UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

Economic Development in Africa Report 2016:

Debt Dynamics and Development Finance in Africa

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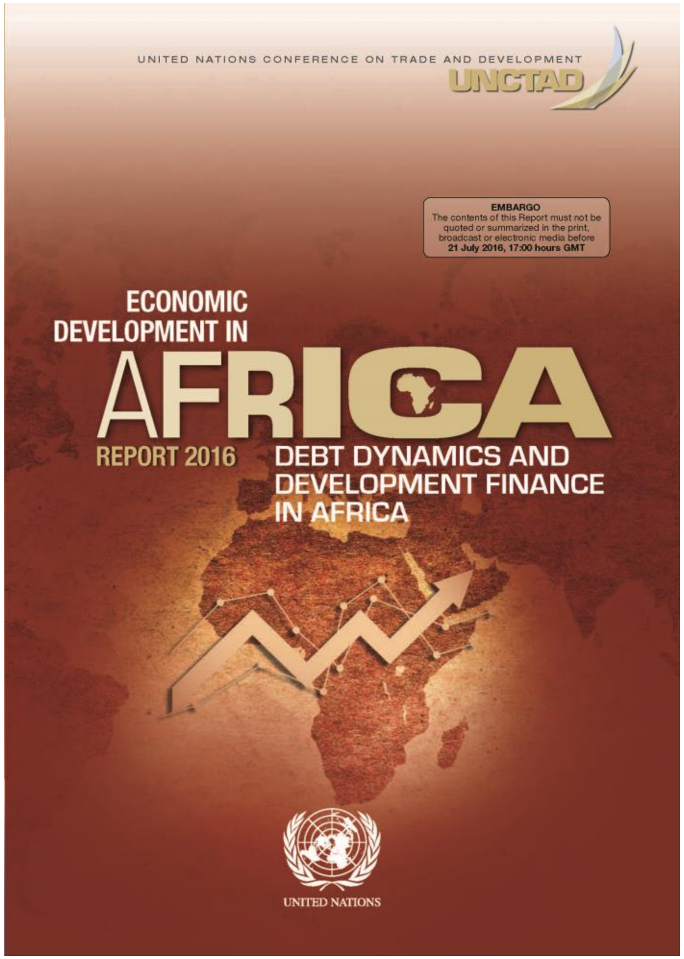
OUTLINE



I. Background information

II. Key issues addressed in the Report

III. Africa's development finance needs

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I. Background

- The SDGs has become the key development framework guiding economic policy making in Africa
- It was developed bearing in mind some important lessons from the implementation of the MDGs:
  - Broad stakeholder consultation and inclusiveness
  - Address the three pillars of sustainable development
  - Without peace and security we cannot have meaningful development
  - Implementation of commitments (particularly on financing) is crucial for achieving international goals and targets
  - Reduction of the poverty rate may not lead to a reduction in the number of poor people.

- Research at UNCTAD suggests that achieving the SDGs will depend on what happens in Africa
- But it will also depend on the ability of African countries to mobilize adequate resources for development
- Against this background, the EDAR 2016 examines how African countries can mobilize resources to finance the SDGs without compromising debt sustainability

II. Key Questions Addressed in the Report

a) How can African countries mobilize enough resources to finance the SDGs without experiencing a debt crisis?

b) What are the main external debt trends and the key drivers of these trends?

c) How can the international community support African countries in managing their debts sustainably?

d) What are the current trends in public domestic debt in Africa? What are the risk factors and how can they be managed?

e) What complementary modalities of finance are available to help Africa sustainably address its development finance needs?

III. Africa's Development Finance Requirements

Table 1. Estimates of financing requirements for Africa related to the Sustainable Development Goals

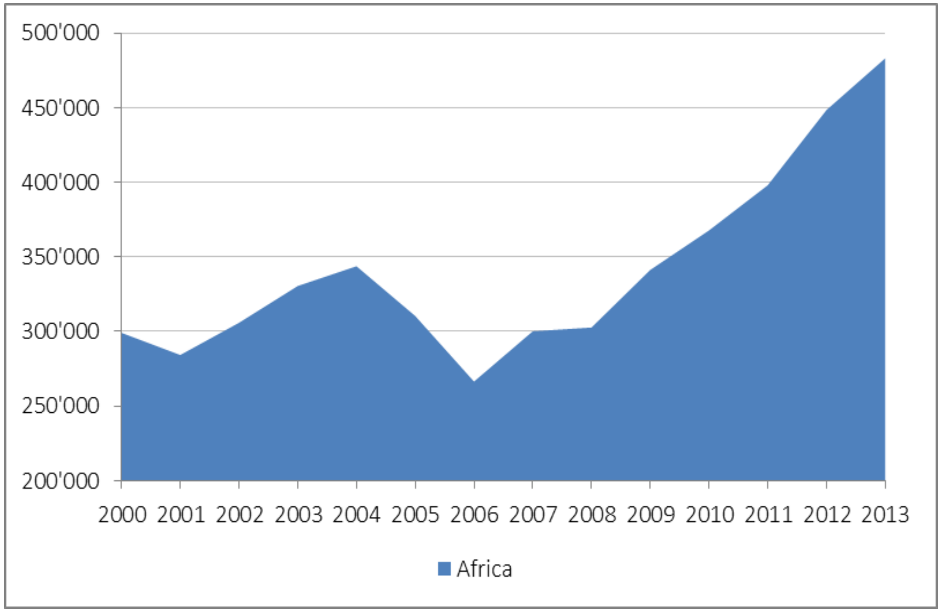
Source	Estimated amount per year	Scope of estimate
International Energy Agency (2012)	$25 billion	Amount needed to achieve universal access to modern energy services by 2030
World Bank (2012)	$18 billion	Cost of climate change adaptation
UNCTAD (2014)	$210 billion	Amount needed for basic infrastructure, food security, health, education and climate change mitigation
Chinzana et al. (2015)	$1.2 trillion	Additional investment required to meet Goal 1
Schmidt-Traub (2015)	$614 billion–$638 billion	Incremental financing needs related to the Sustainable Development Goals
World Bank (2015a)	$93 billion	Amount needed for infrastructure

IV. Some Findings of the Report

External debt

- Annual average external debt stock increased from $303 billion in 2006-2009 to $443 billion in 2011-2013
- Debt-GNI ratio was 22 percent in 2011-2013
- The external debt stock grew by 10.2% in 2011-13 compared to 7.8 percent in 2006-09

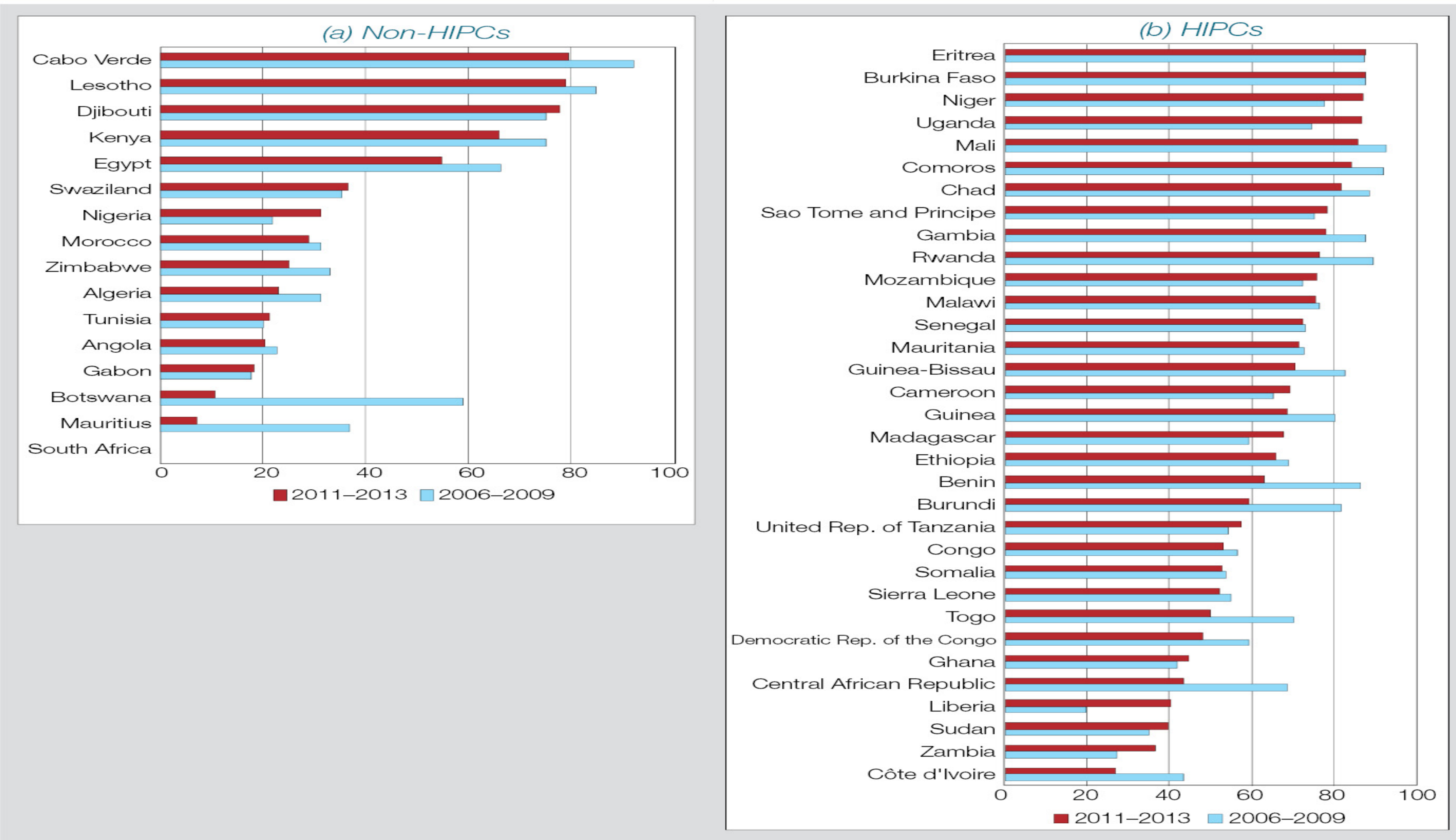
Africa's external debt stocks, total (million current $), 2000-2013



Some worrying developments

- African countries have increased borrowing from private lenders
  - Share of private creditors in debt increased from 18 to 25 percent
- There has also been an increase in external borrowing by the private sector
  - Corporate bonds issued in Nigeria, South Africa
- Declining share of concessional debt in total external debt
  - share of concessional debt in total external debt fell from 42.4% in 2006-2009 to 36.8% in 2011-2013

Figure 2. Share of concessional debt as a percentage of total external debt



Source: UNCTAD secretariat calculations, based on World Bank, 2016b (accessed December 2015).
Note: There is no available data for the following non-HIPCs: Equatorial Guinea, Libya, Namibia, South Sudan and Seychelles.

Domestic debt

- Domestic debt markets increasingly playing an important role in development finance
  - Rapid economic growth
  - Development of debt markets in several countries
  - Opening of domestic debt markets to non-resident investors

- There has been a gradual increase in domestic debt from 11% of GDP in 1995 to 19% in 2013

- Domestic debt instruments are increasingly of longer maturity
  - In 2001 domestic debt with long maturity accounted for 5 percent of total outstanding debt. In 2014 it accounted for 24 percent

Other Modalities for financing development in Africa

- Africa needs to broaden its sources of sustainable finance to achieve its development aspirations

- Consider both traditional and complementary modalities of development finance

  - Public private partnerships
  - Remittances and diaspora bonds
  - Stemming illicit financial flows

Public Private Partnerships (PPPs)

- PPPs are increasing in Africa
- Allows governments to leverage existing resources with those of the private sector
- PPPs in Africa: 10%of aggregate global value

Figure 21. Global distribution of infrastructure public–private partnerships by project count and value, 1990–2015

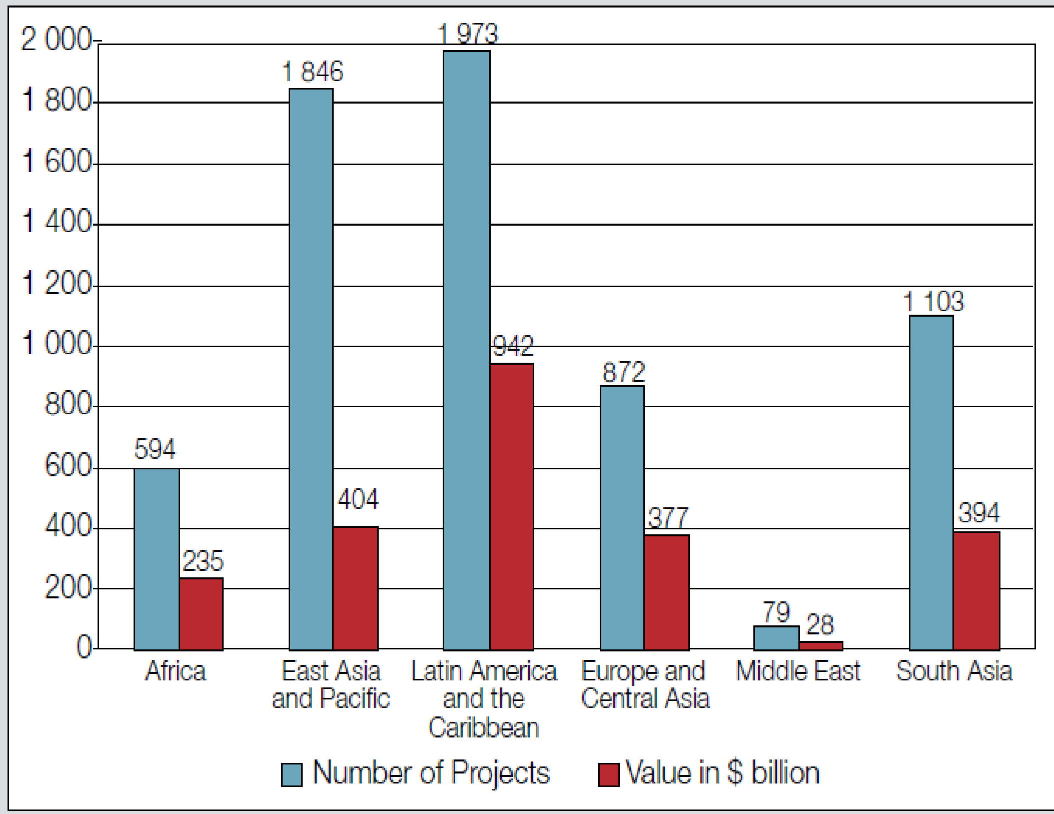
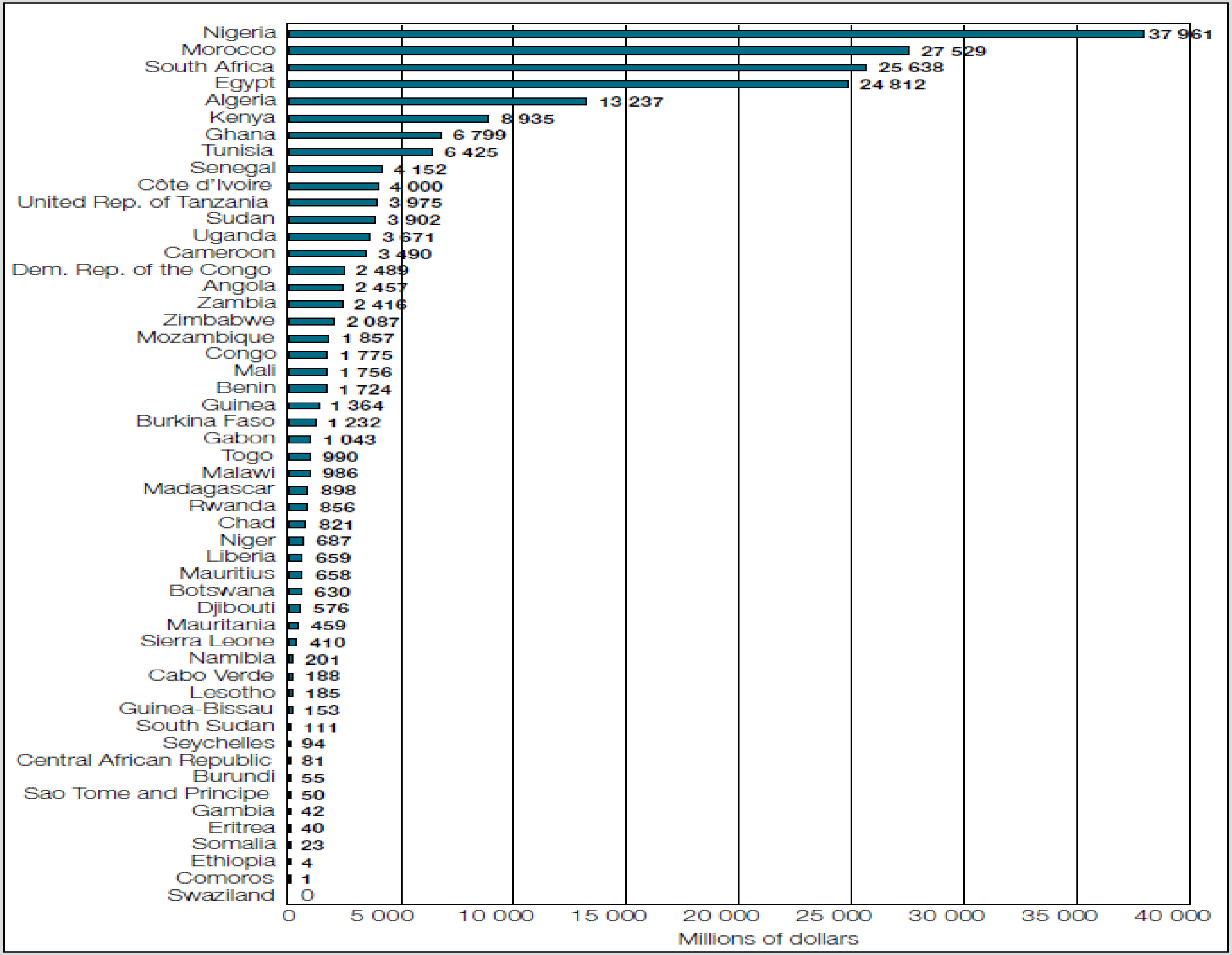


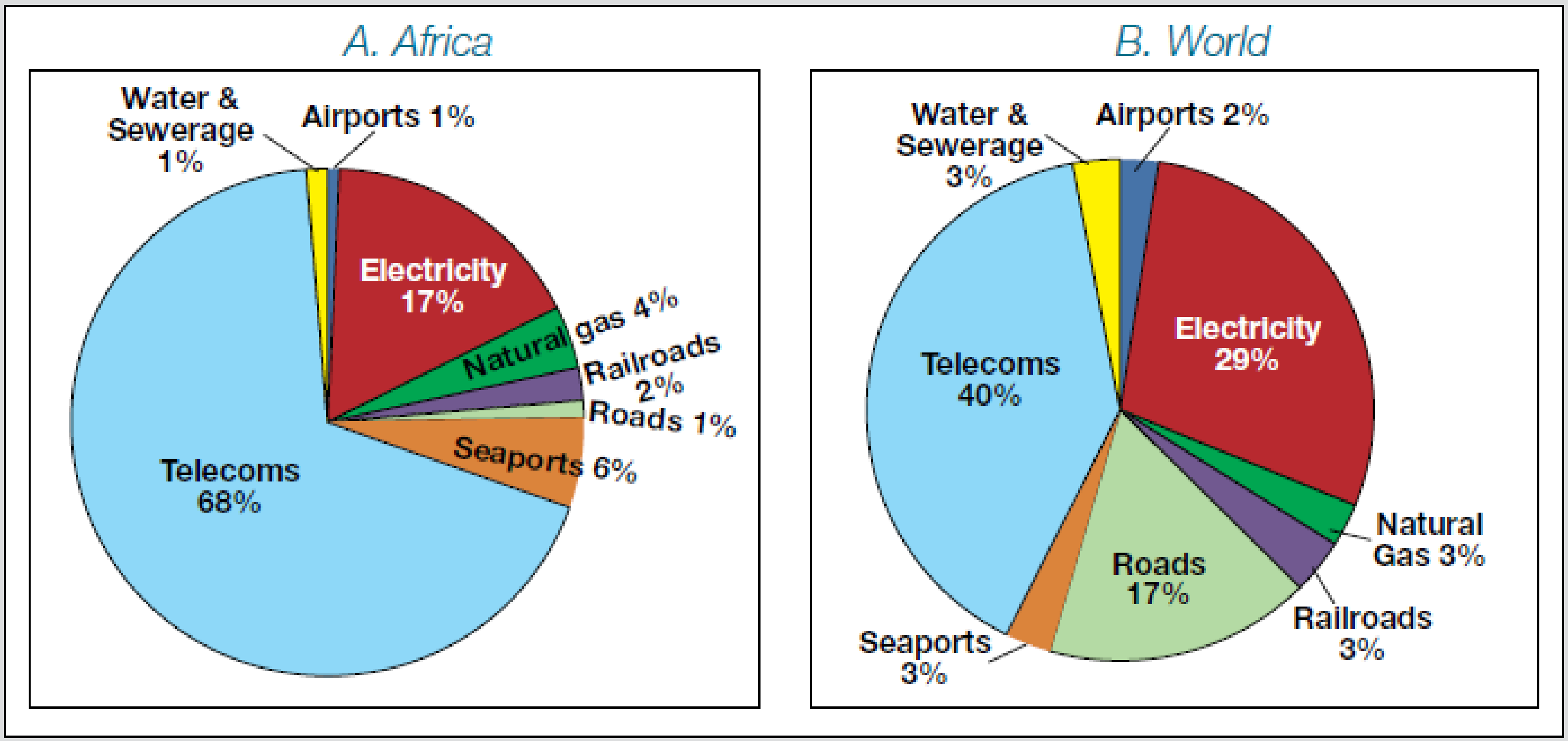
Figure 22. Cumulative public–private partnership investment in infrastructure, 1990–2014 (Millions of dollars)



Sources: World Bank, 2015b.

Sectoral distribution of PPPs

Figure 23. Sectoral distribution of public–private partnerships in Africa and the world, 1990–2015



Source: World Bank, 2015b.

Challenges and risk factors of PPPs

- *Possible negative impact on debt sustainability*
  - *Contingent liabilities create fiscal burden*

- Complex contractual arrangements
  - Lack of transparency and information asymmetry

- High financing cost of PPPs

- Lack of proper regulation

Remittances

- Africa received $ 63.8 billion in 2014
  - More than ODA and FDI
- Potential of remittances for development not fully realized due to
  - High cost of money transfer
  - Use of informal channels for transfers
- Challenges:
  - Avoiding currency appreciation
  - Ensuring that they finance investment and not just consumption

Illicit Financial Flows (IFFs)

- IFFs out of Africa are high and have been increasing
  - Africa loses $50 billion per year
  - Most of the losses are due to commercial (trade-related) activities of multinational corperations.
- IFFs deprive Africa of important resources for development finance
- Need international cooperation to stem IFFs.

V. Some policy recommendations

- Raise financing for development from both domestic and external sources
- Leverage external and domestic debt without compromising debt sustainability
- Harness the potential of PPPs through enhancing PPP policy frameworks at the national and regional level whilst keeping debt sustainability in check
- Enhance international and regional cooperation to stem illicit financial flows
- Overcome data limitations and build analytical capacities for debt monitoring and management

Thank you for your attention

Report in English: http://unctad.org/en/PublicationsLibrary/aldcafrica2016_en.pdf

Report in French: http://unctad.org/fr/PublicationsLibrary/aldcafrica2016_fr.pdf

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