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Economic development in Africa: Debt dynamics and development finance in Africa

Overview

Executive summary

Africa has major development aspirations in the broader context of a global and continental economic development agenda. This calls for substantial financial resources at a time when the global development finance landscape is changing, from a model centred on official development assistance and the coverage of remaining financing needs through external debt, to a framework with greater emphasis on the mobilization of domestic resources.

The *Economic Development in Africa Report 2016*, subtitled *Debt Dynamics and Development Finance in Africa*, examines some of the key policy issues that underlie Africa's domestic and external debt, and provides policy guidance on the delicate balance required between financing development alternatives and overall debt sustainability. This report analyses Africa's international debt and how domestic debt is increasingly playing a role in some African countries as a development finance option, and also examines complementary financing options and how they relate to debt. The report makes specific and actionable policy recommendations which address the roles that African Governments, external partners and the international community can play in ensuring that Africa's public debt remains sustainable.

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I. Introduction

1. Africa has major development aspirations in the broader context of a global and continental economic development agenda. This calls for substantial financial resources at a time when the global development finance landscape is changing, from a model centred on official development assistance and the coverage of remaining financing needs through external debt, to a framework with greater emphasis on the mobilization of domestic resources. The *Economic Development in Africa Report 2016* examines some of the key policy issues that underlie Africa's domestic and external debt, and provides policy guidance on the delicate balance required between financing development alternatives and overall debt sustainability. The report analyses Africa's international debt exposure and how domestic debt is increasingly playing a role in some African countries as a development finance option, and also examines complementary financing options and how they relate to debt.

2. Following debt relief under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative over the past two decades, external debt in several African countries has rapidly increased in recent years and is becoming a source of concern to policymakers, analysts and multilateral financial institutions. While Africa's external debt ratios currently appear manageable, their rapid growth in several countries is a concern and requires action if a recurrence of the African debt crisis of the late 1980s and the 1990s is to be avoided. In 2011–2013, the annual average external debt stock of Africa amounted to \$443 billion (22.0 per cent of gross national income (GNI)). Africa's external debt stock grew rapidly, by on average 10.2 per cent per year in 2011–2013, compared with 7.8 per cent per year in 2006–2009. The burgeoning debt of several African countries may be explained by the fact that they currently have better access to international financial markets, as Africa has registered robust levels of economic growth over the past decade. In this regard, investors are seeking better yields and higher rates of return based on the perceived risk of investing in Africa (given low-yield asset investment in advanced countries). The rise of other developing countries, particularly Brazil, China, India, the Russian Federation and South Africa, commonly known as the BRICS countries, has also opened up new sources of external finance that African countries may take advantage of, often without the imposition of policy conditionalities. Some African countries have successfully issued sovereign bonds since the mid-2000s. However, the risks associated with commodity exporters have risen since 2012, and their borrowing costs have increased sharply.

3. The size and rate of growth of Africa's external debt also have implications for sustainability. Some Governments are currently borrowing from private lenders, in contrast to previous years when they borrowed mostly from official lenders with concessional terms. Some African countries have borrowed syndicated loans while others have issued eurobonds. In addition, the private sector in Africa is also accumulating external debt. For example, large corporate bonds have been issued in Nigeria and South Africa. As these bonds are in foreign currencies, countries become susceptible to foreign exchange risks. In addition, private sector debt may translate into public debt if bailouts become necessary to prevent a collapse of the financial system when private borrowers cannot honour their debt obligations.

4. Furthermore, (non-concessional) borrowing from private lenders is challenging because renegotiation is generally more difficult when a country is unable to service its debt, and conditions for renegotiation come at a very high cost. Although these dynamics are not exclusive to private lenders, borrowing from private lenders also exposes African countries to litigation by vulture funds and investment arbitration. It is therefore necessary

for African Governments to closely monitor evolving debt characteristics and take pre-emptive actions to avoid potential debt distress.

5. Domestic debt and debt markets have also witnessed significant developments. Until recently, the literature on sovereign borrowing and debt dynamics had largely overlooked the role domestic debt could play in financing development in Africa and focused almost exclusively on external debt. In recent years, however, several countries in the region have looked increasingly to domestic sources when expanding their net borrowing and adopted policies aimed at developing domestic debt markets with the active support of international financial institutions and other international organizations. In the future, domestic borrowing is likely to play an increasingly significant role as sustained growth performance in a large group of African countries boosts national savings and broadens the scope for financing development with domestic resources. It will also be important for countries to find ways of productively utilizing additional liquidity in domestic financial institutions, which did not always occur in the past.

6. With domestic debt playing an increasingly important role, countries will face new risks as the numbers of creditors and debt instruments continue to expand. Owing to its size and swift growth, the consideration of domestic debt will become important in assessing public debt sustainability. Other concerns with regard to domestic debt accumulation include the following: the expansion of public sector borrowing in domestic markets may crowd out private sector investments, given the shallow financial markets and low levels of domestic savings common in the region (although institutional savings have been higher); and borrowing in the domestic market is often perceived as being inconsistent with the prospects of achieving and preserving public debt sustainability. Financial liberalization and related reforms adopted since the mid-1980s have resulted in increased domestic real interest rates. As a result, there are concerns that domestic borrowing may induce elements of macroeconomic instability in African economies and that the high interest burden may absorb a significant portion of government revenues, crowding out pro-poor and growth-enhancing spending.¹ This has significant implications for women and children, who often bear the brunt of major reductions in social expenditure.

7. Given that in the 1990s most African countries had relatively easy access to external financing in the form of concessional loans and grants, Governments have tended to avoid seemingly expensive domestic borrowing. Despite a long history of high fiscal deficits and a growing need for developmental and structural investments, Africa's bond markets have largely remained underdeveloped, mainly due to credibility issues. It is only in recent years that some countries have made substantial efforts to develop their domestic debt markets as they become increasingly reliant on them for development finance. This has acquired increased importance for five reasons.

8. First, in 2015, the adoption of two important United Nations resolutions, endorsed by world leaders, marked a milestone in terms of setting the international agenda for development in the years to come. The 2030 Agenda for Sustainable Development sets the Sustainable Development Goals that countries aspire to achieve in the next 15 years, and the Addis Ababa Action Agenda (A/RES/69/313), an outcome of the Third International Conference on Financing for Development, held in Addis Ababa in July 2015, sets the agenda and means of implementation for development finance. Both resolutions contain interrelated goals and commitments on sustainable financing for development, which have a bearing on Africa's development. These resolutions reflect a shift in emphasis from global development finance based on a model predominantly centred on official

¹ SMA Abbas and JE Christensen (2007), *The Role of domestic debt markets in economic growth: An empirical investigation for low-income countries and emerging markets*, International Monetary Fund (IMF) Working Paper No. 07/127.

development assistance to a new global framework that places greater importance on domestic sources of finance, while maintaining public finance as a fundamental basis for achieving the Sustainable Development Goals. This poses an important financing challenge for African Governments; it is estimated by various sources that the required investment to finance the Goals in Africa could amount to between \$600 billion and \$1.2 trillion per year.² Africa's public budgetary resources are inadequate to address this need, and development partners will need to share the burden.

9. Second, it may no longer be presumed that external assistance, whether concessional debt or grants, will continue to play a key role in financing poverty reduction, the Sustainable Development Goals and growth-enhancing programmes in the foreseeable future. With recurring global financial crises and increased fiscal austerity, concerns have emerged that traditional donor funds may become more scarce and, therefore, having sufficiently liquid domestic bond markets is becoming increasingly unavoidable. Development challenges have also evolved, with the donor community paying increasing attention (and thus devoting increasing resources) to issues such as climate change and disaster prevention, which did not feature prominently in the development agenda a decade ago.³

10. Third, some African countries have recently transitioned to middle-income status.⁴ Concessional financing from the soft windows of multilateral development banks is therefore likely to be phased out in the future, as development partners divert more budgetary resources towards the poorer and more vulnerable countries. In other words, a transition to middle-income status means that financing becomes more expensive for such Governments, which have to rely more extensively on non-concessional or less concessional public and private financing sources.

11. Fourth, as many African countries are commodity dependent, external debt sustainability is also subject to the boom and bust cycles of international commodity markets and the associated fiscal squeeze countries experience when expected revenues fall. The current collapse in commodity prices provides evidence of this. The apparent end of the upward phase of the commodity price super cycle has translated into lower revenues from Africa's commodity exports. In short, Africa needs to be less dependent on volatile commodity markets.

12. Fifth, the global economic outlook remains gloomy, as fiscal austerity underpins the deceleration in growth in the eurozone. Manufacturing activity and trade also remain weak globally, and subdued global demand and investment more broadly, could have a negative effect on Africa's development prospects.

13. Against this backdrop, Africa must critically assess its capacity to tackle its significant development challenges in light of its development finance requirements. This entails a redoubling of efforts to harness potential and innovative sources of finance,

² Z Chinzana, A Kedir and D Sandjong, 2015, Growth and development finance required for achieving Sustainable Development Goals in Africa, presented at the African Economic Conference, Kinshasa, 2–4 November, available at afdb.org/uploads/tx_lafdbpapers/Growth_and_Development_Finance_Required_for_Achieving_Sustainable_Development_Goals__SDGs__in_Africa.pdf (accessed 13 April 2016); G Schmidt-Traub, 2015, Investment needs to achieve the Sustainable Development Goals – understanding the billions and trillions, Sustainable Development Solutions Network Working Paper, version 2; UNCTAD, 2014, *World Investment Report 2014: Investing in the Sustainable Development Goals – An Action Plan* (United Nations publication, Sales No. E.14. II.D.1, New York and Geneva).

³ United Nations Economic Commission for Africa, 2015, Africa Regional Report on the Sustainable Development Goals, Addis Ababa.

⁴ World Bank, 2016, *Global Economic Prospects – Spillovers amid Weak Growth*, Washington, D.C.

including those that may come from the private sector, such as through public–private partnerships, while also tackling rising levels of debt. Africa and its partners will also need to revisit existing debt sustainability frameworks. Debt sustainability is critical for Africa as it seeks to implement the Addis Ababa Action Agenda, achieve the Sustainable Development Goals and sustainably transform the continent. The following section recapitulates some of the main findings, key messages and policy recommendations emanating from the Economic Development in Africa Report 2016.

II. Main findings

Africa faces major challenges in meeting its development finance needs through public budgetary resources

14. Given the complexity of Africa’s development challenges, the scale of its development finance needs and the size of its capacity constraints, African countries need to leverage all possible sources of finance. It is estimated that financing the Sustainable Development Goals in Africa could require investments of between \$600 billion and \$1.2 trillion per year.⁵ Infrastructure alone would cost \$93 billion, but Africa can only raise half of this amount. Debt, both domestic and external, as well as other complementary sources, cannot be excluded from Africa’s list of development finance policy options. Therefore, debt channelled to investments related to the Sustainable Development Goals should be afforded more flexibility. However, Africa’s vulnerability to rapidly changing external conditions, including volatile commodity markets and unstable international financial markets, makes debt a more problematic financing instrument than necessary.

External debt in Africa is on the rise and is mainly related to reduced export revenues and slower economic growth

15. The composition, terms and conditions of such debt are changing, with higher interest rates and concessional loans as a share of total debt. The structure and composition of debt are therefore relevant to debt sustainability. In 2011–2013, the external debt stock amounted on average to \$443 billion, compared with \$303 billion in 2006–2009. Ratios of external debt to GNI are low, at less than 40 per cent in most African countries. While the combined stock of external debt fell over time – from 107 per cent of GNI in 2000 – several African countries have experienced an upward trend. However, these broad trends in absolute terms disguise the rapid rise of external debt levels in several African countries in recent years. Since 2006, the external debt stock grew rapidly by an average 10.2 per cent per year in 2011–2013, compared with 7.8 per cent in 2006–2009. The main drivers of this debt accumulation are associated with a growing current account deficit and slower economic growth.

The composition, terms and conditions of Africa’s external debt are changing

16. First, the share of concessional financing declined in two thirds of the heavily indebted poor countries in Africa from 2005–2007 to 2011–2013. Second, these countries have experienced a marked, steady decline in the maturity and grace period of new external debt commitments on average since 2005. The average interest on their new external debt commitments has also worsened, although it remained below the average for non-heavily indebted poor countries in Africa, as well as for low-income countries. Third, public and publicly guaranteed debt from private creditors has not only risen in both heavily indebted poor countries and non-heavily indebted poor countries, but has also become more

⁵ Chinzana et al., 2015; Schmidt-Traub, 2015; UNCTAD, 2014.

diversified. A lower share of concessional debt, higher interest rates, lower maturities and grace periods are most likely to increase the debt burden of African countries.

17. The joint World Bank–IMF Debt Sustainability Framework for Low-income Countries is designed to help low-income countries achieve debt sustainability on their new borrowing from concessional official loans. The main rationale for the framework is to assess the sustainability of debt to avoid risks related to debt distress. The current framework needs to be revisited to prevent low-income countries from becoming locked into a low-debt low-growth scenario, and it should also reflect domestic debt exposure in its debt sustainability analysis. Maintaining external debt sustainability is a challenge for African countries in their efforts to finance national development strategies and in the context of the 2030 Agenda for Sustainable Development.

Africa's domestic debt is growing gradually and increasingly consists of marketable debt

18. Domestic debt in Africa is gradually rising and increasingly consists of marketable debt. Domestic capital markets have been deepening as international investor interest has grown. Greater reliance on domestic resources may allow countries more policy space in implementing their development priorities, as financing through official development assistance is often tied to policy conditionalities. However, with domestic debt playing an increasingly important role, countries may face new risks as the range of creditors and debt instruments continues to expand. The stylized facts emerging from the data analysis of five case studies reveal the gradual increase in domestic debt, from an average of 11 per cent of gross domestic product (GDP) in 1995 to 17 per cent of GDP in 2014. Furthermore, most Governments have increasingly met funding requirements through marketable debt, as opposed to non-marketable debt. Marketable securities include commercial paper, bankers' acceptances, treasury bills and other monetary market instruments.

19. More and more countries have achieved the capacity to issue local-currency-denominated debt securities of long maturities over the past decade, suggesting that the problem of original sin could be gradually dissipating. In general, market depth has increased, maturities have lengthened and the investor base has broadened, making domestic borrowing much easier for Governments in the context of the global financial cycle that has led international financial investors to access markets that they had considered too risky in the past. Nevertheless, there is scope for further strengthening of the functioning of the existing domestic debt markets, including through a reform of the non-banking financial sector to widen the investor base for long-dated government securities. Further strengthening of the retirement benefits industry and the insurance sector could increase the amount of long-term savings available for the domestic debt markets. Although the interest burden of domestic debt is still higher than that of external debt, there is evidence that this is declining over time, in line with deepening domestic debt markets. However, external debt has foreign exchange risks to which domestic debt is not exposed; therefore, the interest cost on local-currency-denominated domestic debt should not be viewed as the only deciding factor for the use of domestic debt markets to raise resources for financing development. Rather, the risk–return profile of domestic and external debt instruments should also be considered. Lastly, the dynamic effects of financial deepening should not be underestimated in the context of pro-poor growth and transformative economic development, as financial deepening can greatly affect the provision of access to

financial services for the unbanked, especially women – only 20 per cent of women have access to formal financial services in Africa.⁶

20. There is a wide range of complementary modalities of development finance, which, if effectively tapped, may contribute to meeting Africa's financing needs without necessarily affecting debt sustainability. Such modalities include remittances and public-private partnerships, as well as curtailing illicit financial flows.

Public-private partnerships are spreading and warrant caution from a debt-management perspective

21. Compared with other geographical regions, infrastructure public-private partnerships in Africa are smaller in magnitude and number, but they are increasing. Public-private partnerships, especially those involved in infrastructure development, are complex undertakings with considerable risks. They are generally capital-intensive, long-term projects with complex contractual arrangements that make their proper evaluation and recording a challenge. Thus, setting up a public-private partnership policy framework that addresses and mitigates those risks is essential and requires a broad set of legal, managerial and technical capacities. A considerable risk of such partnerships relates to their treatment as off-budget transactions (contingent liabilities) and they can become a fiscal burden in the future. This treatment may also encourage countries to use them in order to circumvent national or IMF-agreed debt limits. Estimates of the impact of contingent liabilities on debt sustainability are not included in the current debt sustainability framework.

Remittances and diaspora savings are an opportunity for development finance

22. Governments and financial institutions have designed financial instruments to tap diaspora savings and leverage remittances for development finance. The interest rate applied to diaspora bonds should be attractive to foreign investors to compensate for the political risk. Issuer countries might also struggle to tap the potential of diaspora bonds, owing to technical or bureaucratic requirements concerning their sale abroad. The use of formal remittance channels should be encouraged so that remittances can serve as collateral and lead to financial deepening.

Illicit financial flows could become a source of development finance, as long as efforts to tackle them at the national and international levels are sustained

23. Africa needs continued continent-wide cooperation and engagement and support from international organizations and their members in tackling illicit financial flows and debt relief. This is crucial, as Africa lost about \$854 billion in such flows from 1970 to 2008. This sum is nearly equivalent to all official development assistance received during that period, and only one third would have been sufficient to cover its external debt.

24. On a global scale, the experience of the High-level Panel on Illicit Financial Flows from Africa could contribute to a global architecture or governance structure that combats illicit financial flows more effectively if such flows are addressed in a frank and open dialogue that contextualizes illicit financial flows in the broader setting of development, and ultimately development finance. It is imperative that all stakeholders interact and form part of this dialogue. Moreover, initiatives such as the Africa Mining Vision, the Extractive Industries Transparency Initiative, the Financial Action Task Force, the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Stolen Asset

⁶ UNCTAD, 2015a, *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development* (United Nations publication, Sales No. E.15.II.D.2, New York and Geneva).

Recovery Initiative should be fully brought on board to avoid duplication while leveraging on their experiences and best practices. Lastly, the vital role of civil society in monitoring transparency should be recognized and used to provide additional vigilance.

III. Main messages and recommendations

25. Africa is at a critical juncture in its development. As a result of the high costs of financing the Sustainable Development Goals, which are unlikely to be covered by official development assistance and external debt alone, the importance of domestic debt in development finance has gained prominence. However, this also highlights the importance of maintaining debt sustainability and preventing debt distress. Clearly, achieving the Goals and maintaining debt sustainability are desirable. The difficult question is how African countries may achieve the dual goal of covering their development finance needs and maintaining debt sustainability. This section therefore discusses some key policy recommendations that may help Africa in this endeavour.

Raise adequate levels of financing for development from domestic and external sources to meet development goals and achieve structural transformation

26. Given the complexity of Africa's development challenges, the scale of its development finance needs and the severity of its capacity constraints, African countries need to leverage all possible sources of finance. Debt, both domestic and external, as well as other complementary sources, cannot be excluded from Africa's list of development finance policy options. Therefore, debt channelled to investments for Sustainable Development Goals should be afforded more flexibility. For example, if debt is channelled to building resilience (Goal 9), this could contribute to lifting major productive capacity constraints, and thereby spur structural transformation. However, most of the investments needed for reaching the Goals cannot be financed through debt alone, as this would affect debt sustainability for most African States. Domestic resource mobilization for investment in the building of productive capacities will be key for Africa's structural transformation.⁷

Leverage domestic and external debt without compromising debt sustainability

27. Debt sustainability is never guaranteed. Any severe shock may push a given country over the limits of sustainable debt. It would not make sense to restrict new borrowing so drastically solely to guarantee long-term debt sustainability. A better balance must be reached between the benefits of new concessional and non-concessional borrowing from domestic and external sources and the benefits of restricting any such borrowing to achieve debt sustainability. Therefore, Africa needs to continue strengthening macroeconomic fundamentals and pursuing structural transformation to avoid a debt trap in the future. It is also important for African countries to achieve the following:

- (a) Lower current account deficits;
- (b) Lessen exposure to commodity price volatility through export diversification;
- (c) Design sound investment programmes that contain carefully selected projects and identify key bottlenecks to ensure timely project implementation;
- (d) Combat corruption and misappropriation of funds;
- (e) Ensure greater efficiency in government spending and revenue collection;

⁷ UNCTAD, 2015b, *Report of the Secretary-General of UNCTAD to the fourteenth session of the United Nations Conference on Trade and Development. From Decisions to Actions* (United Nations publication, New York and Geneva).

(f) Develop a strategic approach to the identification of the best financing options in terms of financial costs, maturity and payment structures to be matched with new projects.

28. Ultimately, maintaining debt at sustainable levels is the responsibility of borrowers and lenders. In this regard, more efforts need to be made to encourage United Nations Member States to endorse the principles on promoting responsible sovereign lending and borrowing and reach an agreement on sovereign debt restructuring processes.

Support the revision of a debt sustainability framework that encompasses the achievement of debt sustainability and acknowledges country specificities in its analysis

29. In light of the growing development finance requirements of African and developing countries in general, it could be argued that there is a need to revisit current debt sustainability frameworks. Since the 1990s, despite various improvements in the debt sustainability frameworks and analyses, many still consider the framework to be unduly mechanical, backward-looking and restrictive by not differentiating sufficiently between capital and recurrent public spending.⁸ For many African countries, there remains a tension between accumulating external debt to finance national development strategies and the Sustainable Development Goals, and maintaining external debt sustainability.

30. Another problem is that there is undue emphasis on broad debt indicators such as debt–GDP or debt–exports, instead of a focus on debt service on domestic and external debt to government revenues. Mainly due to the commodity boom of the early 2000s and recent resource discoveries throughout Africa, many African countries experienced double-digit growth rates in exports. These led to low debt–export ratios, which may not properly reflect their longer term payment capacities, especially in cases where the resources extracted by mostly multinational corporations provided very little revenues to the Government.

31. Fundamentally, the current debt sustainability framework may be too restrictive on those low-income countries with the capacity to take on more debt that could stimulate growth. There have been concerns among low-income countries in Africa that the Debt Sustainability Framework could lock them into a low-debt low-growth scenario.

32. There are some options to improve the current Debt Sustainability Framework to allow a limited increase in the debt financing of countries so that African countries can make progress in achieving the Goals without creating a debt overhang. A few elements of this revised framework are as follows:

(a) Make adjustments in the Framework for investments to finance the Sustainable Development Goals: A revised Framework should have a built-in surveillance system for monitoring the uses of debt, ensuring that countries are borrowing to finance productive investments rather than consumption and are contributing to the achievement of the Goals;

(b) Place greater emphasis on temporary payment caps on debt service targeting low income countries in debt distress: Refocusing debt sustainability for low-income countries on public debt service payments to government revenues and implementing payment caps on debt service payments for those countries, with a proportional reduction in debt service payments to all creditors, including commercial creditors would be a significant improvement. These debt service limits would need to be part of binding collective action clauses. Given uncertainty regarding whether a debt problem reflects a

⁸ UNCTAD, 2004, *Economic Development in Africa: Debt Sustainability: Oasis or Mirage?* (United Nations publication, Sales No. E.04.II.D.37, New York and Geneva).

temporary illiquidity or a more permanent debt overhang situation, debt service caps could be implemented on a temporary basis without reducing total debt stocks. If it becomes clear that a country faces a longer term debt overhang, a debt stock reduction would need to be implemented.

Foster domestic financial deepening to enhance domestic resources and attract diaspora savings

33. The report has noted that Africa has made important progress in domestic financial sector development and financial deepening. It is encouraging that countries have been able to issue bonds and various other more marketable and long-term instruments. Furthermore, African countries have adopted policies aimed at developing their domestic debt markets, with the active support of official international financial institutions such as the African Development Bank, IMF, Organization for Economic Cooperation and Development and World Bank.

34. These are encouraging trends, but there is scope for further deepening. For example, the potential of the savings generated by the retirement benefit industry and the insurance sector should be further exploited. Also, facilitating and lowering the cost of formal remittance channels will allow the attraction of more remittances through these channels. Financial deepening will also make it possible to mobilize and use diaspora savings, for example through diaspora bonds, foreign currency-denominated deposits and syndicated loans with remittances as collateral.

35. The rise in domestic debt as a component of domestic resource mobilization for development finance could help reduce Africa's dependence on the volatility of foreign direct investment and official development assistance, and increase Africa's policy space. This may also strengthen policy accountability and country ownership of development strategies, given that a greater reliance on domestic sources of development finance can reduce external debt vulnerabilities.

Harness the potential of public–private partnerships by strengthening public–private partnership policy frameworks at the national and regional levels while keeping debt sustainability in check

36. Governments should have adequate legal and policy frameworks to optimize the use of public–private partnerships for their development while minimizing the pitfalls of public–private partnership failure. In this regard, regulation and policymaking have yet to play a major role in establishing how such partnerships are to be treated, in terms of sustainable debt management and general economic development. Developing regulation that guides an appropriate valuation and recording of public–private partnerships should be accompanied by defined risk management principles and the consideration of a contingent liabilities fund to address failing public–private partnerships when these merit government intervention.

37. For better public–private partnership management, African countries could consider the use of the Debt Sustainability Framework template to design customized scenarios in both external and public debt sustainability analyses. One such scenario is a standardized stress test that resembles a generic contingent liability shock. Where information is available, a more country-specific scenario may be warranted to capture contingent liabilities arising from, inter alia, State-owned enterprises, subnational governments, public–private partnerships and weaknesses in the financial sector.

38. It is equally important for African Governments to be vigilant of the risk associated with contingent liabilities. Debt managers should ensure that the impact of risks associated with contingent liabilities on a Government's financial position, including its overall

liquidity, is taken into consideration when designing debt management strategies. Although clearly negotiations and arrangements between a Government (particularly in the case of State-owned enterprises) and private companies are bound to confidentiality, nonetheless information on general financial terms and conditions should be made public. If the Government proves insolvent, these liabilities may become a public concern. This also requires scope for strengthening parliamentary scrutiny, with members of parliament responsible for approving arrangements on an ad hoc basis and not the entire envelope for new borrowing for the year. If approval on a loan-by-loan basis creates a bottleneck, scrutiny may be required for contracts above a certain threshold. Strengthening institutional capacities for rating, monitoring and managing debt, whether public or private, is critical for African countries, as this will help them manage their debt levels in a more sustainable manner. UNCTAD can assist African countries in developing statistical series and capacity in the areas of domestic debt, external private debt, debt composition and sovereign debt restructuring.

Enhance international and regional cooperation and build institutional capacity in addressing Africa's financing needs

39. Regional integration could play a critical role in coordinating and mainstreaming key regulatory and institutional dimensions of broader financing for development initiatives in the context of Agenda 2063 and the 2030 Agenda for Sustainable Development. The African Union and the New Partnership for Africa's Development should be supported in reinvigorating efforts to bolster national and regional strategies, build the necessary institutional frameworks and promote resource mobilization instruments such as regional stock exchanges, the African Credit Guarantee Facility and the Programme for Infrastructure Development in Africa. This will require significant political and effective pooling of continental resources.

40. Across all the financing flows, there is still scope to improve debt management; coordination within the African Union, coupled with a whole-of-government approach, could help strengthen medium-term debt management strategies. The promotion of the UNCTAD principles on responsible sovereign lending and borrowing could be particularly important in this regard. Africa will need to continue striving towards stronger debt management capacity. Several training programmes to strengthen debt-management capacity have been promoted in recent years, but this new complexity of financing options requires a new skill set towards private financial markets that government officials may not have developed yet. At the international level, cooperation in tax matters and illicit financial flows should be sustained and enhanced. Africa cannot combat illicit financial flows on its own; it would greatly benefit from multilateral support in building its institutional capacities to deal with such flows and international commitment to tackling this important issue. Capacities of public revenue authorities should therefore be strengthened in various areas, particularly with regard to tax issues and detailing and curtailing illicit financial flows.

Overcome data limitations and build analytical capacities for debt monitoring and management

41. There are still considerable problems related to data availability. After many initiatives, especially related to debt management in African countries, it is surprising how little data on domestic debt and government revenues are publicly available. While IMF and the World Bank possess such data for most countries, especially with respect to heavily indebted poor countries in Africa, which they monitor on a regular basis, most of this data are not readily available to the public. For example, the World Development Indicators and Global Development Finance databases contain no data on domestic debt and have considerable gaps with regard to government revenues. The unavailability of such data

contributes to the utilization of less useful debt indicators such as debt–GDP and debt–export ratios. Improved institutional capacities for the collection, collation and analysis of debt data will be central to improved debt sustainability, particularly where developing countries are concerned. The Debt Management and Financial Analysis System of UNCTAD is a good illustration of how technical cooperation can support this process in Africa. It has developed a specialized debt management and financial analysis software to meet the operational, statistical and analytical needs of debt managers. This may help developing countries improve the quality of their debt database, contributing to better transparency and accountability, debt reporting and debt sustainability analysis.

IV. Conclusions

42. Enhanced international and regional cooperation is needed to build institutional capacity in addressing Africa’s development finance needs and debt management challenges. Regional integration could play a critical role in coordinating and mainstreaming key regulatory and institutional dimensions of broader financing for development initiatives in the context of Agenda 2063 of the African Union and the 2030 Agenda for Sustainable Development. Against a backdrop of falling commodity prices, rising debt levels a resurgent dollar and forecasts for higher global interest rates, the dangers of a new debt trap in Africa should not be ignored. African Governments must continue to strive to balance the competing objectives of financing development spending and of avoiding a new round of debt crises.
