

CABRI - virtual peer learning and exchange event on the risks to national budgets in Africa, posed by contingent liabilities and PPPs, during the COVID-19 pandemic

Overview and challenges
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AN OVERVIEW

- Contingent liabilities are becoming a significant source of fiscal risk on the African continent – bail outs, capital injections etc.
- State-Owned Entities are or most of them, in financial distress and making losses (mismanagement, tariffs)
- As part of infrastructure development programme, governments in Africa (through Ministries of Finance) issue guarantees to state-owned entities (SOEs) and PPPs to enable them to minimise costs and borrow cheaper
- The question remains - how much Governments are prepared to support these non- financially sustainable entities and at what ultimate cost to the fiscus - . post COVID-19

ISSUES

Due to “COVID-19”, the risk of Contingent Liabilities being realized is high for most countries –

- Main reasons for SOEs experiencing financial difficulties –
 - ✓ Limited access to credit – rely on government ratings for access to credits
 - ✓ Constant loss making due to ineffective management – Boards and management differences
 - ✓ Poor investment decisions: weakness in feasibility studies and project sustainability
 - ✓ Ineffective price policies by the regulator
 - ✓ Poor turnaround strategies
 - ✓ Moral hazard: whatever happens, government will support SOE due to their strategic position



ISSUES

- Governance issues in SOE –
 - ✓ Weak accountability and transparency
 - ✓ Political issues (e.g. turf battles, rivalries, favouritism, personality clashes)
 - ✓ Mismanagement of funds and corruption



ISSUES

- Most significant issues in managing contingent liabilities –
 - ✓ Bureaucracy (e.g. irrelevant or cumbersome rules, needlessly long approval cycles)
 - ✓ Lack of resources/capacity (e.g. insufficient budgets, people, tools, support)
 - ✓ Poor information systems (e.g. inaccurate, outdated, missing, or confusing data) – most critical
 - ✓ Oversight capabilities: duplication or gaps in the roles and responsibilities of oversight units.
 - ✓ Communication between oversight units and the budget office
 - ✓ Political budget process vs. technical budget process
 - ✓ Authority issues (e.g. lack of decision responsibilities)



WORST PERFORMING SECTORS

- *Energy sector SOE's are financially the poorest performers - low electricity tariffs in West and East Africa - not sustainable*
- *Tariffs set by the regulator do not reflect depreciation charges and the cost of electricity bought from independent power producers.*
- *South Africa high tariffs due to high operating costs of ESKOM - increase cost of doing business overall*
- Gas sector is also one of the financially distress sector subject to the trend of gas prices.

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Thank you

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