The SDG Financing Needs, Debt Sustainability and T20 Policy Recommendations

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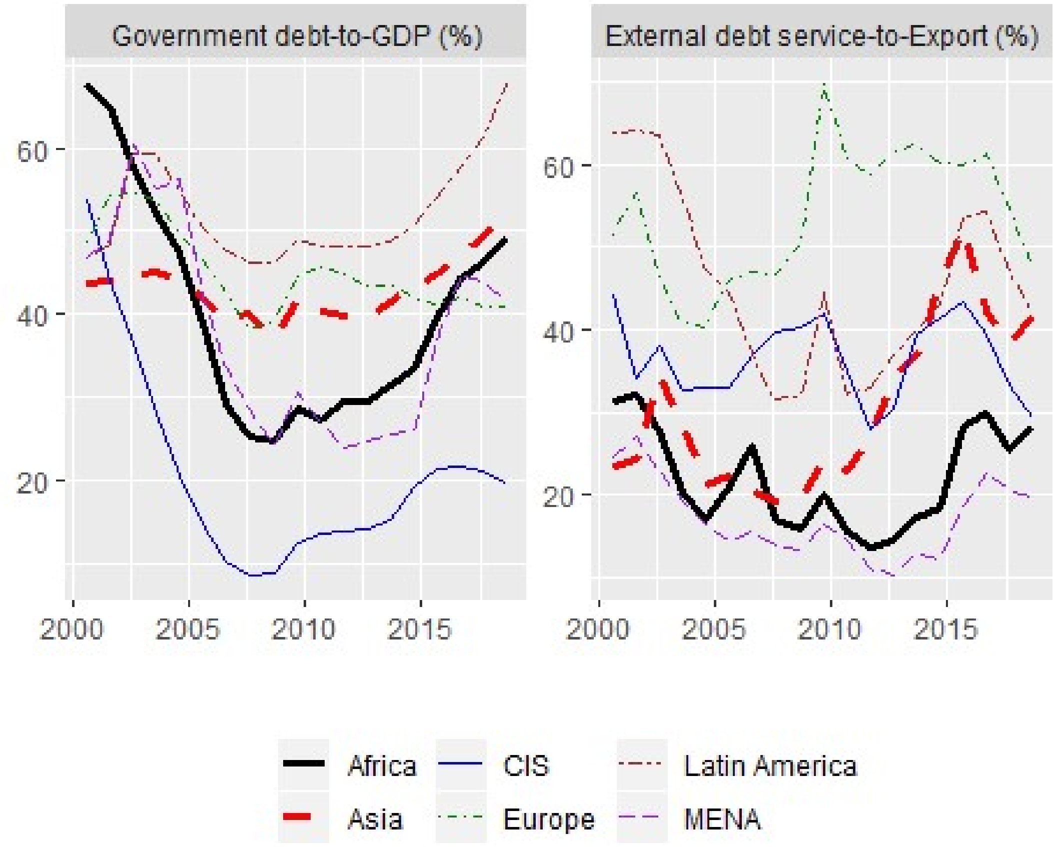
Objective:

- To discuss the debt sustainability policies while meeting SDG financing needs with African leaders and policymakers, including their effectiveness, the practical issues in their implementation and the involvement of the non-traditional lenders.

Key questions:

- What kind of difficulties are the African economies facing in maintaining the fiscal and debt sustainability during the current challenging economic environment?
- What should the African economies and the international community do to strike a fine balance between the objectives of maintaining the debt sustainability and achieving the SDGs?
- What can the international communities do to encourage the non-traditional lenders involved in the unified policy framework to avoid the emergence of debt crisis?

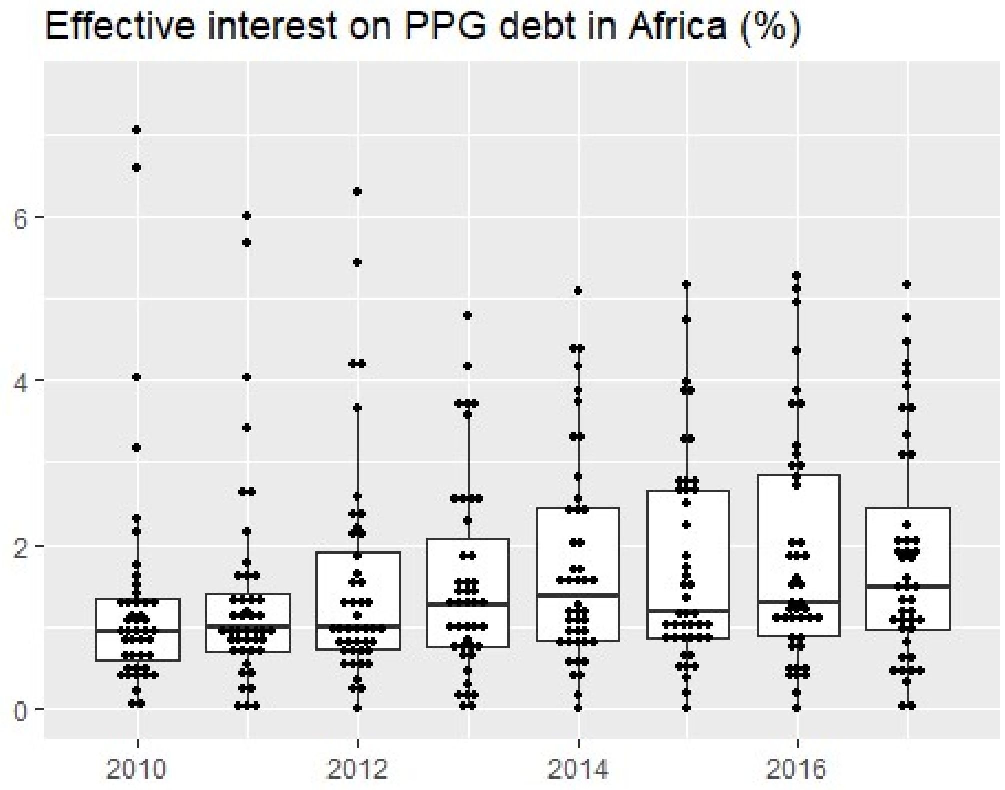
Rising level of public debt and debt services



Source: IMF WEO database

- Debt/GDP ratio in Africa declined significantly by the mid-2000's due to the high economic growth and the HIPC debt cancellation, but started to rise again recently.
- Debt-service ratio shows rising trend too although still lower than other regions in Africa.

Rising level of interest rate



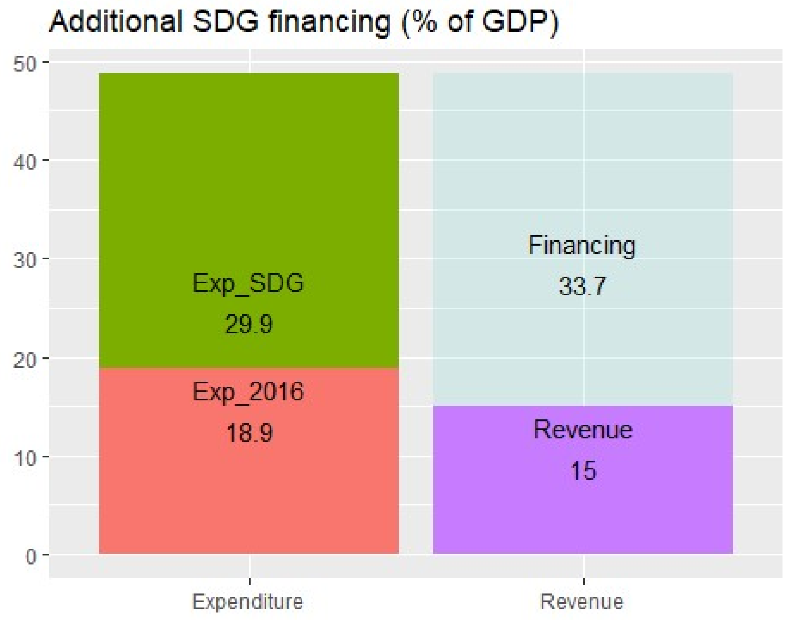
Source: International Debt Statistics

- For the effective interest rate, its median level remains almost constant, but there is a sign of upper dispersion to the upper direction, possibly due to non-traditional source of lending.

※ Effective interest rate = actual interest payment divided by the previous year's debt stock.

※Box indicates 25-75% percentile distribution. The bar inside box indicates the median level.

SDGs financing needs for Low income countries

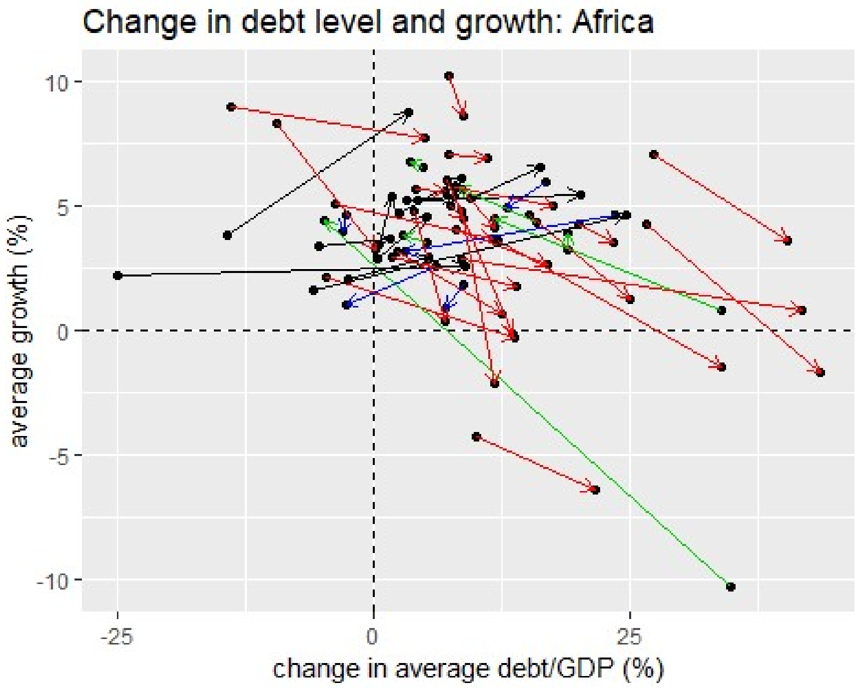


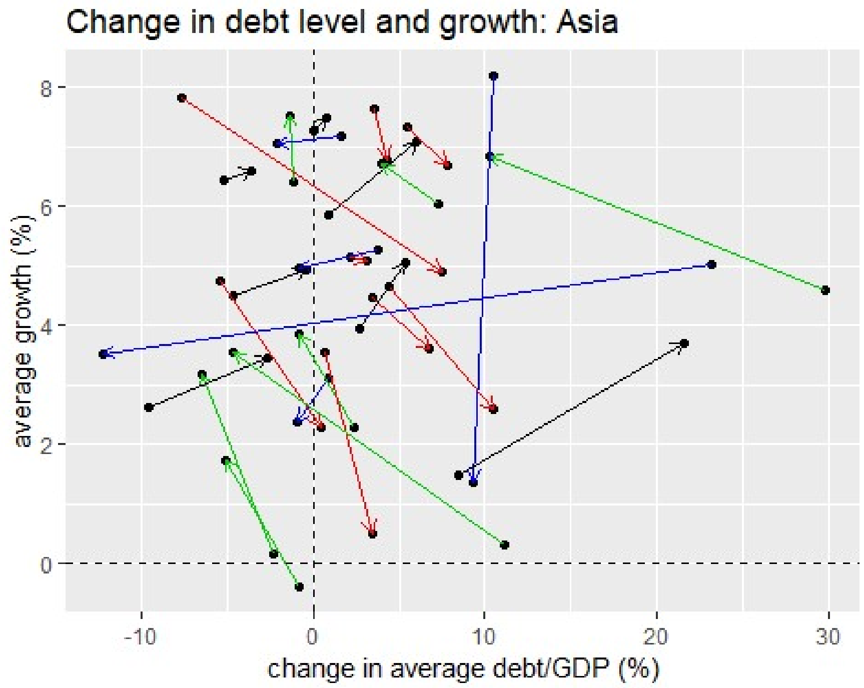
Source: IMF (SDN/19/03) and WEO database

- According to the IMF's estimate, the low-income countries (49 countries including 33 African countries) need to spend *additional* US$528 billion at 2016 price by 2030, equivalent of 30% of GDP in 2016.
  ※Actual fiscal impact in 2030 should be smaller due to the economic growth by then.
- This financing needs should be appropriated by increasing domestic revenue, larger ODA inflows, more private sector investment, more borrowing, and higher efficiency of expenditures (reducing the financing needs).

GDP growth and debt accumulation

- For Africa, the countries with rising debt and declining growth (red arrows) seem dominant, posing a concern on the growth effect of debt finances. In Asia, four types of countries are almost evenly distributed.
- Note that this does not necessarily mean causality—lower GDP growth may have caused the debt/GDP ratio rising.





Calculated from WEO database

X-axis is the change in average debt/GDP ratio on (1) 2010-12→2013-15 and (2) 2013-15→2016-18.
Y-axis is the average GDP growth rate on (1) 2013-15 and (2) 2016-18.

T20 recommendations for fiscal and debt sustainability

- T20 (or Think 20) as one of engagement groups for G20 Japan this year compiled a set of policy recommendations for achieving fiscal and debt sustainability in Africa.
- Policy recommendations cover the areas of debt management, revenue mobilization, and efficiency of expenditures to both African countries and G20 countries.
- See https://www.jica.go.jp/jica-ri/publication/other/20190315_02.html

G20 2019 JAPAN

T20 JAPAN 2019

COOPERATION WITH AFRICA

Fiscal and Debt Sustainability in Africa

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Abstract

Fiscal sustainability concerns in Africa have increased recently following heightened fiscal vulnerabilities attributed to external factors including falling commodity prices that weakened fiscal revenues and growth, particularly for commodity-exporting African countries. To entrench fiscal sustainability, countries need to strengthen domestic resource mobilization and improve public investment management. Consequently, measures to increase tax revenue collections, savings mobilization and efficiency of public spending are critical. The G20 should support debt reporting, data harmonisation, tax compliance, combating illicit financial flows and developing effective debt resolution frameworks.

[1] In addition, valuable inputs were provided by Annalisa Prizzon (Overseas Development Institute); and Witness Simbanegavi and Njuguna Ndungu (African Economic Research Consortium).

Selected policy recommendations

- Increase **domestic revenue mobilization** by shifting from commodity taxation towards more broad-based taxes.
- Increase **domestic savings** through the development of domestic safe assets and long-term savings instruments.
- Step up efforts to combat **illicit capital outflows** from Africa, through assessing key risks relating to money laundering and providing the infrastructure necessary to track and report cash movements across borders.
- Strengthen **public investment management** through project selection, project designs, procurement, and more effective use of existing infrastructure.
- Accelerate **debt data reporting and standardization**, including the **release in real-time of data** on old and new debt from all sources.
- Put in place a framework for an **orderly debt resolution mechanism** with more diffuse creditors.
- Develop **innovative finance tools** through the introduction of African-wide safe assets and marketed to international investors as a mezzanine, investment-grade exposure to frontier market debt.
- **Design standard terms** and assisting African countries in negotiations over innovative sources of funding.