Top key takeaway messages from the sixth network engagement meeting with African public debt managers

On October 27, CABRI welcomed public debt managers from African countries to the sixth network engagement meeting. CABRI picked up on the topical issue of increasing debt vulnerabilities and debt distresses in Africa – which also featured strongly in the recent (2022) International Monetary Fund (IMF) Spring meetings, while attempting to understand the role played by key lenders/creditors in Africa's debt resolution without losing sight of the much-valued contribution these creditors make in financing Africa's development through advancing infrastructure and other forms of loans.

The Top 2 key takeaway messages from the network engagement meeting were:

1. Increasing debt vulnerabilities and debt distresses remains a threat to Africa's economic recovery

Debt vulnerabilities and debt distresses are not coming around for the first time in the history of sovereign and/or public debt. However, the current generation of public debt managers working in close collaboration with fiscal policy and financial sector managers should utilise every resource available – both analytical and technological at their disposal to influence policy discussions in the most preferred direction, which is to reduce Africa nations' debt burden likely to threaten Africa's dynamic growth prospects. It is encouraging to learn that from Liberia – in dealing with transparency and accountability issues regarding the high contingent liabilities (another form of fiscal risk) by State Owned Enterprises (SOEs), the Ministry of Finance has evoked the powers granted under the Public Financial Management (PFM) Act to compel mandatory reporting of contingent liabilities, while strengthening relations with other Ministries or government departments responsible for the SOEs.

Another interesting case is that of Zimbabwe, where government through the Public Debt Management (PDM) Act, has prescribed a limit of public debt stock not exceeding 70 percent of Gross Domestic Product (GDP) and an annual borrowing limit not exceeding 5.75 percent of GDP as reported in 2021. In order to reduce the risk of defaults and debt distresses, the Zimbabwean government ensures that the viability of projects is determined, credit assessment is done prior to borrowing approval, while there is continuous monitoring of the borrowed funds throughout the entire loan and project life cycles. Similar to the Liberian case where Debt Management Committee is instituted in line with good debt management practice, Zimbabwe has External and Domestic Debt Committee (EDDC), which deliberates on requests for borrowing from SOEs, Local Government and National Government. The EDDC make recommendations to the Minister of Finance and Economic Development, who has the legal powers to approve all the public sector borrowing and issuance of guarantees in line with the Public Debt Management Act.

2. Understanding key lenders/creditors in extending infrastructure loans and debt resolution

The bilateral debt contracted by African countries from Non Paris Club creditors has shown some growth from 15 percent of total in 2007 to about 30 percent in 2016, signifying the increasing role of bilateral creditors such as China. Meanwhile, the report from the African Development Bank (2022) indicates that African countries debuted in the international capital markets between 2000 and 2019 collectively issuing US$155 billion, which signify a shift towards capital market bond issuance and slightly away from contracting multilateral debt, although the latter being the cheapest form of debt is still significant. Evidence from China Africa Research Initiative/Boston University Global Development Policy Centre (2022) indicates that of the estimated US$160 billion of China's loan commitment in Africa, 29 percent of total or roughly US$47 billion was committed to projects in the transport sector, while 25 percent of total or roughly US$41 billion is committed to projects in the power sector. The next key categories are commitments in the mining and ICT projects - comprising 11 percent (roughly US$18 billion) and 8 percent (roughly US$14 billion) of total, respectively. In matters related to debt resolution, the United Nations Development Program (UNDP) report (2022) recommends that realistic assumptions about countries debt dynamics should anchor debt sustainability analysis, while the development of State Contingent Debt Instruments should be encouraged.

3. In conclusion

Increasing debt vulnerabilities and debt distresses in most African countries have seen interest expense as percentage of revenue doubling between 2000 and 2019, while gross financing needs as percentage of GDP breached the 15 percent indicator of high vulnerability. Increase in capital investments that boost long-term economic growth has the potential to somehow reverse this debt spiral. But African countries in contending with the inevitable higher refinancing risk - as a higher proportion of their outstanding debt is falling due in the next 10 years, may need to see debt relief for Low Income Countries (LICs) fast-tracked, while various policy mix (fiscal, monetary) may need to deliver conditions for favourable market access to refinance at comparably cheaper rates than the rates at which the debt was initially contracted.

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