FOSTERING RESPONSIBLE BORROWING AND EFFECTIVE USE OF COVID-19 IN SADC ECONOMIES

AFRODAD ANNUAL MEETING

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OUTLINE

- Introduction
- Trends in Public Debt
- Drivers of debt accumulation
- Challenges in Debt Management
- Debt Sustainability Challenges
- Response to Covid-19 Packages
- Strategies for fostering responsible borrowing
- Conclusion
INTRODUCTION

- The pace of public debt accumulation has been rapid in most SADC countries since 2012.

- Consequently, an increasing number of SADC countries debt distress ratings deteriorated from low and moderate to high risk and in-debt distress rating.

- The debt distress situation has been compounded by the covid-19 pandemic which reduced growth rates, hence tax capacity and debt carrying capacity of SADC countries.
INTRODUCTION Cont’d

- Covid-19 has affected key macroeconomic variables and global value chains which have significant implications for debt sustainability outlook across the globe, including SADC member states.

- Of particular concern is the fact that the SADC region was already facing heightened debt challenges and climate change induced development challenges (Cyclones, El Nino droughts) prior to the outbreak of the COVID-19 pandemic.
INTRODUCTION Cont’d

- Covid-19 also created the need for increased public finance making debt sustainability a cause for concern for SADC region.

- Fiscal pressures stemming from increased health expenditures and policy measures to stimulate the economies are likely to heighten debt vulnerabilities.
DEBT CARRYING CAPACITY IN SADC COUNTRIES

- Most SADC Low Income Countries’ (LICs) debt carrying capacities are rated weak to moderate.

- The ratings are determined using capacity composite indicator (CI) computed by the IMF/World Bank.

- The factors that determine CI include real growth, reserves coverage, remittance inflows, and the state of the global environment and Country Policy and Institutional Assessment (CPIA) index.

- Some SADC countries continue to be rated weak in terms of the World Bank's Country Policy and Institutional Assessment (CPIA) index.
SADC countries with weak CI ratings include DRC, Malawi, Mozambique, Zambia and Zimbabwe, while Comoros, Lesotho, Madagascar are rated medium. Only Tanzania is rated strong and therefore considered to have a strong debt carrying capacity.
The pace of public debt accumulation has been higher for Angola, Mozambique, Zambia, Swaziland, Namibia and South Africa exceeding the regional average of 30%. Botswana, the Democratic Republic of Congo, and Zimbabwe experienced a decline in their debt-to-GDP ratios.
Changing Structure and Composition of External Debt

Concessional Debt % of External Debt (LIC Average)
Multilateral Debt % of External Debt (LIC Average)
In 2019, 5 countries were either in high risk of debt distress (Zambia, Angola and Malawi) or debt already in debt distress (Zimbabwe, Mozambique).
<table>
<thead>
<tr>
<th>Country</th>
<th>PUBLIC DEBT</th>
<th>EXTERNAL DEBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>Sustainable</td>
<td>Stable</td>
</tr>
<tr>
<td>Eswatini</td>
<td>Sustainable</td>
<td>Stable</td>
</tr>
<tr>
<td>Angola</td>
<td>Sustainable</td>
<td>Stable</td>
</tr>
<tr>
<td>Botswana</td>
<td>Sustainable</td>
<td>Stable</td>
</tr>
<tr>
<td>Seychelles</td>
<td>Debt around high risk benchmark</td>
<td>External private debt elevated</td>
</tr>
<tr>
<td>Namibia</td>
<td>Sustainable</td>
<td>Stable</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Sustainable</td>
<td>Stable</td>
</tr>
</tbody>
</table>
The chart shows that changes in public debt are not necessarily due to new borrowing. Other factors such as growth, exchange rates also affect the debt levels and needs to be monitored.
Drivers of External Debt

- The chart shows that changes in external debt are not necessarily due to new borrowing. Other factors such as FDI, exchange rates also affect the debt levels and needs to be monitored.
Higher debt has not translated to higher growth rates and consequently affected debt carrying capacity.
Exchange Rate Depreciation

Exchange rate Depreciation (Jan-June 2020)
Interest Rates

- Interest rates on global markets have increased dramatically by more than 5% for sub-investment grade as investors shun risky assets.
- Resultantly, some SADC countries are facing higher Emerging Markets Bond Index (EMBI) spreads compared to benchmark level of 570.
- This increases the market financing costs and makes market debt rollovers, particularly of international sovereign bonds difficulty or costly.
Government Revenue in Percent of GDP in SADC Economies

- Covid-19 has drastically reduced Government revenues while expenditures have increased due to sharp rise in health expenditures, social programs and recovery bailouts to firms.

- The combined shock to both revenues and expenditures will exacerbate the already high fiscal deficits, adding significantly to the high debt.

- The resultant depreciation in currencies will further amplify external debt.
Trends in Total Revenue in Percent of GDP in SADC Economies
Trends In Government Expenditure as a Percent of GDP

![Bar chart showing trends in government expenditure as a percent of GDP for various countries, with data points for 2006 and 2019.](chart.png)
Covid-19 Response packages

- The IMF trebled lending capacity to US$1 trillion since the crisis and also lower the conditionality for accessing the emergency financing facilities.

- Few SADC member states, notably, Comoros, US$12.13 million; DRC, 363.27 million; Madagascar, US$165.99 million; Madagascar; Malawi, US$91 million; Mozambique, US$309 million; Tanzania, US$14.3 million; and Seychelles, US$31.2 million have accessed these facilities.

- Other countries such as Zimbabwe continue to be ineligible due to arrears to multilateral and bilateral creditors.
Covid-19 Response packages

- The Multilateral development banks also availed facilities, mainly focused on supporting health and sanitation.

- The World Bank Group (WBG) have committed US$160 billion over 15 months. This amount includes US$50 billion to International Development Association (IDA).

- Specific countries that benefited for WBG Countries dedicated COVID-19 Fast-Track Facility include DRC, US$47 million; Eswatini, US$6 million; Lesotho, US$7.5 million and Malawi, US$37 million.
The DSSI was endorsed by the World Bank’s Development Committee and the G20 Finance to help poor countries manage the severe impact of the COVID-19 pandemic.

The main goal of the DSSI is to allow poor countries to concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people.

The G20 called on private creditors to participate in the initiative on comparable terms.
# Estimates of DSSI In SADC Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt Relief</th>
<th>% of GDP</th>
<th>Risk of Debt Distress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>2645.6</td>
<td>3.1</td>
<td>Moderate</td>
</tr>
<tr>
<td>Comoros</td>
<td>2.3</td>
<td>0.2</td>
<td>Moderate</td>
</tr>
<tr>
<td>DRC</td>
<td>104.4</td>
<td>0.2</td>
<td>Moderate</td>
</tr>
<tr>
<td>Lesotho</td>
<td>9.5</td>
<td>0.3</td>
<td>Moderate</td>
</tr>
<tr>
<td>Malawi</td>
<td>17.1</td>
<td>0.2</td>
<td>High</td>
</tr>
<tr>
<td>Madagascar</td>
<td>24</td>
<td>0.2</td>
<td>Moderate</td>
</tr>
<tr>
<td>Mozambique</td>
<td>294</td>
<td>2.0</td>
<td>In distress</td>
</tr>
<tr>
<td>Tanzania</td>
<td>148.9</td>
<td>0.2</td>
<td>low</td>
</tr>
<tr>
<td>Zambia</td>
<td>139.2</td>
<td>0.6</td>
<td>High</td>
</tr>
</tbody>
</table>
DSSI CONDITIONS

- Borrowers commit to use freed-up resources to increase social, health, or economic spending in response to the crisis.
- Beneficiaries also commit to disclose all public sector financial commitments (involving debt and debt-like instruments)
- Under the DSSI, countries also commit to limit their non-concessional borrowing as supported by ceilings under IMF programs and the World Bank’s non-concessional borrowing policies
Shortfalls of DSSI

- DSSI merely postpones the debt burden instead of stock reduction.
- If the shock persists, the liquidity crisis could evolve into a solvency crisis, as a change in the long-term growth rate of the economy would affect debt sustainability.
- In such a scenario, a debt stock reduction could be required to reduce debt overhang and restore debt sustainability.
STRATEGIES FOR FOSTERING RESPONSIBLE BORROWING & EFFECTIVE USE OF COVID-19 RESOURCES
Regular Debt Sustainability Analysis

- SADC Countries should be encouraged to undertake regular debt sustainability analysis to foster responsible borrowing:
  - The DSAs will provide countries with an appreciation of
    - Risk of debt distress;
    - Potential impact of shocks on debt and
    - Drivers of debt accumulation
- The requirement to undertake and publish the DSAs results should be enshrined in the Fiscal Responsibility Laws.
Medium Term Debt Strategy (MTDS)

- SADC Countries should be encouraged to undertake regular MTDS to guide optimal borrowing (low cost and prudent degree of risk)
- Parliament and Civil Societies to lobby governments to ensure that borrowing is consistent with agreed MTDS whose results must be published annually to foster transparency
- The MTDS is also crucial for the following reasons:
  - Provides an assessment of the costs and risk of alternative debt strategies
  - Helps to formulate an annual borrowing plan
  - Appreciate the impact of shocks on debt service obligations
Production and Publication of Debt Bulletin

- Debt Management Offices should be encouraged to produce and publish debt bulletins to improve transparency
- The bulletin will detail the stock as well as new and planned borrowing and debt service
Debt Management Performance Assessment (DeMPA)

- Regular debt performance assessments are crucial to ensure sustenance in sound debt management.
- The DeMPA was developed by the World Bank in cooperation with international partners during 2007 and is now used by 141 national and subnational governments.
- The DeMPA examines central government debt management activities and closely related functions.
- The DeMPA informs plans to reform and strengthen debt management capacity, processes and institutions.
- The DeMPA also helps governments monitor progress toward international sound practices.
Debt reporting and evaluation appear to be the major challenge facing most SADC countries from latest DeMPA reports.
Fiscal Responsibility Laws

- These laws improve fiscal discipline by requiring governments to declare and commit to a monitorable fiscal policy objective and strategy.
- They make fiscal policies more predictable and credible, by:
  - Establishing rules and procedures the government must follow in the design and implementation of fiscal policy,
  - Setting up transparent mechanisms by which others can judge if the government is complying with established goals and priorities.
Fiscal Buffers

- SADC countries need to build fiscal buffers in the medium to long term
- The fiscal buffers provide self-insurance against natural disaster shocks and facilitate quick disbursement for recovery and relief efforts
- Fiscal buffers will also enable SADC countries to cope with debt service obligations arising from unanticipated shocks without jeopardising social expenditure
Role of Civil Society Organizations (CSOs)

- There is need for strengthening the role and voice of civil society on debt crisis at regional level.
- Role of Civil Society Organizations (CSOs) National ownership is crucial for the success of all loan and grant funded development projects.
- SADC region adopted a regional public debt threshold of 60% to GDP, which is critical to allow for a regional voice on debt sustainability.
- Capacity building of legislators on debt management and sustainability analysis.
Transparent and Participatory

- The AFRODAD Borrowing Charter 2013, recommends that the loan contraction process be transparent and participatory, involving citizens and affected.

- Building of a SADC regional movement of civil society organisations to call for improvement in debt management, governance and transparency.

- In addition, the regional movement of CSOs should also involve inter-disciplinary perspectives from academia, technocrats, practitioners, activists, social movements to ensure a variety of skills.
Provision of Sound debt data

- Sound data on public sector financial commitments will improve assessments of debt sustainability and financing needs.
- Greater debt transparency is critical to help countries make more informed borrowing and investment decisions and to attract foreign direct investment.
CONCLUSION

- Strengthening debt management transparent and reporting will create a culture of responsible borrowing and in the process assist countries to withstand shocks that have implications on debt sustainability.

- Civic organisations and Parliament need to emphasise the need for effective public debt management.

- The people are the ultimate beneficiaries of loans and have the right to participate in the decision-making process pertaining to public borrowing.
THANK YOU FOR YOUR ATTENTION