

Debt Vulnerabilities in Africa: Trends, Challenges and Opportunities

High Level Policy Dialogue on Sustainable Debt Management in Africa

(TICAD)

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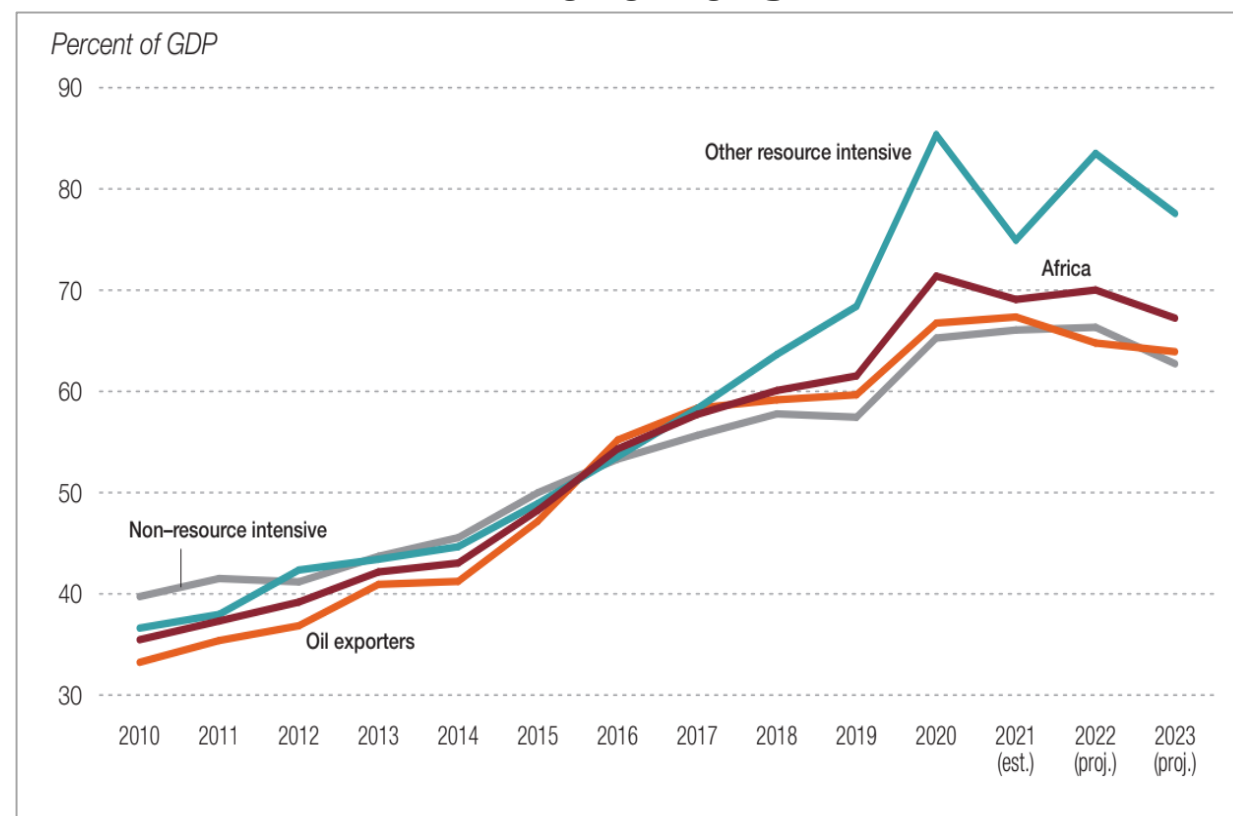
Presentation Outline

- **Introduction: Debt Vulnerabilities in Africa**
- **Debt Resolution – Challenges and Opportunities**
- **Key Questions for the High-Level Dialogue**
- **Recommendations**
- **Closing Words**

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

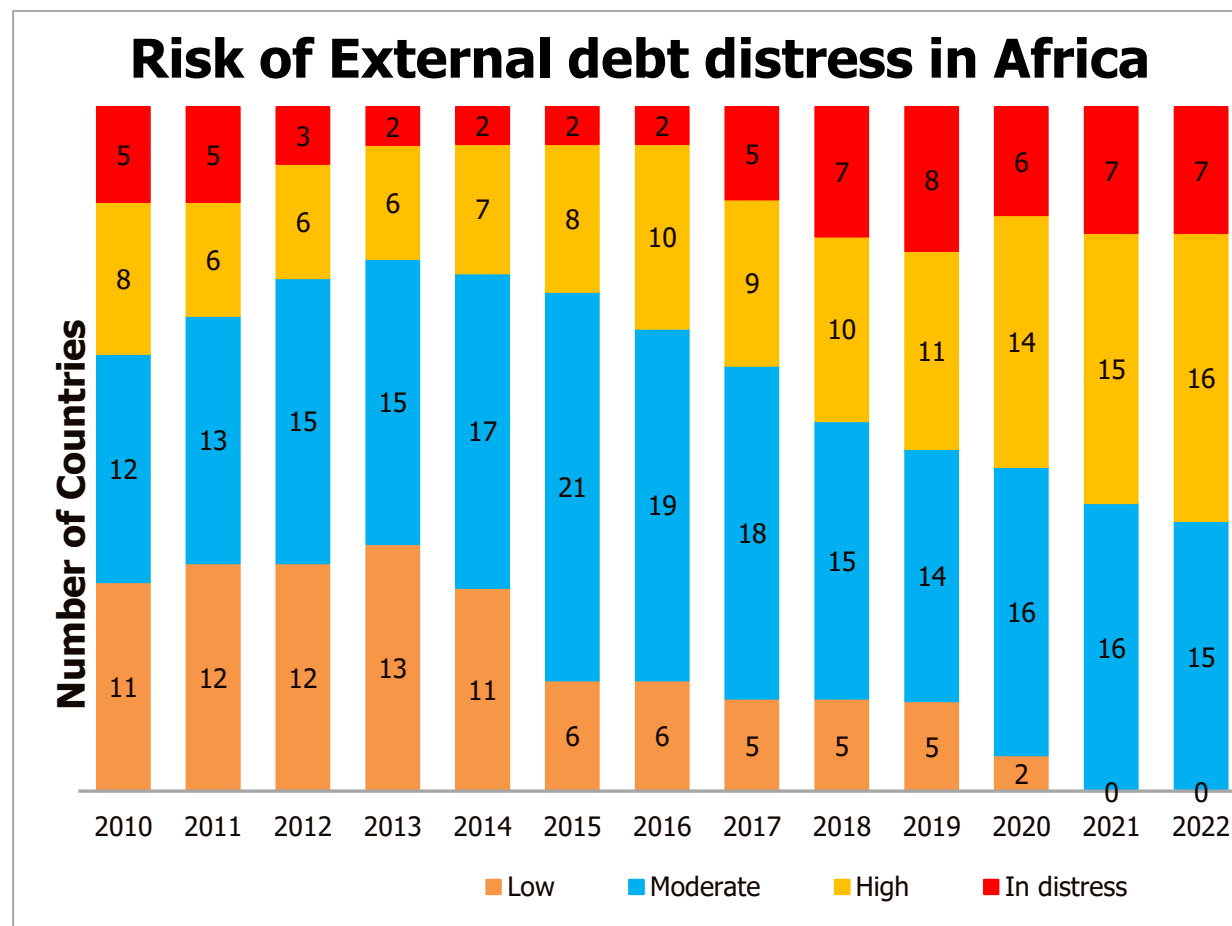


Higher Cost of Debt Servicing...

- **18% of total government revenue was used to service debt**
- **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.**
- **With the expiry of the DSSI at the end of 2021, participating African countries are forced to resume debt service payments- adding further burden on cost of debt service payments.**
- **Since January 2022, monetary policy normalization in advanced countries to rein in inflation is stoking a rise in global interest rates.**

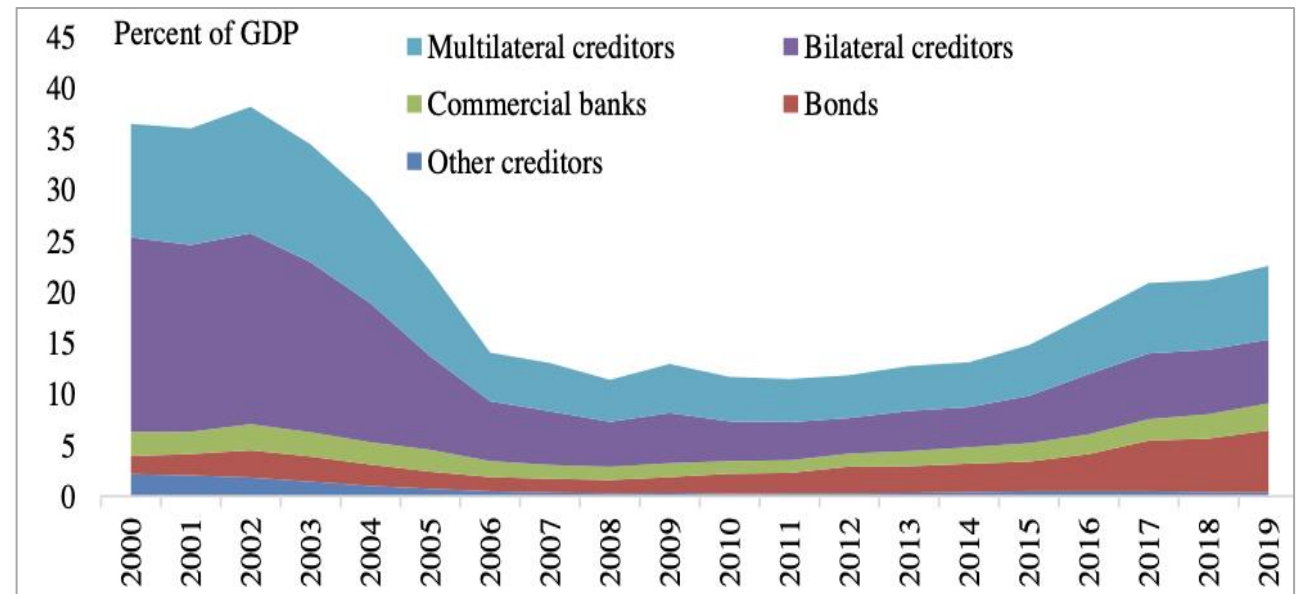
Rising debt vulnerabilities...

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



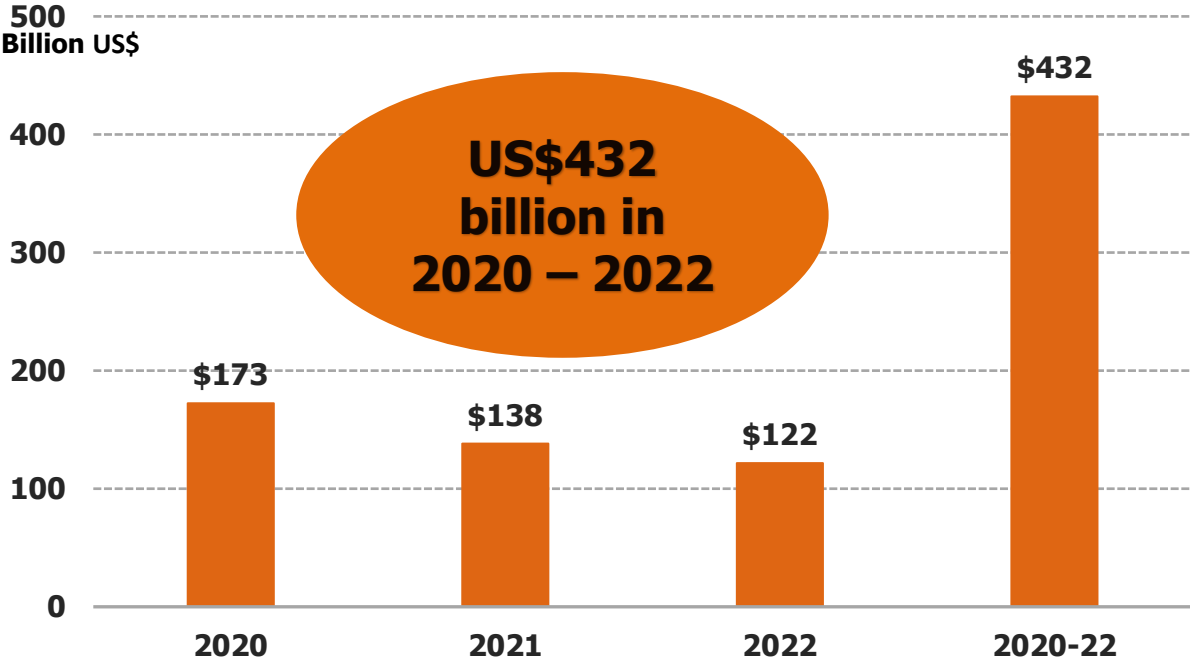
The Changing Composition of Debt in African

- **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)**

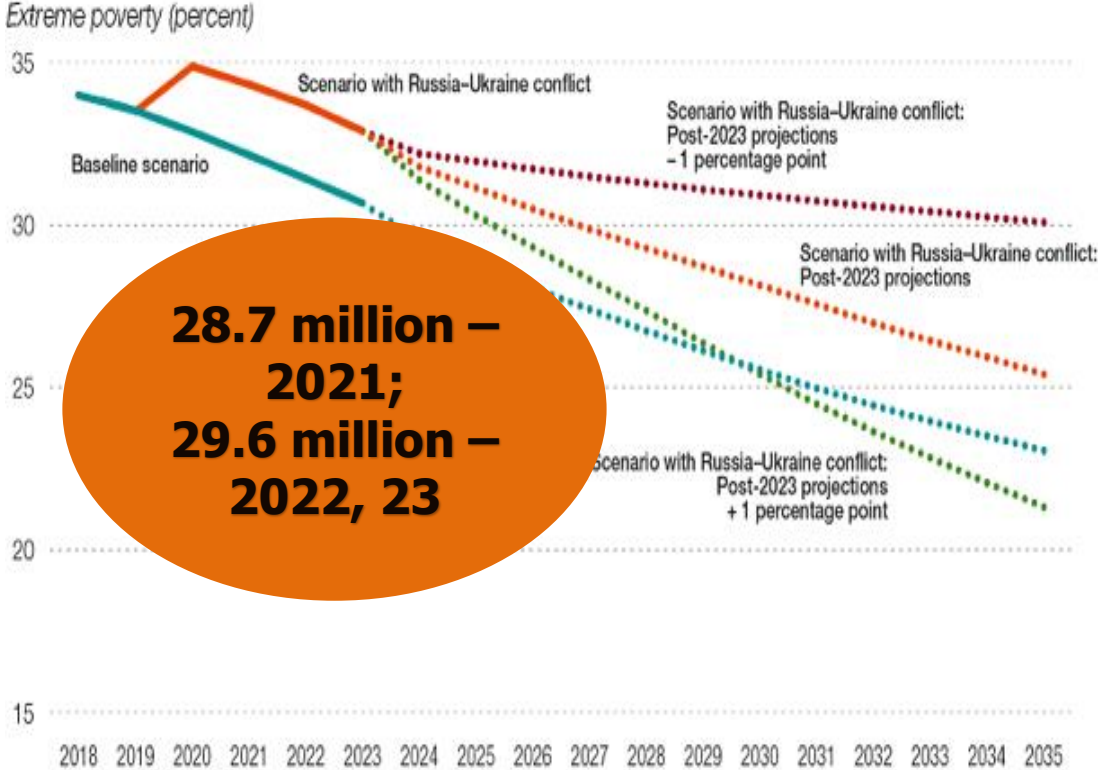


Growing financing needs to support recovery from recent shocks could exacerbate debt vulnerabilities.... (1)

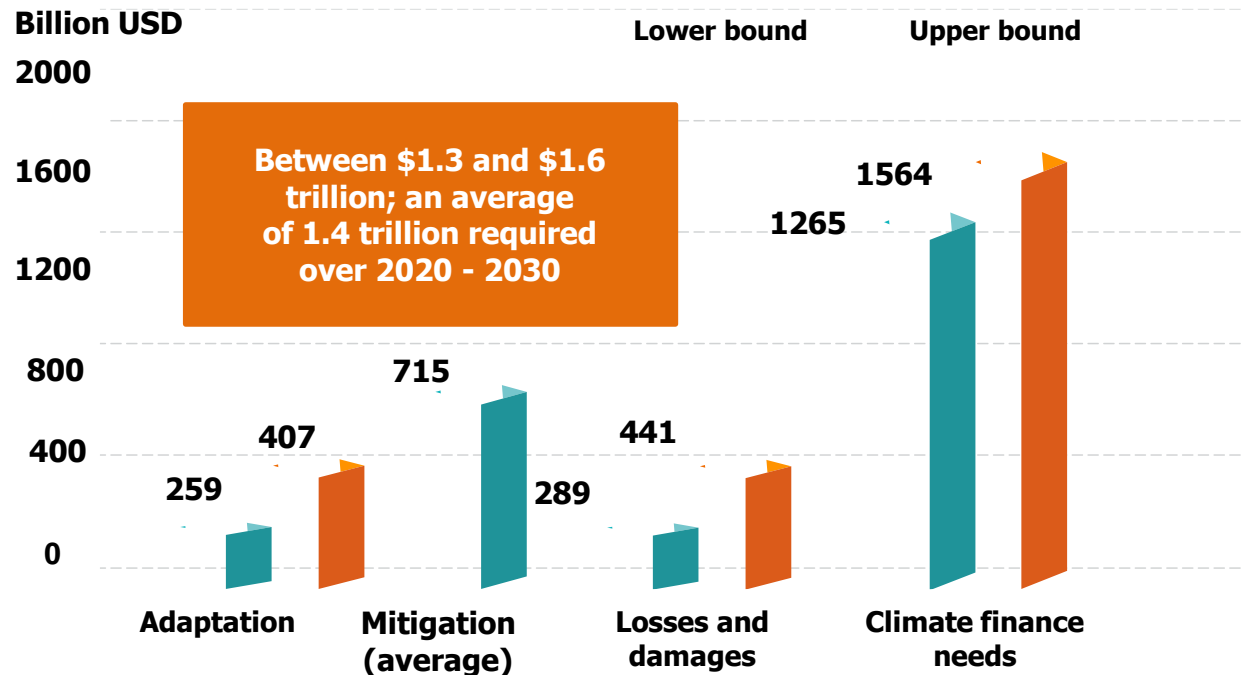
Additional resources to finance fiscal deficits in Africa, 2020-22



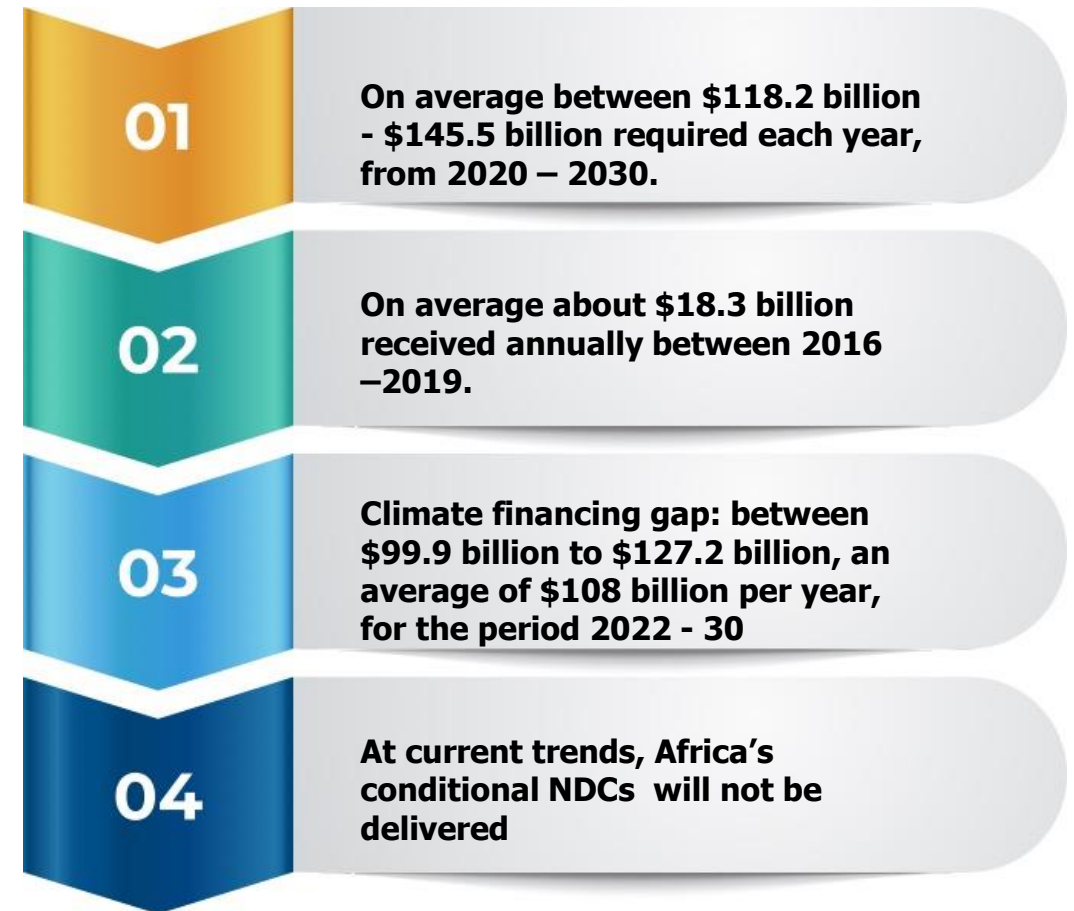
Catch up with pre-COVID-19 and pre-Russia-Ukraine conflict poverty rates



Growing financing needs to support recovery from recent shocks could exacerbate debt vulnerabilities.... (2)



African NDCs' climate financing needs 2020-2030



Progress and challenges with the current debt resolution frameworks

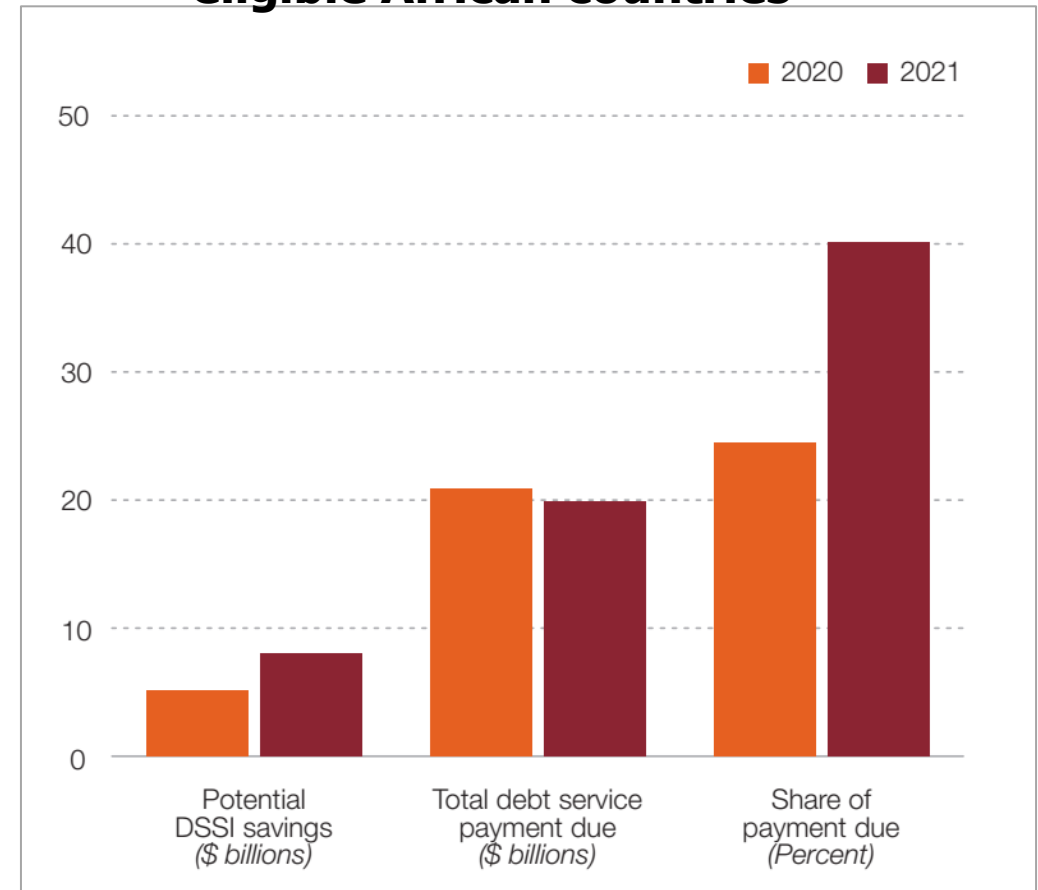
Concerns

- **Risk of more debt stockpiling and debt default**
- **Changes in debt instruments – more complex and less transparent loan terms, higher interest rates, shorter terms, and lack of policy conditionalities**
- **Procedural clarity and justice**
- **Debt for growth and stigmatization of debt**
- **Common but differentiated responsibilities**

DSSI support has helped but has been temporary and inadequate....

- **38 African countries have benefitted from the DSSI with an estimated saving of more than \$13 billion.**
- **The liquidity support has been temporary however and inadequate to cover all the financing gaps.**
- **Countries forced to continue borrowing.**

Potential DSSI savings in the 38 eligible African countries



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.**

Limited uptake of the Common Framework in Africa...

- **Fears of credit rating downgrades and being completely locked out of international debt markets**
- **Lack of participation by the private sector (private sector are key to debt restructuring- accounted for 40 percent of Africa's total external debt in 2020)**
- **Low coverage -only Zambia, Ethiopia and Chad undertook debt restructuring under the framework, but experienced significant delays.**

What can be done now?



What can be done now?

- **What should be done to speed up the resolution of debt vulnerabilities in Africa?**
- **What mechanisms can be put in place to strengthen coordination among the different stakeholders and accelerate actions towards ensuring an appropriate and fit-for purpose international response?**
- **What reforms are required in the global development finance architecture to make it more favorable to African countries?**
- **What role can multilateral development financial institutions play in addressing Africa's mounting debt vulnerabilities in the context of the Common Framework?**
- **What practical actions could governments take to get out or avoid falling into debt distress?**
- **What are the key policy priorities, trade-offs, and tough choices countries must take to achieve sustainable public debt, and make debt work for Africa?**

Role of the African Development Bank

- **The Bank 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.**

Recommendations - International Community

- 1. Extension of the Debt Service Suspension Initiative (DSSI)**
- 2. Re-channeling SDRs & New Green SDRs**
- 3. Clarify and fast track implementation of the G20 Common Framework**
- 4. More concessional financing for lower income countries / ADF replenishment**
- 5. Promote transparency on both sides of the coin: Promote both debtor and creditor information/data disclosure and regular reporting**
- 6. Enhance collaboration and harmonization among donors on debt governance diagnostic, resolution frameworks, and technical assistance delivery.**
- 7. Coordinate upstream and downstream technical assistance delivery**
- 8. Reconfigure global debt resolution architecture**

Recommendations - African Countries

- 1. Prudent macro-economic governance and PFM reforms in countries: strengthen the link between debt, economic governance, and growth.**
- 2. Alternative and innovative financing instruments: green bonds, social bonds, infrastructure bonds, SDG bonds, diaspora bonds, debt-for-climate swaps, and security investment indexed bonds.**
- 3. Borrow Sustainably. Focus on growth enhancing investments and build regional value chains, deepen domestic markets, ...**

CLOSING WORDS

“In the middle of difficulties lies opportunities”

– Albert Einstein.

“We cannot use an old map, to explore the new world”
– Albert Einstein.

“No social problem can be reduced (and certainly not eradicated) without distribution or redistribution of economic, political or social resources. All kinds of distribution or redistribution have a built-in conflict potential, no matter how trivial the distribution or redistribution seems to be”

- Norwegian Scholar – Else Oyen

Thank You

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