DMF Stakeholders Forum 2011
“Managing Debt: Lessons Learned and Emerging Issues”

Strengthening Debt Management: Challenges Ahead

8-9 June, 2011
Berne, Switzerland

Senait N. Assefa
African Development Bank

Outline

1. AfDB's Role in Debt Management Capacity
2. Recap of linkages between debt relief and debt management
3. Trends of debt-related indicators and country experiences
4. Looking Ahead: Managing Challenges and Opportunities
AfDB’s role in debt management capacity

- Enhancing partnerships, coordination and harmonization
  - Participation in debt relief initiatives
  - AfDB as a Donor to the Debt Management Facility
  - Harmonizing policy and operational modalities on DSA/DSF and Non-concessional Borrowing policy

- Building institutional and technical capacity to better support RMC’s needs to develop and implement effective debt management strategy

- Providing advisory and legal support
  - The African Legal Support Facility provides technical assistance to regional member countries facing debt litigation (‘vulture funds’)

AfDB’s role in debt management capacity

- AfDB support to debt management provided as part of its operational support for economic governance and public financial management reforms
  - Under ADF-11 (2008-2010) app. 22% of (app. USD 7 billion) concessional resources went to this sector
  - Mostly provided through policy-based operations; typically debt management is included in the overall performance assessment

- Assistance also provided through Institutional Support Projects (ISPs)
  - Central African republic, Burundi, Comoros, the Gambia, Guinea, Sierra Leone and Togo

- Targeted technical assistance and capacity building support also provided through Fragile State Facility
Recap: Linkages between debt relief and debt management

- Impact of debt relief under HIPC/MDRI
  - Significant decrease in stock of external public debt and debt service obligations
  - Increased spending on poverty reduction priorities
  - Improved fiscal space and ability to borrow

- Challenges
  - Debt sustainability is still a concern for several countries that have received debt relief
    - huge unmet financing needs
    - rapid build up of non-concessional debt
    - undiversified economic base; vulnerability to external shocks
  - Weak debt management capacity
  - Slow pace of policy and governance reform, especially in fragile states

Debt sustainability remains a challenge for a large number of African LICs despite debt relief

Trend in Risk of Debt Distress Classification, ADF-countries (2005-2010)
.... Nonetheless, several African LICs are making progress in debt policy and management

![CPIA Rating: Fiscal and Debt Policy](image1)

...as well as in public sector management

![Governance Rating - Public Sector Management](image2)
Country Experiences: Decision/Completion Point countries

- Joint AfDB-World Bank mission to Guinea Bissau in 2010 proposed a debt management and analysis capacity building Action Plan for the Public Debt Office

- Debt management weakness identified
  - lack of IT skills and equipment (specialized debt management software)
  - limited knowledge in concept and analytical foundations of debt management; language issues
  - lack of Debt information recording, reporting and communication with creditors

- Proposed Action Plan aims to strengthen identified weaknesses and financing needs

- Potential short and long-term benefits
  - generation of savings of foreign exchange by better accounting and control of obligations and through active liability management
  - better debt management can increase efficiency in the use of development resources (development effectiveness)

Country Experiences: Pre-decision HIPC/Fragile States

- Support for debt management is important in preparing countries to meet HIPC eligibility criteria and develop a sound macroeconomic program

- Grant resources for technical assistance and capacity building support available through the AfDB Fragile States Facility
  - Sudan: increased focus on debt relief issues in recent months
  - Zimbabwe: current efforts include hybrid arrears clearance strategy (Zimbabwe Accelerated Arrears Clearance and Reengagement Strategy)

- Partnership with (sub)-regional institutions is critical, especially where DFIs have policy constraints
Looking Ahead: Managing Challenges and Opportunities

- Operational and policy coordination at country level
  - debt management resources; DSAs and other analytical products; non-concessional borrowing policies; range of financing products, etc.

- Focus on structural issues
  - improving economic and political governance
  - structural transformation of the economy
  - lessons from recent wave of sovereign debt crises

- Debt and development financing
  - diversifying development financing source
  - improving domestic resource mobilization through tax reforms, revenue generating investments, domestic debt markets, sovereign wealth fund etc.

Looking Ahead: Managing Challenges and Opportunities

- Increasing partnerships and strategic engagement with non-DAC donors
  - emerging development partners provide a new source of financing for development for Africa
  - loans from EPs often combine concessional and non-concessional financing terms as well as focus on productive investment
  - policy engagement with non-DAC donors will be key in addressing debt sustainability issues (transparency, coordination and harmonization)
Thank You!

Extra slides

2011 African Economic Outlook:
Africa and Its Emerging Partners
Key Messages

Emerging partners have become a major driver of Africa's growth in recent years.

Not all countries have engaged equally with emerging partners.

Africa's traditional partners are still very significant and will remain so in the years to come.

To maximize the benefits from EPs, African countries should:

- Coordinate their engagement strategy regionally.
- Improve their domestic policies.
- Use the increased policy space to strike out better deals (in trade, FDI and development assistance).
Who are the EP's?

- Turkey 7% ($16 bn)
- China 38% ($93 bn)
- India 14% ($34 bn)
- Korea, Rep. 7% ($17 bn)
- Brazil 7% ($17 bn)

Other EPs 27%

Africa Trade Volume, 2009 % of total (US$ billion)

- China (incl. HK), India, Korea, Brazil and Turkey are leading the pack.

Dramatic Rise of EP's...

- Africa’s total trade doubled between 2000 and 2009.
- Share of trade with non-traditional partners increased from 23% in 2000 to 39% in 2009.
- China's share tripled.

Share of TP's and EP's in Africa's total trade
TPs remain critical to Africa’s growth

62% of Africa’s trade in 2009.
83% of all ODA-equivalent flows to Africa between 2005 - 2010 compared to 10% from EPs.

EU

Africa’s main trading partner: 40% of Africa’s trade

OECD countries

72% of all FDI flows to Africa during 2000-2008 (15% from Asia)

EPs’ and TPs’ are complementary

EPs and TPs are contributing to the exploration of new resources through FDI

Supply affordable consumer goods to Africa
Help to close infrastructure gaps in Africa
The Way Forward

- **Improve the domestic policy framework** to attract FDI and to benefit from knowledge transfers
- **Develop and coordinate a regional strategy** to engage with the EPs
- **Use the increased policy space and greater bargaining power** to interact more effectively with both EPs and TPs

www.africaneconomicoutlook.org