

2nd International Economic Conference Dakar

Financing Africa's Development in an Environment of Polycrises

By

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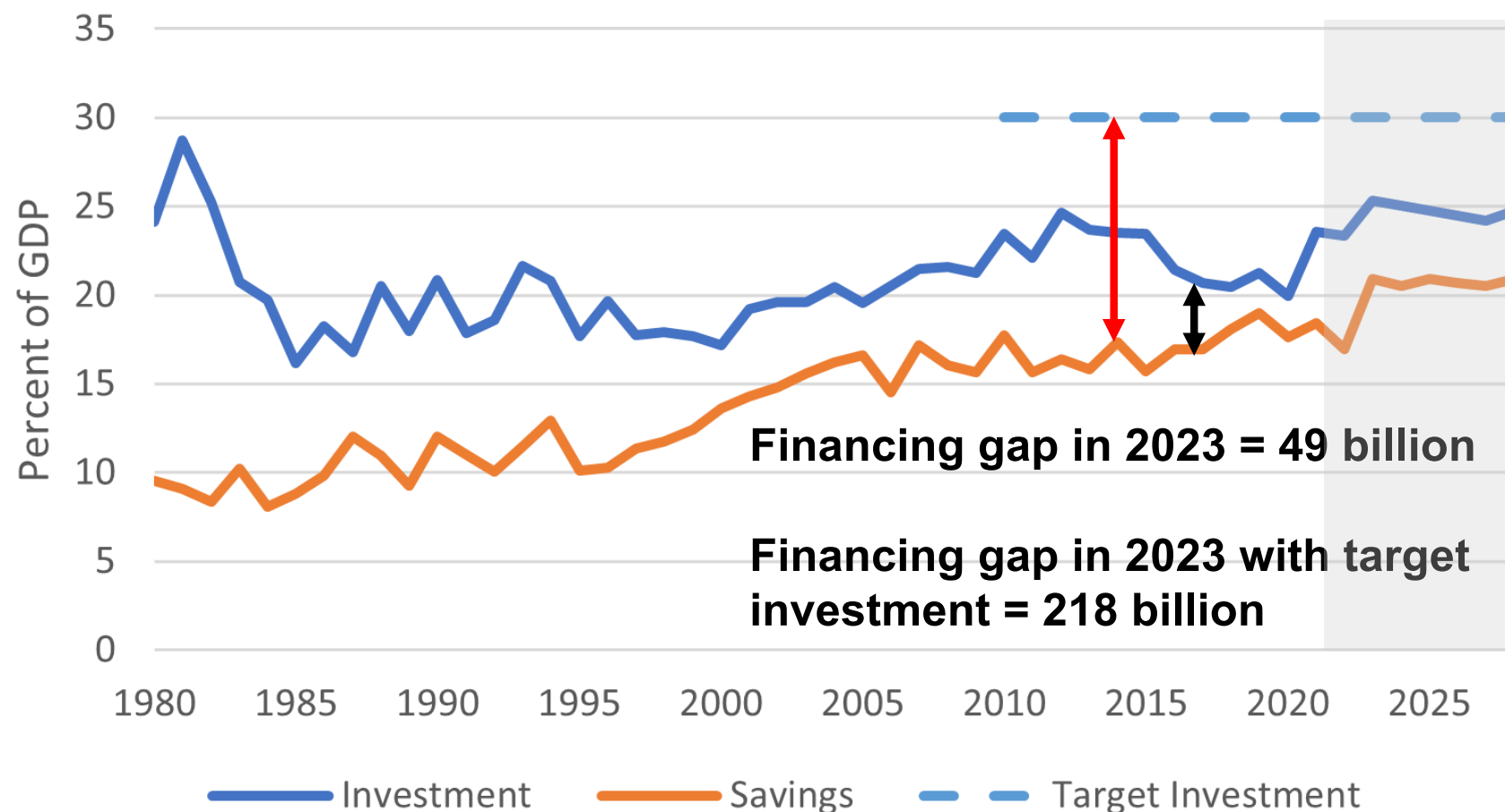
Two key structural obstacles to Africa's Development

- » Creation of productive jobs at a large scale to achieve sustain structural transformation
- » Financing for development
 - Latter more challenging in the current polycrisis environment ...

Unprecedented polycrisis ...

- Pandemic/health crisis
- Geopolitical crisis
- Food/energy and inflation crisis
- Sovereign debt / development financing crisis
- Financial stability with bank failures ...
- They are on top of the looming climate crisis
- Security and fragility challenges
- => Heightened risk of global recession ...

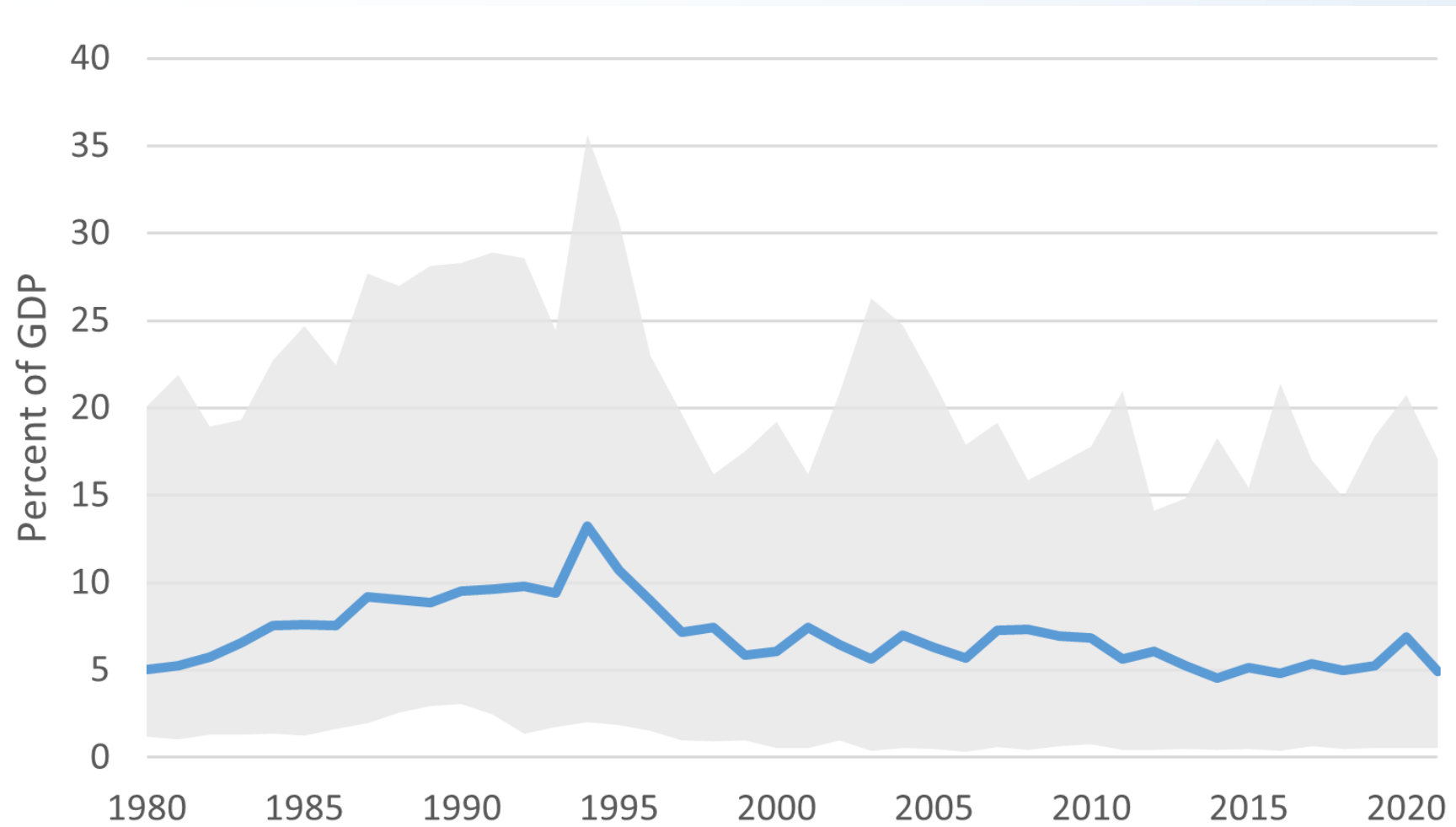
Low domestic savings constrains investment (median)



Main sources of external financing

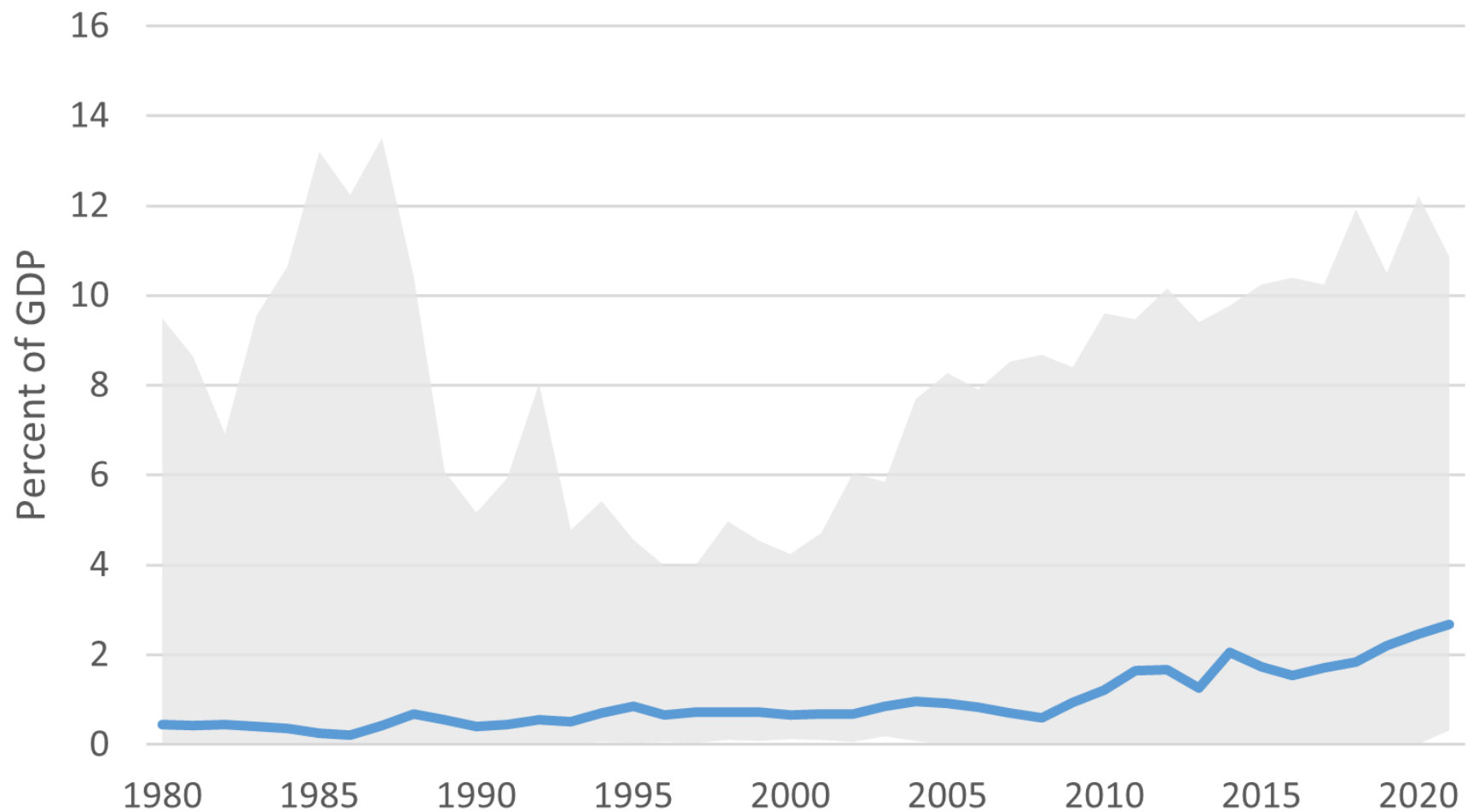
- » Development Assistance
- » Remittances
- » Capital Flows... not all created equal
 - Foreign Direct Investment
 - Equity
 - Bond / loans

Development Assistance (median)



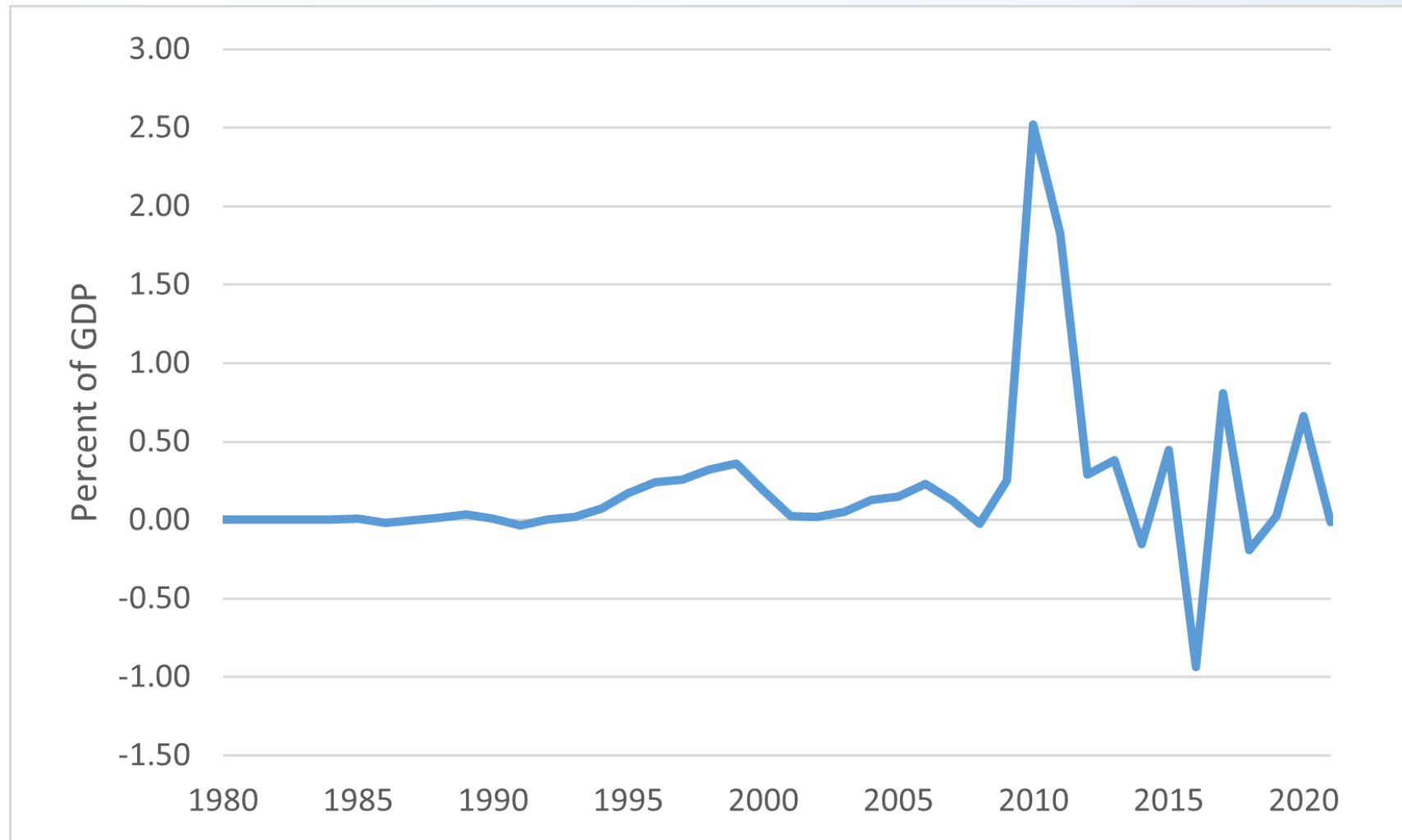
Source: World Bank, OECD, IMF 2023 World Economic Outlook.

SSA Remittances (median)



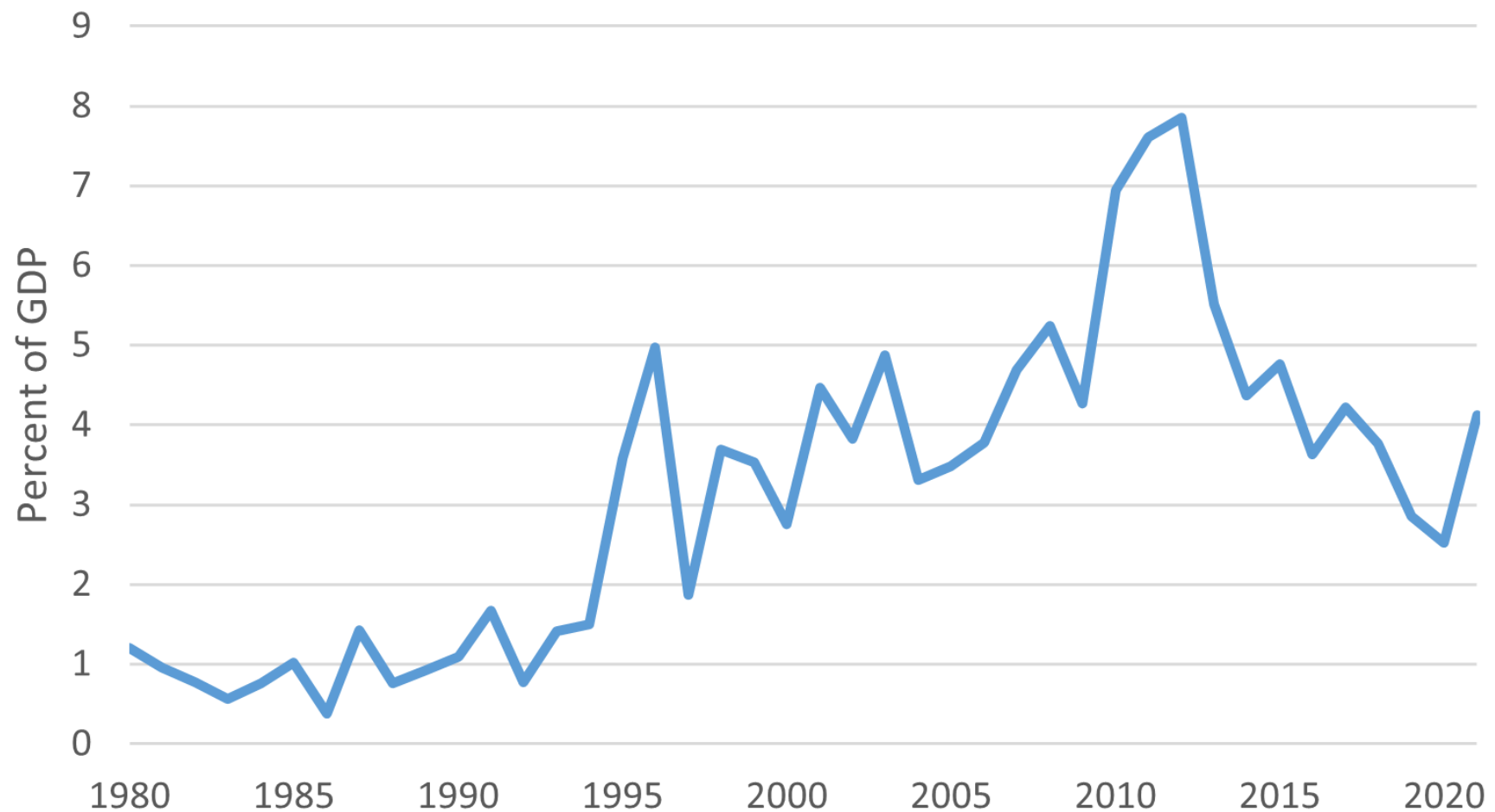
Source: World Bank, IMF Balance of Payments.

SSA Net Equity Inflows (average)



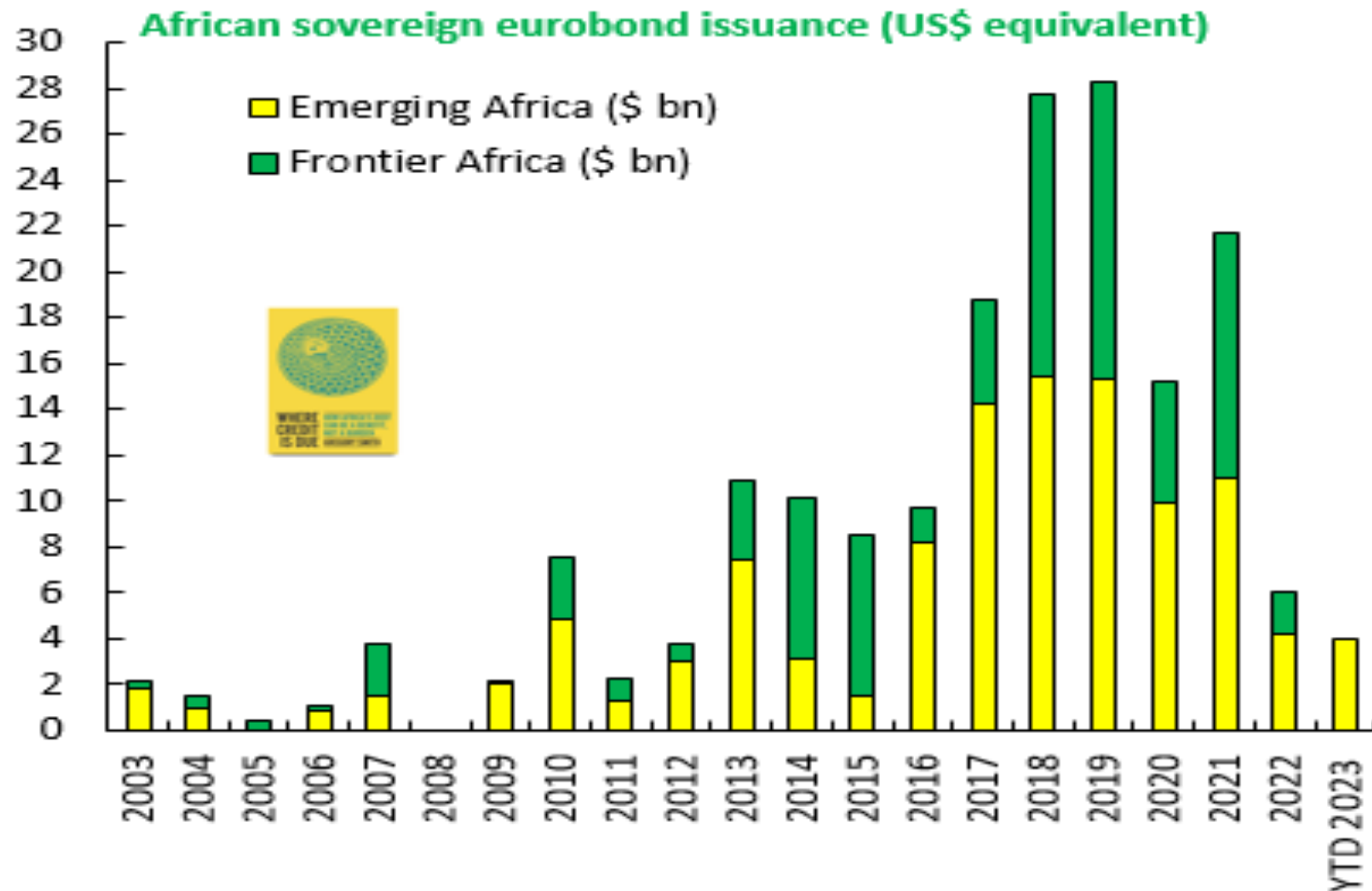
Source: World Bank, IMF Balance of Payments; IMF 2023 World Economic Outlook.

SSA FDI Net Inflows (average)

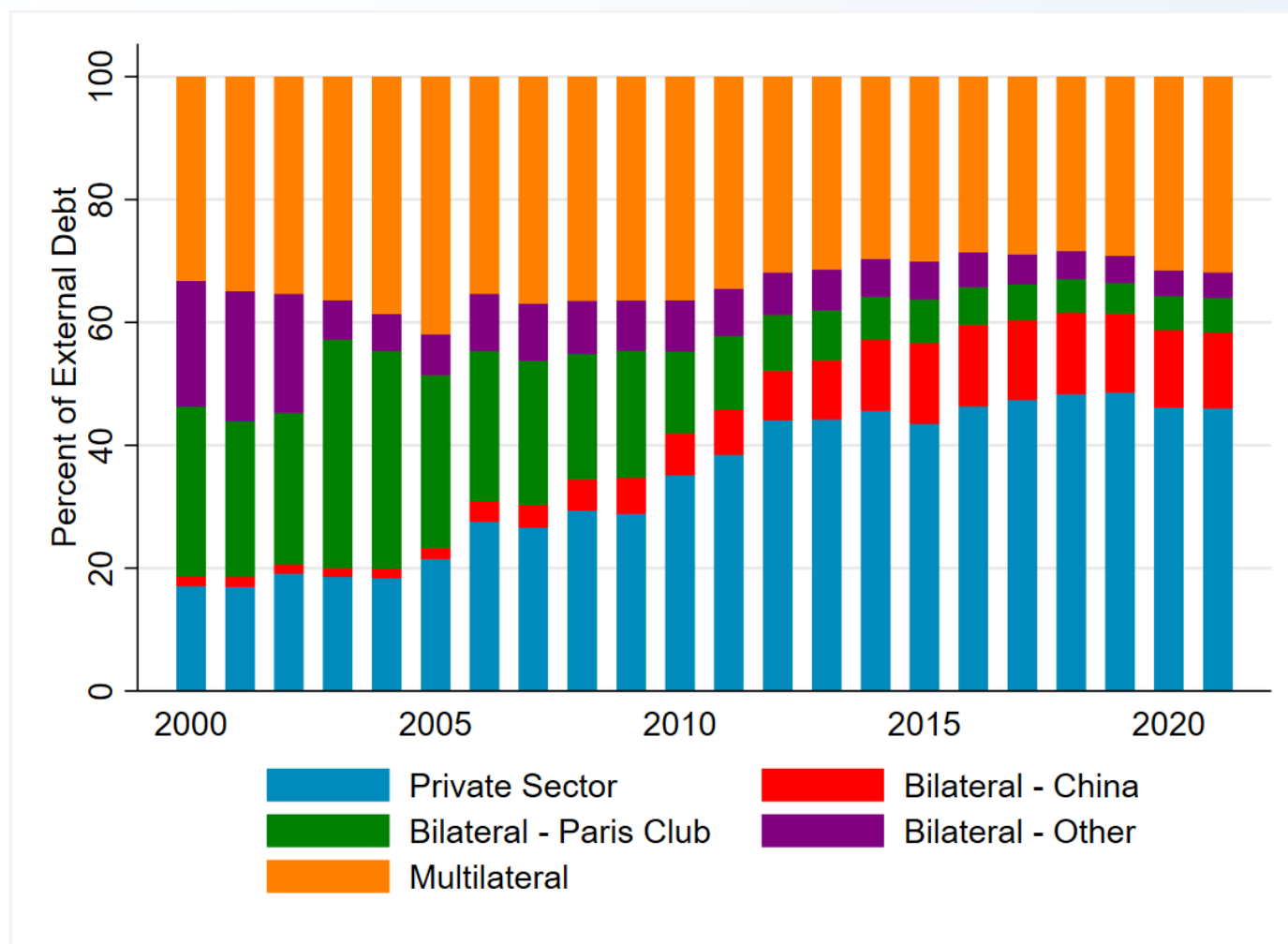


Source: World Bank, IMF Balance of Payments.

SSA International bond issuances



Share of external debt by Creditor

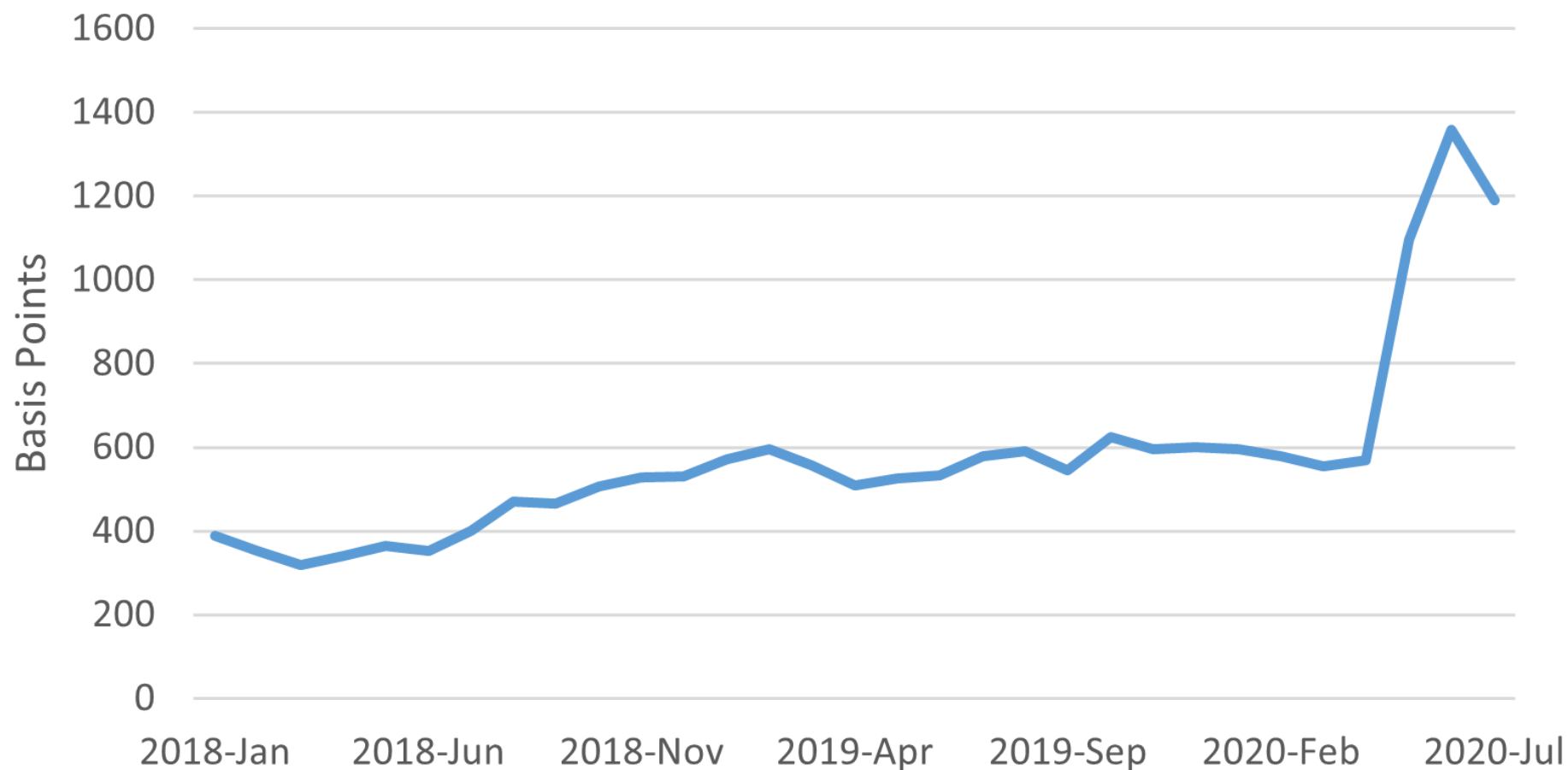


Source: World Bank 2021 International Debt Statistics.

Opportunity & Risk of access to Int'l capital markets

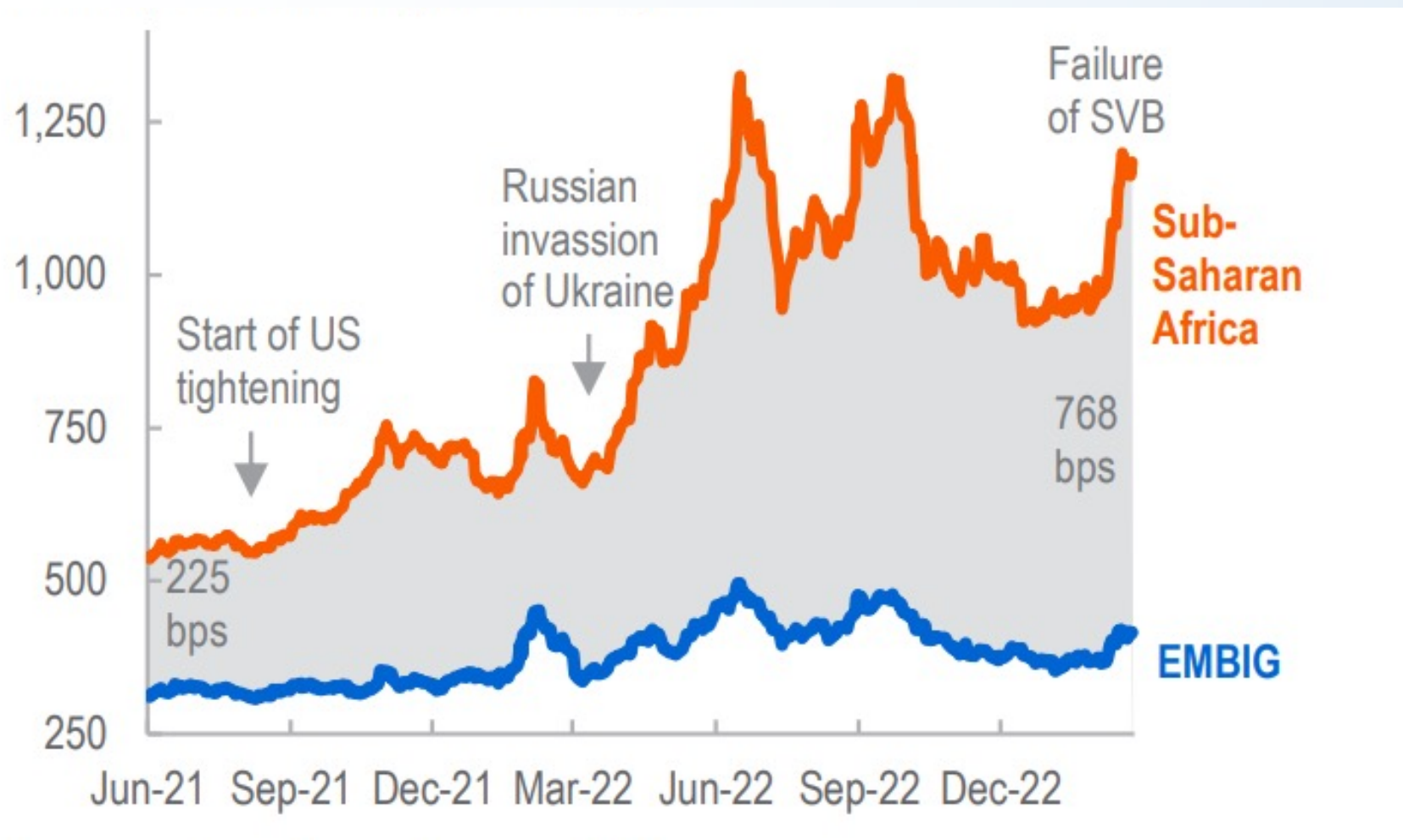
- Inevitable part of economic development
- Welcome diversification of funding sources
- Helps to disciplines economic policy given scrutiny of investors
- ...but comes with risks
 - » Rollover risk
 - » Exchange rate risk
 - » Interest rate risks

SSA cost of funding during Covid (Avg EMBI Spread)



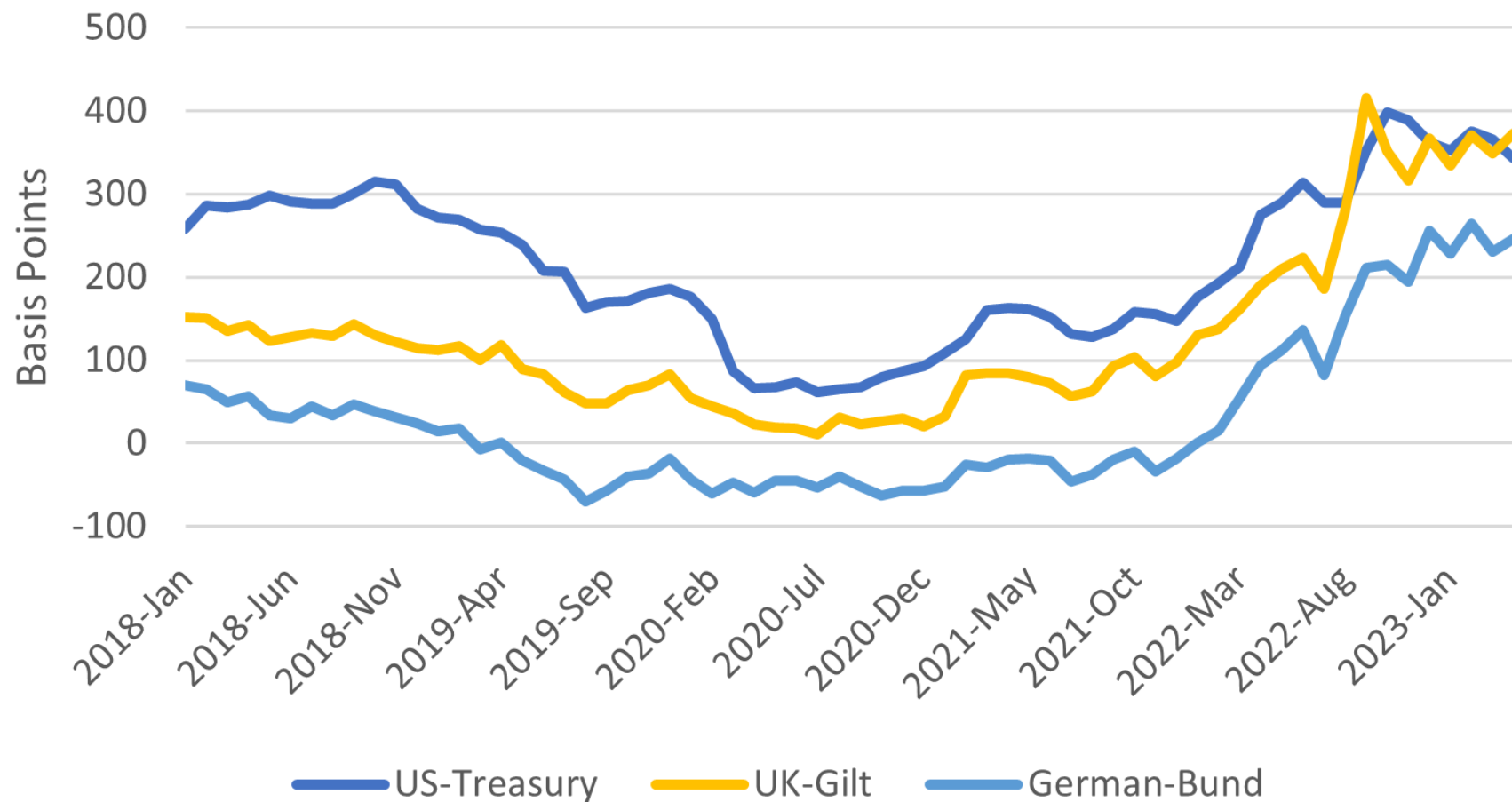
Source: Bloomberg Finance, 2020.
Note: EMBI = Emerging Market Bond Index

SSA EMBIG Spread (average)



Source: IMF Regional Outlook, 2023; Bloomberg Finance.

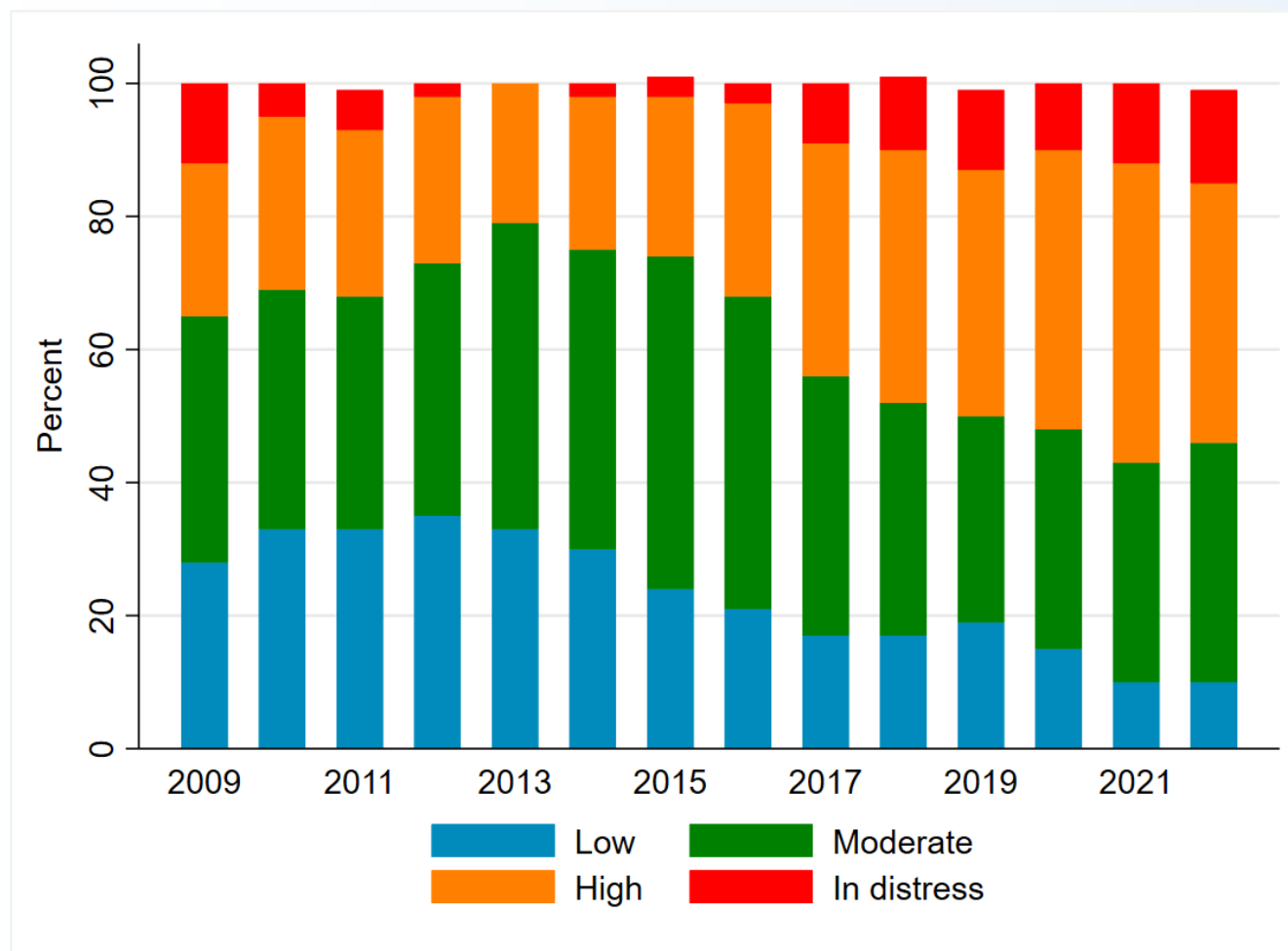
Advanced countries 10-yr Interest Rates



Differentiated response during global shocks

- Advanced Economies:
 - » lower interest rates => higher fiscal support
 - » Swap lines among major central banks
- SSA and low-income countries:
 - » Higher interest rates => constraints fiscal support
 - » Depreciated exchange rates raises debt servicing
- Need special support e.g. G20's DSSI but expired... in 2021 & Common Framework facing operational challenges

Sovereign debt is the single most important risks to development financing

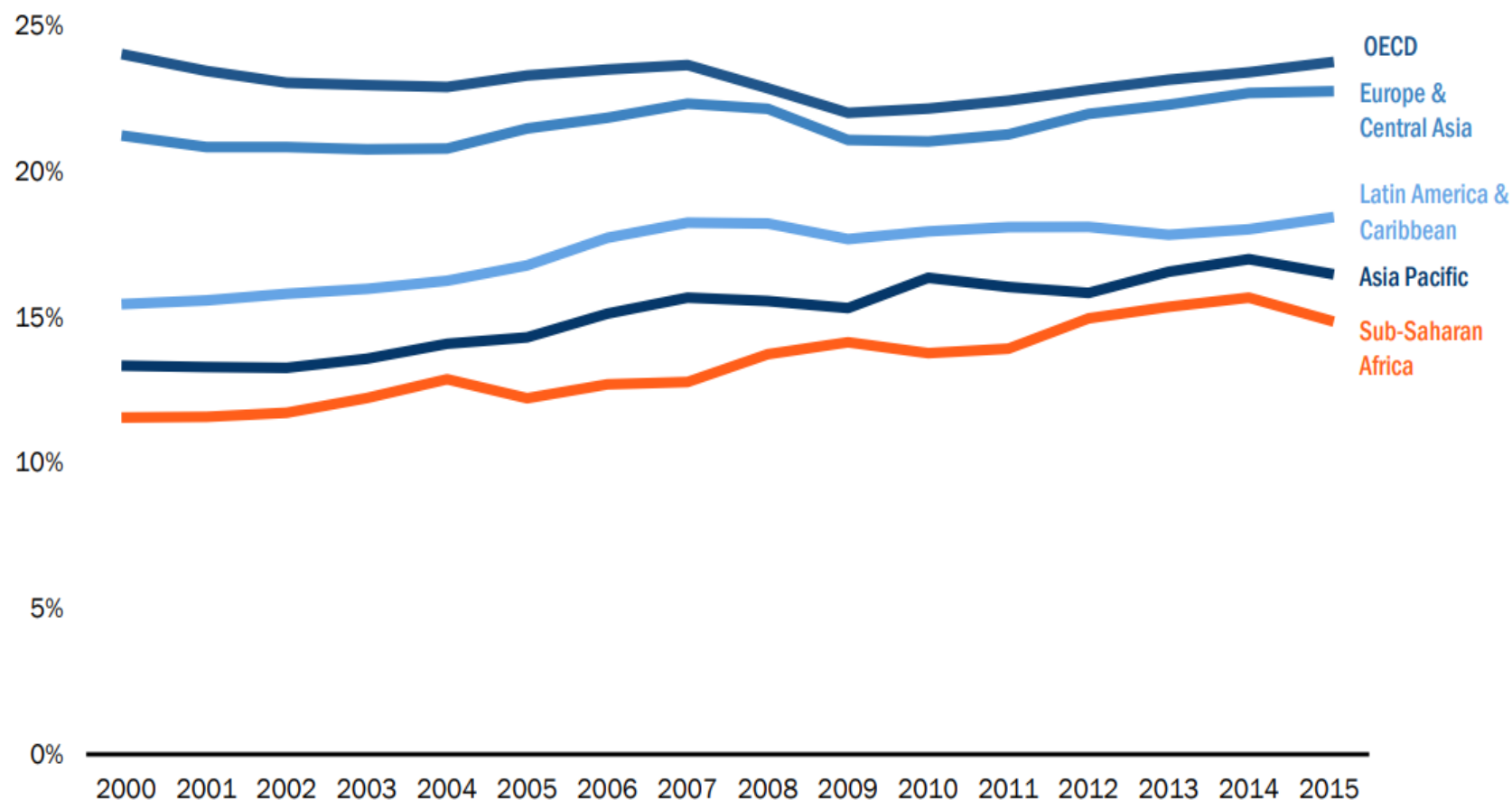


Source: IMF 2022 Annual Report; IMF Debt Sustainability Analysis for Low-Income Countries.

Solutions: Imperative to double down on basics of public finance management

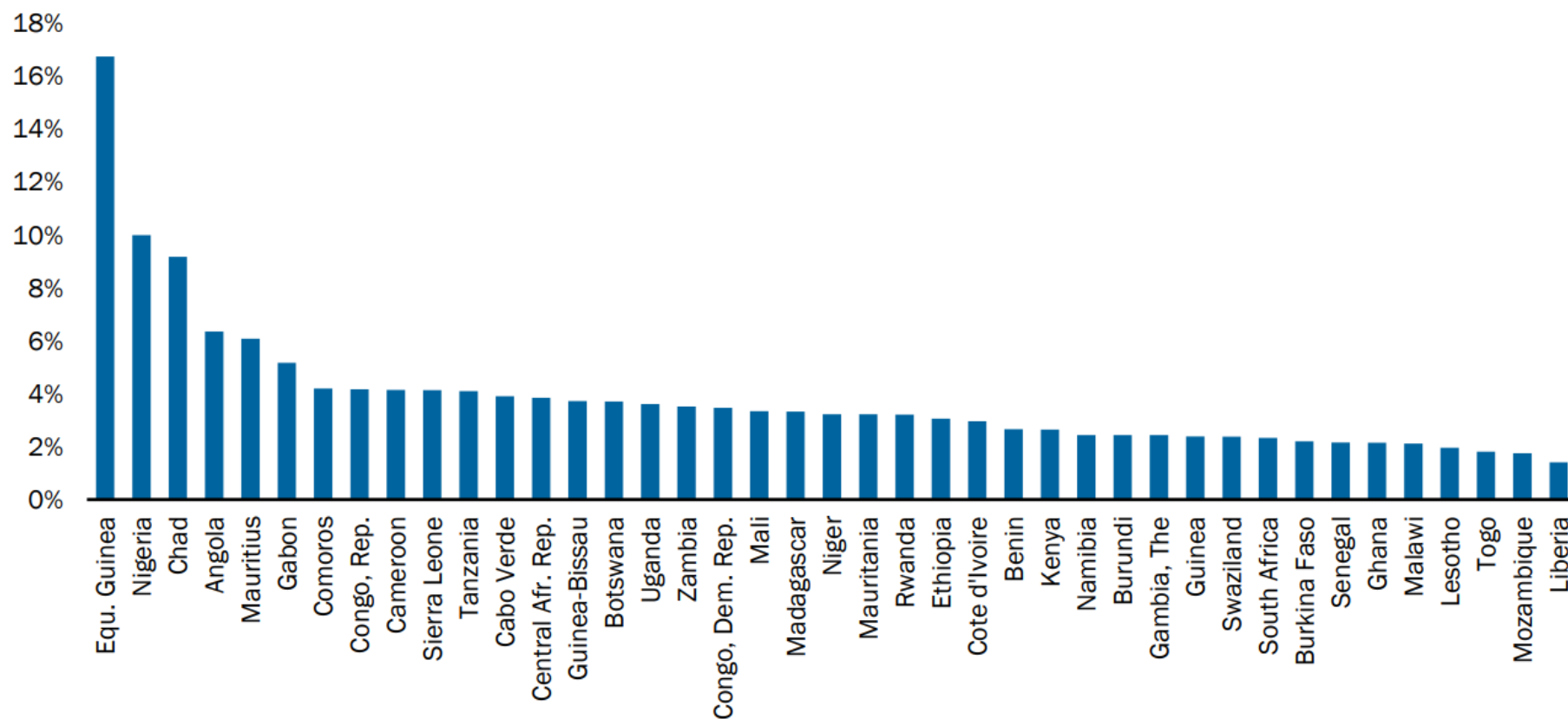
- Hedge exposure to market risks
- Bolster domestic resource mobilization
 - » Combat illicit capital ~\$50 billion/year
 - » Strengthen governance of Nat. Res
 - » Bolster efficiency in resource management
 - » Boost tax revenue collection... which is weaker than it needs to be and is a lower-hanging fruit

Regional non-resource taxes (percent of GDP)



Source: Brahim Coulibaly and Dhruv Gandhi, 2017, "Mobilization of Tax Revenues in Africa," Brookings.

SSA estimated tax revenue gaps (percent of GDP)



Source: Brahim Coulibaly and Dhruv Gandhi, 2017, "Mobilization of Tax Revenues in Africa," Brookings.

Medium to longer term policies

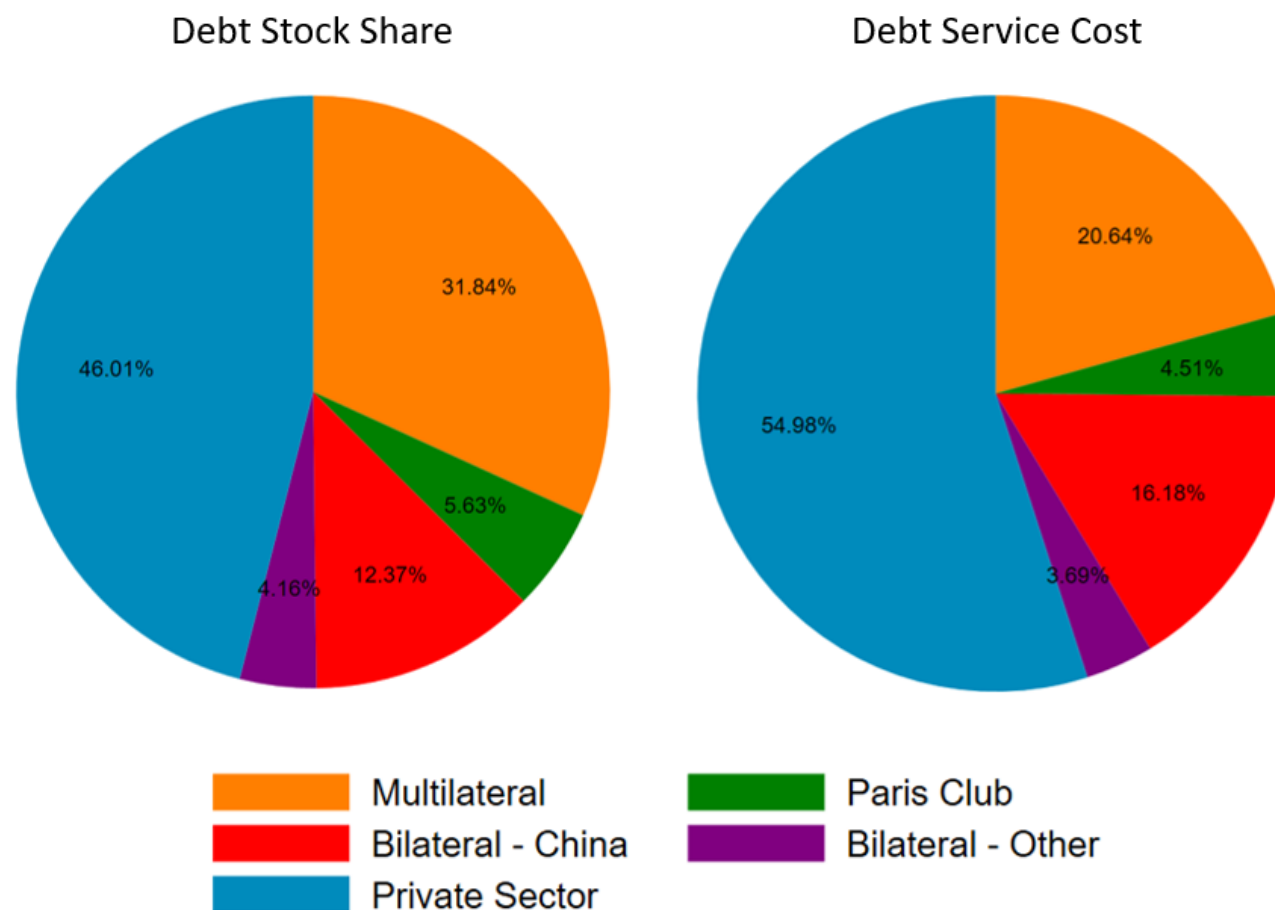
- Develop and deepen regional financial markets
- Develop new instruments to take advantage of local opportunities e.g. M-Akiba
- Improve regulatory environment and ease of doing business to attract FDI...
- Develop state contingent external debt instruments

International community can help...

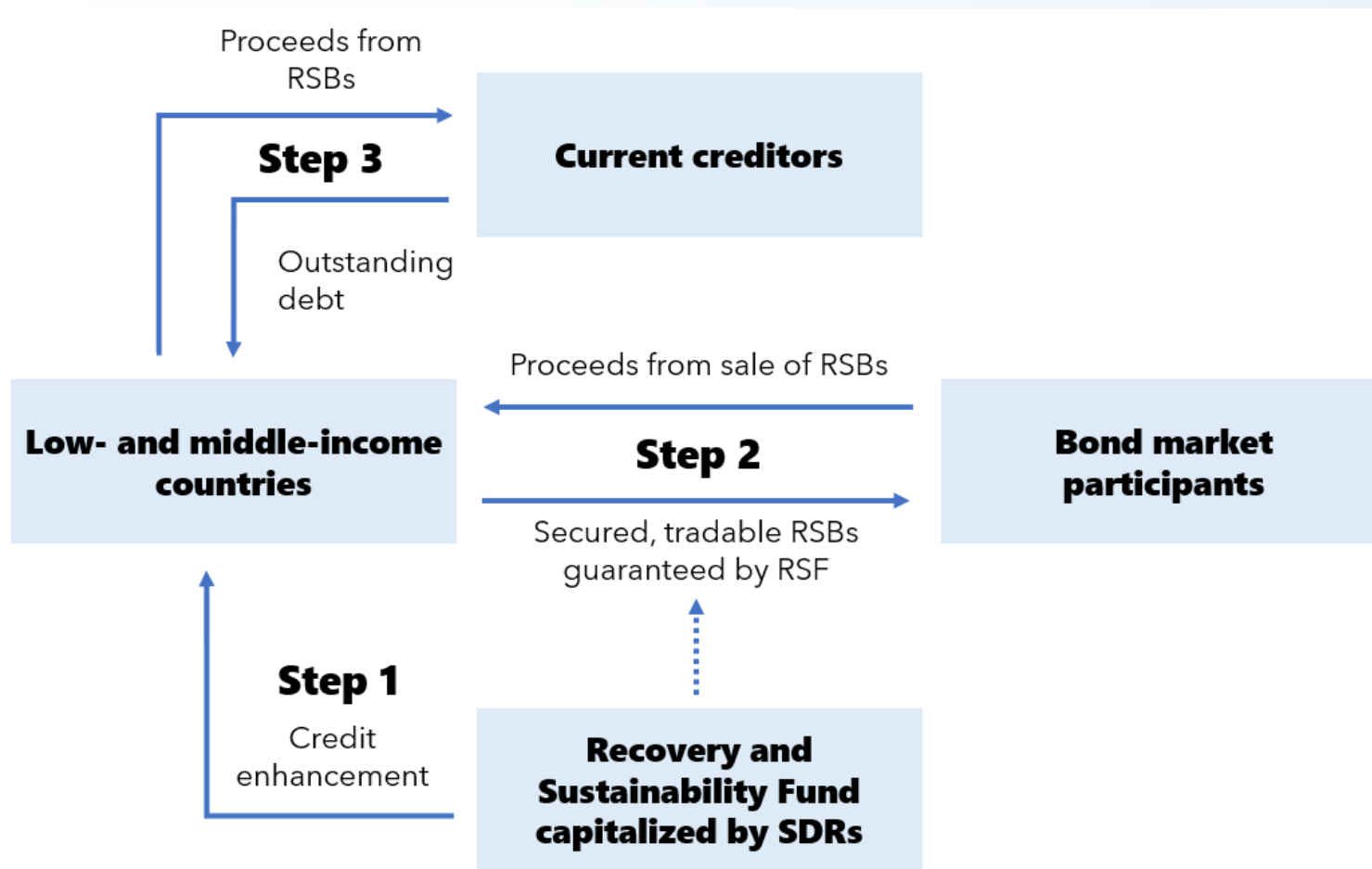
- Reform of the international financial architecture..
 - » e.g. MDB reform, IMF Quota review
- Make improvements to the Global Minimum Tax
 - » GMT 15% on MNCs 750m euro in revenues
 - » Generate \$150bn =>60% to G7
- Accelerate sovereign debt restructuring
 - » Suspend debt repayment upon request
 - » IFI continue to lend into arrears

THANK YOU !

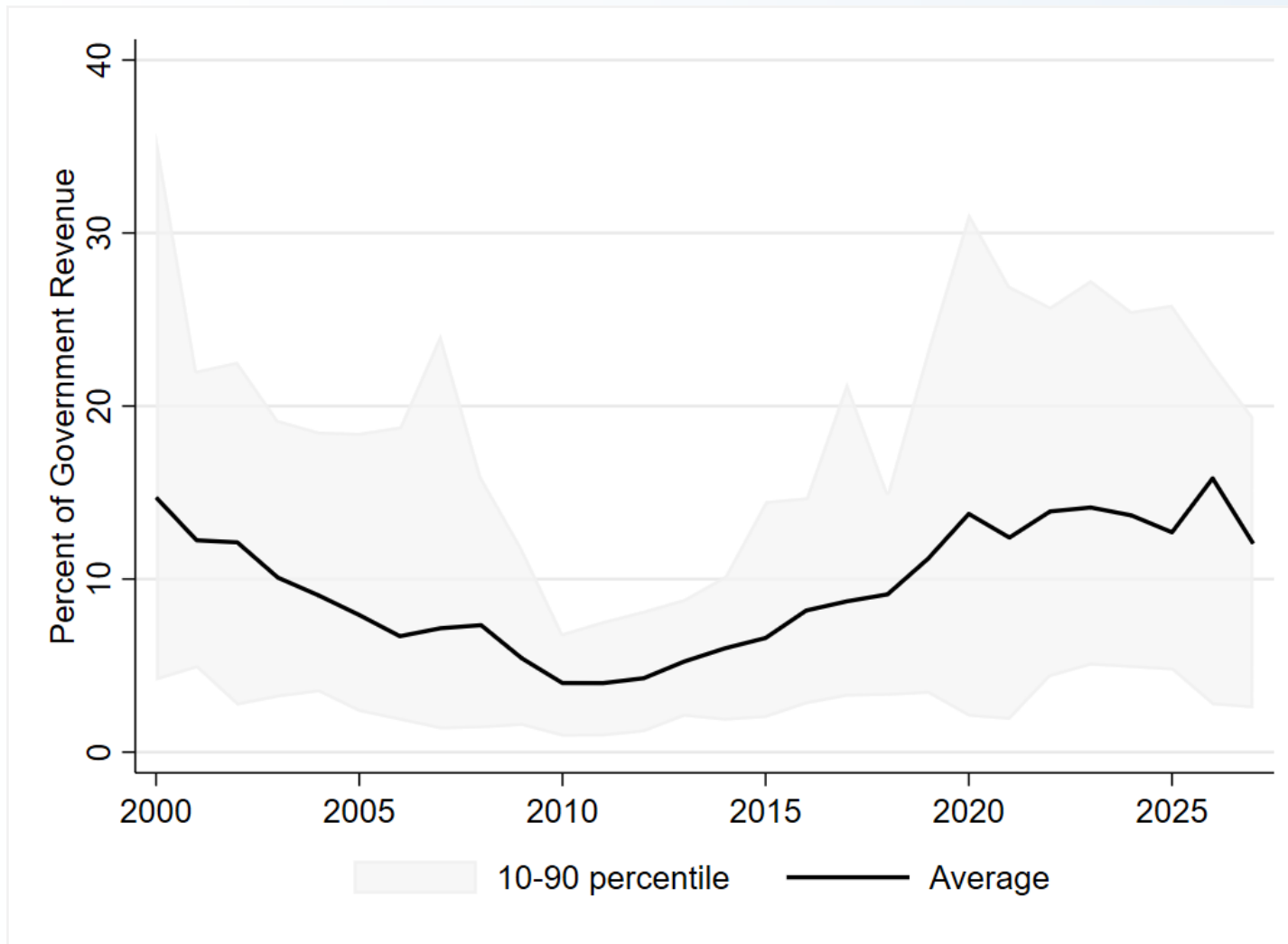
SSA Share of Debt Versus Debt Service Cost in 2021



Design Mechanism for Brady-bond-like Solution

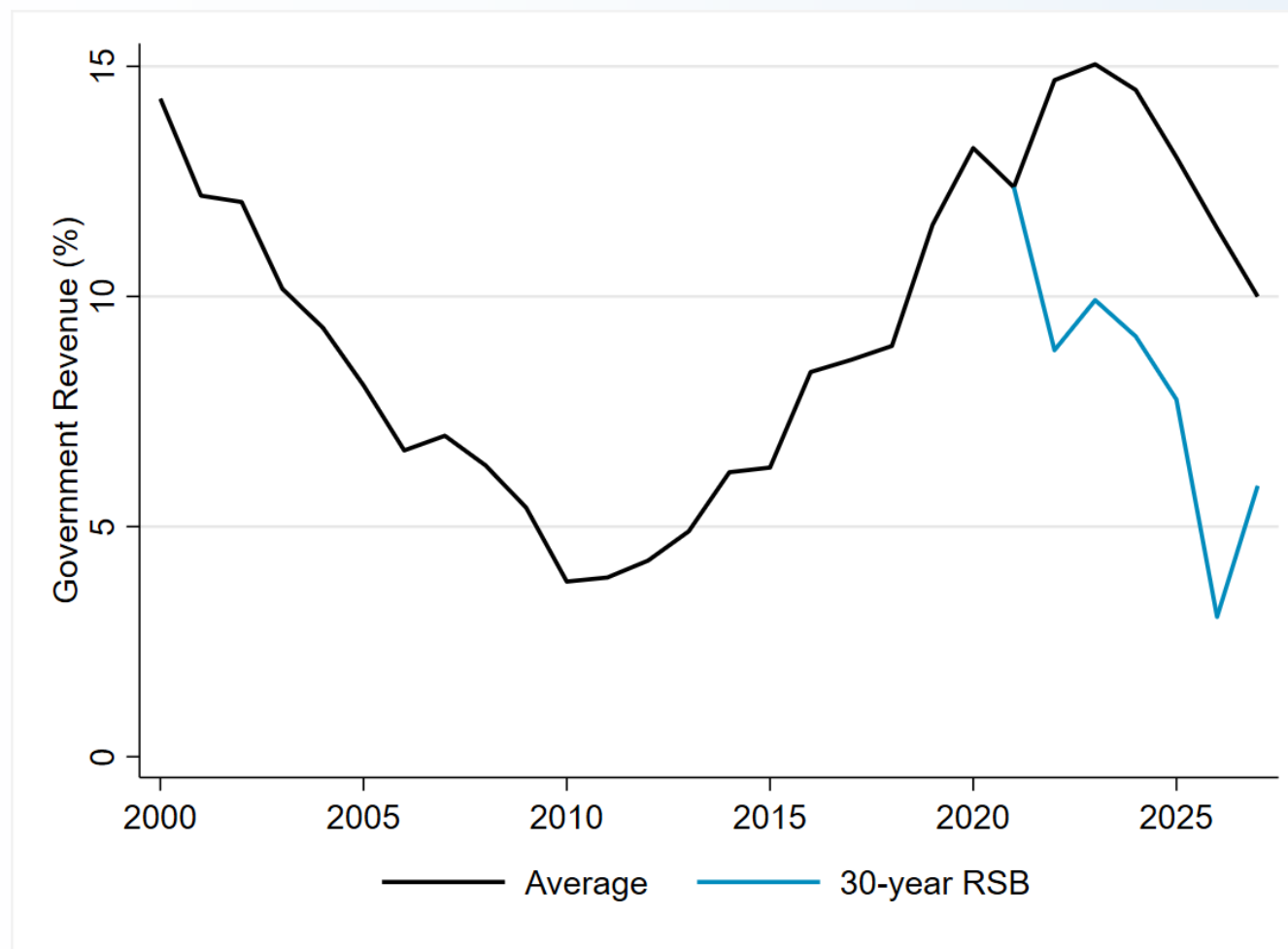


External Public Debt Servicing Cost



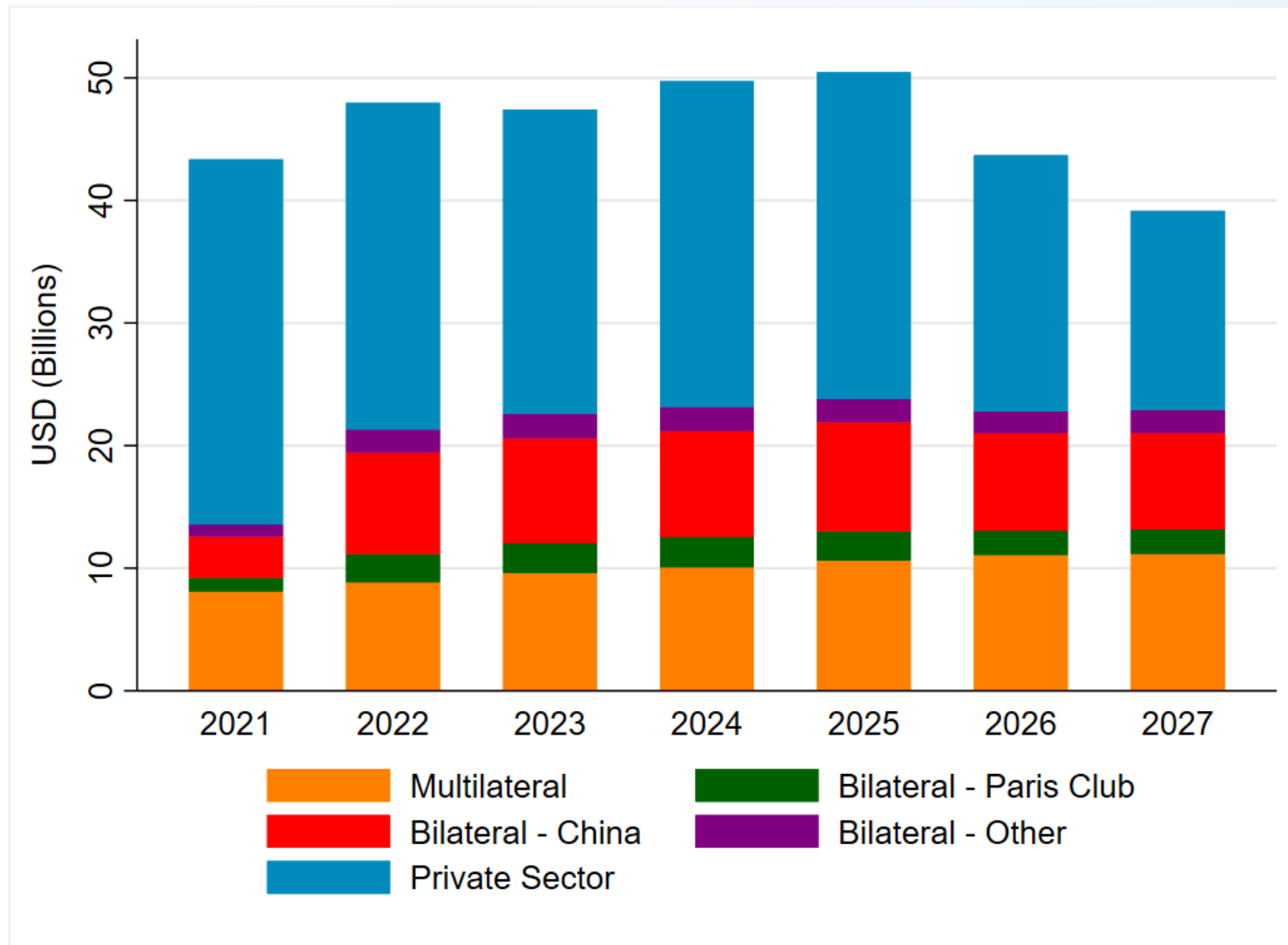
Source: World Bank 2021 International Debt Statistics, IMF 2022 World Economic Outlook.

SSA Average Simulated Public Debt Service with Brady-bond-like Solution

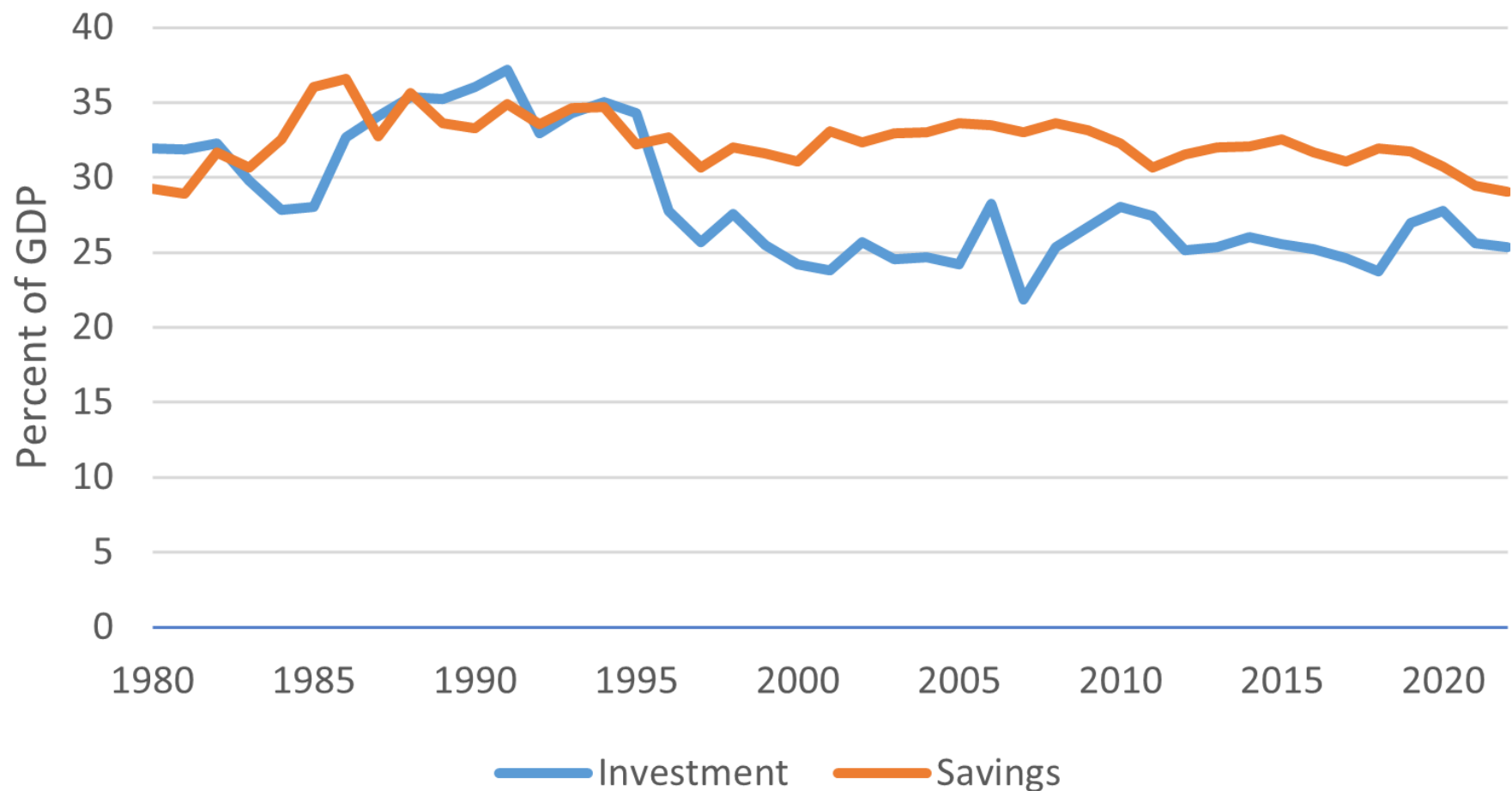


Source: World Bank 2021 International Debt Statistics; IMF 2022 World Economic Outlook.

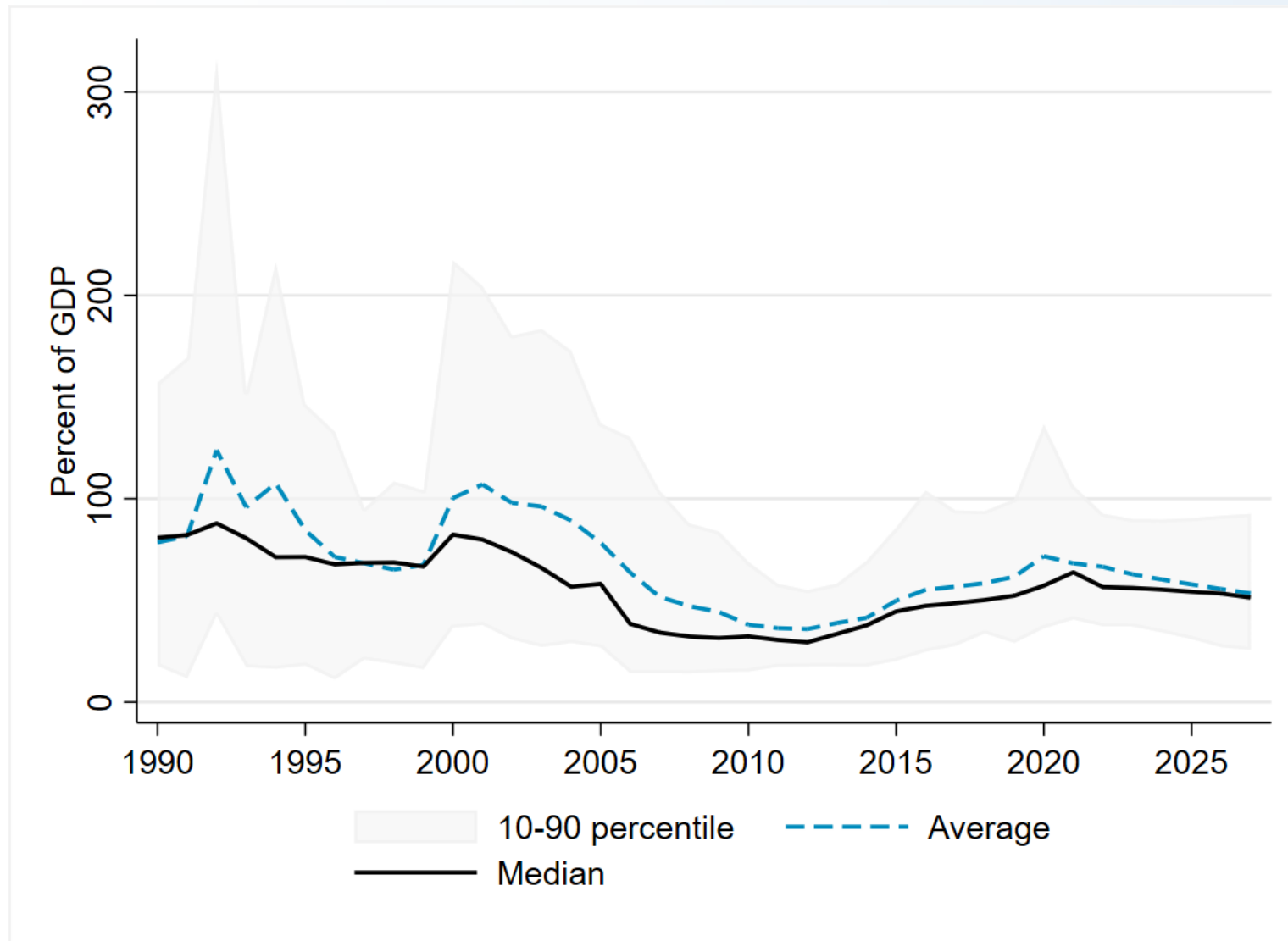
SSA Debt Service Coming Due



East Asia Median Investment and Savings



SSA General Government Debt



Source: IMF 2022 World Economic Outlook.

SSA Countries Debt Sustainability Analysis

