Debt Dynamics and Development Finance in Africa

Dr. Tonia Kandiero

African Development Bank Representative, Tanzania

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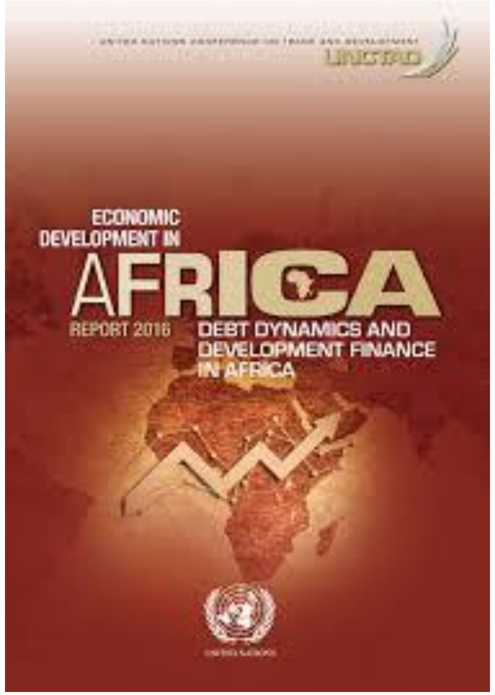
UNCTAD, Geneva

Comments on

- Balancing Act: financing development spending and avoiding a debt crisis
- Keeping an eye on external debt
- Managing public domestic debt in Africa
- Identifying other financing modalities



CNBC Africa
September

African Banker
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The Africa Report
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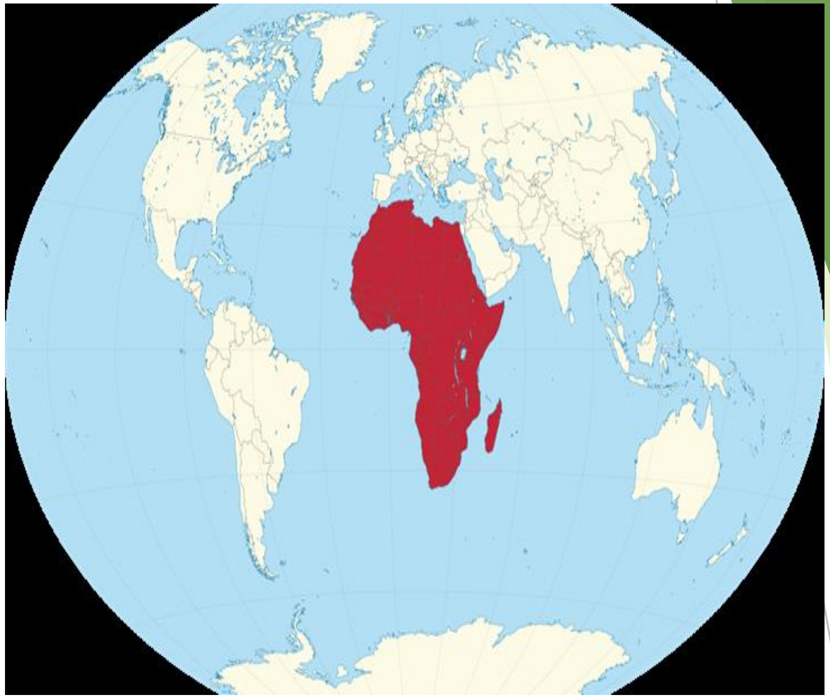


1st, Balancing Act: financing development spending and avoiding a debt crisis

- <u>Learning from the past:</u> the Multilateral Debt Relief Initiative (MDRI) in 2005. The IMF, IDA-World Bank, and the African Development Fund - (AfDF—cancel 100% of their debt claims on HIPC countries that had reached, or would eventually reach, the completion point.

- The reality, though, is that the development agenda in Africa requires massive and transformative investments to close gap.

US$30-50 Bill pa annual infrastructure gap

2% of lost annual GDP growth

Using various sources of data Africa needs US$ 50 million – US$ 93 million annually for infrastructure development (numbers vary depending on the source). According to the report, $600 billion and $1.2 trillion per year just to finance SDGs by 2030.

Countries such as Tanzania have set ambitious plans to reach middle income status by 2025. In the energy sector alone, the supply of energy should reach at least MW 10,000, meaning 1,000 MW of investments in generation each year. This will require resources.

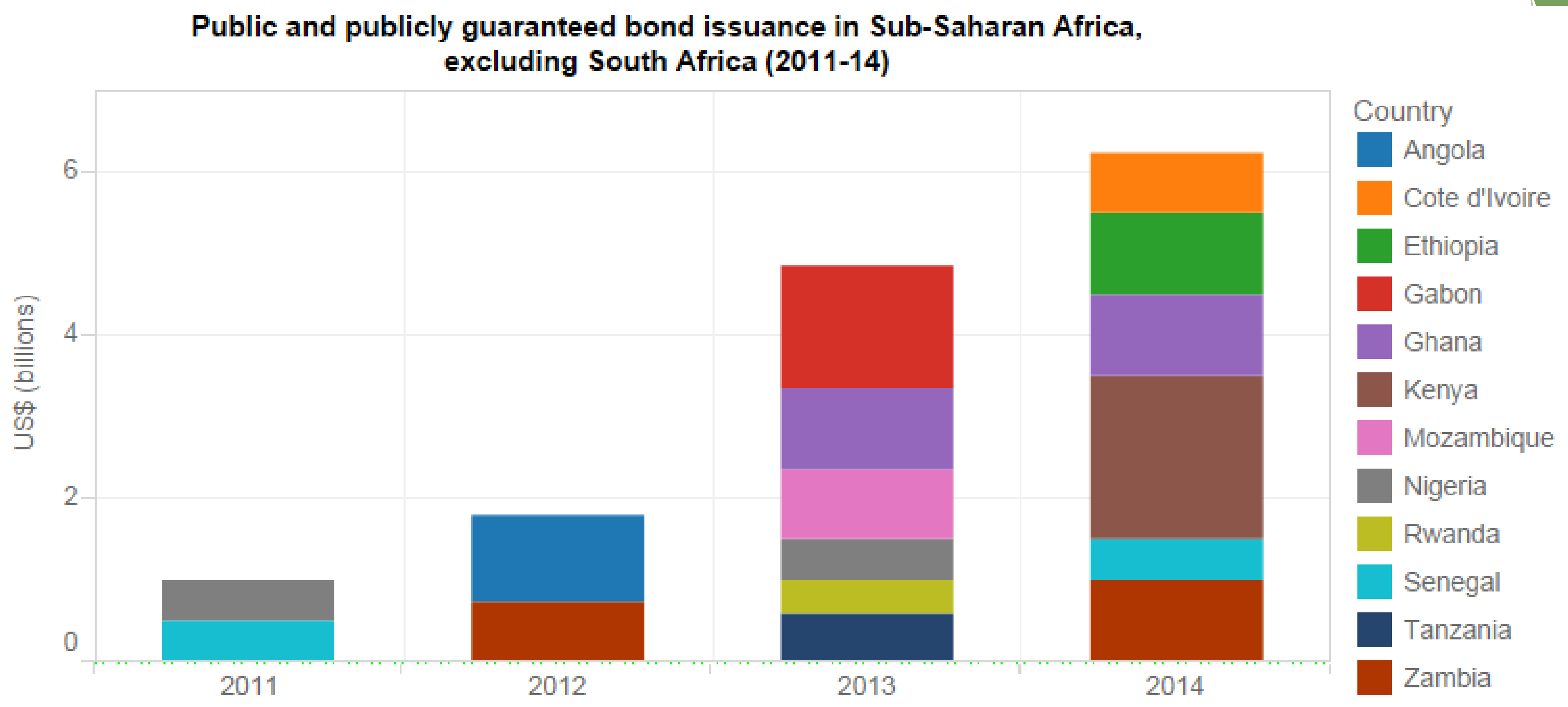
Domestic resources alone may not be enough and thus the need to look for external financing sources to attain ambitious development goals. With the exception a few countries in Africa such South Africa and Namibia, for the most part Tax-GDP ratios are less that 20%.

2nd, Keeping an eye on external debt

There is indeed a sense that external debt trends are going up again and the recent shock in terms of declining commodity process is a concern.

According to the report, Africa's external debt stock grew rapidly, by on average 10.2% per year in 2011–2013, compared with 7.8% per year in 2006–2009.

Recently there experienced growth in Eurobond issuances and private placements. At the same time, as the demand for global commodities decline, countries are assessing the frequency of going to the market.



Between 2013 and 2014, a total of 11 countries accessed the bond markets. In 2013, the largest sovereign bond issuance shares were made by Gabon (US$1.5 billion), Ghana (US$1 billion), and Mozambique (US$0.9 billion). In 2014, the largest issuances were made by Kenya (US$2 billion), Ethiopia, Ghana, and Zambia – all three at US$1 billion each.

Source:http://blogs.worldbank.org/opendata/sub-saharan-africa-s-sovereign-bond-issuance-boom.

Countries also have more options now. In addition to Eurobonds, more non-concessional financing is also available. For example, the AfDB changed its Credit Policy and low income countries are able to access ADB financing (non-concessional). In additional, there other also available include the Africa Growing Together Fund (with the Chinese Government, Africa 50 fund, etc).

Caution, avoid maturity mis-match in financing infrastructure. Large infrastructure projects take long to yield results and it is important for countries to avoid using short term debt to finance long terms projects.

Debt management offices to be fully equipped to carry debt sustainability assessments and to monitor debt.

Strengthen capacity to structure financial instrument as more options become available.

3rd, Managing public domestic debt in Africa

- According to the report, Domestic debt in Africa grew11% of GDP in 1995 to 17% of GDP in 2014

- Central and commercial Banks, in most low income countries, tends to be the main holders of domestic market and their concerns that these activities crowd out private investment by pushing up the cost of borrowing. When banks buy a lot of sovereign debt, ***productive investment declined***.

- Concerns in terms of growing public debt in Africa presents ***the opportunity to deepen domestic capital markets to finance development***. Middle income countries tend to have relatively developed financial markets.

- Also consider other non institutional investors. ***Pension funds*** are washed with liquidity and they can be an important sources of capital for investments. ***Wealth funds*** and others.

- **The *African Financial Markets Initiative* (AFMI),** for example, is an expression of commitment by the African Development Bank to contribute to domestic resource mobilisation and capital market development on the continent. *http://www.africanbondmarkets.org/en/*

Identifying other financing modalities

- Domestic resources mobilization (i.e. taxes) is important. National budget should as much as possible cover all recurrent expenditure and other instruments can finance productive investments.

- Provide an enabling environment for private sector to participate (hard infrastructure, sound legal and regulations, etc). Could be direct financing by private sector or PPPs.

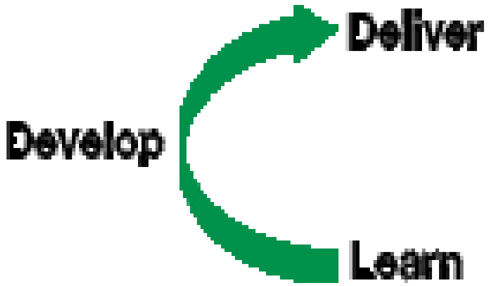
- Blending instruments – grants, loans, private sector. WEF/OECD Blended finance initiatives. AfDB resources as a catalyst for scaling up resources.

- New vehicles (i.e. Africa50) that can attract various players (countries, pension funds, etc).

- Remittances, combating illicit flows, etc.

Key Messages +

- Domestic resource mobilization should be a priority in terms of financing development
- Make private sector a key stakeholder in financing investments
- Countries should borrow for productive investments that yield returns
- Avoid maturity mis-match when financing projects
- Continue to maintain sound economic fundamentals & policy consistency – *Capital follows confidence*
- Continue to build strong debt monitoring instruments and capacity



Afdb instruments as a catalyst to support development through High 5s (Light- up and power Africa, Feed Africa, Integrate Africa, Industrialize Africa, Improve the quality of life for the people of Africa)

Thank you for your attention!!