

AFRICAN DEVELOPMENT BANK GROUP



CONCEPT NOTE

Governors' Dialogue

Inclusive Growth, Debt, and Economic Governance



23-25 June 2021

MAY 2021

African Development Bank Group Annual Meetings, 2021

Governors' Dialogue

"Inclusive Growth, Debt, and Economic Governance"

The Governors' Dialogue is a keystone event of the African Development Bank Group's (Bank's) Annual Meetings. It allows Governors to dialogue with the Bank's President and Senior Management on issues of strategic significance to the continent and to the Bank. It also gives Governors a unique opportunity to share their thoughts and perspectives on the Bank and the continent's most pressing development challenges and opportunities. This year's Governors' Dialogue will focus on addressing the triple and mutually re-enforcing policy challenges in post-COVID-19 Africa: inclusive growth, debt, and economic governance. The 2021 edition of the African Economic Outlook (AEO) shows that getting to the root of Africa's debt vulnerability would require economic governance reforms and accelerated growth. This note provides information on the agenda, context, key issues, and format of this year's Governors' Dialogue.

A. The Rationale

1. Africa faced its worst economic recession in over 50 years due to the impact of the COVID-19 pandemic in 2020. Africa's GDP contracted by 2.1 percent in 2020, falling by 6.1 percentage points from the pre-COVID-19 expected growth for 2020. The pandemic has had far-reaching impacts on the continent, affecting lives, businesses, jobs, economic structures, schools, tourism, and other indirect negative impacts. The Bank estimates that the pandemic caused cumulative GDP losses of up to \$145.5 billion in 2020 alone, up to 30 million jobs were lost, and about 30 million people were pushed into extreme poverty.
2. The COVID-19 pandemic also disrupted Africa's major sources of financial inflows: remittances, tourism, foreign direct investments (FDI), overseas development assistance (ODA), and portfolio investments; impacting development financing and debt. Just before the pandemic, total financial inflows to Africa represented 10 percent of GDP (\$210 billion in 2019) and the continent recorded the fastest growth (11 percent) in FDI inflows in the world. Diaspora remittances, the largest source of financial inflows to Africa, has also been negatively impacted by the COVID-19 pandemic. Countries urgently require support to revamp these sources of financial inflows and to use innovative financing instruments to enhance resilience to future exogenous shocks, through reforms that address debt challenges, investment in green initiatives, as well as international cooperation to boost Africa's green and inclusive recovery.
3. The Bank projects that the continent's economy will recover in 2021 by 3.4 percent and grow above 4 percent in the medium term. However, this recovery is confronted by a high degree of uncertainty, conditional on equitable access to COVID-19 therapeutics and vaccines and the sustainable resolution of Africa's growing debt vulnerabilities. As a result, governments in Africa are facing three mutually re-enforcing questions: how to address the increased fiscal and debt crises; how to rebuild economies – to return to a green, inclusive, and resilient growth path; and how to implement the appropriate economic governance reforms required for sustainable, green and inclusive recovery from COVID-19 impacts.
4. Over the past two decades, Africa's debt obligations have been rising rapidly, with debt service payments now accounting for about 18 percent of total government revenue on average. After a declining trend in the 2000s, due primarily to the debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, Africa's gross government debt as a percent of GDP nearly doubled between 2008 and 2019, from 34 percent to 60 percent. This fast-paced debt accumulation has increased the cost of debt servicing in the continent and is constraining government efforts to

provide social services such as education and health that form the basis for sustainable and inclusive growth.

5. The impact of the COVID-19 pandemic further squeezed the limited fiscal space, with many governments lacking the necessary financial capacity to ramp up spending through monetary and fiscal stimulus packages to cushion the economic and social consequences of the pandemic. The average size of fiscal intervention packages in the continent has been only 3 percent of GDP (AEO, 2021), compared to advanced economies that have responded to the crisis with additional spending and foregone revenue of over 15 percent of GDP on average. Due to the additional spending by governments, debt-to-GDP ratios are projected to rise by 10 to 15 percentage points to 75 percent by the end of 2021. The Bank estimates that African governments require additional gross financing of about \$484.8 billion between 2021 to 2023 to adequately respond to the crisis and support the recovery.
6. Sovereign debt is vital for financing critical investments needed to achieve inclusive and sustainable development goals (including the SDGs). However, an excessive debt burden could be costly on several dimensions. It could lead to damaged reputation, loss of access to credit markets, depressed private sector activity and withdrawal of foreign direct investments for countries. In the medium term, deteriorating debt sustainability ratings and the systemic risk of downgrades from rating agencies due to COVID-19 impacts could limit Africa's access to international capital markets if not systematically addressed. As of March 2021, 15 of the 38 African countries for which debt sustainability analyses are available were at high risk of debt distress and another six were already in debt distress. Fifteen countries have a moderate risk of debt distress, and only two are considered at low risk. Countries have been reluctant to ask for debt relief from official creditors due to the risk of suffering downgrades by rating agencies, which could limit access to international capital markets when they are most needed. If these rising debt vulnerabilities are not quickly and properly addressed, it could degenerate into a widespread and far-reaching sovereign debt crisis for the continent, to which the African Development Bank would be singularly exposed.
7. Previous debt restructuring in Africa has been costly and protracted and has not always delivered the intended results on growth and governance but has instead left countries unreformed and unable to grow out of debt.¹ This reinforces the importance of getting governance reforms right to spur growth after debt jubilees or restructuring episodes. This broken link between growth, governance and debt relief in Africa expose the limits of the current framework for debt resolution. When debt resolution strategies are not systematically coupled with bold and appropriate governance reforms in debtor countries, countries can relapse into requiring debt jubilees.
8. To address the root causes of debt vulnerabilities in Africa and the nexus between debt and growth, vigorous and systemic economic governance reforms that foster domestic revenue mobilization, sustainable borrowing, prudential debt and public finance management, and growth-friendly policies "*to make debt work for growth*" are critical (see section B on strategic context for details).
9. Governance reforms that eradicate leakages in public finances, improve transparency in debt management, and boost the efficiency of public investments could go a long way in addressing Africa's growing fiscal and debt crises post-COVID-19. Inclusive growth-friendly policies that focus on diversification, industrialization, integration, accelerating digitalization, promoting free and fair competition and green economy transitions would also help Africa to build back more inclusive and resilient economies post COVID-19. In essence, policies to help Africa to address its looming debt crisis and build back more inclusive and resilient economies post COVID-19,

¹ African Economic Outlook, 2021

would require strengthening and harnessing the mutually re-enforcing linkages among the triple challenges of debt, governance, and growth in Africa.

B. The Strategic Context

10. Debt is essential to finance Africa’s sustainable, inclusive, and green growth strategy post-COVID-19. Debt financing is not bad *per se*, but the quality of the investments made with the debt, the terms of the debt contract, and the repayment profile are the important considerations that shape the quality and impacts of debt on economies. When debt is used to finance growth-enhancing investments, it helps to build capital that supports the process of accelerated growth and pays for the debt in the future.
11. In addition, debt financing could deliver global public goods that are critical for building sustainable economies and livelihoods in countries. For example, conflict and terrorism in the Sahel and other fragile African countries have increased security-related expenditures and contributed to rising debt levels in the continent.² Without adequate protection of lives and property in the continent, Africa’s competitiveness, and attractiveness as a center for business opportunities would be undermined. Security is a global and regional public good with cross-border implications. In the G5 Sahel countries, for example, military expenditure constitutes an average of 11 percent of total government expenditure compared with 6 percent for the rest of Africa.³ This leaves less resources available for investments in education, infrastructure, and technology that form the bedrock for sustainable economic growth in these countries. There is a need for specialized debt-financing instruments that can help deal with the security challenges in fragile countries to provide a safe environment that is conducive for growth.
12. The Bank, therefore, views debt from a more rounded, whole-of-economy perspective that considers country-specific peculiarities and needs. The Bank welcomes the global initiatives that could help Africa address its looming debt distress and grow out of the COVID-crisis. The G20 Debt Service Suspension Initiative (DSSI) and the Common Framework (CF) for debt restructuring for low-income countries can help African countries to temporarily alleviate debt challenges. There is need for stronger coordination to bring private creditors on board. The IMF’s intention to issue additional Special Drawing Rights (SDRs) allocation of \$650 billion to boost global liquidity for the recovery without adding to country’s debt burdens, is also a significant and welcome initiative. Attention needs to be given to ensuring that Low-Income countries are adequately supported.
13. The COVID-19 crisis has reinforced the need for Africa to consider the creation of an African Financial Stability Mechanism (AFSM). This would serve as a type of self-insurance system that would pool resources to protect African countries against external shocks such as COVID-19. The core mandate of AFSM would be to grant conditional assistance to African countries that are experiencing temporary difficulties in raising funds on the market, especially those experiencing debt difficulties. It would also provide a backstop to a Single Resolution Fund (SRF), which would be used for crisis management. The financial stability mechanism will provide the much-needed fiscal safety net for African economies to complement the global safety net mechanism provided by the IMF.
14. There is a need to ensure that the mutually re-enforcing nexus among debt sustainability management, sustainable and inclusive growth and bold governance reforms are harnessed to avoid a relapse to debt distress in the future. The Bank recently approved its Strategy for Economic Governance in Africa (SEGA), to accelerate the Bank’s efforts in fostering sound

² Report on Debt Vulnerabilities in Africa (ECMR/ECVP), 2020

³ The G5 Sahel countries are Burkina Faso, Chad, Mali, Mauritania, and Niger

management of public resources at the national and sub-national levels to achieve or maintain macroeconomic stability and delivery on the High 5s; foster structural transformation by enabling a competitive private sector and a level playing field for all enterprises, increase transparency, accountability, and participation in policy-making and service delivery; and combat corruption in the public and private sectors.

15. The Bank is establishing a Public Finance Management Academy (PFMA) for Africa and developing its Multidimensional Action Plan for the Management and Mitigation of Debt Distress Risks in Africa – *Debt Action Plan* (DAP). The PFMA and DAP are the Bank’s responses to its shareholders as part of the GCI-7 and ADF-15 commitment to foster better management and mitigation of the risk of debt distress in Africa. DAP outlines specific actions to “*make debt work for growth in Africa*” by ramping up the Bank Group’s interventions through programmatic operations, policy dialogue, knowledge generation, capacity building, and technical assistance to RMCs. The PFMA includes Policy Lab Units (PLUs) that will bring together experts from within the Bank Group, the RMCs and globally, to implement the DAP and more broadly, support RMCs across the PFM cycle. The DAP and PFMA aims to strengthen collaboration with partners such as the IMF, the World Bank, and other regional and bilateral agencies and creditors to provide coordinated support to RMCs for more proactive, efficient, and sustainable debt and public finance management in the continent that is tailored to each country’s unique needs.

C. Key Issues for Discussion

16. The 2021 Governors’ Dialogue will focus on the need for policy options to help African countries address the triple and mutually re-enforcing policy challenges in post COVID-19 Africa: rebuilding economies, addressing the fiscal and debt crises, and implementing economic governance reforms. Specifically, Bank Group Governors will be invited to share their perspectives and experiences on the following issues:

16.1 Issue 1: Navigating debt resolution, relief and restructuring in post-COVID-19 Africa:

The African Development Bank has a critical role in supporting African countries in the process of debt resolution, relief and restructuring both with official and private creditors and assisting countries address their fiscal and debt vulnerabilities post COVID-19. Governors will be invited to discuss the following questions:

- *Question 1: How can African countries improve their bargaining power in debt restructuring and relief processes?*
- *Question 2: How can multilateral development agencies such as the African Development Bank help with debt restructuring and relief?*
- *Question 3: What are the insightful lessons from recent debt resolution, relief and restructuring experiences in African countries?*

16.2 Issue 2: Accelerating inclusive growth and building resilient economies in post-COVID

Africa: The African Development Bank has a critical role in helping African economies build resilience and accelerate economic recovery to a greener and more sustainable growth path. Governors will be invited to discuss the following questions:

- *Question 1: What are the near and medium-term priorities for accelerating growth and building resilient economies in Africa post-COVID-19?*

- *Question 2: How can Africa’s post-COVID-19 growth path be made greener and more inclusive, lifting the poor and vulnerable groups?*
- *Question 3: How can multilateral development agencies such as the African Development Bank help countries to build resilience post-COVID-19?*

16.3 Issue 3: Accelerating bold governance reforms for a sustainable and inclusive growth in Africa post-COVID-19:

The African Development Bank has a critical role in supporting African countries in the process of implementing bold governance reforms to enhance domestic revenue mobilization, address illicit financial flows, leakages and corruption in their financial management systems. Governors would be invited to discuss the following questions:

- *Question 1: What options are available to African policymakers to improve domestic resource mobilization and public financial management (PFM)?*
- *Question 2: How can Africa borrow more sustainably?*
- *Question 3: What are the governance reform priorities required to improve debt management and transparency in Africa?*

D. Event Format

17. The Governors’ Dialogue has been designed to encourage Governors to engage freely in a dynamic, live conversation about the African continent and the most pressing issues for the continent and the Bank as their trusted partner. A Professional Facilitator will moderate the dialogue.
18. In the interest of enabling a genuine, high-level dialogue, Governors will be requested to make brief remarks on the key issues highlighted above. For the same reason, and to allow for lively conversation, Governors would be encouraged to avoid reading prepared statements to the extent possible. This will also ensure that given the limited time available for the dialogue, all Governors can engage meaningfully in the discussions. The table below provides additional information on the proceedings of the dialogue – “the Run of the Show”:

Run of the show for:

Governors' Dialogue
"Growth, Debt, and Economic Governance"

TIME*	ACTIVITY
11.00	Moderator: A Professional Facilitator (5 minutes).
11.05	Keynote presentation: Dr. Akinwumi A. Adesina, African Development Bank President , gives keynote presentation (15 minutes).
11.20	Q & A Session with Governors – Host / Moderator to facilitate dialogue between Governors and the AfDB President on the following issues (2 hours):
11.20	Issue 1: Navigating debt resolution, relief and restructuring in post-COVID-19 Africa: <ul style="list-style-type: none">▪ <i>Question 1: How can African countries improve their bargaining power in debt restructuring and relief processes?</i>▪ <i>Question 2: How can multilateral development agencies such as the African Development Bank help with debt restructuring and relief?</i>▪ <i>Question 3: What are the insightful lessons from recent debt resolution, relief and restructuring experiences in African countries?</i> Issue 2: Accelerating inclusive growth and building resilient economies in post-COVID Africa: <ul style="list-style-type: none">▪ <i>Question 1: What are the near and medium-term priorities for accelerating growth and building resilient economies in Africa post-COVID-19?</i>▪ <i>Question 2: How can Africa's post-COVID-19 growth path be made greener and more inclusive, lifting the poor and vulnerable groups?</i>▪ <i>Question 3: How can multilateral development agencies such as the African Development Bank help countries to build resilience post-COVID-19?</i> Issue 3: Accelerating bold governance reforms for a sustainable and inclusive growth in Africa post-COVID-19

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- *Question 1: What options are available to African policymakers to improve domestic resource mobilization and public financial management (PFM)?*
 - *Question 2: How can Africa borrow more sustainably?*
 - *Question 3: What are the governance reform priorities required to improve debt management and transparency in Africa?*
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13h20 Ag. Senior Vice-President **Swazi Tshabalala** presents key takeaways

13h28 **President Adesina** gives final thoughts

13h30 **Chair of the Board of Governors:** - closes the Governors' Dialogue
