Debt Transparency, Accountability and Reporting in Africa

Debt Management during and after COVID-19

Dr. Hanan Morsy
ECMR
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Objectives of debt transparency and reporting

• **Policymakers**: make informed and sound borrowing decisions

• **Market**: creditors, donors and rating agencies need transparent information/data to assess the financing needs and creditworthiness of the borrower, and to appropriately price debt instruments.

• **Legislature and general public**: require transparent information to make government accountable on its fiscal policy and decision. Strengthen the role of citizens in active governance to reduce corruption.
Debt transparency and reporting: why does it matter?

- **Recent issues about undisclosed debt affecting sovereign ratings:** Recent undisclosed SOE’s debt has led to downgrades of countries (e.g.: Mozambique). Other countries (e.g.: Cameroon and Chad) also faced issues with “hidden debt”.

- **Incomplete reporting on debt held by SOE in LICs:** reported median total SOE’s debt to GDP was only 0.3 percent of GDP in 2018, while DSAs reveals higher SOE debt, reaching 4.5 and 1.3 percent of GDP in Zambia and Ghana, respectively ((IMF, 2020).

- **Growing “hidden” debt:** hidden debt to China in LIC is as high as 50 percent of total Chinese overseas lending (Horn, Reinhart and Trebesch, 2019).

- Higher financing needs required for economic measures to deal with COVID-19 imply that debt should be managed **transparently** and **responsibly**.
Challenges in debt transparency and reporting in Africa

- **Lack of transparency from non-traditional lenders.**
  - Emergence of non-Paris club (e.g.: China) complicates debt recording and reporting because such lending often come with terms that are opaque (Mustapha and Prizzon, 2018)

- **Weak capacity in debt management.**
  - Debt transparency and reporting in Africa is weakened by deteriorating capacity in debt management (e.g.: CPIA debt policy indicator has deteriorated for many countries)

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**Change in Country Policy and Institutional Assessment (CPIA) of debt policy rating, 2015-2019**

- Mozambique
- Congo, Rep.
- Chad
- Cabo Verde
- Zambia
- South Sudan
- Sierra Leone
- Senegal
- Nigeria
- Madagascar
- Liberia
- Kenya
- Gambia, The
- Ethiopia
- Central African Republic
- Uganda
- Ghana
- Eritrea
- Benin
- Togo

AfDB staff calculation based on WDI database
• Some African countries have made progress in the coverage of SOE’s debt through the following reforms (IMF, 2020):
  ➢ **regular official audits and reports** (The Gambia, Niger, Cameroon, Ghana, Cabo Verde)
  ➢ **strengthening of SOE governance and oversight** (Ghana)
  ➢ **outsourcing SOE management** (Guinea-Bissau)
  ➢ **updating of existing legal frameworks** (Cameroon, Guinea, Mozambique)
  ➢ **Improved management and monitoring of loan guarantees, lending and SOE guaranteed debt** (Francophone West-African countries)
Progress in debt transparency and reporting in Africa: DeMPA results

• Frontier market economies have better debt management capacity than their non-frontier market and ADF counterparts

• All countries score poorly in areas such as debt management strategy; audit; reporting and evaluation, segregation of duties and staff capacity and business continuity

Debt Management Performance Assessment (DeMPA) results in countries accessing market-based financing

AfDB Staff computations from World Bank DeMPA database
Rising “hidden” debt undermines transparency

- African countries are increasingly reliant on Chinese loans, a shift from multilateral and bilateral Paris Club loans.
- The lack of binding conditionalities and accountability on non-traditional lending and opacity of terms of loans often complicates transparency.
- Limited transparency, with little accurate data on loan conditions create incentives for kickbacks and inflated project costs.
- SOEs are an important channel for non-Paris club bilateral loans. However, incomplete reporting on SOE debt raises significant concerns of about hidden direct and contingent liabilities.

**Scheduled repayments on bilateral debt, 2020 (Billons of US Dollars)**

- Egypt, Arab Rep.: 7.5
- Angola: 6
- Ethiopia: 3.5
- Ghana: 2.5
- Kenya: 2
- Zambia: 1.5
- Cameroon: 1
- Mozambique: 0.5
- Congo, Rep.: 0.2
- Nigeria: 0.1

AfDB’s work on Debt Management and Transparency

- Collaboration with regional initiatives—such as the Collaborative Africa Budget Reform Initiative (CABRI), which recently launched the Africa Debt Monitor.

- Regional statistics program for collating data on debt.

- Country level support through technical assistance and budget support to:
  - Debt management IT systems (e.g. UNCTAD’s DMFAS or Commonwealth’s CS-DRMS)
  - Public sector investment efficiency and returns
  - Strengthened HR capacity of debt units
  - Strengthened debt management policy and strategy frameworks

- Research, analysis (debt vulnerability assessments) and policy advice.
Examples of projects in support of debt and risk management, monitoring and reporting

**IN THE GAMBIA**, updating a medium-term debt strategy consistent with reducing domestic borrowing

**IN MOROCCO**, Implementation of a risk assessment framework for debt, liquidity management, internal audit system, and training

**IN CABO VERDE**, drafting of a Debt Management Strategy

**IN SIERRA LEONE**, drafting of the Public Debt Management Act

**IN SUDAN**, Updating Debt Management Systems with international standards; Training Staff in modern debt management techniques

**IN CENTRAL AFRICAN REPUBLIC**, Acquisition of debt management hardware and software equipment and providing staff training and TA

**IN COMOROS**, Implementation of CDRMS 2000+

**IN ZIMBABWE**, Enhancing capacity for debt, revenue and public financial management (human capacities and systems)
New Strategy for Economic Governance in Africa (SEGA) - 2021 to 2025 to enhance Debt Management and Transparency through:

- Comprehensive collation of data to inform regular debt sustainability analysis
- Support the design and adoption of legislation and regulations re implicit guarantees and contingent liabilities of SOEs
- Institutionalizing the creation of medium-term debt strategies and publication of annual debt reports
- Enhancing capacity towards debt statistics, recording, monitoring and reporting using credible IT systems such as Debt Management and Financial Analysis System.

The Bank is also developing a Framework for the Multidimensional Action Plan on the Management and Mitigation of Debt Distress Risks in Africa
Thank you