Minutes from roundtable on Africa's Rising Private Debt: is it sustainable?

Monday 5th November at 5pm in Committee Room 2A, House of Lords

Chair: Lord Chidgey (Co-Chair of the APPG for Africa)

In attendance- Liz McInnes MP (Shadow Minister for Africa), Baroness Uddin, Baroness Northover, Baroness Sheehan, Emmanuel Finndoro-Obasi (Africa Advisor to Andrew Rossindell MP), Joe Corry-Roake (Shadow DFID team, Parliamentary Researcher for Preet Kaur Gill MP, Shadow Minister for International Development), Zainab Asunramu (On behalf of Teresa Pearce MP), Bassie Turay (on behalf of Daniel Kawczynski MP), Papa N'Diaye (IMF), Joel Kibazo and Alistair Boyd from the RAS and Nick Westcott, Director at the Royal African Society.

Mr. David Robinson is a Deputy Director in the IMF's African Department and his presentation and notes are available for viewing here. Key points made in his brief are below.

All countries have debt and debt is not the issue- the ability to then repay the debt is the issue. Since 2000 African economies have seen 15 years of uninterrupted growth however, the ability to collect tax and expand the revenue base is still low.

15 countries in Africa are currently in "debt distress" which means they have defaulted on payments and this number is growing. 20 countries in low and moderate levels of debt, including Keya, Tanzania, Rwanda, Senegal, Swaziland.

Key factors which created growing debt crisis in some countries included the fiscal deficit widening sharply for many oil exporters following the oil price shock and new unexpected debts suddenly onto Gov balance sheets from state owned companies that could no longer service their debts.

Could divide countries up into three categories-1. Oil exporters, 2. Resource intensive and 3. Non –resource intensive economies. From 2013 onwards saw a massive increase in the fiscal deficit of oil exporting countries following the oil price shock. E.g. in Angola in 2013 government revenues were 37% of GDP in 2016 it's now 17%. Fiscal adjustment now helped by oil prices rising again.

Both resource and non-resource intensive countries are still taking on new debt for infrastructure projects but not enough corresponding improvement in revenue collection to service the debts.

Domestic revenue mobilisation is still not high enough across a lot of Africa and so debt is be taken on to close infrastructure gaps.
Growth slowed down when the commodity prices collapsed but there has been a rebound over the past couple of years- 2.7 % in 2017 and 3.1% in 2018 for Africa as a whole. Non-resource intensive countries continue to grow at 6-7% a year (e.g. Senegal, Tanzania). Diverse growth paths.

Concern over what happens for longer term growth. Predict growth will rise to 4% a year but when you take into account population growth that equates to only 1.5% growth a year.

However, net private capital flows into SSA have rapidly increased- $5 billion in 1995 to $60 billion in 2017. Look at compared to size of the economy- for the past 3 years private capital going into SSA was larger than the economy of emerging markets as a group. Largely from foreign direct investment but growing interest from capital markets including purchase of Eurobonds and Domestic currency & treasury bonds. On one hand this is a positive that international capital is wanting to expand its savings pool in Africa but also generates potential risks or when interest rates start to rise.

Jesse Griffiths heads ODI's work on development finance, and the strategies of international development agencies. For more detail, please see the briefing note from ODI here.

Borrowing is a major source of investment for future growth for countries that struggle to raise enough revenue or ODA and often the only option to fill investment needs for infrastructure etc. Debt often sensible part of strategy. Key question is its sustainability. The worrying issue is that it might not be.

2 out of 5 Low Income Countries (LICs) are at risk of or are in debt distress- significant increase on the last few years. Not always that the debt levels are too high but key point is that debt is very different from last debt crisis and the HIDPs (Highly Indebted Poor Countries) initiative. Debt is now more expensive, even though debt levels are lower than they sued to be.

ODI- "age of choice" for developing countries which now have more options on where to get finance from but impact is an increase in borrowing from private sources which is more risky and more expensive. Rise of China – 20% of debt is Chinese in origin in countries in debt distress- factor but not a driving factor. Bigger issue is private debt which in one third.

Africa is not currently in a debt crisis but are we heading in that direction? How can this be prevented?

1. Each situation and country different- things need to be done at the domestic level to manage debt and government expenditure better. Need for greater transparency and accountability as parliamentarians often don't have information about the budget and debt situation.
2. Recognise in LICs that there is a financing gap problem contributing to this. (See ODI report on Financing the SDGs- assumed LICs growth continued strongly and that they increased their tax to GDP ratios to the highest level the IMF and WB think might be possible and even if do that- find that 48 countries can't afford the investment needed to meet the SDGs. Of those, 29 can't get half the investments they need. Insufficient public resource in LICs to do the investment needed in health, education, social protection and infrastructure to meet the SDGs. How do we find these additional resources? One way, countries to meet their ODA commitments, many countries not even at 0.3% of GDP for ODA. Generally for ODA, the amount going to Least Developed Countries (LDCs) on declining trend. ODI would like to see half ODA to LDCs.
3. Many external issues over which LICs have little control which contributes to their problems- e.g. commodity price collapse in 2014-15 a key issue and now emerging markets currently suffering from increase in interest rates in more developed countries. Many international factors determine whether a country will end up in debt distress. Not just a case of managing resources well. Can the global system be changed?
4. How could the debt system be changed? Now current mechanism to mage another debt crisis. Of the HIDPs programme 33 out of 36 have passed through it- no mechanism at present to allow countries in debt distress to exit it rapidly without damaging their economies and hurting the poorest people. How can new mechanisms be out in place?

Other issues raised during the discussion included:

- Corruption in state finance and accountability and the responsibility of lenders to only lend to governments which are transparent,
- The need to use debt to create jobs,
- The UK raising pressure on other countries meeting their OD- if all countries met their 0.7% ODA commitment would significantly close the funding gap and reduce the need for debt.
- The need to decrease IFFs coming via London and the UK and direct ODSA to poorest countries that can't raise tax.
- There was some skepticism over how far spending ODA to raise private investment would be a correct use of ODA- the returns for each $1 of ODA used for that purpose only generates 37c in return.
- The potential of supporting governments in negotiating more favorable terms for debt.
- Rwanda was praised for its dynamic use of ODA and clear strategic vision.