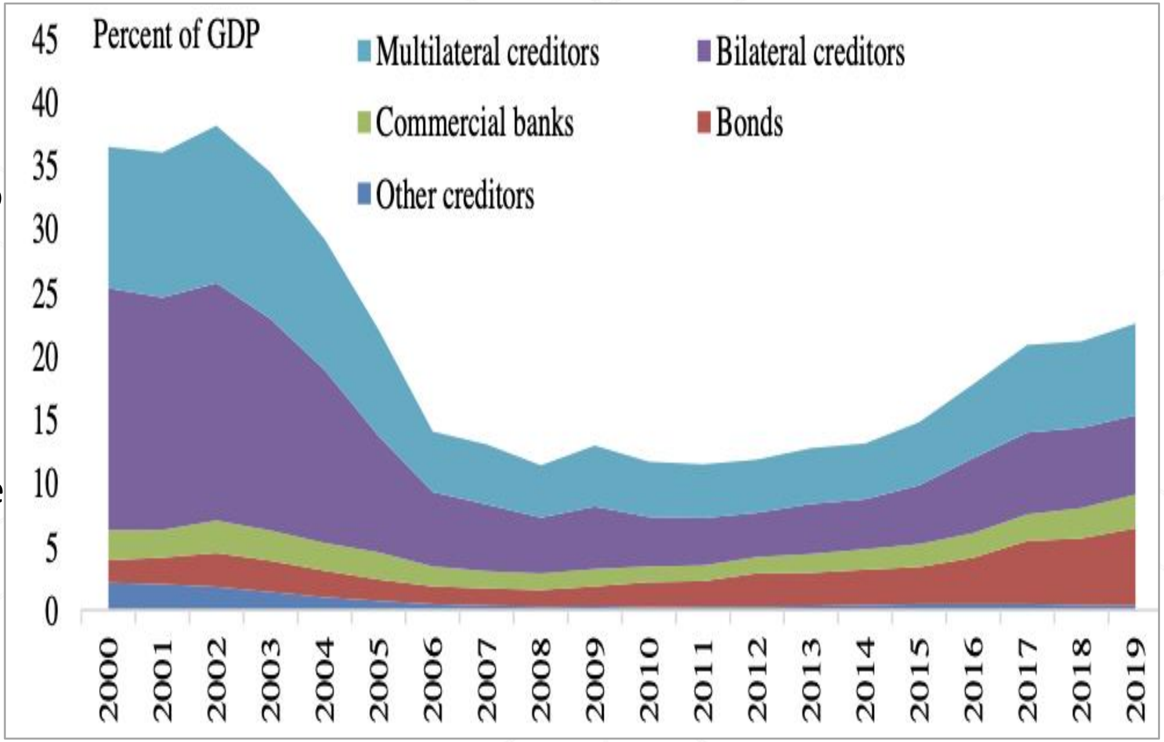
- The G20's Debt Service Suspension Initiative (DSSI) was launched in 2020, it allowed affected countries to defer their debt payments in order to manage the COVID-19 pandemic, as DSSI expired at the end of 2021, participating African countries are forced to resume debt service payments- adding further burden on cost of debt service payments.

The "Common Framework for Debt Treatments beyond the DSSI encountered several challenges…

- The common Framework aimed to broaden the scope of the DSSI by including members of the Paris Club, non-Paris club, especially China and private creditors.
- Several challenges encountered:
  - Slow implementation
  - Limited participation of private creditors
  - Agreement on general principles have been difficult to translate into operational results, partly due to lack of creditor coordination, information sharing and procedural transparency.
- Low coverage -only Zambia, Ethiopia and Chad undertook debt restructuring under the framework, but experienced significant delays.

The composition of debt in African countries has changed dramatically over two decades…

- Private Creditors more than doubled, from 17% in 2000 to 39% in 2019.
- Multilateral debt - relatively stable (at about 32.5 percent) over the past two decades.
- Bilateral Debt halved to about 27%.
  - China accounts for 48.5% of total bilateral
  - United States (15 percent), France (11 percent),
  - Saudi Arabia (9 percent)
  - UK (9 percent)
  - Germany (7.5 percent)



Opacity of debt is a critical issue….

- **Lack of transparency from non-traditional lenders.**
  Emergence of non-Paris club (e.g.: China) complicates debt recording and reporting because such lending often come with terms that are opaque (Mustapha and Prizzon, 2018)
- **Undisclosed debt has affected sovereign ratings:** Recent undisclosed SOE's debt has led to downgrades of countries (e.g.: Mozambique). Other countries (e.g.: Cameroon and Chad) also faced issues with "hidden debt".
- **Incomplete reporting on debt held by SOEs in LICs:** reported median total SOE's debt to GDP was only 0.3 percent of GDP in 2018, while DSAs reveals higher SOE debt, reaching 4.5 and 1.3 percent of GDP in Zambia and Ghana, respectively ((IMF, 2020).
- **Growing "hidden" debt:** hidden debt to China in LIC is as high as 50 percent of total Chinese overseas lending (Horn, Reinhart and Trebesch, 2019).

Debt Reporting Heat Map (1/2) *[Source: World Bank]*

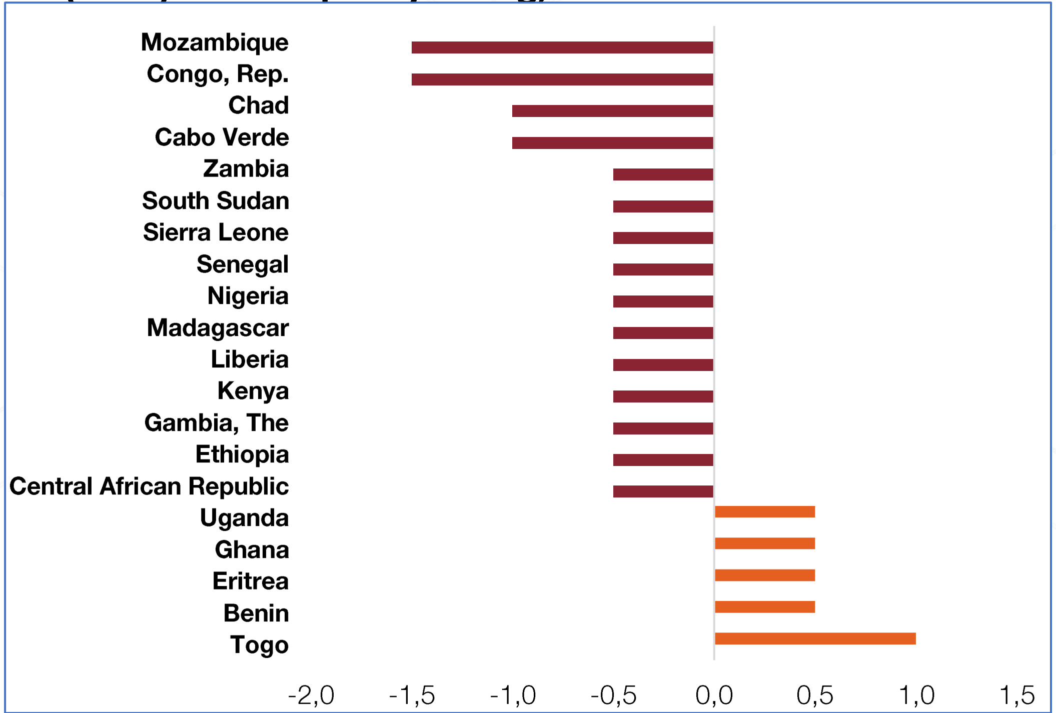
Debt Reporting Heat Map (2/2) *[Source: World Bank]*

Building capacity to manage debt sustainably is imperative

- Debt transparency and reporting in Africa is weakened by deteriorating capacity in debt management (e.g.: CPIA debt policy indicator has deteriorated for many countries)

- Several African countries assessed by the World Bank's Debt Management Performance Assessment (DeMPA) performed below average, indicating that their public debt management and governance systems are ineffective.

Change in Country Policy and Institutional Assessment (CPIA) of debt policy rating, 2015-2019



Strengthening the link between debt, governance and growth

- Debt vulnerabilities have been caused partly by poor debt governance frameworks, suboptimal public investment decisions, poor debt management capacity, lack of transparency in debt management, and low growth
- Debt itself is not a problem; it is the quality of the investments made with the debt, the terms of debt contracts, and the repayment profile that matter.
- The Bank views debt from a more rounded, whole-of-economy perspective that considers country peculiarities and needs
- Particular concern relating to fragile contexts, and their security challenges- weighing heavily on expenditures

Role of the African Development Bank

AfDB strategies and initiatives to help RMCs to address debt vulnerabilities:

- Three-year Multidimensional Action Plan for the Management and Mitigation of Debt Distress Risks (Debt Action Plan) (2021-2025) in 2021 to support RMCs to "make debt work better" for Africa.
- Five-year Strategy for Economic Governance in Africa (SEGA) (2021-2025) in 2020 which includes Debt Management and Transparency as one of its main pillars, to strengthen capacity of RMCs for debt management.
- The Bank Sustainable Borrowing Policy in February 2022 to guide the Bank's own lending to regional member countries, enhance debt management and transparency and strengthen partnerships and coordination.
- The Capacity Development Strategy (CDS) (2021-2025) in July 2021 to enhance capacity for public financial management, economic policy management, and project management in RMCs
- The proposal to establish the Public Finance Management Academy (PFMA) in June 2022 to help build capacity in RMCs for public finance management cycle and ecosystem.

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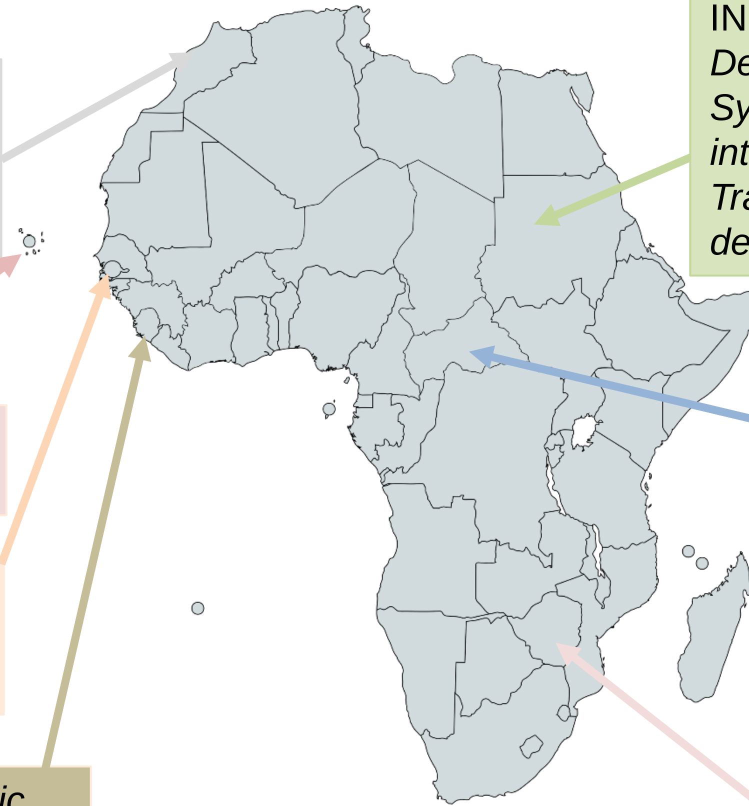
AfDB projects in support of debt management

IN **MOROCCO**, *Implementation of a risk assessment framework for debt, liquidity management, internal audit system, and training*

IN **SUDAN**, *Updating Debt Management Systems with international standards; Training Staff in modern debt management*



IN **CABO VERDE**, *drafting of a Debt Management Strategy*

IN **CENTRAL AFRICAN REPUBLIC**, *Acquisition of debt management hardware and software* equipment and providing *staff training* and TA

IN **THE GAMBIA**, *updating a medium-term debt strategy* consistent with reducing domestic borrowing

IN **SIERRA LEONE**, *drafting of the Public Debt Management Act*

IN **ZIMBABWE**, *Enhancing capacity for debt, revenue and public financial management*

Conclusion

- Undertake Structural reforms such as debt restructuring to ensure long-term debt sustainability;
- Reconfigure global debt resolution architecture;
- Accelerate governance reforms and improve public financial management to decisively address recurrent debt vulnerabilities;
- Strengthen debt sustainability and contain debt related risks through governance reforms and improved public financial management;
- Promote both debtor and creditor debt information/data disclosure and regular reporting;
- Enhance collaboration and harmonization among donors on debt governance diagnostic, resolution frameworks, and technical assistance delivery