POLITICAL ECONOMY RESEARCH INSTITUTE

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November 2020

WORKINGPAPER SERIES

Number 529

Looming Debt Crisis in sub-Saharan Africa: Drivers, Implications and Policy Options[1]

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Abstract

This study explores the trends, patterns and drivers of recent debt accumulation in Sub-Saharan African countries with a view to sheding light on possible strategies to minimize adverse effects on the economies and ensure sustainable development financing. This is in light of concerns about a possible 'looming debt crisis' in the developing world, which have been exacerbated by the Covid-19 pandemic. The analysis in this study is based on existing data, supplemented by detailed information obtained from government sources for the cases of Ghana, Kenya, and Uganda. The evidence shows that Sub-Saharan African countries have experienced rapid accumulation of both domestic and external public debt since the 2008 global financial crisis. Governments have resorted increasingly to non-concessional borrowing and high-cost private short-term loans including Eurobonds, which has contributed to increasing the overall cost of debt servicing. The debt sustainability analysis by the IMF/World Bank completed before the Coronavirus pandemic suggested that debt ratios in SSA would stabilize or decline by 2023, assuming that appropriate fiscal consolidation plans are implemented and that most drivers of the debt acceleration dissipate in the medium term. With the Covid-19 pandemic, debt ratios in SSA are likely to rise and would only stabilize at a much later period if African economies are hit with a full-blown crisis as witnessed by advanced economies. Most importantly, the coronavirus crisis will exacerbate debt distress in countries that were already in weak conditions. It is imperative for Africa's creditors and the donor community in general to assist African countries in combatting the pandemic and minimizing its impact on the economies by alleviating the debt burden through an expanded debt relief and a robust debt restructuring program. Going forward, given that African countries need high levels of financing to reach sustainable development goals, they must devise a strategy for 'growing with debt' in the post-crisis period. The paper offers some suggestions to achieve this goal.

[1] The research that generated this report was supported by a grant from the Open Society Foundations (OSF) which is gratefully acknowledged by the authors.

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1. Introduction

Since the turn of the century, sub-Saharan Africa has turned the corner, prompting a change in the narrative from stories of lost decades to euphoria of a 'continent on the rise.' Indeed, before the Covid pandemic, from a macroeconomic perspective, the region posted historically high growth rates, with an average of 3.6% over 2010-2018, the third highest rate in the developing world after South Asia (6.7%) and East Asia an Pacific (4.7%).[5] These gains hav compromised by the Covid-19 pandemic, which has caused a drastic reduction in expected growth with the continent's GDP projected to swing from a 2.4 percent growth rate in 2019 to a 2.1-5.1 percent contraction in 2020, which would be the first recession in the past quarter century (World Bank, 2020).

On the social development front, prior to the Covid-19 crisis, the region also recorded improvements in key areas, notably health and education. The region recorded a steady decline in under-5 mortality from 152.8 to 77.5 deaths per 1000 live births between 2000 and 2018. During this period, primary completion rates rose from a regional average of 55% to 69%.

However, despite these commendable achievements, the sub-continent continues to face serious development challenges in its progress towards sustainable development goals. Top among these are high poverty rates and vertical and horizontal inequality. At 41% in 2015, the poverty headcount ratio in SSA is the highest among all regions in the world. Moreover, SSA is the only region where the number of poor people keeps rising (even as the headcount ratio declines) – from 385 million in 1990 to 674 million in 2015 (at $3.20 per person per day).[6] Social development is still constrained by inadequate investment in public infrastructure and social services, with rural areas faring the worst. For instance, less than half of the SSA population (44.6% in 2017) have access to electricity, compared to 90% in South Asia (the rate is even higher in other regions). And only 61 percent of the population has access to basic drinking water, compared to 90% in other developing regions. But the most striking is the rural-urban inequality: 46% vs. 84% for rural vs. urban areas. Clearly, despite impressive progress over the past two decades, SSA is still far from reaching its development goals. The most important constraint hindering progress is the shortage of financial resources, leading to inadequate spending by the governments in key development areas.

The shortage of development financing in Africa, and other development regions, is raising attention in light of acceleration of public debt accumulation, which has prompted concerns about a possible 'looming debt crisis', a concern that has been exacerbated by the coronavirus crisis. Indeed, the period after the 2008 global financial crisis witnessed a sharp acceleration of debt levels in all developing regions, raising the question of whether the gains from the HIPC and MDRI programs may be jeopardized; or even worse, whether African countries may be facing another debt crisis as experiences in the 1980s and 1990s. For SSA as a whole, the stock of external debt rose from $293 billion in 2010 to $644 billion in 2018. Debt service as a ratio of exports of goods and services nearly doubled from 15% to 28% during that period[7]. Recently, SSA governments

[5] Data from the World Bank's World Development Indicators (online).
[6] Data from the World Bank's Poverty and Inequality database (online).
[7] Data from the IMF, World Economic Outlook 2019 database (online).

have also expanded domestic borrowing, while also tapping international private debt markets, taking advantage of improved credit ratings and relatively low global interest rates.

External and domestic borrowing by African governments have increased in a period that witnessed a decline, or at least a stagnation, of other forms of external development financing especially official development aid. At the same time, most African countries are still operating much below their potential in terms of tax revenue mobilization (IMF, 2019b). Moreover, African countries remain marginal from a global perspective in terms of attracting private capital inflows in their attempt to fill their large and growing financing gaps.

The recent developments in public debt in Africa pose serious challenges for the continent and raise questions about the implications of debt acceleration for sustainable development, a concern further amplified by the coronavirus crisis. Two views are emerging. The first, mostly led by lenders, warns about a 'looming debt crisis' (Atingi-Ego, 2019a; Coulibaly et al., 2019; IMF, 2019c), and advocates for strategies to contain debt accumulation and develop debtor countries' capacity to service the debt, notably by increasing domestic revenue and rationalization of public expenditures. The second, from the borrowers' side, exemplified by what has been recently referred to as the 'Dakar Consensus',[8] argues that debt risks in Africa are not any higher than in other regions, and that today's context is different from the 1980s and 1990s. Under this view, the current debt problems need to be addressed with innovative solutions and the responsibility for finding such solutions is shared by lenders and borrowers. In particular, some African leaders are raising concerns about the standard remedies focused on expenditure cuts, which stifle growth and would erode the gains from the recent growth acceleration. Moreover, expenditure compression may be very costly in countries facing special needs such as civil war, political insecurity, and environmental crises. At the conclusion of the conference on "Sustainable Development, Sustainable Debt: Finding the Right Balance" organized by the government of Senegal, the IMF, the United Nations and the French think tank *Le Cercle des Economistes*, Senegalese president Macky Sall pointed to an irony in the debate on the recent debt acceleration: "It's true that our debt represents 55% of our GDP, but the global average is 225%. Our debt risk isn't any higher than that of other regions in the world. Stereotypes that raise our interest rates are holding us back. Is it fair to apply the same criteria devised for countries that have finished accumulating capital to our countries, which are starting from scratch?" The president of Togo, Mr. Faure Gnassingbé added: "Our problems aren't going to be solved by applying the same solutions from the past. The IMF and other institutions can't ask us to make an effort and then just feed us promises."[9]

It is important to note, however, that caution is needed in using debt-to-GDP ratios to suggest that African countries are less vulnerable to debt crisis than emerging and advanced countries.[10] Governments in advanced countries with high debt to GDP ratios such as Japan, US and UK are borrowing in their own currencies, most from their own citizens at very low interest rates. Therefore, their debt service burdens are far lower than most African governments. In contrast, most of Africa's debt is external, and domestic borrowing carries much higher interest rates.

[8] Alain Faujas, "Challenging the orthodoxy: Forget the Washington Consensus, meet the Dakar Consensus", *The Africa Report*, Posted on Friday, 6 December 2019 12:41.
[9] Alain Faujas, "Challenging the orthodoxy: Forget the Washington Consensus, meet the Dakar Consensus", *The Africa Report*, Posted on Friday, 6 December 2019 12:41.
[10] This point and the following narrative was made by an anonymous reviewer of this report.

Meanwhile, external borrowing is associated with substantial exchange rate risk. In addition, many African countries, along with some countries in the global South, are especially vulnerable because the international system has kept them trapped in producing commodities that are exposed to high fluctuations in prices and benefit primarily the multinational corporations operating in extractive industries. Furthermore, the international financial system facilitates large capital flight from Africa to industrialized countries, some of which is financed by embezzlement of external loans through a 'revolving door' (Ndikumana and Boyce, 2003, 2011a; Ndikumana et al., 2015).

The foregoing context offers an opportunity to reflect on the nature, origins, and implications of the debt acceleration with a view to finding solutions that preserve SSA's gains in development over the past decades while positioning African countries for a strong post-Covid recovery and to fully tap their potential to reach their sustainable development goals. This study aims to contribute to this reflection. It explores the trends and patterns of debt accumulation in SSA over time with a focus on the most recent decade, as well as variations across countries. It examines the shifts in the composition of debt, especially with respect to domestic debt, loans from lenders outside of the Paris Club and multinational financial institutions, and loans from private international markets – the euro bonds. The study discusses implications of debt accumulation for African economies, especially the impact on domestic investment, government expenditure, tax revenue mobilization and economic growth. The paper concludes by offering some policy suggestions on how to deal with rising debt, with an emphasis on how to mobilize adequate external financing for development while preserving debt sustainability so as to put and keep African countries on a solid path towards achieving sustainable development goals within the expected timeframe.

The remainder of the paper is structured as follows: The next section provides evidence on acceleration of public debt accumulation in SSA over the past decade, followed in Section 3 by a discussion focused on the case of HIPCs. Section 4 discusses the shift in the composition of public debt, marked by an increasing share of non-concessional loans, which has implications for debt sustainability, an issue examined in Section 5. Sections 6 and 7 discuss the drivers of debt accumulation and its impact on African economies, respectively. Section 8 stresses the critical importance of public debt mangement and highlights key limitations in current PDM frameworks in African countries. This is followed by country illustrations using the cases of Ghana, Kenya, and Uganda in Section 9. Section 10 concludes with key messages and some policy recommendations.

2. Debt accumulation in sub-Saharan Africa over the past two decades

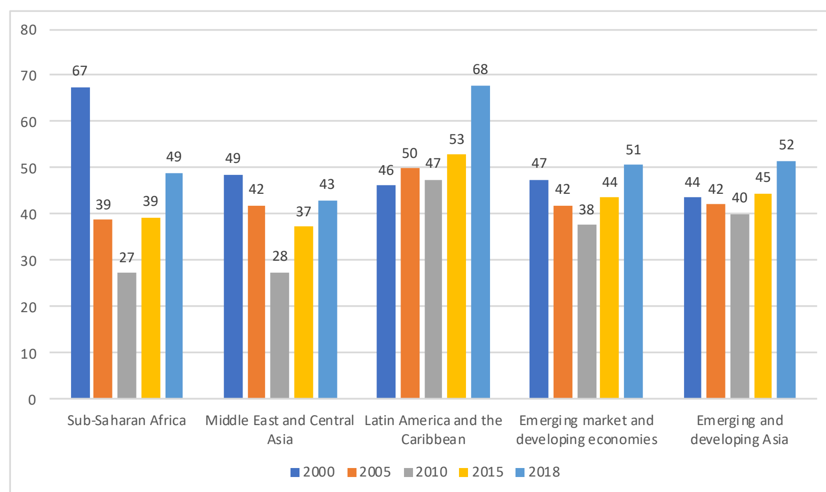
2.1 Debt dynamics in SSA compared to other regions

In the aftermath of the 2008 global financial crisis, the dynamics of economic recovery have been characterized by increasing government debt, a phenomenon that is widespread across the developing world. To illustrate this phenomenon, we consider first the most comprehensive measure of public debt, which is general government gross debt (see the definition in Appendix B). The data shows a clear pattern across regions: a decline of debt levels from 2000 to 2010, followed by a sharp increase thereafter (Figure 1). In the case of sub-Saharan Africa, general government gross debt declined from a very high level in 2000 at 67 percent of GDP down to 27%

in 2010, before rising rapidly to reach 49% in 2018. The concern now is that debt ratios may accelerate further in the wake of the coronavirus pandemic due to increased government borrowing required to finance rescue measures, in a context where GDP growth declines and may even dip into the negative territory.

The trend is similar in other regions. Latin America and the Caribbean experienced a dramatic increase in debt, from 47% of GDP in 2010 to a staggering 68% in 2018. In Emerging and Developing Asia, the debt ratio rose from 40% to 52% during the same period. The corresponding ratios for the emerging and developing market economies are 38% in 2010 and 51%in 2018. Overall, SSA is not alone: the observed acceleration of debt levels is similar to that of other regions. In fact, SSA is not in the worst situation, at least judging from these broad average measures. The worst situation is in Latin America and the Caribbean.

Figure 1: General government gross debt, percent of GDP

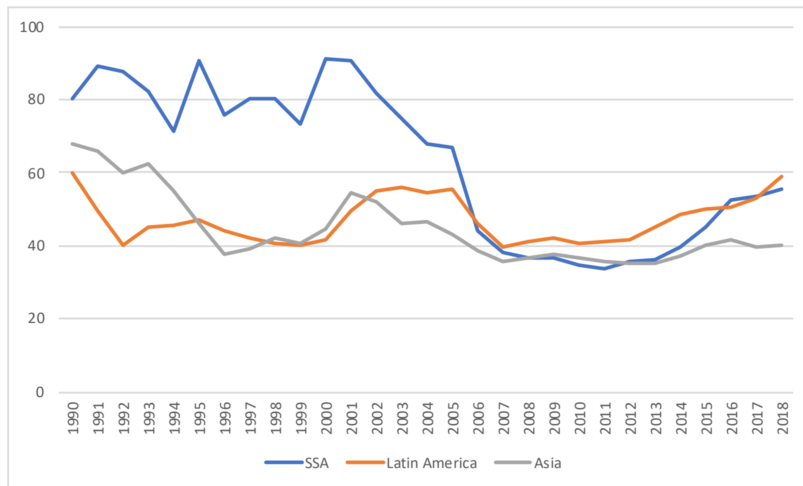


Source: IMF World Economic Outlook database, October 2019.[11]

It is important to caution that there are substantial variations across countries within each region. Therefore, the broad regional simple averages may be misleading. To dig deeper in the debt dynamics, we examine the trends of median debt to GDP ratios by region. These are depicted in Figure 2. This figure confirms the general pattern of a decline in debt levels starting in 2000 until around 2007, after which the median debt/GDP ratio began to rise shortly after the global economic crisis. The median ratio is higher in Latin America and the Caribbean compared to SSA.

[11] See Appendix B for a definition of general government gross debt and other concepts.

Figure 2: General government gross debt, median % of GDP

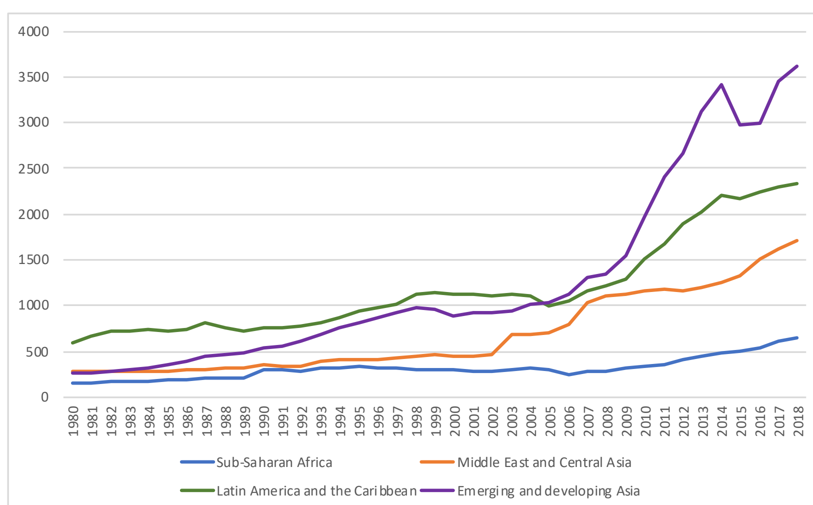


Source: IMF, World Economic Outlook database, October 2019

Next we examine the trends in external debt in SSA compared to other regions. In terms of absolute volumes of debt, SSA has borrowed much less than other regions and its debt has grown relatively slower (Figure 3). As of 2018, SSA debt stock was $644 billion. This is less than one third of Latin America's debt ($2.3 trillion) and it is 18 percent of Asia's debt ($3.6 trillion).

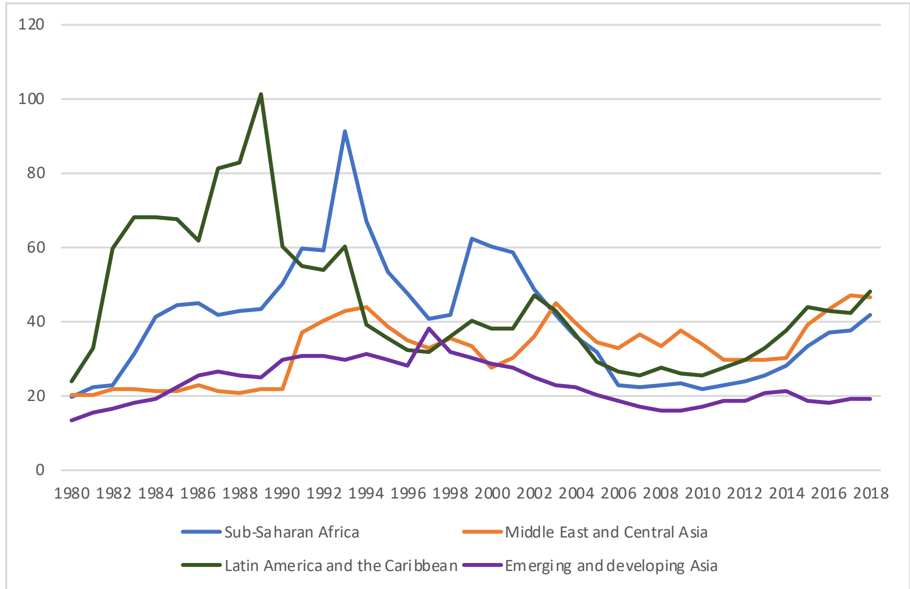
However, in relative terms, in relation to the size of the economies, SSA's debt burden is broadly similar and has followed the same trend as in other developing regions (Figure 4). The average debt/GDP ratio has risen in tandem with other regions in the post-global crisis period. We note, however, that while SSA had higher debt/GDP ratios in the 1990s, its ratios have remained lower than in Asia and Latin America in the post-global economic crisis period.

Figure 3: External debt, total (constant 2018 USD, billion)



Source: World Bank, International Debt Statistics

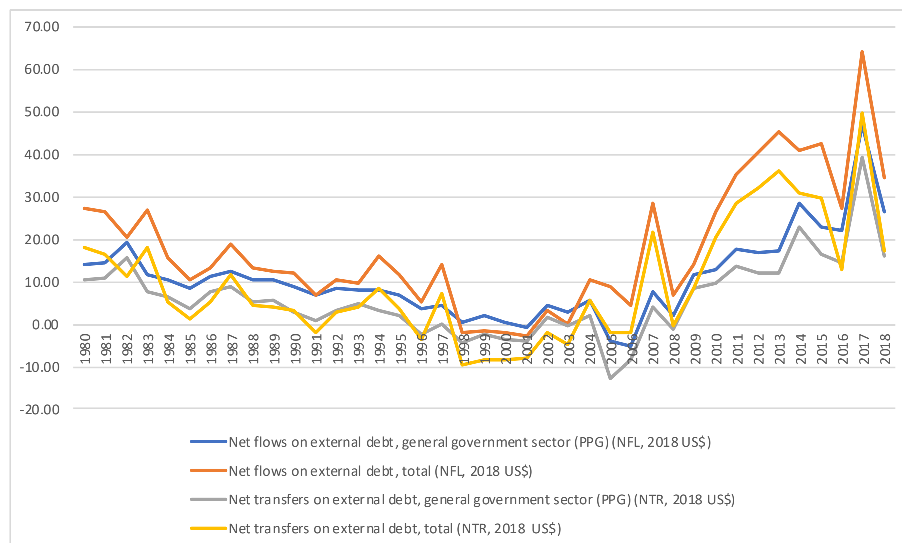
Figure 4: External debt, total (% of GDP)



Source: World Bank, International Debt Statistics

It is worth asking whether the increase in debt stocks has implied, or has been accompanied, by a commensurate increase in net resource inflows into the continent. In other words, have new borrowed funds exceeded debt payments. The evidence in Figure 5 suggests that the answer is yes! Indeed, increased external borrowing since the turn of the century and especially after the global economic crisis has brought in more resources into the region. Net flows on debt and net transfers on debt have increased systematically (see the definitions of these indicators in Appendix B). This holds for both general government sector debt and total debt (including the private sector). This is reassuring in the sense that external borrowing has been a source of additional financing for African economies. This nonetheless leaves open two questions: how have those net resources been used in debtor countries, and whether the debt acceleration is sustainable going forward. We address these questions in various sections of the study. Before that we explore further the pattern of debt acceleration and highlight disparities in debt dynamics across countries.

Figure 5: Net flows and net transfers on external debt to SSA, billion (constant 2018 USD)



Source: World Bank, International Debt Statistics

2.2 Distribution of countries by debt levels between 1995 and 2018

The general trends in debt accumulation described thus far are broadly representative of the experiences of most countries in the continent. But, as the saying goes, 'the devil is in the detail.' Indeed, the substantial variations across African countries in terms of structure of the economies, resource endowment, institutional environment, exposure to exogenous shocks such as natural disasters and conflicts imply that countries' experiences with regard to debt dynamics also differ over time. It is, therefore, important to examine how various countries have experienced debt accumulation over the past two decades and which ones are more exposed to the risk of debt distress in the medium term.

In the next tables, we describe the grouping and shifting of countries along levels of debt from the pre-HIPC period, through the debt crisis to today (in 2018). First, we present the number of countries by debt level and in selected years. Then we present transition matrices showing how countries moved across debt levels between 2010 and 2018. This analysis helps put flesh on the aggregate trends described above.

General government gross debt

Table 1 shows the distribution of Sub-Saharan African (SSA) countries in terms of general government gross debt ratio to GDP from 1995 to 2018[12]. In 2005, the immediate year prior to the

[12] The four periods considered are 1995 for pre-HIPC, 2005 for pre-Global crisis in 2007-2008, 2010 for post global crisis and 2017 or 2018 for most current period.

granting of debt forgiveness under the Multilateral Debt Relief Initiative (MDRI), more than half of the countries reported, or 28 out of the 47 countries in the table, had public debt to GDP ratios in excess of 50 percent. Among these countries, 22 had debt ratios of more than 70 percent, of which 13 had unsustainable debt levels over 90 percent of GDP. In 2010, despite the global economic and financial crisis, the effects of the MDRI on the debt levels of SSA countries were evident. The debt levels fell tremendously with 34 countries reporting public debt to GDP ratios below 50 percent. By 2018, however, the number of SSA countries with debt level of more than 50 percent of GDP had risen to 27, of which 12 had public debt to GDP ratios over 70 percent, and 5 countries with debt ratios over 90 percent. The recent experience has given an impression of a warning sign that another debt crisis is looming.

Table 1: Distribution of countries by general government gross debt/GDP in pre- vs. post-MDRI period

Range, Government Debt as % of GDP	Number of SSA Countries			
	1995	2005	2010	2018
less than or equal to 30	2	6	18	4
greater than 30 but ≤ 50	2	13	16	16
greater than 50 but ≤ 70	2	6	9	15
greater than 70 but ≤ 90	2	9	3	7
greater than 90	7	13	1	5
TOTAL	15	47	47	47

Source: Authors' calculations based on (Kose et al., 2017) and International Debt Statistics (World Bank online database).

External debt

Table 2 presents the evolution of the distribution of SSA countries in terms of total external debt levels measured as its ratio to GDP. In 1995 and 2005, the majority of SSA countries were highly indebted with foreign debt. In 1995, more than 85 percent of SSA countries (36 out of 42) had external debt burden of more than 50 percent of GDP, and 19 countries had debt ratios of more than 90 percent of GDP. After the MDRI, as it has been well established, SSA countries' external debt burden declined substantially. In 2010, only three countries had debt ratios of more than 90 percent of GDP, and the majority, or 35 out of reported 44 countries, had debt ratio of less than 50 percent, and 24 countries had external debt ratios of less than 30 percent. In 2018, some countries moved from debt ratio of less than 30 percent to the higher range of between 30 and 50 percent of GDP.

Table 2: Distribution of SSA countries by total external debt/GDP over 1995-2018

Range, Total External Debt as % of GDP	Number of SSA Countries			
	1995	2005	2010	2018
less than or equal to 30	4	5	24	12
greater than 30 but ≤ 50	2	13	11	20
greater than 50 but ≤ 70	9	10	4	6
greater than 70 but ≤ 90	8	7	2	3
greater than 90	19	9	3	3
TOTAL	42	44	44	44

Source: Authors' calculations based on WDI, World Bank, International Debt Statistics.

External debt service

Table 3 describes the evolution of the distribution of SSA countries in terms of debt service as percent of exports of goods and services. In 1995 during the pre-HIPC/MDRI period, for the majority, or 20 out of 36 SSA countries, external debt service was above 15 percent of their exports. In 2005 and 2010 the debt service ratio went down significantly to less than 10 percent of exports. In 2010, only four countries had debt service ratios above 10 percent of exports, namely Djibouti, Mauritius, Mozambique and Zimbabwe. The low debt service payment was a consequence of the debt forgiveness granted to many SSA countries classified as HIPC. In 2017, as some countries move to higher level of external debt, debt service ratios are also slowly beginning to rise.

Table 3. Distribution of countries by debt services as % of exports

Range, % of exports	Number of Countries			
	1995	2005	2010	2017
less than or equal to 5	4	9	27	16
greater than 5 but ≤ 10	7	18	10	8
greater than 10 but ≤ 15	5	4	1	8
greater than 15 but ≤ 20	8	5	0	3
greater than 20 but ≤ 25	6	1	2	2
greater than 25 but ≤ 30	3	0	0	1
greater than 30	3	2	1	1
Total	36	39	41	39

Source: Authors' calculation based on WDI, World Bank Online Database.

Domestic debt

Constructing a consistent dataset for domestic debt series for most African countries is an arduous task. The traditional open sources of data such as the World Bank and IMF and related sites do not publish information on domestic debt consistently. The information in the AfDB database is also inadequate. The IMF, however, has information in the annual Article IV consultation reports. Thus, in this study, the data on domestic debt comes from various sources such as the IMF Article IV reports, African Central Banks, datasets constructed by different studies (Abbas & Christensen, 2010 ; G. Bua et al., 2014) and some limited information from the African Development Bank. Domestic debt is defined as all financial liabilities owned to residents with focus on central government debt. Table 4 shows the evolution of the number of countries by level of domestic debt as percent of GDP from different periods. The majority of the SSA countries with available information had domestic debt ratio of less than 30 percent of GDP. From 1995 to 2010, domestic debt concentrated within the range of between 0 and 20 percent ratio.

Table 4: Distribution of countries by domestic debt/GDP over 1995-2017

Range, Domestic Debt as % of GDP	Number of SSA Countries			
	1995	2005	2010	2017
less than or equal to 30	22	28	34	21
greater than 30 but ≤ 50	3	4	4	8
greater than 50 but ≤ 70	0	1	0	1
greater than 70 but ≤ 90	0	0	1	0
greater than 90	0	2	1	0
TOTAL	25	35	40	30

Sources: Authors' calculations based on IMF Article IV; Selected Central Banks; Abbas and Christensen (2010); Bua et al. (2014).

Table 5 presents mean and median debt ratios in sub-Saharan Africa by sub-region. Moderate to large variations are observed, but they are more pronounced during the pre-HIPC period in 1995 and 2005. In 2018, there is moderate variation between sub-regions for general government gross debt, and large variations in total external debt and domestic debt. There is no clear and discernable pattern that can be observed. However, in 2010 and 2018, East Africa appears to be the most indebted sub-region in terms of both general government gross debt and external debt, while in 2018 Western Africa sub-region leads in terms of most domestic debt. For both general government gross debt and external debt, in most cases, the mean debt ratio is greater than the median debt, which suggests that the distribution of debt is skewed to the left.

Table 5: Mean and median debt in Sub-Saharan Africa by type of debt and by sub-region

	Mean Debt, % of GDP				Median Debt, % of GDP			
	1995	2005	2010	2018	1995	2005	2010	2018
1. General government gross debt								
Central Africa	105	92	33	58	105	49	21	49
East Africa	148	85	51	61	133	72	46	57
Southern Africa	31	45	30	54	19	33	31	52
Western Africa	60	99	40	59	58	79	35	55
2. Total external debt								
Central Africa	126	89	32	39	88	61	20	36
East Africa	97	63	43	49	81	57	31	36
Southern Africa	115	47	31	45	71	40	29	40
Western Africa	108	94	39	36	87	68	27	36
3. Domestic debt								
Central Africa		9	6	11		8	6	11
East Africa	17	29	23	21	21	16	13	22
Southern Africa	20	14	16	25	11	7	11	22
Western Africa	8	17	19	31	4	14	18	33

Source: Authors' calculations from various sources (see Tables 1, 2 and 4).

2.3 Transition of countries between debt levels from 2010 to 2018

To generate further insights behind the general trends of debt, we examine how countries have transitioned across various levels of debt during the debt acceleration period from 2010 to 2018. Table 6 presents the transition matrix of SSA countries from 2010 to 2018 in terms of general government gross debt as a percent of GDP. Overall, there are 30 SSA countries whose public debt ratios increased from 2010 to 2018. Those are located in the cells above the diagonal line in the table. For example, from 18 countries whose debt ratio were less than 30 percent of GDP in 2010, 10 countries moved up to between 30 and 50 percent, 5 countries went up to the range of between 50 and 70 percent, and finally, one country moved up to over 70 percent. For the remaining countries, 12 stayed in their positions as in 2010 and 5 countries had debt lower than in 2010.

Table 6: General Government Gross Debt/GDP: Transition from 2010 to 2018

General Government Gross Debt Ratio in 2018

Gen. Govt Goss Debt Ratio in 2010	≤30%	30%<ratio≤50%	50%<ratio≤70%	70%<ratio ≤90%	Ratio > 90%	Total
≤30%	2	10	5	1	0	18
30% < ratio ≤ 50%	2	4	5	4	1	16
50% < ratio ≤ 70%	0	2	4	1	2	9
70% < ratio ≤ 90%	0	0	1	1	1	3
ratio>90%	0	0	0	0	1	1
Total	4	16	15	7	5	47

Source: Authors' calculations based on Kose et al. (2017), World Bank.

Table 7 depicts the transition of SSA countries from 2010 to 2018 in terms of the total external debt to GDP ratio. Overall, there are 21 SSA countries whose external debt ratio were higher in 2018 than in 2010, of which 13 moved from debt ratio of less than 30 percent of GDP to between 30 and 50 percent; 4 countries moved to the debt ratio range of between 50 and 70 percent; two moved to between 70 and 90 percent debt ratio; and another two went up to debt ratio of over 90 percent. For other countries, 15 maintained their positions in both periods while 7 SSA countries reported to have external debt ratio lower in 2018.

Table 7: Total external debt/GDP: Transition from 2010 to 2018

	Total external debt ratio in 2018						
Total external debt ratio in 2010		≤30%	30%< ratio ≤50%	50%<ratio≤ 70%	70%< ratio ≤90%	ratio>90%	Total
	≤ 30%	8	13	2	1	0	24
	30% < ratio ≤ 50%	3	5	2	0	0	10
	50% < ratio ≤ 70%	0	2	0	1	1	4
	70% < ratio ≤ 90%	0	0	0	1	1	2
	Ratio > 90%	1	0	1	0	1	3
	Total	12	20	5	3	3	43

Source: Authors' calculations based on WDI, World Bank Online Database.

The analysis in this section reveals that the experience in debt accumulation has varied across countries. The impact of the coronavirus pandemic on debt dynamics will most likely also vary across countries based on the nature of structural vulnerabilities and the types of rescue interventions implemented by national governments. This calls for caution in generalizing any particular pattern or trend in debt across all the region. While the majority of African economies have experienced an increase in the level of debt since the turn of the century and especially in the post-global crisis period (since 210), the situation varies by country. Some countries have actually seen a decline in their debt levels, while debt levels have stagnated in a good number of countries. This implies that policy recommendations on how to deal with debt must be grounded on country-specific analysis and they need to be tailored to each country-specific circumstances in terms of levels of debt, type of debt, drivers of debt accumulation, and the capacity to absorb and service high levels of debt.

3. The situation of HIPCs

The case of post-HIPCs/post-MDRIs merit special attention in the analysis of the recent debt acceleration. The number of countries with external debt to GNI ratios above 100 percent declined from 15 at decision point to one in 2018 (Figure 6). Similarly, the number of countries with external debt to GNI ratios greater than 50 percent but less than 100 percent narrowed from 13 at decision point to 6 in 2018. Currently, there are 23 countries with external debt to GNI ratios below 50 percent, compared 2 countries at decision point. The average external debt to GNI ratio declined from 120 percent at decision point to about 58 percent at completion point and it is currently at 41 percent (Table 8).

Despite the steep decline in the average external debt to GNI ratio, there is substantial heterogeneity in the external debt ratio across countries post-completion point. The borrowing space created by debt relief in the previous decade has led to rising external debt to gross national income (GNI) ratios for a number of HIPCs, as government borrowed to finance much-needed

public investments. Debt accumulation was also driven by the improvement in macroeconomic conditions and investment environment in most HIPC countries post-completion point, which attracted external lending. William Easterly (2019) points out that the share of countries in Sub-Saharan Africa with extreme policy weakness remained extremely low in the post HIPC period and that reforms are significantly associated with recovery in growth and sustained macroeconomic stability. Relative to the HIPC completion point, several countries, including Cameroon, Central African Republic, Republic of Congo, Liberia, Malawi, Mozambique, and Senegal, have experienced rapid increases in the external debt to GNI ratios of at least 5 percentage points.

Figure 6: External debt stocks (% of GNI) thresholds

Source: Authors' calculations based on data from World Bank, International Debt Statistics.

Table 8: External debt stocks (% of GNI) in Highly Indebted Poor Countries

Country	Year - 1995	Decision point		Completion point		Year - 2018	Percentage change: Completion point to 2018
	Debt ratio (%)	*Year*	*Debt ratio (%)*	*Year*	*Debt ratio (%)*	*Debt ratio (%)*	
Benin	65.7	2000	54.7	2003	38.4	35.9	-2.5
Burkina Faso	53.8	2000	55.3	2002	48.8	23.4	-25.4
Burundi	117.6	2005	117.1	2009	34.4	19.2	-15.3
Cameroon	120.2	2000	111.3	2006	17.9	30.4	12.5
Central African Republic	86.4	2007	61.1	2009	26.8	32.7	5.8
Chad	58.4	2001	65.0	2015	28.0	29.3	1.3
Comoros	52.3	2010	30.7	2012	24.9	16.5	-8.4
Congo, Rep. of	489.3	2006	130.8	2010	26.7	51.1	24.4
Congo, Dem. Rep. of	271.4	2003	131.4	2010	29.8	10.9	-18.8
Côte d'Ivoire	188.7	2009	63.8	2012	36.8	37.9	1.1
Ethiopia	135.8	2001	70.2	2004	65.2	33.4	-31.8
Gambia, The	55.3	2000	65.1	2007	90.6	42.7	-47.9
Ghana	93.7	2002	126.6	2004	83.4	36.3	-47.1
Guinea	90.1	2010	54.4	2012	21.7	24.6	2.9
Guinea-Bissau	378.8	2000	265.2	2010	131.2	28.9	-102.3
Liberia	*n.a*	2008	201.8	2010	23.0	44.7	21.6
Madagascar	144.0	2000	124.1	2004	89.3	31.8	-57.5
Malawi	165.8	2000	159.1	2006	22.0	32.2	10.2
Mali	111.2	2000	102.0	2003	67.7	29.5	-38.2
Mauritania	178.7	2000	179.7	2002	162.4	93.4	-69.0
Mozambique	310.8	2000	138.5	2001	99.7	107.6	7.8
Niger	87.6	2000	96.6	2004	65.0	36.1	-28.9
Rwanda	79.5	2000	71.7	2005	57.4	59.0	1.5
São Tomé and Príncipe	437.0	2000	625.7	2007	108.2	58.8	-49.4
Senegal	65.0	2000	62.6	2004	39.1	53.3	14.2
Sierra Leone	152.7	2002	115.1	2006	82.7	45.1	-37.6
Togo	116.6	2008	49.8	2010	37.6	33.3	-4.3
Uganda	63.3	2000	58.1	2000	58.1	46.3	-11.7
Tanzania	143.8	2000	54.3	2001	49.1	33.1	-16.0
Zambia	195.2	2000	168.7	2005	70.9	73.7	2.7
Average	155.5		120.4		57.9	41.0	-16.9

Source: World Bank, International Debt Statistics

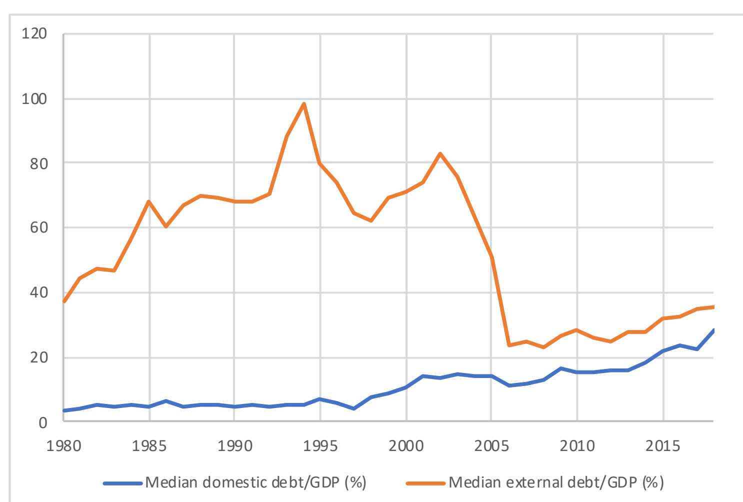
4. Shifting composition of public debt in sub-Saharan Africa

The story of acceleration of debt levels in Africa has also been a story of shifts in the composition of debt. Two key shifts have been identified. The first is an increase in domestic debt in levels and a share of total debt and the second is a decline in the share of concessional debt in total external debt as a result of an increase in borrowing from non-Paris Club lenders, notably China, and from the international bond markets, especially t euro bonds. These shifts have important implications for the overall cost and sustainability of debt.

4.1 Increase in domestic debt

Compared to external debt, domestic debt has traditionally played a relatively limited role as a source of borrowing in most SSA countries. Up until 2000, the median ratio of domestic debt to GDP was below 10%. However, since then, domestic debt has increased systematically, and its trend acceleration has matched that of external debt (Figure 7).

Figure 7: Domestic vs external debt as % of GDP (median)



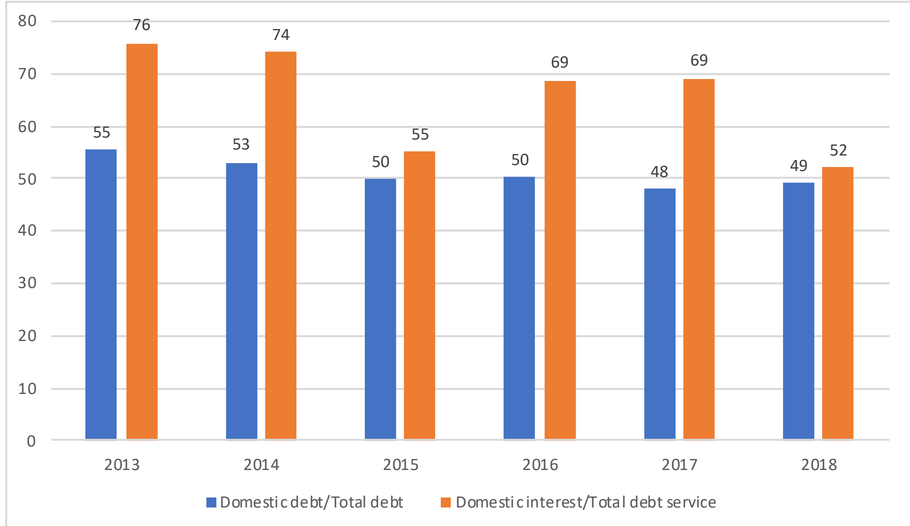
Source: World Bank, International Debt Statistics; various sources for domestic debt.

Domestic debt has important advantages vis-à-vis external debt that may explain the appetite for it on the part of investors/savers as well as its demand/preference by the government as a debt instrument. On the part of the government, by borrowing domestically, it is able to avoid the risks arising from currency mismatches which are associated with external debt. The ability to borrow, spend, and reimburse in the same currency facilitates the planning of the use of the loans while minimizing non-interest risks. On the part of the lenders (investors/savers), government debt offers a low-risk asset, which, provided inflation is kept in check, facilitates portfolio management and rate of return optimization in investment decisions. At the national policy level, developing a domestic government debt market is an important instrument for developing the financial system through expansion of saving instruments and facilitation of maturity transformation.

However, domestic debt accumulation also carries important costs. One effect is the risk of crowding out of private sector activity by shifting bank lending to the government and away from private investment. Another, less emphasized cost of domestic debt is that it is often more costly than external debt. So, borrowing in one's own currency is not necessarily a net advantage relative

to borrowing externally. The case of Kenya can be used to illustrate this point. As can be seen in Figure 8, the burden of interest payment on domestic debt as a share of total debt service is relatively higher than the share of domestic debt in total debt. This suggests that Kenya's domestic debt is relatively more expensive than its external debt. So, borrowing domestically is certainly not a freebee.

Figure 8: Kenya: Share of domestic debt in total debt and in debt service (percent)



Source: Kenya National Treasury, *Annual Public Debt Management Report* 2018

The ability of the government to borrow domestically is higher the more developed the domestic markets. Indeed, the middle-income countries in SSA with relatively developed financial markets exhibit higher levels of domestic debt. In the case of South Africa, domestic debt has in fact been the primary source of government borrowing for a long time, especially during the Apartheid era when the country was under international sanctions. Even after the transition to democracy, domestic debt has represented a higher share of total debt than external debt. In terms of volume, external debt rose from $31 billion in 2001 to $172 billion in 2018, while domestic debt increased from $33.6 billion in 2002 to $187 billion in 2018 (Figure 9).

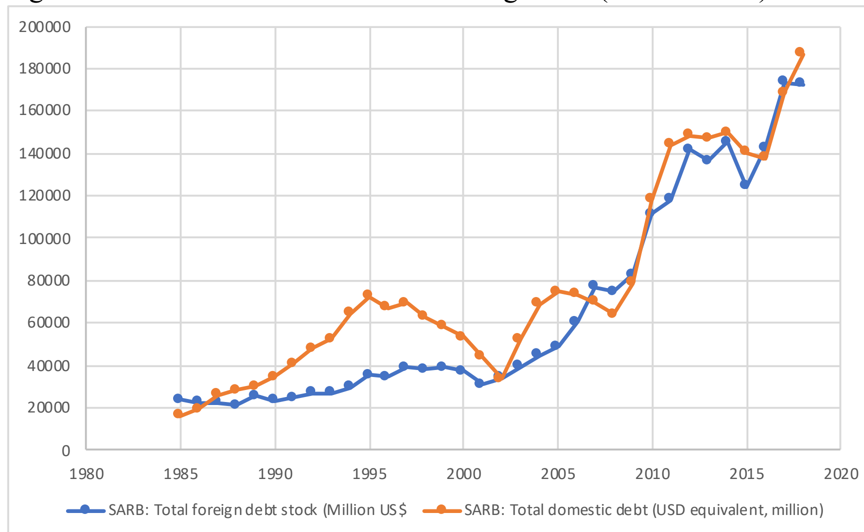
Expressed in terms of ratio to GDP, domestic and external debt have moved in similar fashion over the past decade (Figure 10). Since 2005, external debt to GDP rose steadily from less than 20% to 50% in 2018. The domestic debt to GDP ratio followed the same trend, increasing from just above 20% in 2008 to also about 50% in 2018.

The increase in domestic debt is partly driven by borrowing by parastatal companies. This is often a result of poor management, leading to perennial losses by state-owned enterprises (SOEs). This is even so when these enterprises operate in sectors that are otherwise highly profitable, such as mining and generation, transmission and distribution of electricity. A telling example is Eskom in South Africa. The company has been marred in corruption scandals involving company senior managers, high ranking government officials and politically connected private operators. Eskom appears prominently in stories recorded in the 2016 *State Capture* report.[13] Due to poor management, Eskom is literally in debt distress. Its debt has increased from R106 billion in 2010 to R441 billion in 2019 (Figure 11). It is likely that the case of Eskom is

[13] Public Protector South Africa (2016). *State Capture*. Report No. 6 of 2016/2017 (14 October 2016). https://www.sahistory.org.za/sites/default/files/2019-05/329756252-state-of-capture-14-october-2016.pdf

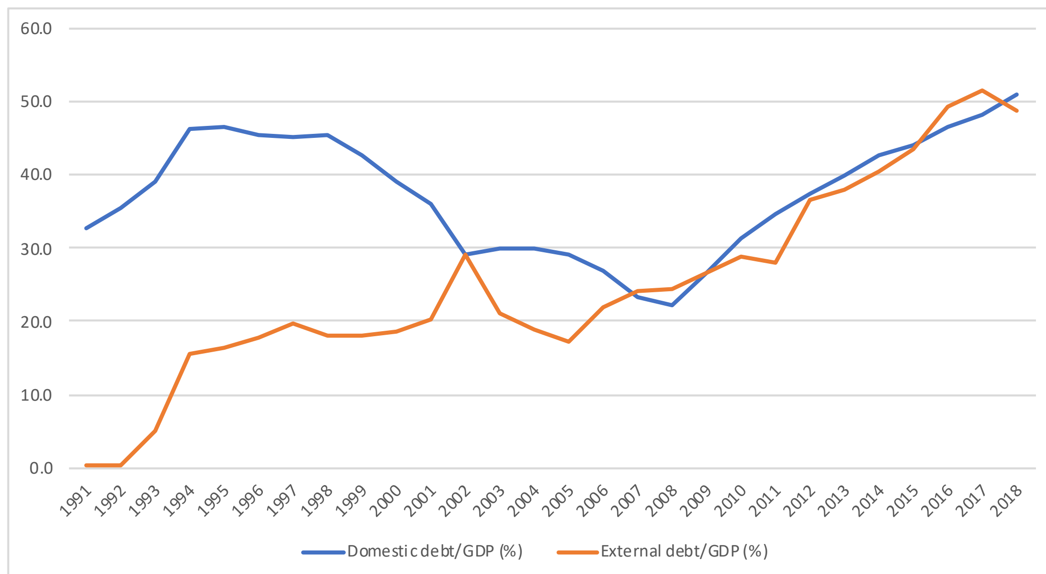
symptomatic of a deeper problem in the parastatal sector. Hence in analyzing the issue of domestic debt, it is important to go beyond debt of the Central Government to look at borrowing by the entire public sector.

Figure 9: South Africa: domestic and foreign debt (million USD)



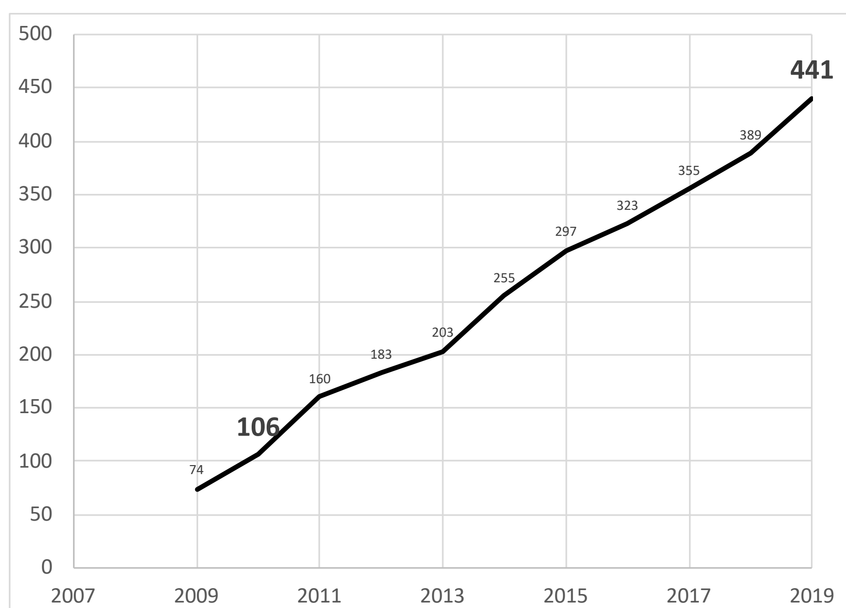
Source: South African Reserve Bank's database

Figure 10: South Africa: External debt vs. domestic debt (% of GDP)



Source: South African Reserve Bank's database

Figure 11: Eskom's gross debt (R billion)



Source: Eskom, Annual Financial Statement (31 March 2019); Reuters (Alexander Winning, 2019)

4.2 Declining share of concessional debt

The second trend is the decline in concessional debt as share of total external debt. From 1980 to 2005, SSA countries steadily accumulated concessional debt. In constant 2018 US dollars, the volume of concessional debt flowing into SSA (excluding high income countries) rose from $21 billion in 1980 to $99 billion in 2004 (Figure 12). It then declined to $52 billion in 2006 and began to rise again steadily, reaching $99 billion in 2018. The remarkable feature, however, is that the share of concessional debt in total debt declined steadily from 2005 from 30.5% to 16% in 2012 and it has remained flat since then.

The trend in concessional debt is especially striking because it is occurring during the very same period where total debt was climbing to every higher levels. This trend is the result of concerted effort by SSA countries to tap other sources of borrowing outside the Paris Club and multilateral financial institutions (MFIs). Improvements in macroeconomic conditions and overall governance in SSA countries led to improvements in risk ratings, which encouraged private lending to the region. Moreover, partners from emerging markets, especially China, have channeled an increasing volume of resources to the continent in the form of aid and loans. These trends are described further below.

One important implication of the decline in the share of concessional loans and the increase in private loans is an increase in the overall cost of debt. Over time, average interest rates on new external loans have declined systematically since the early 1980s (Figure 13). As expected, interest rates on private loans are higher; therefore, the recent shift in the composition of public debt has implied rising costs of debt. Since 2016, the average interest rates are on an upward trend, led by interest on private loans. This should merit attention on the part of SSA governments in their choice of sources of borrowing going forward.

Figure 12: Concessional external debt to SSA (excluding high income countries), billion (constant 2018 US$)

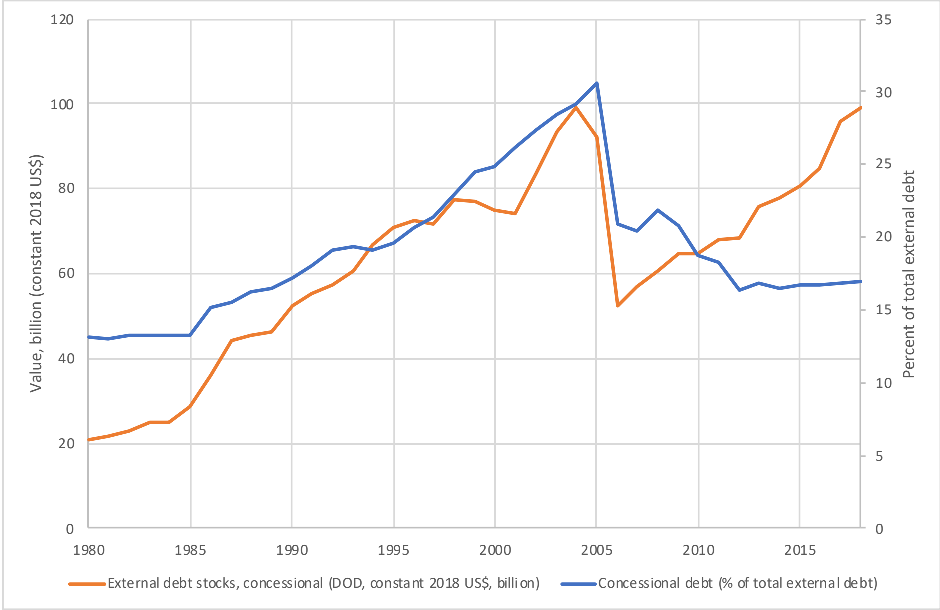
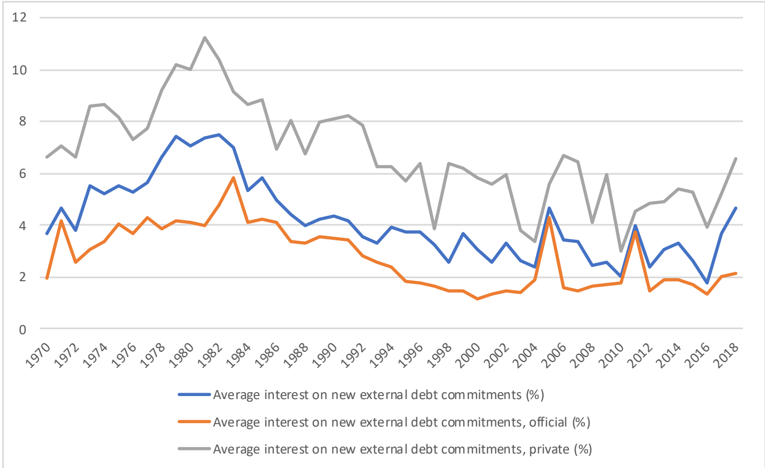


Figure 13: Interest on new external debt commitment as % of total debt



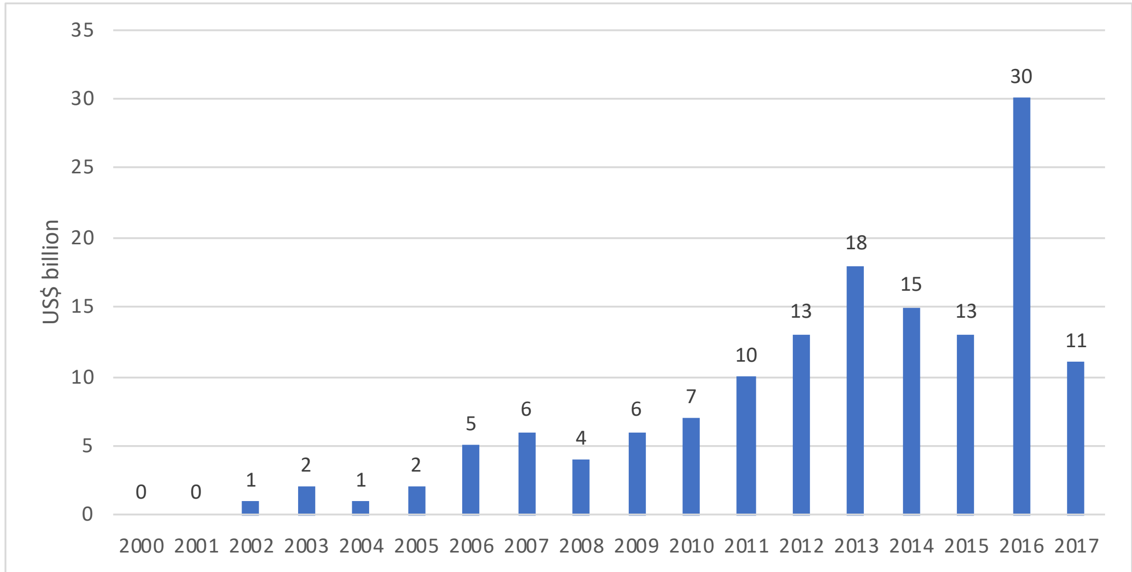
4.3 Chinese loans

China has emerged as a dominant trade and investment partner of many SSA countries over the past two decades. Its loans have primarily targeted infrastructure and extractive industries (African Development Bank, 2018; Were, 2018). In addition to regular project and program loans directly to governments, some of Chinese loans have been in the form of commodity-linked debt. At least one-third of Chinese loans has been secured by export commodities in borrower countries and also tied to Chinese goods and construction services (Brautigam and Hwang, 2016). Commodity-linked

debt increases risks of debt sustainability due to uncertainties characterizing commodity prices in global markets.

The pace of Chinese lending[14] to SSA countries has accelerated, corresponding to the period of acceleration of overall debt accumulation in the region. This is illustrated in Figure 14 showing the number of loans to African governments from 2000 to 2017.[15]

Figure 14: Annual Chinese Loans to African Governments



Source: Johns Hopkins SAIS China-Africa Research Initiative©

The increasing need for infrastructural development by African countries, excess liquidity in China, and the "going global" policy by the Chinese state are key factors behind the rise in Chinese lending to African countries. Chinese loans are heavily concentrated towards a short list of recipients: Angola, Ethiopia, Kenya, and Democratic Republic of Congo accounted for over 50 percent of Chinese loans over the 2000-2015 period (Table 9). Except for Ethiopia and Kenya, these are resource-rich countries, illustrating the resource-driven character of Chinese lending and development aid policies.

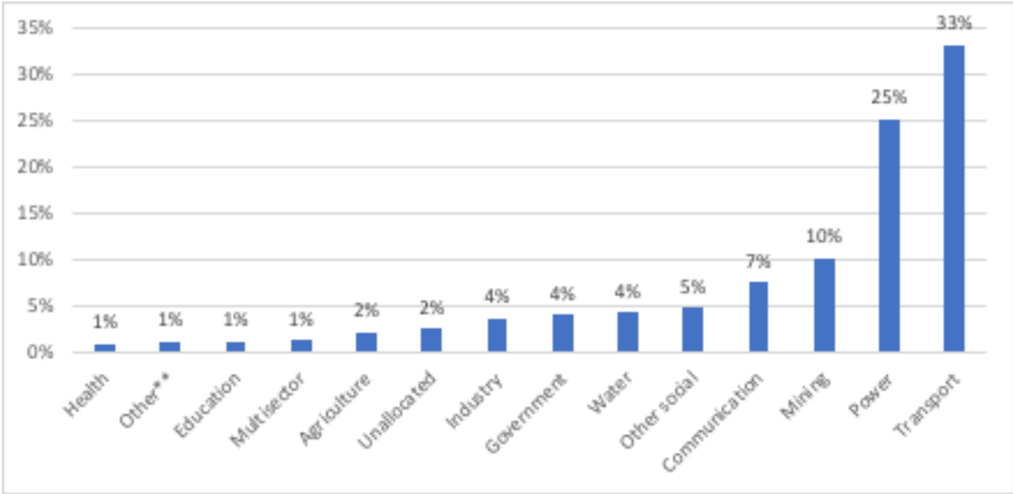
Chinese loans originate from China's official export credit agency, Eximbank, with China's Development Bank and state-owned commercials banks playing an increasingly important role (Brautigam and Hwang, 2016) (Table 9). Based on the SAIS estimates, the bulk of these loans (about 75 percent) goes to the transport (road, ports, railways, and airports), energy (power),

[14] These loans include both disbursed loans and loan agreements. It is important to note that once a loan agreement is reached, countries start paying fees and interest on the loan. Often, the projects begin even before the loan agreements are duly signed.
https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/58ac6353f7e0ab024bcc665c/1487692628411/guidebook+draft+v.26.pdf

[15] The figure could be higher than reported. However, there is currently no publicly available data on Chinese lending to African countries, posing a challenge to understand the risks posed by these loans, which are mostly granted on non-concessional.

mining and communications sectors (Figure 15). Table 10 provides detailed information on the distribution of Chinese loans by country and by sector.

Figure 15: Chinese Lending by Sector



Source: Johns Hopkins SAIS China-Africa Research Initiative©

Table 9: Chinese Loans to African Governments, 2000-2015, by Lender (millions of US$, unadjusted)

Country	Eximbank	CDB**	Supplier's Credits	Other	TOTAL	Percentage Share of Total Loans
Algeria	0	0	0	9	9	0.0%
Angola	6937	8775	22	3491	19224	20.9%
Benin	777	0	0	131	908	1.0%
Botswana	90	0	0	841	931	1.0%
Burundi	47	0	0	52	99	0.1%
Cameroon	3632	45	2	43	3723	4.0%
Cape Verde	81	0	0	56	137	0.1%
CAR	0	0	60	43	104	0.1%
Chad	606	0	0	0	606	0.7%
Comoros	8	0	0	0	8	0.0%
ROC	2433	0	238	165	2836	3.1%
Cote d'Ivoire	2449	0	0	72	2521	2.7%
Djibouti	1301	0	0	616	1917	2.1%
DRC	3067	0	0	20	3088	3.4%
Egypt	77	300	0	54	432	0.5%
Equatorial Guinea	1121	0	478	23	1622	1.8%
Eritrea	488	0	0	16	504	0.5%
Ethiopia	7245	655	4165	1003	13067	14.2%
Gabon	750	0	0	278	1027	1.1%
Ghana	1536	1000	469	172	3176	3.5%
Guinea	608	0	0	38	646	0.7%
Kenya	6319	240	0	290	6849	7.4%
Lesotho	0	0	0	8	8	0.0%
Madagascar	56	0	0	0	56	0.1%
Malawi	239	0	0	0	239	0.3%
Mali	903	0	0	79	981	1.1%
Mauritius	377	0	0	54	431	0.5%
Mauritania	381	0	0	89	470	0.5%
Morocco	501	0	0	14	516	0.6%
Mozambique	1686	100	0	93	1878	2.0%
Namibia	489	0	222	18	729	0.8%
Niger	684	0	0	19	703	0.8%
Nigeria	2610	0	390	500	3499	3.8%
Rwanda	151	0	0	74	224	0.2%
Senegal	1497	0	0	21	1518	1.7%
Seychelles	62	0	0	1	63	0.1%
Sierra Leone	48	0	12	0	60	0.1%
South Africa	0	411	0	0	411	0.4%
Sudan	4837	0	598	1043	6477	7.0%
South Sudan	182	0	0	0	182	0.2%
Tanzania	2086	200	0	62	2348	2.6%
Togo	570	0	0	14	584	0.6%
Tunisia	123	0	0	3	126	0.1%
Uganda	2806	0	0	71	2877	3.1%
Zambia	1768	176	0	512	2456	2.7%
Zimbabwe	1325	40	290	61	1715	1.9%
TOTAL	**62,952**	**11,943**	**6,946**	**10,147**	**91,987**	**100.0%**

Source: Johns Hopkins SAIS China-Africa Research Initiative©
** CDB: China Development Bank.

Table 10: Chinese Loans to African Governments, by Sector – Country

Country	Total Amount Borrowed, US$ million (2000 - 2017)	Education	Health	Water	Government	Other social	Transport	Communication	Power	Agriculture	Industry	Mining	Multisector	Unallocated	Other**	Total (Sectors)
Algeria	9	0	0	0	0	0	0	0	0	0	0	0	0	9	0	**9**
Angola	42845	535	373	504	489	2511	2911	368	1542	1313	0	7500	1068	6	104	**19120**
Benin	996	0	0	0	31	16	218	64	550	0	0	0	0	29	0	**908**
Botswana	931	0	0	0	0	57	43	0	825	0	0	0	0	7	0	**931**
Burundi	99	0	0	0	0	0	0	47	0	0	0	0	0	52	0	**99**
Cameroon	5568	153	7	944	392	119	992	424	596	2	14	0	2	78	0	**3723**
Cape Verde	149	0	3	0	17	83	0	0	10	0	0	0	4	7	13	**124**
CAR	104	0	0	0	0	0	0	60	27	0	0	0	0	6	10	**94**
Chad	641	0	0	0	0	0	0	45	130	0	431	0	0	0	0	**606**
Comoros	39	0	0	0	0	0	8	0	0	0	0	0	0	0	0	**8**
ROC	7424	66	15	213	105	146	1545	0	647	0	24	0	56	20	0	**2836**
Cote d'Ivoire	2693	0	0	184	30	92	908	0	1272	0	0	1	0	34	0	**2521**
Djibouti	1467	0	0	322	0	0	1557	18	0	0	0	0	0	8	12	**1905**
DRC	3435	0	100	0	20	0	450	133	1038	0	8	1300	0	40	0	**3088**
Egypt	3422	0	0	0	0	61	0	0	0	0	16	0	0	354	0	**432**
Equatorial Guinea	1622	0	0	132	0	346	17	6	700	0	0	0	0	421	0	**1622**
Eritrea	504	0	10	0	0	0	0	21	100	0	48	60	0	0	264	**240**
Ethiopia	13739	0	0	634	0	0	4373	3162	2548	0	2020	0	0	305	26	**13041**
Gabon	1035	101	3	0	7	179	214	0	435	0	0	0	0	88	0	**1027**
Ghana	3498	40	0	260	546	0	22	30	2241	0	0	0	0	6	32	**3144**
Guinea	646	0	0	0	9	0	0	264	341	0	0	0	0	32	0	**646**
Kenya	9803	31	130	0	177	29	5555	74	597	0	0	0	0	112	143	**6706**
Lesotho	56	0	0	0	0	0	0	0	0	0	0	0	0	8	0	**8**
Liberia	50	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Madagascar	435	0	0	0	0	56	0	0	0	0	0	0	0	0	0	**56**
Malawi	262	79	0	0	0	160	0	0	0	0	0	0	0	0	0	**239**
Mali	981	0	0	0	0	0	340	123	348	0	91	0	0	79	0	**981**
Mauritania	431	0	0	0	0	0	381	0	0	0	0	0	0	50	0	**431**
Mauritius	492	0	13	123	0	20	260	25	0	0	0	0	0	25	2	**467**
Morocco	1031	0	13	6	0	0	184	0	305	0	0	1	0	8	0	**516**
Mozambique	2289	0	0	0	51	70	1416	0	0	170	60	0	0	112	0	**1878**
Namibia	729	0	0	0	4	0	390	0	0	11	0	222	0	3	100	**629**
Niger	703	0	0	50	0	0	19	103	76	0	352	103	0	0	0	**703**
Nigeria	4831	0	0	0	400	0	1500	460	1140	0	0	0	0	0	0	**3499**
Rwanda	289	0	0	0	2	0	151	0	0	0	0	0	6	66	0	**224**
Senegal	1630	0	0	0	98	0	1009	115	292	0	0	0	0	4	0	**1518**
Seychelles	34	0	0	1	0	21	1	0	0	0	0	0	0	41	0	**63**
Sierra Leone	224	0	0	0	16	0	12	32	0	0	0	0	0	0	0	**60**
South Africa	3784	0	0	0	0	0	411	0	0	0	0	0	0	0	0	**411**
South Sudan	182	0	0	0	0	0	158	0	24	0	0	0	0	0	0	**182**
Sudan	6492	0	0	346	121	141	2513	10	2887	216	180	0	0	62	0	**6477**
Tanzania	2348	0	0	4	285	15	73	552	1164	0	12	0	0	43	200	**2148**
Togo	693	0	0	0	25	0	381	139	25	0	0	0	0	14	0	**584**
Tunisia	145	0	0	0	0	0	80	30	0	0	0	0	0	17	0	**126**
Uganda	2968	0	0	0	0	0	761	112	1928	0	0	0	10	26	40	**2837**
Zambia	6377	0	47	0	504	154	1012	82	600	12	0	0	0	0	46	**2410**
Zimbabwe	2214	0	91	144	257	0	204	267	430	236	0	0	7	79	0	**1715**
Total	**140339**	**1006**	**805**	**3866**	**3585**	**4276**	**30068**	**6766**	**22816**	**1959**	**3257**	**9187**	**1154**	**2250**	**992**	**90995**

Source: Johns Hopkins SAIS China-Africa Research Initiative©

**Others include, Banking, Business, Trade, Budget, Food, and Other Commodities.

4.4 International Sovereign Bonds

The recent debt build-up in SSA countries has been partly driven by the increasing tapping of global sovereign debt markets, motivated by both widening financing gaps as well as improvement in risk ratings due to stronger actual and expected economic performance. The issuance of Eurobonds has also resulted from the appetite for higher yields in a low global interest rate environment (AfDB, 2018) and a healthier balance sheet resulting from HIPC and MDR initiatives (Merotto et al., 2015; Were, 2018). High interest rates on sovereign bonds have contributed to public debt accumulation since 2010 (Battaile et al., 2015). The issuance of international sovereign bonds allows countries to diversify the investor base and complements multilateral and bilateral financing. However, the expected increase in debt service obligations constitutes significant risks for SSA countries (World Bank, 2018a).

Table 11 provides the face values of the international sovereign bonds issued by SSA countries since 2007. Detailed information on the characteristics of these bonds is provided in Table A1 in the Appendix. Between 2007 and 2018, 17 countries tapped the sovereign bond market, mobilizing a total of $83.3 billion in constant 2018 US dollars.[16] As can be seen on the table, African countries have been particularly active in issuing sovereign bonds in 2017-2019 with a total of $43.2 billion, in constant 2018 dollars. The largest borrower is South Africa, which alone accounts for 27.8 percent of the total volume of funds mobilized ($23.1 billion). The top 6 countries account for 80% of the funds: Angola (9.6%), Côte d'Ivoire (11%), Ghana (10.7%), Kenya (7.4%), Nigeria (13.7%) and South Africa (27.8%).

[16] Nominal values are converted into real values using the US GDP deflator with 2018 as the base year.

Table 11: International Sovereign Bond Issuances, million USD

	2007	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, million, constant 2018 USD	% of sample total	2007-2018: Eurobonds/debt stock (%)
Seychelles		168.8945								15		209	0.3	n.a.
Rwanda					400							434	0.5	8.0
Benin											567	558	0.7	0.0
Tanzania					600							651	0.8	3.5
Cameroon							750					790	0.9	7.3
Ethiopia						1000						1,065	1.3	3.8
Namibia			500				750					1,353	1.6	n.a.
Mozambique					500						900	1,427	1.7	3.6
Gabon						1500	700					2,334	2.8	34.5
Zambia				750		1000	1250					3,209	3.9	16.8
Senegal			500			500			1100	2200		4,420	5.3	36.0
Kenya						2000				2000	2100	6,194	7.4	13.1
Angola							1500			3500	3000	8,030	9.6	9.3
Ghana					1000	1000	1000	750		2000	3000	8,934	10.7	25.7
Côte d'Ivoire		2300				750	1000		2482	2100		9,131	11.0	58.3
Nigeria			500	300	500		1118		4500	3500	750	11,453	13.7	22.8
South Africa	1000	2000	750	1500	2000	1000		4250	2500	2000	5000	23,125	27.8	10.2
Total, million, current USD	1,000	4,469	2,250	2,550	5,000	8,750	8,068	5,000	10,582	17,315	15,317			
Total, million, constant 2018 USD	**1,193**	**5,132**	**2,531**	**2,814**	**5,424**	**9,316**	**8,499**	**5,210**	**10,821**	**17,315**	**15,061**	**83,317**		16.9

Source: Various sources, including Bloomberg.

5. Debt sustainability

The recent acceleration in debt has prompted interest in the research and policy community in assessing the sustainability of debt as a means of informing policies to address country specific risks associated with the debt buildup. Debt sustainability analysis[17] enables to classify countries in terms of levels of debt distress and to examine the transition of countries across these levels.

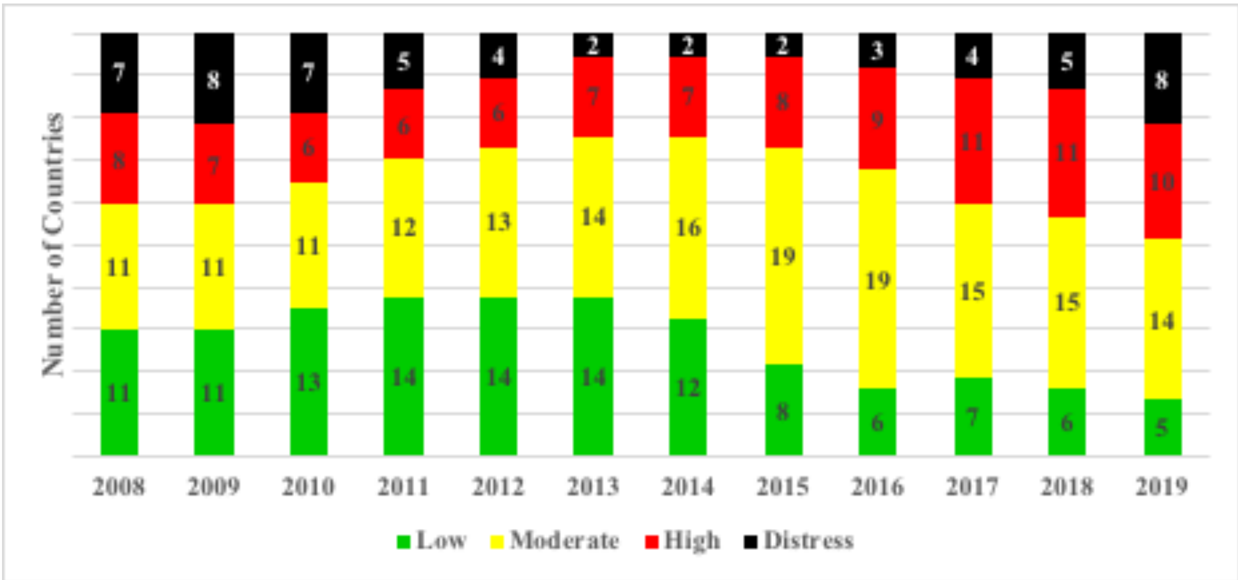
Figure 16 summarizes the distribution of SSA countries according to the level of debt distress from low level of debt vulnerability to extreme debt distress between 2015 and 2019 according to debt sustainability analysis (DSAs) conducted by the IMF and the World Bank. The results identify 8 countries, 4 of which are HIPCs and 4 non-HIPCs, as being in debt distress in 2019. Another 10 countries, 9 of which are HIPCs and one non-HIPC are identified as having high risk of debt distress. The remaining 19 countries, have low to moderate debt vulnerabilities. Detailed classification is provided in Table 12.

Reviews of DSAs conducted on SSA countries over the period 2008 – 2016 reveal a systematic optimism bias due to underlying optimistic macro-economic assumptions (Atingi-Ego 2019). As a result, projections show a higher debt carrying capacity for most of the countries which, in most cases, led to a faster pace of debt accumulation during this period. Confounding this was the fact that average interest rates on new debt commitments were rising faster relative to GDP growth rates while the necessary fiscal adjustments to counter this development were insufficient. Countercyclical policies supported by fiscal buffers that were used to address the impact of the 2008 global financial crisis have largely not been reversed despite the erosion of the buffers and a pick-up in growth in some countries. As a result, the overall risk of debt distress in the region has worsened in the last decade (Atingi-Ego, 2019b).

Debt sustainability hinges on various factors which are highly uncertain. This implies that the debt trajectories are subject to important uncertainties, including uncertainties related to fiscal policy plans and outcomes, exogenous shocks and fiscal policy responses to these shocks, effectiveness of fiscal reforms, shocks to global markets and their impacts on capital inflows, interest rates and exchange rates, and others (Atingi-Ego, 2019).

[17] The threshods for the determination of debt distress in IMF and World Bank debt Debt Sustainability Framework are shown on Table A2 in the Appendix.

Figure 16: Risk of external debt distress



Source: IMF/World Bank DSA reports

Table 12: Debt Sustainability Analysis - IDA Countries 2019 Assessment

Identifier	Country	Risk of external debt distress 1/ 2/	Risk of overall debt distress /2	Date of Publication
HIPC	Mozambique	In distress	In distress	5/16/2019
HIPC	Republic of Congo 3/	In distress	In distress	7/24/2019
HIPC	São Tomé and Príncipe	In distress	…	8/2/2018
HIPC	The Gambia	In distress	In distress	5/8/2019
Non-HIPC	Somalia	In distress	In distress	8/1/2019
Non-HIPC	South Sudan	In distress	In distress	6/4/2019
Non-HIPC	Sudan	In distress	…	12/11/2017
Non-HIPC	Zimbabwe	In distress	…	7/1/2017
HIPC	Burundi	High	…	4/1/2015
HIPC	Cameroon **3/**	High	High	7/31/2019
HIPC	Central African Republic	High	High	7/9/2019
HIPC	Chad	High	High	7/31/2019
HIPC	Ethiopia	High	High	12/4/2018
HIPC	Ghana	High	High	4/5/2019
HIPC	Mauritania	High	High	5/31/2019
HIPC	Sierra Leone	High	High	12/18/2018
HIPC	Zambia	High	High	8/1/2019
Non-HIPC	Cabo Verde **3/**	High	High	12/27/2018
HIPC	Benin	Moderate	Moderate	7/2/2019
HIPC	Burkina Faso	Moderate	Moderate	1/22/2019
HIPC	Comoros	Moderate	Moderate	8/14/2019
HIPC	Côte d'Ivoire	Moderate	Moderate	12/14/2018
HIPC	Democratic Republic of Congo	Moderate	Moderate	9/4/2019
HIPC	Guinea	Moderate	Moderate	8/23/2019
HIPC	Guinea-Bissau	Moderate	…	6/6/2018
HIPC	Liberia	Moderate	Moderate	6/19/2019
HIPC	Malawi	Moderate	High	11/30/2018
HIPC	Mali	Moderate	Moderate	9/5/2019
HIPC	Niger	Moderate	Moderate	7/22/2019
HIPC	Togo	Moderate	High	7/2/2019
Non-HIPC	Kenya	Moderate	…	10/23/2018
Non-HIPC	Lesotho	Moderate	Moderate	4/30/2019
HIPC	Madagascar	Low	Moderate	8/1/2019
HIPC	Rwanda	Low	Low	7/3/2019
HIPC	Senegal	Low	Low	1/28/2019
HIPC	Tanzania	Low	…	1/16/2018
HIPC	Uganda	Low	Low	5/7/2019

Source: World Bank/IMF LIC DSA database. (As of 9/30/2019)

1/ As of September 30, 2019 and based on the most recently published data, 8 countries are in debt distress, 10 countries are at high risk, 14 countries are at moderate risk, and 5 countries are at low risk of debt distress.

2/ Debt Thresholds: Low risk (there are no breaches of thresholds); Moderate risk (when thresholds are breached in risk scenarios); High (when thresholds are breached in the baseline scenario); and in debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

3/ Poverty Reduction and Growth Trust (PRGT)-eligible IDA-blend countries.

6. Drivers of debt accumulation in SSA

Understanding the factors behind the recent debt acceleration is critically important for the discussion of effective strategies to ensure that debt accumulation is sustainable in the sense that borrowed funds yield the maximum positive impact on the economy, while the debtor countries are in a position to meet their debt obligations in the future. There is a vast literature on drivers of debt in developing countries that mushroomed especially in the aftermath of the debt crisis of the 1980s. This may inform the analysis of the drivers of the most recent debt acceleration in developing countries in general and in Africa in particular. The drivers of debt accumulation pertain to both internal and external factors and they include macroeconomic factors, sectoral factors (e.g., primary commodities), governance and institutional factors, and exogenous shocks. External factors include the 2008 global financial crisis, which led to fiscal balance deterioration for most countries as bilateral and multilateral flows declined, and the 2014 terms of trade shock, which led to an increase in current account deficits (AfDB, 2018; Battaile et al., 2015). Other external drivers include exchange rate depreciation (Battaile et al., 2015; Forslund et al., 2011; World Bank, 2018a), especially in commodity exporting countries due to the terms of trade shock, contributing also to an increase in debt servicing costs.

Rather than covering all potential factors behind the debt acceleration, this study focuses on the role of financing gaps, the urgency to finance higher growth and commodity price shocks. This does not mean that we underestimate the important of other factors. The choice is made for focusing attention on priority areas of attention in the discussion of strategies to confront the seemingly 'looming debt crisis' in a way that preserves the region's momentum in its progress towards reaching sustainable development goals.

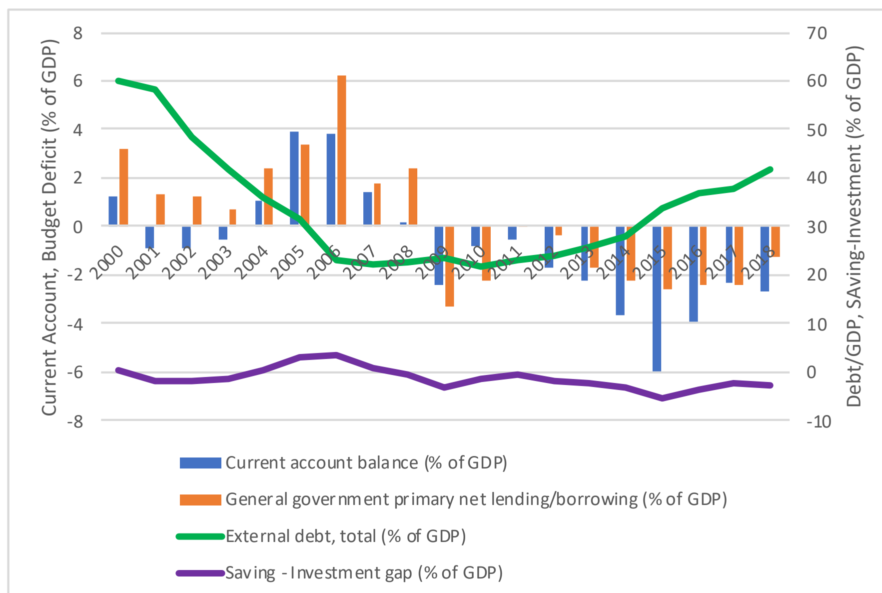
6.1 Financing gaps as drivers of debt accumulation

African governments have resorted to borrowing to fill the gaps between spending needs and available domestic resources. As such, debt acceleration has resulted from an increase in the gap between public expenditure and government revenue (the fiscal deficit), between inflows and outflows on the current account (the current account deficit), and the excess of investment demand over savings. In other words, behind the acceleration of debt is a story of widening financing gaps.

Indeed, the data supports this proposition. As can be seen on Figure 17, the trend of external debt in SSA has tracked that of major macroeconomic balances. In the early 2000s, and especially between 2004-2008, SSA was experiencing substantial surpluses on the current account and the government budget, as well as an excess of savings over investment. During that period, external debt stock declined steadily. These developments were due to the growth boom supported by rising commodity prices as well as improvements in macroeconomic conditions in resource-scarce countries.

Starting in 2009/2010, however, macroeconomic balances turned negative. The current account, the budget deficit, and the saving-investment gap deteriorated substantially. This coincided with the start of the acceleration of debt accumulation.

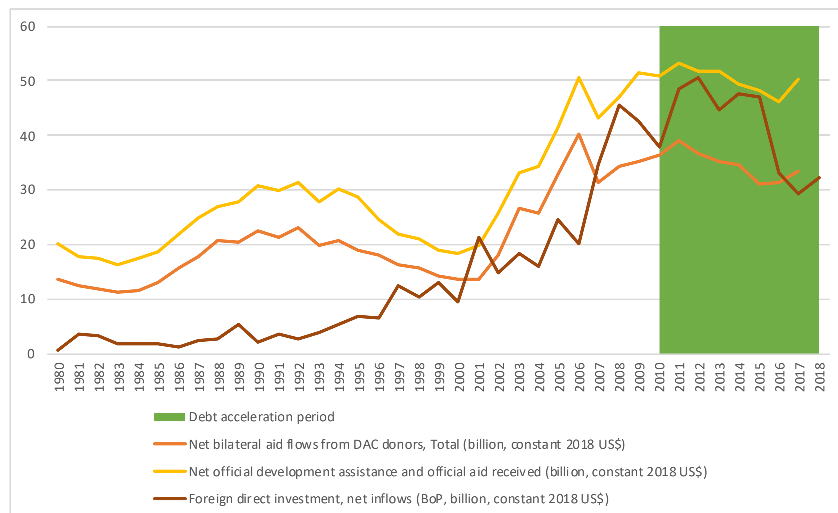
Figure 17: Financing gaps and debt in SSA, 2000-2018



Source: World Bank, World Development Indicators; International Debt Statistics.

The period of debt acceleration also witnessed a stagnation of foreign capital inflows to SSA, namely official development assistance (ODA) and foreign direct investment (FDI). Following a steady increase from 2000, ODA and FDI inflows stagnated starting in 2010 (Figure 18). ODA had increased from $18.5 billion in 2000 to $51 billion in 2010. It has stagnated since then, settling at $50 billion in 2017. As for FDI, it increased from $9.7 billion in 2000 to $50.7 billion, and then declined since then, down to $32 billion in 2018. The stagnation of official development assistance and foreign direct investment in the context of deepening macroeconomic deficits is a major factor of the acceleration of debt buildup since 2010.

Figure 18: ODA and FDI inflows into SSA, billion (constant 2018 US$)



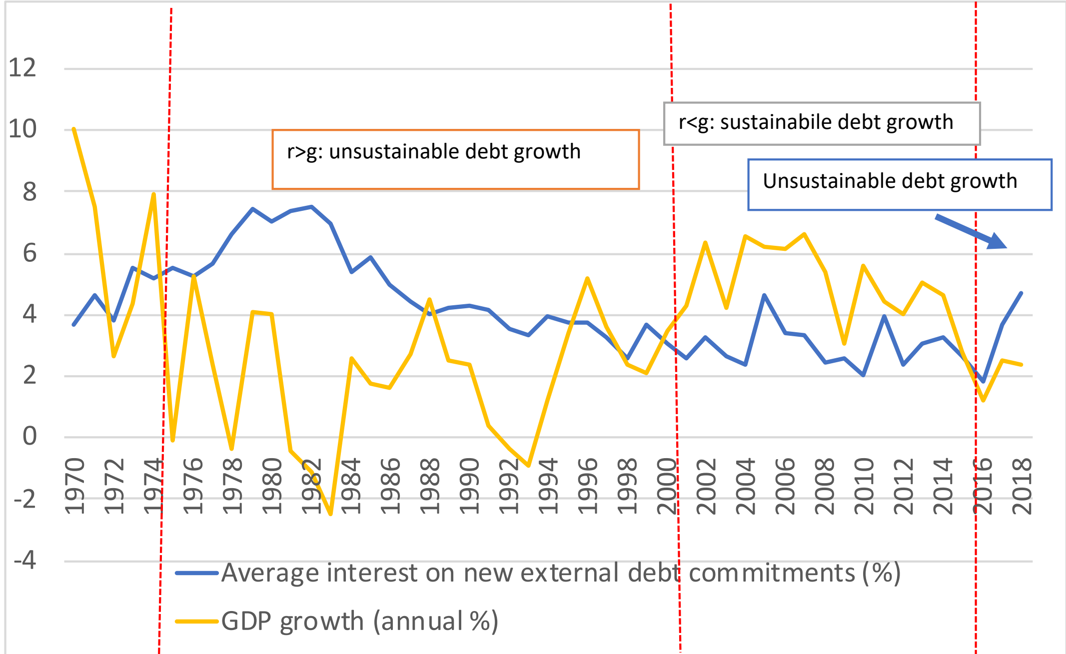
Source: World Bank, World Development Indicators.

6.2 Growth and interest rates

To the extent that debt is used to finance the expansion of productive capacity, it is expected that the resulting growth acceleration would enable the debtor country to sustain its debt payment obligations. In that sense, it is important to compare the cost of debt service to the rate of growth of income, which is the measure of debt service capacity besides export performance. The examination of the growth rate of national income or GDP and the interest rate on external debt is quite revealing in that perspective (Figure 19). During the 1980s and 1990s, the decades of debt distress, average GDP growth remained below the average interest rate on external debt. This implies that this period was an era of unsustainable debt growth. Since 2000, however, the average GDP growth rate has systematically exceeded the average interest rate on external debt, suggesting sustainable debt growth.

From 2015, however, the tide seems to be turning in the unfavorable direction again, with average interest rate exceeding GDP growth rate. This is particularly due to the increase in forms of debt which carry high interest rates such as Eurobonds and other non-concessional loans. Is this the beginning of another era of unsustainable debt buildup? This is a question that merits serious attention on the part of policy makers in SSA countries and their development partners.

Figure 19: GDP growth and interest rate on external debt



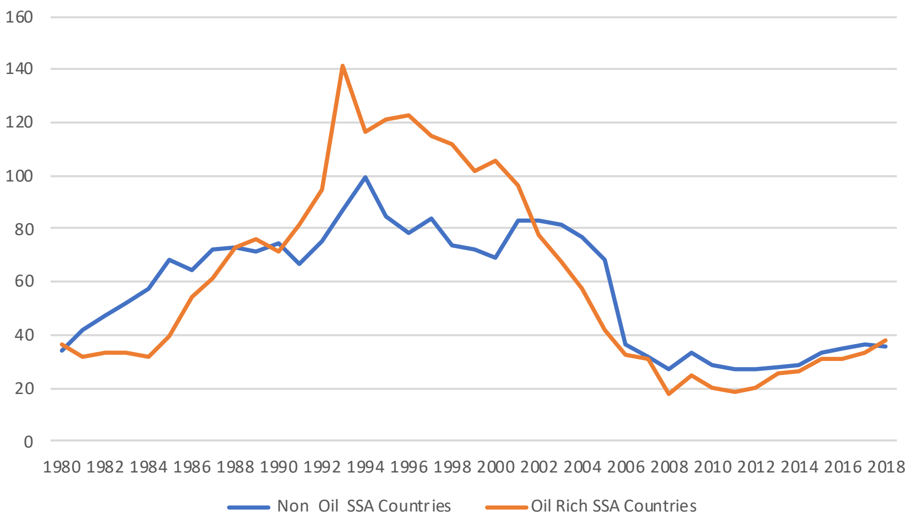
Source: World Bank, World Development Indicators; International Debt Statistics.

6.3 Commodity exports and international price shocks

Another important driver of debt accumulation is commodity market outcomes. For commodity exporters, periods of commodity booms are expected to be associated with a decline in debt accumulation given that resource exporters are able to finance their needs with export earnings while also building up their foreign exchange reserves. When commodity prices collapse, however, resource-dependent countries are forced to resort to borrowing to sustain domestic spending and cover their import needs. This correlation between export commodity prices and debt build up is likely to be stronger in countries that do not have an efficient resource rents management system where resource booms are associated with expenditure booms. This correlation is lower in countries that have efficient saving strategies which enable them to tap their savings (rather than borrowing) to absorb negative shocks on commodity export revenue in the event of a decline in prices. Few African countries have such effective management systems; we therefore expect to observe a strong correlation between commodity exports and external debt.

Looking at the case of oil-resource rich countries, it appears that the pattern of debt accumulation has been quite similar to that of non-oil countries over the recent period of debt acceleration (Figure 20). In fact the median ratio of external debt to GDP is nearly equal for the two groups of countries and it has followed the same path since the start of the debt acceleration period around 2010. It remains to be seen whether the recent drop in oil prices and the impact of the coronavirus pandemic will affect this pattern in the medium term.

Figure 20: External debt as percent of GDP in SSA, oil vs. non-oil countries, median



Source: World Bank, International Debt Statistics.

7. Implications of debt accumulation for the economy

7.1 Implications for the overall economy

High and accelerating levels of debt affect the economy through various channels, which may vary across countries. In general, excessive debt leads to debt overhang which can have a negative effect on the economy by discouraging domestic and foreign investments because the returns on such investments face a higher marginal tax rates (Krugman, 1989; Sachs and Warner, 1997). With the decline in capital accumulation, the immediate impact is slower economic growth with long-term implications for the standards of living. A growing debt-service burden increases government expenditures (interest payments on debt) and budget deficits, leading to an increase in long-term interest rates. This in turn crowds out private sector investment, which further retards growth (Kumar and Baldacci, 2010).

A number of studies have examined the relationship between external debt and growth in developing countries. In particular, Pattillo et al. (2002) found that the average impact of debt on per capita growth turns negative from about 35 to 40 percent of GDP or 160 to 170 percent of exports and the marginal impact of debt at about half of these values (Pattillo and Ricci, 2011). Similarly, Cordella et al. (2010) found that for countries with bad policies and institutions, the level of debt burden at which the effects of debt on growth is negative is much lower, from about 10 to 15 percent of GDP.

Wamboye and Tochkov (2015) examined the impact of external debt and debt service on labor productivity growth and convergence in SSA before and after the adoption of the debt relief initiatives. Their findings suggest that external debt has a negative effect on labor productivity growth.

The type of creditor also matters for the impact of debt on GDP and gross fixed capital formation. Using data on Nigeria over the period from 1981 to 2004, Adesola (2009) found that debt payment to Paris club creditors and debt payment to promissory notes holders is positively related to GDP and gross fixed capital formation, while debt payment to London club creditors and other creditors (Non-Paris creditors) has a negative and significant relation to GDP and gross fixed capital formation.

7.2 Implications for tax and government expenditure

The recent acceleration of debt buildup in SSA countries has raised concerns about its implications for public expenditures, and it has further underscored the challenges faced by these countries in domestic resource mobilization. The rising debt service obligations force countries to raise more government revenue, while also increasing pressure for cutting public expenditures to meet debt service commitments. Such expenditure switching is a hindrance to the efforts by African countries to accelerate growth, reduce poverty and meet their sustainable development goals.

While the evidence on SSA show that governments tend to respond to rising debt ratios by adjusting primary surplus targets (Mahdavi, 2004; Mello, 2008), attaining fiscal consolidation, while necessary, should not come at the expense of capital expenditures (AfDB, 2018). For example, in the case of Angola, fiscal consolidation has been attained at the expense of capital expenditures (AfDB, 2018). Evidence in the literature suggests that binding debt service reduces public spending in the social sector (Fosu, 2007, 2010). In the case of MENA and SSA countries, Mahdavi (2004) found that the debt burden tends to change the composition of spending in favor of interest payments, with the share of public capital expenditure category falling in the cases of MENA and SSA countries, while the debt burden is associated with higher wage bills in the SSA sample.

There is a concern that by forcing cuts in public expenditures, rising debt obligations undermine the poverty reduction agenda and reduces infrastructure investment (AfDB, 2018). Cuts in public capital expenditures undermine the economy's productive capacity and compromise long-term economic growth and progress towards sustainable development goals (Mahdavi, 2004).

Rapid debt accumulation in SSA has not kept pace with tax revenue mobilization efforts. Tax revenues increased by 2.3 percent in absolute terms between 2006 and 2016, and the average tax to GDP in SSA is much lower than the optimal threshold required to finance development (AfDB, 2018). It is estimated that the 'tax gap' (the difference between potential and actual tax/GDP ratio) is about 3-5 percent of GDP. However, there is substantial heterogeneity in tax revenue to GDP ratios, ranging from single digits in Nigeria to over 50% in Lesotho (AfDB, 2018). Despite tax reforms, significant challenges remain, including weak tax and custom administration, low taxpayer morale, poor governance, prevalence of hard-to-tax sectors (large informal sector) and the difficulty in designing and implementing transparent fiscal regimes (AfDB, 2018). The strategy for the near term that balances the rising need for financing while controlling indebtedness must include measures to strengthen governance around tax revenue mobilization (Coulibaly, 2018).

8. The Critical Role of Public Debt Management

This section discusses issues related to the management of public debt and the role of the institutions and macroeconomic policy coordination for debt sustainability. It underscores the joint responsibility of lenders and borrowers for debt sustainability and in maximizing the development gains from external borrowing. Country illustrations on public debt management for the cases of Ghana, Kenya and Uganda are presented in Section 9 and in Appendix C.

Debt crisis and the role of solid institutions and sound macroeconomic policies

The evidence presented in this report indicates clearly that African countries are facing a tangible risk of unsustainable debt accumulation. This calls for urgent reflection on the appropriate institutional framework and policies needed to both reduce the risk of a debt crisis and support a robust recovery after the crisis. The current Covid-19 crisis and its potential dramatic effects on African economies has further amplified the importance of sound institutions and policies to both absorb the shocks and position the economies for robust recovery in the post-crisis period.

To set the stage, a reference to past financial crises is helpful, focusing on the most recent crisis. In the wake of the 2008 global economic and financial crisis, it was demonstrated that countries that had established strong macroeconomic fundamentals in general, and low debt levels and sound debt management frameworks in particular, exhibited more resilience and experienced milder effects of the crisis. In a detailed analysis of the case of middle-income countries, a report by the World Bank found that the impact of the global crisis was milder than previous crises because of their much stronger position before the crisis (Braga and Vincelette, 2011). The report found that "a virtuous circle of improved macroeconomic fundamentals, reduced public debt levels, and more effective management of risk in public debt portfolios provided most countries with the resilience to ride out the crisis and adjust borrowing plans to cope with adverse market conditions" (Anderson et al., 2011, p. 383).

Key factors of preparedness to the crisis included: strong GDP growth, improved fiscal accounts with positive primary budget balances, monetary policy credibility anchoring low and stable inflation, low and stable interest rates, stable and competitive exchange rates, and high stocks of foreign exchange reserves.

Along with these macroeconomic fundamentals, a critical factor of resilience to economic crisis is sound public debt management, notably in preventing unsustainable debt accumulation in the period leading up to economic crises. The expected objective of public debt management (PDM) in developing and emerging countries is "to ensure that the government meets its borrowing requirements at the least cost within an acceptable degree of risk, and meets any other pre-set PDM goals, such as developing and maintaining an efficient market for government securities" (IMF and World Bank, 2007, p. 40). Another important factor is effective macroeconomic policy coordination: "While debt management operations and monetary policy operations should be distinct, inter-policy dependencies, in particular on interest rates, must be understood and shared. The results of close coordination between debt management, fiscal and monetary policies

underpins a sound macro framework, resulting in lower risk premia in the economy"(IMF and World Bank, 2007, p. 40).

There is a large body of empirical literature on the role of sound macroeconomic policies and institutions for debt sustainability. Reinhart et al. (2003) established that bad debt payment history and weak policy influence market perceptions of the country's likelihood of debt default, thus raising the cost of external borrowing. Kraay and Nehru (2006) found that sound policies and institutions matter for low-income countries more than middle-income countries. They concluded that good policies enable a country to sustain higher levels of debt. Jalles (2011) confirmed this finding specifically by looking at the role of corruption. He found that countries with low corruption manage debt better and that the negative effects of debt on growth materialize at much higher levels of debt.

There are many reasons why the quality of institutions, governance in general, and corruption particular would matter for debt. One channel is through the fact that corruption raises the discount rate of future national wellbeing, thus increasing the incentives for unsustainable borrowing. Another channel is through corrupt management of borrowed funds. Under corrupt regimes, loans are allocated to low-return projects, which compromises the country's capacity to repay the loans, thus making further borrowing indispensable to roll-over past debts. Note that inefficient allocation of borrowed funds may also be a result of simple incompetence. Corruption also enables the 'revolving door' whereby external loans finance capital fligh; a phenomenon referred to as 'debt-fueled capital flight' which is strongly established in the empirical literature (Ndikumana and Boyce, 2003, 2011b; Ndikumana et al., 2015). Clearly, for African countries, and developing countries in general, establishing strong institutions and robust governance frameworks is indispensable for ensuring debt sustainability, maximizing the benefits from external borrowing, and minimizing the risks of debt crises.

Public debt management

The linkages between the macroeconomic policy environment, governance and institutions on the one hand, and debt accumulation and debt sustainability on the other hand, has traditionally motivated and has now reinvigorated the debate on sound public debt management (PDM) frameworks as a means to both minimize the risks of a debt crisis and for positioning developing countries to be resilient to exogenous shocks such as the global financial crisis (Braga and Vincelette, 2011; IMF and World Bank, 2007) and the current double health-economic crisis caused by the COVID-19 virus. What is effective public debt management? According to the World Bank, "Effective debt management covers such issues as ensuring effective policies and procedures for undertaking borrowings through external and domestic markets; designing and implementing a medium-term debt management strategy; and putting in place effective systems for administration, analysis, and reporting of debt data" (World Bank, 2009a, 2009b).

The effectiveness of PDM can be assessed using an established evaluation framework, the Debt Management Performance Assessment (DeMPA)[18], comprising fifteen specific dimensions that

[18] See World Bank, https://www.worldbank.org/en/programs/debt-toolkit/dempa. The dimensions are: the legal framework; managerial structure; debt management strategy; evolution of debt management operations; debt

can be scored at a given time in a country. These scores enable analysis of the evolution of the quality of PDM over time within a country as well as comparisons across countries.

In the case of African countries – similar to other developing countries, there are common weaknesses and deficiencies of the PDM frameworks that hamper effective public debt management. The most problematic ones include (UNCTAD, 2020; Weist et al., 2011):

- Ineffective coordination between macroeconomic policies and public debt management, and between monetary policy and fiscal policy.
- Inefficient debt recording and reporting; in particular, lack of transparency and regularity in debt reporting.
- Ineffective cash management. Oftentimes, disparate government accounts are held with little coordination, to the point where governments need to borrow while some of their accounts are flush with cash;
- Ineffective debt portfolio management, especially in terms of risk-cost tradeoffs associated with the balance between domestic debt and external debt. While domestic debt has lower risk (no currency risk), it carries higher costs (higher interest rate). The recent trend in Africa towards increasing share of non-concessional borrowing implies rising risks of debt crisis in the event of a global crisis such as the current COVID-19 crisis.
- Inadequate human and technological capacity for public debt management. This is a result of inadequate specialized training, exacerbated by 'flight' of experts from the public sector toward the private sector and multinational institutions.
- Weak medium-term debt management strategies (MTDS): MTDS are critical for providing a forward-looking perspective in public debt management, integrating PDM with the national macroeconomic policy framework and providing a framework for management of trade-offs between costs and risks in decisions regarding or affecting the composition of the public debt portfolio. Weakness of the MTDS therefore undermines the overall goal of effective and sustainable mobilization of public resources to finance economic development.

These weaknesses of the PDM frameworks in African countries (as in developing countries in general) merit urgent attention in light of the recent acceleration of public debt in the continent, and this need is exacerbated by the expected damaging effects of the current coronavirus crisis.

Public debt management as a shared responsibility: Responsible lending and borrowing

Managing public debt to achieve desired development objectives while preserving the interests of both the borrowing countries and the creditors is a shared responsibility of both parties – lenders and borrowers. This is at the heart of the motivation for the UNCTAD-sponsored principles on promoting responsible sovereign lending and borrowing (UNCTAD, 2012, p. 4):

audit; coordination with fiscal policy; coordination with monetary policy; domestic borrowing; external borrowing; loan guarantees, on lending derivatives; cash flow forecasting and cash balance management; debt administration and data security; segregation of duties, staff capacity, and business continuity planning; debt records; debt reporting.

> Sovereign lending and borrowing are intrinsically linked to the feasibility of the Millennium Development Goals. Each side of a sovereign lending transaction – the borrower and the lender – is accountable for its own conduct in these transactions. Neither side can wholly shift to the other the duty of ensuring that the agreement is economically beneficial, financially sound, legally authorized, appropriately documented and carefully monitored.

The 2020 report of the Inter-Agency Task Force on Financing for Development underscored this expectation and requirement clearly (UNCTAD, 2020, p. 127):

> Effective debt management is essential to mitigating risks… Despite some progress, debt management capacity and transparency need to be continually enhanced in light of the growing complexity of the creditor landscape and debt instruments. While the primary responsibility for debt transparency lies with debtors, creditors share the responsibility for making the terms and conditions of lending public, straightforward, and easy to track. To help borrowers avoid debt traps, official creditors should pay appropriate attention to not adversely affect debt sustainability in borrower countries, including by providing financing on more concessional terms and ensuring that lending practices are fully in line with sustainable, responsible financing practices.

The notion of responsible sovereign lending and borrowing has been promoted by the United Nations for quite some time, including through high-level debates on the topic at the United Nations General Assembly. In 2009, the UNCTAD launched an initiative to mobilize broad international debate with the goal of coming up with some commonly accepted principles. The principles are meant to guide the behavior and actions of both borrowers and lenders, and they are inspired by national and international laws, as well as various global conventions on development financing. The 15 principles are summarized in Table A4 in Appendix A.

While the establishment of these principles was an important step in the right direction, the main challenge remains their implementation and enforcement of compliance with the principles by all stakeholders. First, from a legal perspective, a major challenge is the lack of a global institution endowed with enforcement authority and capacity to ensure compliance by both parties to debt contracts. Adherence to the principles is voluntary; therefore, there is no binding obligation for any borrower or lender to follow the principles.

Secondly, traditionally the burden of appropriate behavior in managing public debt has rested on the shoulders of the borrower governments. Creditor governments and institutions typically incur no penalty for failing to diligently follow the principles of responsible lending. This asymmetry of responsibility undermines strategies which otherwise could substantially serve to achieve effectiveness in debt management and help maximize the developmental impact of external borrowing.

To illustrate this point, consider the problem of mismanagement of borrowed funds that end up financing accumulation of private offshore wealth, or 'debt-fueled capital flight.' On the part of borrowers, Principle #10 – Transparency – if enforced properly, can be an important tool to minimize leakages of funds through enhanced accountability in public debt management.

However, for efforts on the borrower side to be effective, lenders also have the responsibility to ensure that the funds borrowed are properly utilized for the declared purpose by the legitimate authority (Principle #13) and to ensure that there is sufficient evidence that the loans will be used in such a way that there is a high chance that the loans will be repaid (Principle #4). *Ex post*, it is desirable for both lenders and borrowers to audit the management and use of external debt. On the lender side, Norway has led the way in enacting a national law mandating audit of government lending to developing countries. Broader adherence to this best practice by other lenders would serve as a credible signal of genuine commitment to transparency and effective development financing by the lender/donor community.

The international donor community can play an important role in assisting African countries to improve public debt management through, among others, technical assistance. In fact this was an important element of the assistance in the context of the HIPC initiative. Technical assistance in debt management involves three downstream activities: database operations and recording, statistics and reporting, and some basic analysis. Downstream support are provided by UNCTAD and the Commonwealth Secretariat. Upstream activities include DSAs and debt strategy development and implementation and are provided by the IMF and World Bank. A review of indicators of the quality of debt management reveal significant weaknesses in the following areas:[19] audit, data security, the use of risk management instruments, loan reporting, staff capacity and strategy development. There is a need for coordination among international donor community in technical assistance in PDM to improve debt management capacity, with the focus being on specific identified gaps in a given country's PDM architecture.

9. Country Case Illustrations

In this section we present the cases of Ghana, Kenya, and Uganda to illustrate the issues discussed in this study, notably the trends and patterns of debt accumulation, the drivers, and the debt management strategies adopted by these countries. Illustrations of the issues of debt in the public enterprises sector was provided for the case of South Africa earlier in Section 4.

9.1 The Case of Ghana

Background

Following the sluggish performance during the 1990s, Ghana recorded higher growth since the turn of the century with a commendable annual average of 4.4 percent from 2010 to 2018. GDP growth for 2019 is projected to be close to the target of 7.0 percent[20]. The rebasing of the economy in 2010, coupled with the steady growth in GDP, led to Ghana's classification by the World Bank as a lower-middle-income country by July 1, 2011(World Bank, 2011). Per capita GDP has

[19] See Cassimon et al. (2015)

[20] Latest Bank of Ghana Monetary Policy Press Release (January 2020).

increased from an average of US$874.3 in the 1990s to an average of US$1,593.8 over the 2010-2018 period.

Prudential monetary policies implemented by the Bank of Ghana since 2017 has led to the anchoring of CPI inflation expectations at stable levels. Consumer price inflation declined to 7.9% in December 2019 from 9.8% recorded in 2018 (Bank of Ghana data), thanks in part to lower food prices and stable non-food prices.

The country recorded substantial progress in social and economic development, with the number of people in poverty dropping from an average of 71 percent during the 1990s to 31.5 percent over 2010-2018. There have been notable gains in education, partly due to a steady increase in government expenditure, from 4.1 percent of GDP in the 1990s to 6 percent during the 2000-2009 and 5.4% over 2010 – 2018. There have been modest gains in health over the last three decades, with the under-5 mortality rate (per 1,000 live births) declining from 115 in the 1990s to 58 over the 2010 - 2018 period. Health expenditure as a percent of GDP has increased from an average of 5.2 percent during the 1990s to 5.7 percent over the 2010 – 2018 period (Table 1). At the current 5.7 percent of health expenditure to GDP, Ghana outperforms the average for the lower-middle-income group of countries, which was about 3.9 percent as of 2016.

Ghana's unemployment rate witnessed a dramatic decline from its level of 10.4 percent in 2000 to 4.6 percent in 2007.[21] At the start of the financial crisis in 2008, unemployment remained at a reasonable rate of 4.7 percent. However, the unemployment rate began a steady rise from 4.7 percent in 2008 and has remained around 7 percent since 2013 (WDI).

Debt is rising again in Ghana

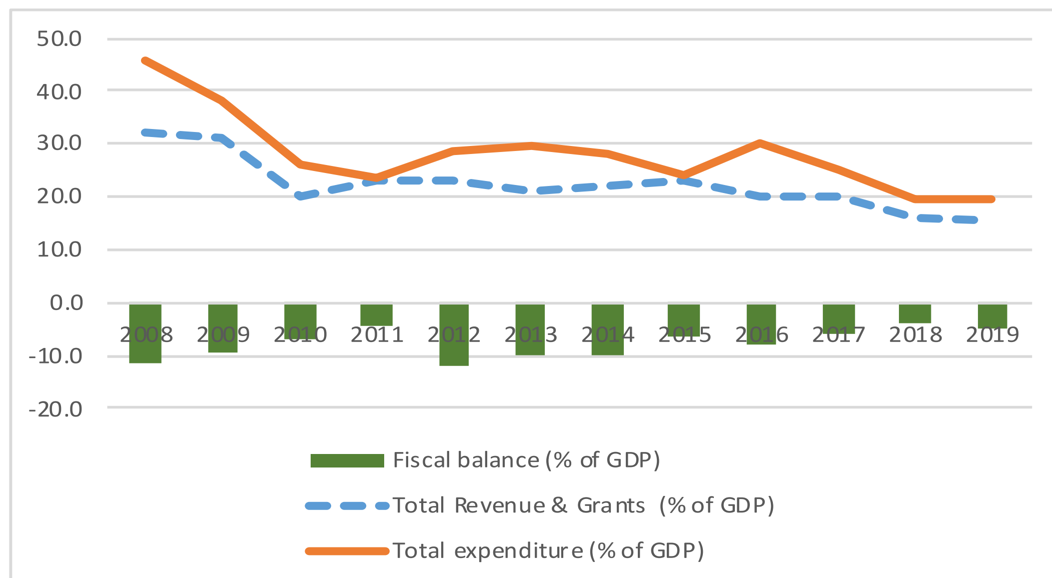
Trend in total debt

The overall positive performance over the past decade is threatened by rapidly rising levels of public debt.[22] This is partly driven by persistent budget deficits forcing the government to resort to increasing volumes of domestic and external borrowing. Government revenue has systematically failed to keep pace with expenditures, resulting in steady fiscal deficits (Figure 21).

[21] The unemployment rates are the modeled estimate sources from the International Labor Organization (ILO), ILOSTAT database and reported in the World Bank Online Database.

[22] See Box 1 in the Appendix for a summary of the institutional framework for debt management in Ghana.

Figure 21. Ghana: Fiscal performance: 2008-2019

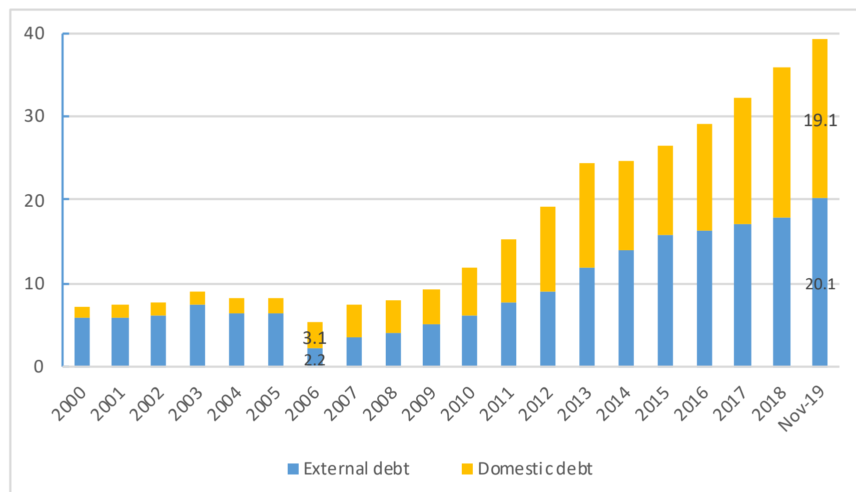


Source: Ghana Ministry of Finance database

The persistent fiscal deficits, due to government revenue shortfalls, have led to years of debt accumulation and rising debt servicing cost. The HIPC and the MDRI programs enabled the government of Ghana to reduce the country's debt stock from 2000 to 2006. The overall amount of debt reduction from the HIPC initiative and MDRI were US$3.7billion and US$3.5billion, respectively (Ministry of Finance). This freed up resources to support economic programs to facilitate poverty reduction and stimulate growth, through increased investment and employment creation.

The borrowing and fiscal space created by the debt relief package from the HIPC and MDRI programs has also been exploited vigorously by the government, leading to a rapid increase in the public debt (Figure 22). Ghana's total public debt rose sharply to US$39.2 billion in November 2019, representing 62.1 percent of GDP, compared with the US$35.9 billion (57.9 percent of GDP) recorded in November 2018 (Bank of Ghana database).

Figure 22. Ghana's public debt: 2000–2019 (US$, billion)



Source: Ministry of Finance and Bank of Ghana

The overall rate of debt accumulation in 2018 was 21.4 percent, compared with 16.6 percent during the same period in 2017. The sharp growth in domestic debt, driven significantly by the costs of the financial sector clean-up, accounts for the recent growth in Ghana's total public debt stock. The Ministry of Finance reports that the rate of debt accumulation without the financial bailout was 14.5 percent (Ministry of Finance, 2018).

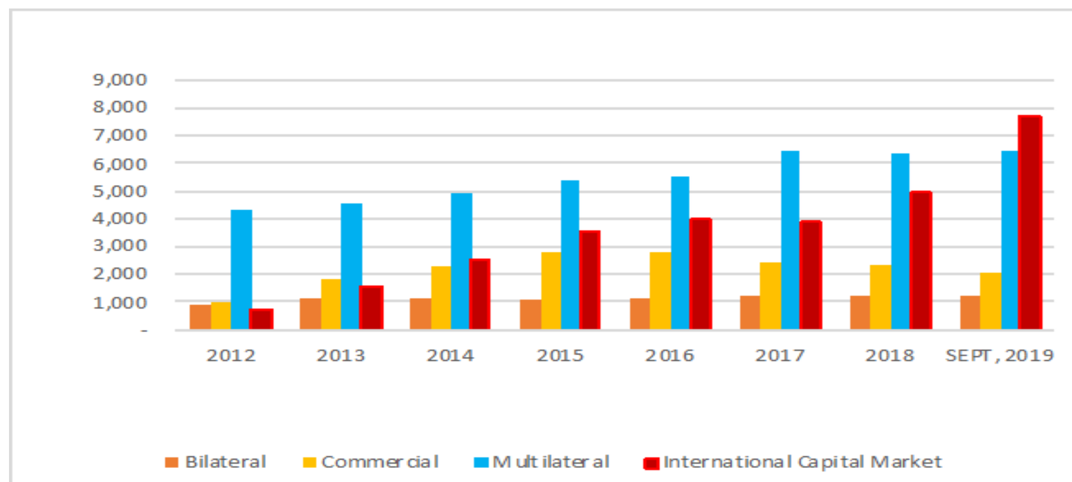
External debt

Following the debt relief package from the HIPC and MDRI programs, the share of external debt in total public debt declined to 41 percent in 2006. Beginning in 2008, the share of external debt in total public debt has fluctuated within the 50 percent to 60 percent band, reaching 60 percent and 52 percent in 2015 and November 2019, respectively. Total external debt amounted to US$20.3 billion in November 2019 (32.4 percent of GDP), compared with US$18 billion (28.7 percent of GDP) in November 2018 (Bank of Ghana, 2020).

The middle-income status attained by Ghana in 2010 has reduced Ghana's access to concessional loans, forcing Ghana to diversify away from traditional creditors – multilateral and bilateral creditors – towards commercial creditors (Figure 23). Since 2007, Ghana has raised a total of US$11.9 billion[23] from international capital markets. As of September 2019, US$7.7 billion of this amount remains outstanding, compared with US$4.9 billion as of the end of 2018 end-year level.

[23] The amount $11.9 billion includes the US$3 billion Eurobond issued in February 2020.

Figure 23. Ghana: External debt by creditor category (US$, million)



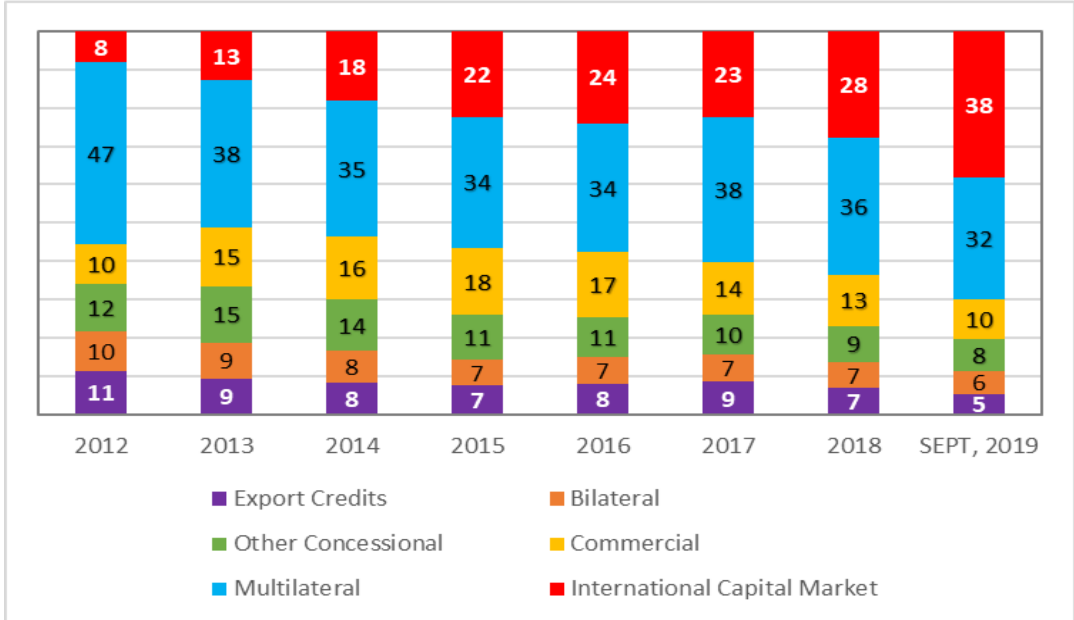
Source: Ministry of Finance and Bank of Ghana

According to the government, the funds generated from the international capital market, in addition to the loans from other new bilateral lenders including China, Kuwait, South Korea, and Brazil, have been used to finance infrastructure and to refinance maturing debt, in particular, short-term domestic debt, a form of debt-juggling.

The Medium-Term Debt Strategy Framework of the government is to replace the high cost maturing short-term domestic debt with longer maturity external debt. The return to the international capital market in 2020[24], where $750 million is being raised at 41-year maturity, is in line with this strategy. As a result, the share of Eurobonds has gradually increased from 8 percent in 2012 to 38 percent in September 2019 (Figure 24).

[24] Ghana raised $3 billion in a Eurobond auction on February 4, 2020, that the government said was five times oversubscribed. It sold $1.25 billion in seven-year bonds at a coupon of 6.375 percent, as well as $1 billion in 15-year bonds with a coupon of 7.875 percent and $750 million in 41-year paper with a coupon of 8.875 percent (the longest-dated Eurobond ever issued by a SSA government). Source: Bloomberg.

Figure 24: Ghana: External debt by creditor category (percentage of total)



Source: Ministry of Finance and Bank of Ghana

The increasing appetite for private longer-maturity external debt exposes the country to higher foreign exchange risks, given the uncertainties which characterize global financial markets. To mitigate this risk and to bring debt to sustainable levels, the government plans to place annual ceilings on contracting or guaranteeing of non-concessional external debt for projects for which concessional financing is not available.

Domestic Debt

Domestic debt stood at US$18.7 billion in November 2019, representing 29.8 percent of GDP, and 47.9 percent of total public debt.[25] The high share of domestic debt in the total public debt stock was driven significantly by the costs of the financial sector clean-up[26].

In terms of maturity, there has been a gradual decline in the share of short-term debt in the total domestic debt stock, reaching 17.9 percent in September 2019 from a high of 45 percent in 2015. Medium-term debt is on a gradual rise, reaching 61.8 percent in September 2019 from 29.6 percent in 2015 (Figure 25). Long-term debt has remained stable at around 25 percent since 2010. The decline in short-term debt and the current rise in the share of medium-term debt should ease the

[25] Of the total debt stock, about US$2 billion (3.1 percent of GDP) represented bonds (Financial Sector Resolution Bond) issued to protect depositors funds.

[26] The financial sector clean-up in Ghana has involved a recapitalization of the industry and enhanced safeguards for depositors' funds. This development follows the revocation of the licenses of 9 insolvent universal banks, 347 microfinance companies, 39 microcredit companies, 15 savings and loans companies, eight finance house companies, and two non-bank institutions by the central bank of Ghana (Bank of Ghana). The 2019 mid-year budget review by the Ministry of Finance (MoF) estimates the cost of the financial sector clean-up to Ghanaian taxpayers to be at least U.S. $3 billion, equivalent to 4.6 percent of Ghana's GDP (Ghana Ministry of Finance, 2019).

pressure on debt service. The central bank and commercial banks represent the dominant holders of domestic debt; however, their combined share has declined significantly from 67 percent in 2009 to 39 percent in September 2019 (Figure 26).

Figure 25: Ghana: Maturity profile of domestic debt (% total)

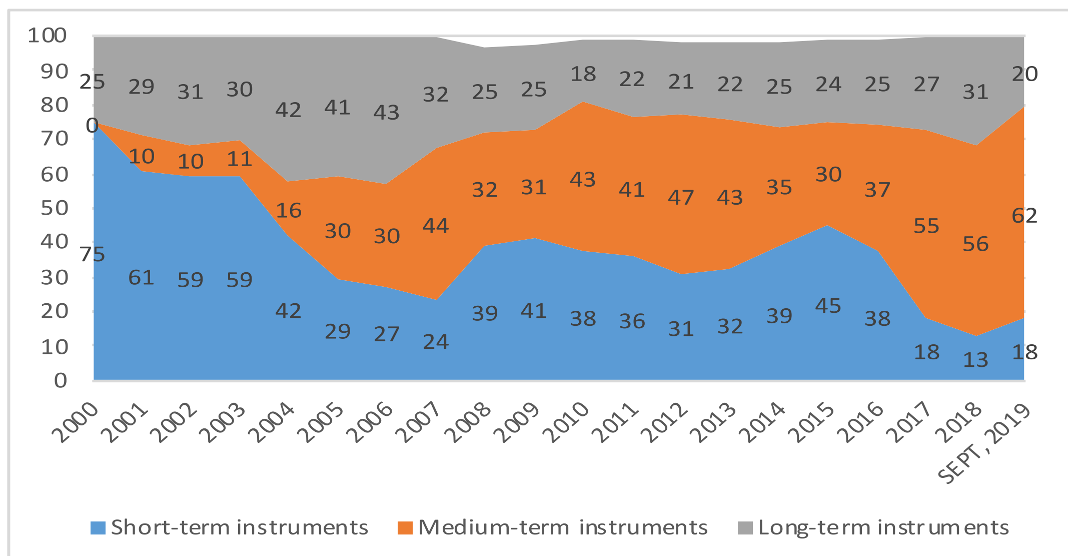
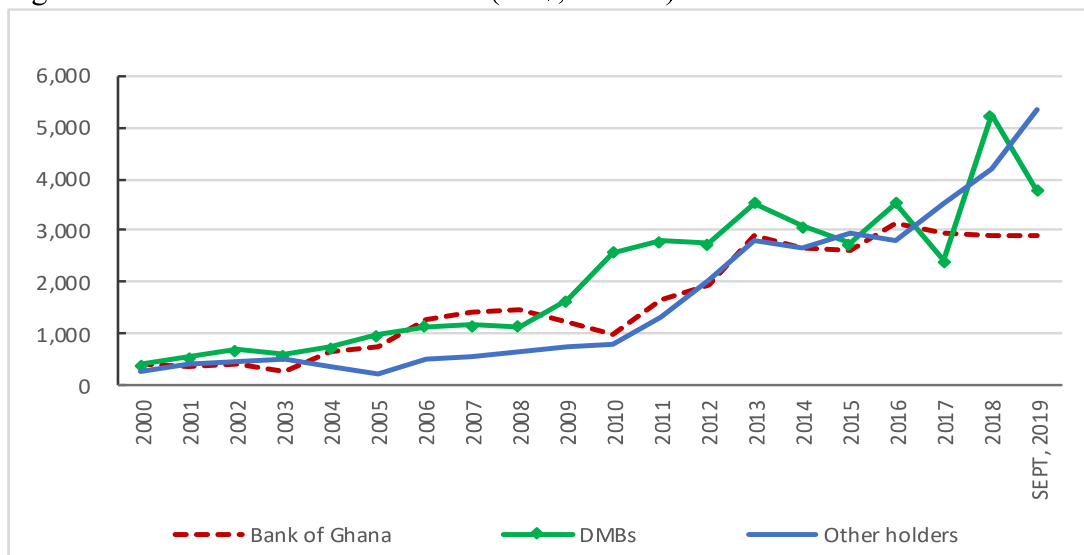


Figure 26. Holders of Domestic Debt (US$, million)[27]



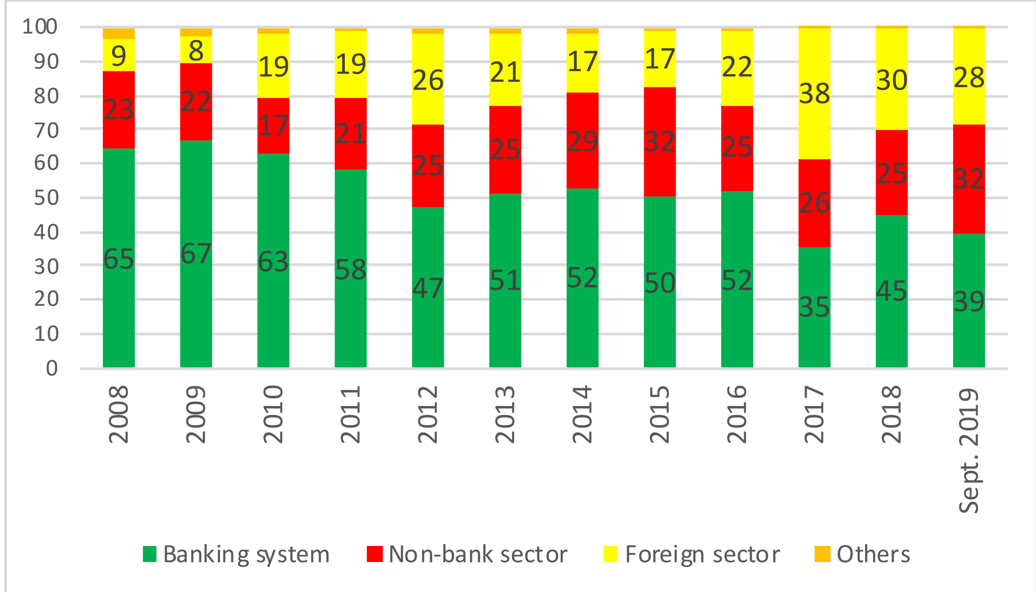
Source: Ministry of Finance and Bank of Ghana
Note: DMBs =Deposit Money Banks

The share of the foreign sector in total domestic debt, which increased sharply from 8 percent in 2009 to 38 percent in 2017, has declined to 28 percent in September 2019 (Figure 26). Similar to

[27] Figure 26: Other holders include the public and the foreign sector. Figure 27: Others include the public (domestic).

the development in external debt, the high share of the foreign sector in domestic debt follows the appetite for higher yields in the low global interest rate environment. In line with these developments, the relative share of the non-bank sector has increased significantly from 25 percent in December 2018 to 32 percent in September 2019.

Figure 27. Ghana: Domestic debt by creditor (percentage of total)



Source: Ministry of Finance and Bank of Ghana

Deposit money banks hold the majority of the banking system's holding of domestic debt with 56 percent in September 2019 (Ministry of Finance and Bank of Ghana databases). Among non-bank creditors, the share of Social Security and National Insurance Trusts (SSNIT) declined from a peak of 23 percent in 2008 to just one percent by September 2019. The share of insurance companies' holdings of domestic debt has also declined from a peak of 6 percent in 2004 to 2 percent in September 2019. The public now holds 97 percent of domestic debt held by the non-bank sector.

Contingent Liabilities[28]

The Ministry of Finance has taken giant steps to recover all *on-lent facilities* owed to the government. The total outstanding debt on-lent to various public entities at end-December 2018 amounted to GH¢14,867.4 million (equivalent to US$3,083 million), out of which an amount of GH¢4.4 million (equivalent to US$0.91 million) was recovered under existing on-lent facilities (MoF, 2018).

There is an important issue with *defunct loans on government's books*. Some financial assistance to the private sector and some SOEs via on-lending arrangements have not fully been paid back despite efforts by the Ministry of Finance and the Controller and Accountant General's Department (CAGD) to recover them. The expensive recovery efforts put a strain on the government's limited

[28] The financial sector bailout is considered part of contingent liabilities.

resources when compared with the amounts recovered. As a result, the MoF, following the lead of the CAGD, has requested Cabinet and the Parliament for approval to write-off an amount of GH¢379.6 million (equivalent to US$79 million) loan receivable balances deemed non-recoverable[29].

The *outstanding stock of government guarantees* as at end-December 2018 amounted to about US$487 million (Table A8). According to the Ministry of Finance, there were no new issuances of guarantees for 2018. To prevent future potential risks incurred by the government in extending guarantees to entities, the Ministry has strengthened its credit risk assessment framework (MoF, 2018).

Currently, contingent liabilities have arisen out of two *public-private partnerships* (PPPs) projects because of contract termination and contract renegotiation. These projects are: University of Ghana/Africa Integras Project, with a contingent liability of US$42.0 million; and the Teshie Nungua Desalination Project, with a contingent liability of US$130.0 million.

Energy sector bonds

As part of government's effort to deal with the energy sector debts owed by utility and downstream petroleum service providers to banks and trade creditors, E.S.L.A. Plc was incorporated in September 2017 as an independent special purpose vehicle to, among other things, issue debt securities to refinance the Energy Sector Debt (Ghana Ministry of Finance, 2018). In conjunction with the Ministry of Finance, E.S.L.A. Plc successfully issued one of the biggest local currency corporate bonds in October 2017 (Ministry of Finance, 2018): a 7-year bond (value of US$545 million) and a 10-year bond (value of US$538 million) at coupon rates of 19.0 percent and 19.5 percent, respectively. Tap-ins (re-opening) on the 10-year bond in 2018 increased the bond value by an additional US$199 million. The outstanding debt stock for the ESLA 7-year and 10-year bonds (face value) stood at US$1,174.7 million at the end of December 2018 (Ministry of Finance, 2018). Domestic investors held 98.5 percent of the total outstanding amount.

Debt service

Debt service cost increased substantially to US$2.5 billion (4.0 percent of GDP) in 2018 from US$1.7 billion (3.0 percent of GDP) a year earlier, representing a 45% increase (Figure 28). The increase in interest costs means a reduction in the provision of public goods and services, and this is very problematic, especially if the debt is for financing recurrent expenditures (Institute of Economic Affairs, 2015).

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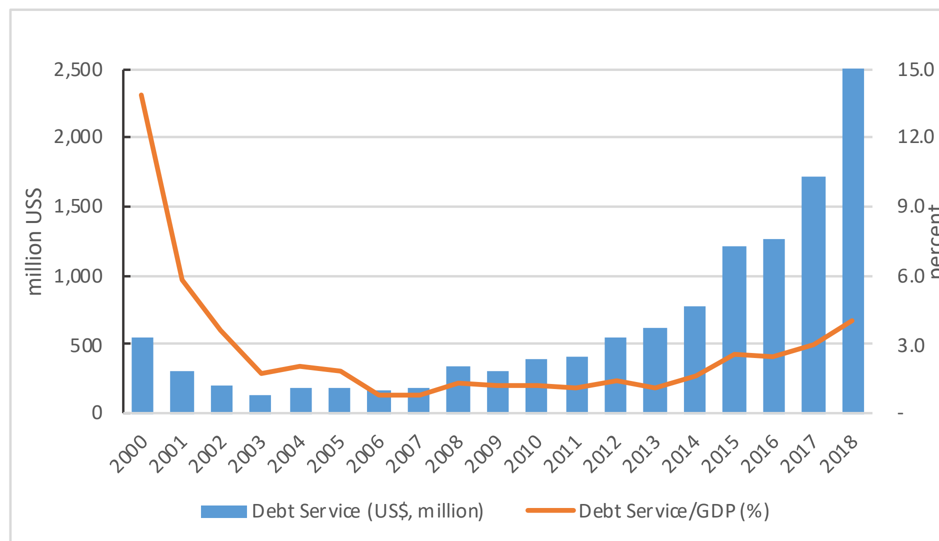
[29] List of these loans is detailed in Appendices 5A and 5B of the 2018 Annual Public Debt Report of the Ministry.

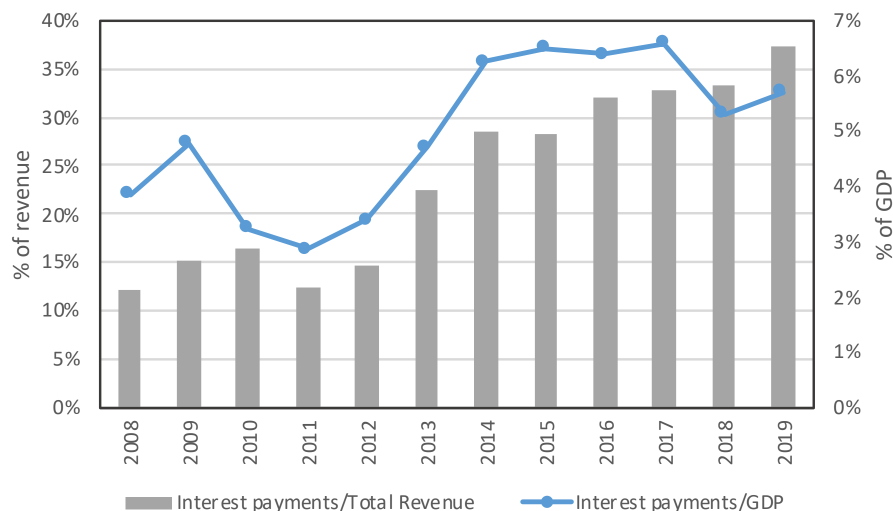
Figure 28. Debt Service in Ghana



Source: Bank of Ghana

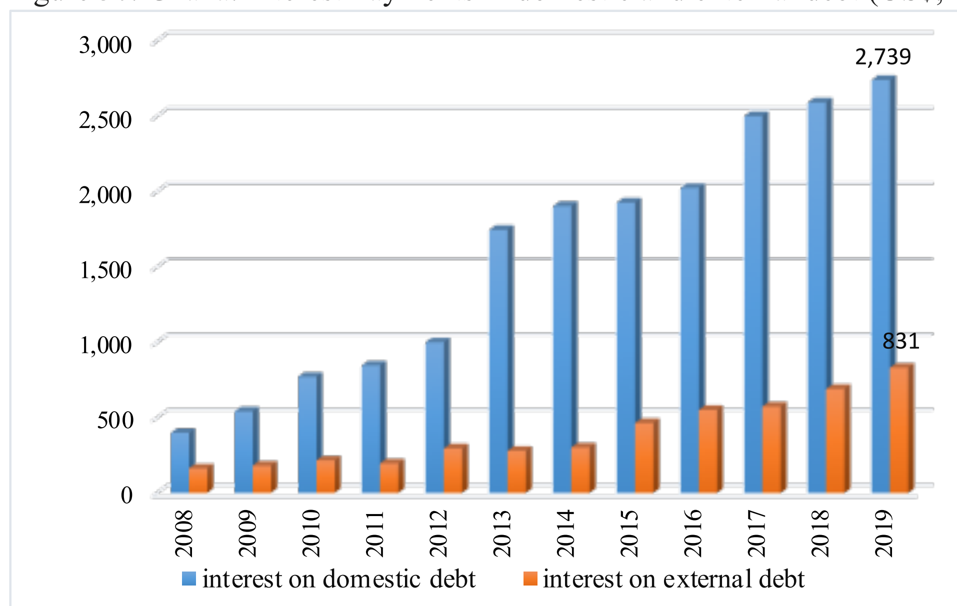
An important driver of the debt burden acceleration over recent years has been a rapid increase in interest payments. Interest payments have increased substantially as a share of government revenue as well as a ratio to GDP (Figure 29). The interest payment to revenue ratio tripled from 12.9 percent to 37 percent between 2011 to 2019, while the ratio of interest payment to GDP doubled from 3 percent to 6 percent during the same period. The key driver in the increase in interest payments is the domestic debt component of total debt. Interest payments on domestic debt represent over 70 percent of total interest payments (77 percent in 2019). In 2019, the government paid the equivalent of $2.7 billion in interest on domestic debt compared to $832 million on external debt (Figure 30).

Figure 29. Ghana: Trends in Interest Payments to Revenue and GDP Ratios



Source: Ministry of Finance Fiscal Data (2008-2019)

Figure 30. Ghana: Interest Payments in domestic and external debt (US$, million)



Source: Ministry of Finance Fiscal Data (2008-2019)

Debt Sustainability in Ghana

The debt to GDP ratio considered optimal on a long term basis is estimated at 60 percent for developed countries and 40 percent for developing and emerging economies (Institute of Economic Affairs, 2015). Ghana's debt to GDP ratio of 62.1 percent as of end-November 2019 indicates a breach of this threshold. It is considered that interest payments above 26 percent of government revenue for emerging economies will pose a significant challenge for government and hurt the fiscal balance, raising the need for additional borrowing Debrun and Kinda (2016). Since 2012, Ghana has exceeded this threshold, and interest payments to revenue ratio currently exceed 37 percent. The high-interest short-term domestic debt accounts for the growth in interest payments.

A sustainable fiscal policy would require that the primary surpluses respond positively to the debt-GDP ratio even under very weak conditions (Bohn, 1998). The positive response of primary surpluses to the debt-GDP ratio means that the debt-GDP ratio should be mean-reverting (Bohn, 1998). Debt sustainability would require the government to run primary surpluses.

With respect to external debt, the current Debt Sustainability Assessment (DSA) report by the World Bank/IMF ranks Ghana as a medium performer with a debt carrying capacity benchmark of 55 percent of GDP. For the new Debt Sustainability Framework (DSF), external debt indicators have been streamlined to only four indicators, namely (i) PV of debt-to GDP ratio, (ii) PV of debt-

to GDP ratio, (iii) Debt service-to-exports ratio and (iv) Debt service-to-revenue ratio (IMF, 2019a).[30]

Relative to the previous DSAs, the current external debt indicators have improved significantly due to the rebased GDP. The updated DSA suggests, however, that vulnerabilities related to debt service remain a concern. The debt service-to-exports and debt-service-to-revenue ratios are expected to remain above the thresholds of 15 percent and 18 percent, respectively over 2018–2038 (IMF, 2019a). Domestic revenue mobilization efforts, combined with effective debt management involving a smoothing and lengthening of debt maturity profile, is key for keeping debt service within sustainable thresholds.

Contingent liabilities and vulnerabilities in commodity prices continue to pose a threat to public debt sustainability. The debt to GDP ratio in November 2019 was 62 percent. Due to commodity price vulnerabilities and the threat from contingent liabilities, the DSF projects the present value of the debt to GDP ratio to reach 81 percent in 2028 up from 55 percent in 2019 (IMF, 2019a). On the basis of these threats, the World Bank/IMF assesses that Ghana's overall public debt risk is high. Fiscal consolidation and sustained growth will be critical for improving debt sustainability. See Box 2 in the Appendix for a summary of the Ministry of Finance's assessment of the debt situation and prospects.

Summary and conclusion on the case of Ghana

The analysis of Ghana's recent macroeconomic performance shows a bustling lower-middle-income economy despite facing significant domestic and external challenges over the period from 2010 to 2016. The country's current debt to GDP ratio at 62 percent, remains above the threshold of 55 percent and is projected to reach 81 percent in 2028. Ghana's current debt level is assessed to be high and could potentially reach unsustainable thresholds if the country's strong macroeconomic performance is not sustained. Debt-servicing costs, vulnerabilities from commodity prices, and contingent liabilities remain the major threats to public debt sustainability. To bring the country's debt indicators within sustainable thresholds, sustained economic growth, fiscal discipline, and improvement in domestic revenue mobilization efforts would be key ingredients in anchoring efforts on effective debt management.

9.2 The Case of Kenya

Background

[30] Based on October 2018 WEO macroeconomic framework and the World Bank's CPIA index, Ghana's composite indicator score is 2.83 (above the lower cut-off value of 2.69 but below the strong capacity cut-off value of 3.05) confirming medium debt carrying capacity used in the April 2018 DSA under the old methodology. The new thresholds for external debt risk rating for a medium performer are (i) Public debt ratio-to-GDP: 55 percent; (ii) PV of PPG external debt-to-GDP: 40 percent; (iii) PV of PPG external debt-to-exports: 180 percent; (iv) Debt service of PPG external debt-to-exports: 15 percent: and (v) Debt service of PPG external debt-to-revenue: 18 percent (IMF, 2018, 2019).

Kenya has enjoyed a stable and sustained economic growth averaging of more than five (5) percent annually since 2004, despite a number of major challenges during the 2007-2008 period. The moderate growth in 2012 and 2017 were caused by election related conflict, among others. The country recorded improved standard of living, with per capita income increasing from $911 in 2006-2010 to $1082 between 2011-2018, growing at almost 3 percent per annum (World Development Indicators). Kenya graduated to lower-middle income status in 2014.

The moderate growth has been coupled with moderate inflation averaging at 12.7% and 7.7% annually between 2006-2010 and 2011-2018 periods, respectively. Meanwhile, the official exchange rate of US dollar to Kenya shilling has been following an upward trend, from Ksh27.5 per US dollar in 1990 to a high of Ksh103.4 in 2017, settling at Ksh101.3 in 2018.

In terms of unemployment, Kenya has experienced moderately high unemployment during the 1990-2018 period at around 9 to 10 percent. Female unemployment rate has been higher compared to male in the period up to 2007. Youth unemployment ranged from around 17 to 20 percent during the 1991-2019 period. The country has experienced major progress in social and human development, marked by a reduction in poverty, the population living below the national poverty line declining from 46.8 percent in 2005/06 to 36.1 percent in 2015/16 (World Bank, 2018b). Economic growth in Kenya has been hailed as pro-poor, with the bottom 40 percent of household population experiencing a consumption growth of 2.8 percent per annum during the same period. As a result, the Gini coefficient fell from 0.45 in 2005/06 to 0.39 in 2015/16.

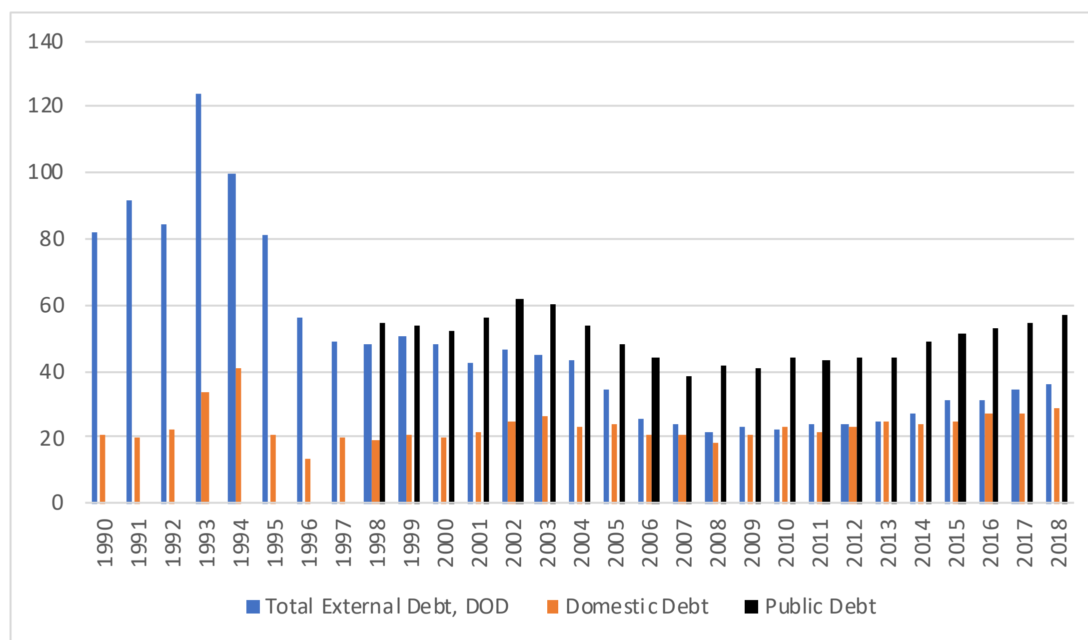
Progress has also been noted in the areas of education and health thanks to explicit government policy engagement and investment in those areas The government has taken key steps to embrace sustainable development goal (SDG) 4 that is to "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" (United Nations, 2015). It has also introduced several incentives to improve access to quality healthcare, with the aim to achieve Universal Health Coverage (UHC) by 2022. There is a concern, however, that these gains in social development and the government initiatives at consolidating those gains may be at risk of being compromised by rapidly rising levels of debt. A summary of the debt management process and related issues in provided in Box 3 in the Appendix.

Rising public debt levels

Although, the country was non-HIPC, it was highly indebted during the early years of 1990s, external debt reaching 124 percent of GDP in 1993. The external debt ratio declined thereafter (Figure 31) due to government expenditure containment resulting in a reduction in budget deficits, coupled with improvement in mobilization of domestic resources, and overall improvement in economic performance (Kenya National Treasury, 2007).

The recent pace of debt accumulation increases the country's susceptibility to external shocks and debt distress. The International Monetary Fund (IMF) suggests that a tolerable debt limit to developing economies is 50 percent ratio of debt to GDP.

Figure 31. Kenya: Public external and domestic debt (as percent of GDP)



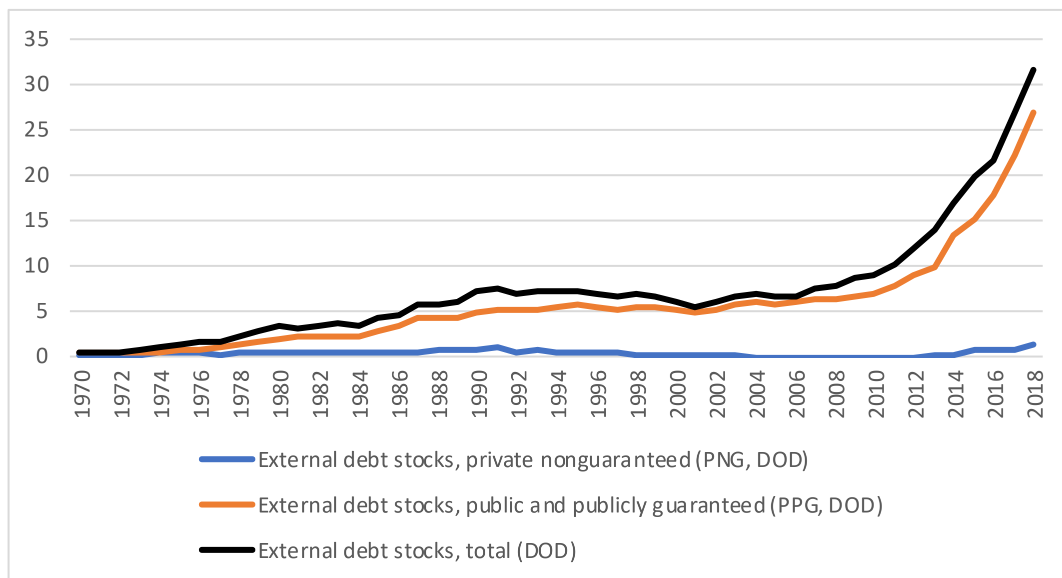
Sources: (Kose et al., 2017); World Bank, World Development Indicators; and Kenya Central Bank ,Online Database.

External debt in Kenya

Kenya's total external debt was recorded at 31.5 billion USD in 2018 and around 36 percent of GDP (Figures 32). Out of the long-term debt, 26.9 billion USD are public and publicly guaranteed loans while a small component of 1.2 billion USD is private sector loan and is not publicly guaranteed. This means that much of borrowing is driven by the central government and public institutions.

In nominal values, the country's external debt has increased rapidly from 2010 to 2018 with an average annual growth of 17.3 percent. This figure is much higher than the growth in the 1990s and 2000s, at -1.25% and 4%, respectively, but certainly lower than 22% recorded in the 1970s. The accelerated growth rate of foreign debt between 2010-2018, however, has not overtaken the rate of growth of external debt recorded at 22.2 percent in the 1970s.

Figure 32: Kenya: External debt stocks by type (billion, current USD)



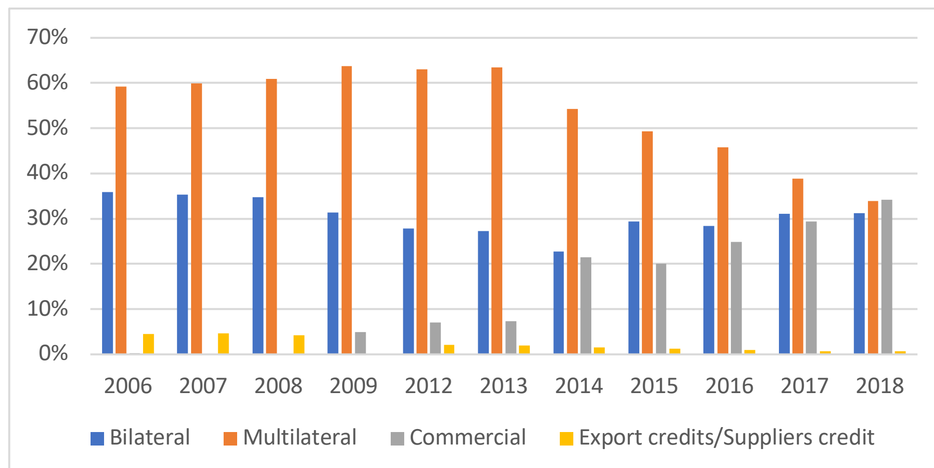
Source: World Development Indicators

Historically, the bulk of Kenya's external debt has come from multilateral sources (Figure 33). From 2009 to 2018, however, there has been an unprecedented growth in commercial borrowing, reaching 34 percent of external debt compared to 31 percent from bilateral sources and 34 percent from multilateral sources (Figure 32).

In 2018, Kenya owed commercial banks a total of about $9 billion, compared to $8.2 billion and $8.3 billion owed to multilateral and bilateral creditors, respectively. accounted for 8.2 and 8.3 billion USD, respectively. The bulk of multilateral loans (about $5.2 billion in 2018) came from the International Development Association (IDA) and International Fund for Agricultural Development (IFAD) (Figure 34).[31] The other main sources of foreign debt are the African Development Bank (ADF) and IMF, which in 2018 provided about $2 billion and $700 million, respectively.

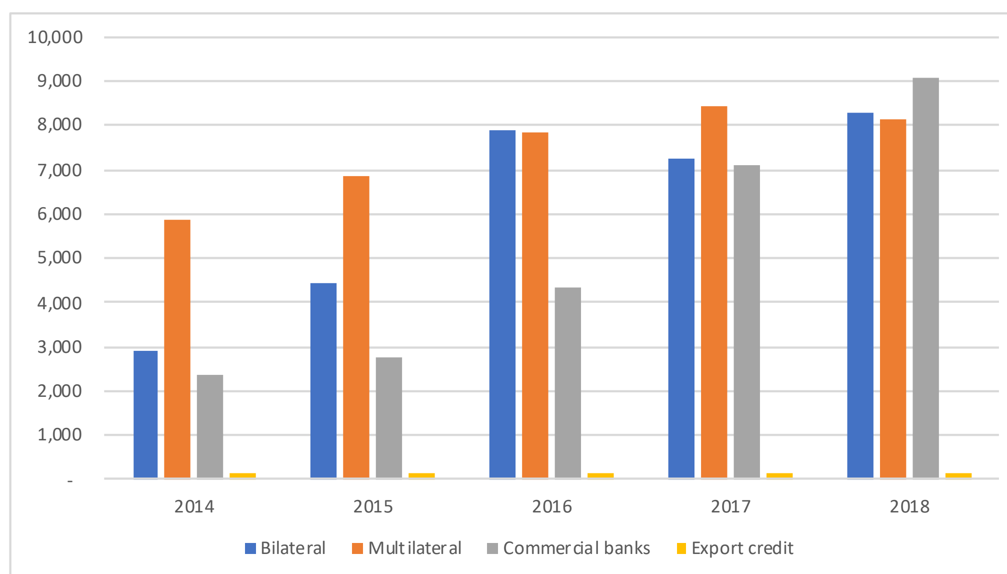
[31] The IDA is the part of the World Bank that helps the world's poorest countries while the IFAD is a specialized agency of the United Nations that works to address poverty and hunger in rural areas of developing countries.

Figure 33: Kenya: Composition of external debt by type of lender (% of total debt)



Source: (Kenya National Treasury, 2008, 2016, 2018)

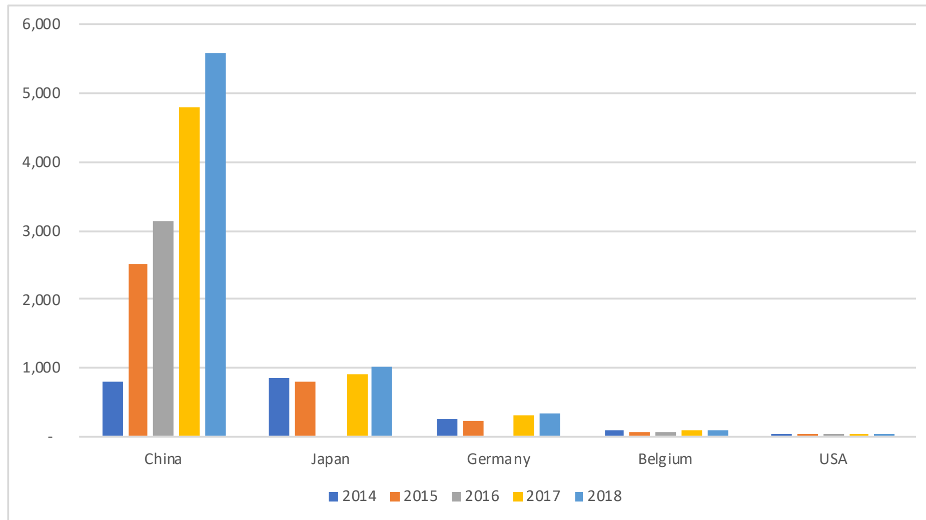
Figure 34. Kenya: Public and publicly guaranteed external debt by creditor (million USD)



Source: (Kenya National Treasury, 2018)

In terms of the bilateral debt, Kenya has been relying increasingly on foreign financing from China, which has become the top source of bilateral foreign debt (Figure 35). Kenya's debt to China accelerated from around $800 million in 2014 to nearly $6 billion in 2018. This exceeds combined loans from other bilateral sources, namely Japan, Germany, Belgium and USA amounting to just a little over one billion US dollars in 2018.

Figure 35. Kenya's bilateral PPG external debt - Top 5 creditors (million USD)

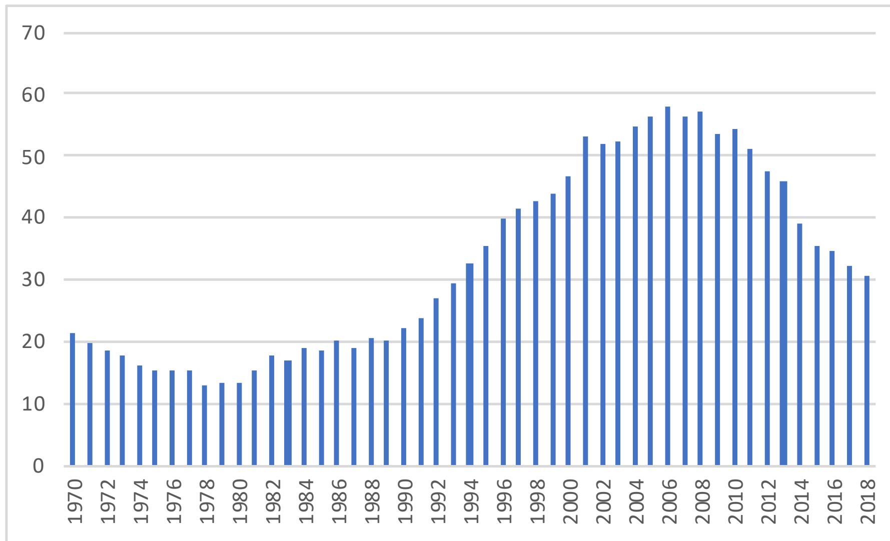


Source: (Kenya National Treasury, 2018)

External debt service in Kenya

Given that commercial debt is more expensive compared to multilateral debt, the observed increasing shifts towards commercial debt imply higher debt servicing costs. In 2018, the share of commercial debt was 66 percent of the total external debt service, up from zero in 2012 (Kenya National Treasury, 2018). There has been three distinct episodes in concessional borrowing: (i) between 1970 to 1989, concessional debt was less than or equal to 20 percent of total external debt; (ii) between 1990 to 2006, it increased steadily from 22% to 58%; and (iii) from 2006 to 2018, it declined steadily from 58% to 31% (Figure 36). The third episode corresponds to the period of increased borrowing from commercial sources.

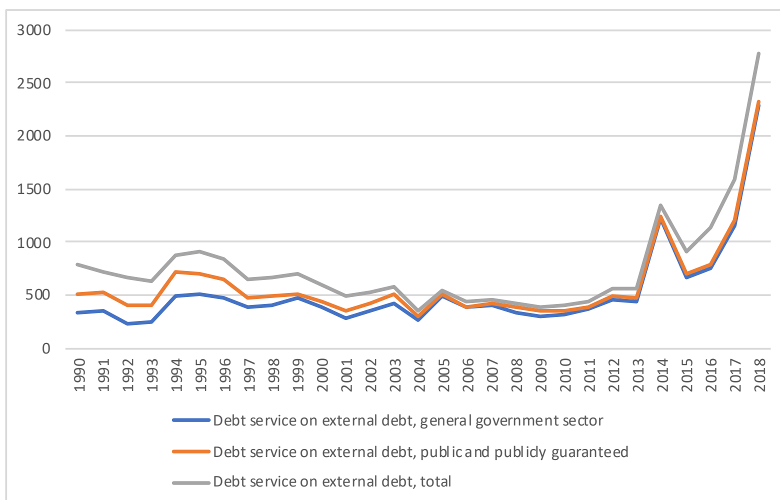
Figure 36: Kenya: Concessional debt as a percentage of total external debt



Source: World Bank, International Debt Statistics

The debt service on external debt has been generally stable from 1980 to 2013 amounting to less than one billion USD (Figure 37). However, in 2014 total debt service crossed the one billion USD mark to $1.3 billion. From there onwards, except in 2015, total debt service followed a steep upward trend to reach $2.8 billion in 2018. Again, this coincides with increased borrowing from commercial lenders, implying higher debt service payments.

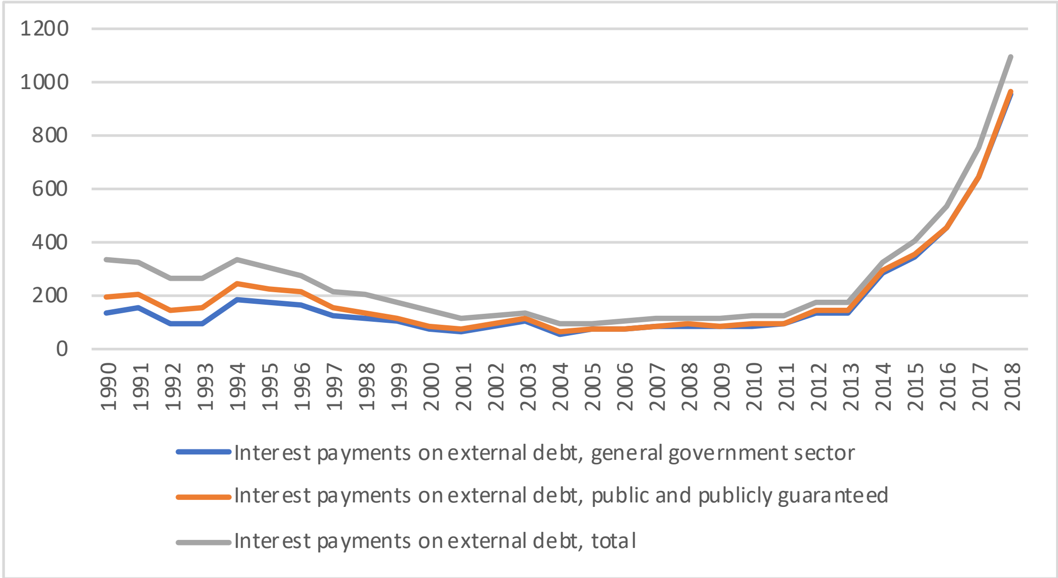
Figure 37: Kenya: Total external debt service ($ million)



Source: International Debt Statistics, World Bank Online database

Interest payment on external debt followed a similar general trend as total debt service (Figure 38). Most remarkably, interest payments increased rapidly from 2010, reaching $1.1 billion in 2018.

Figure 38: Kenya: Interest payment on external debt ($ million)



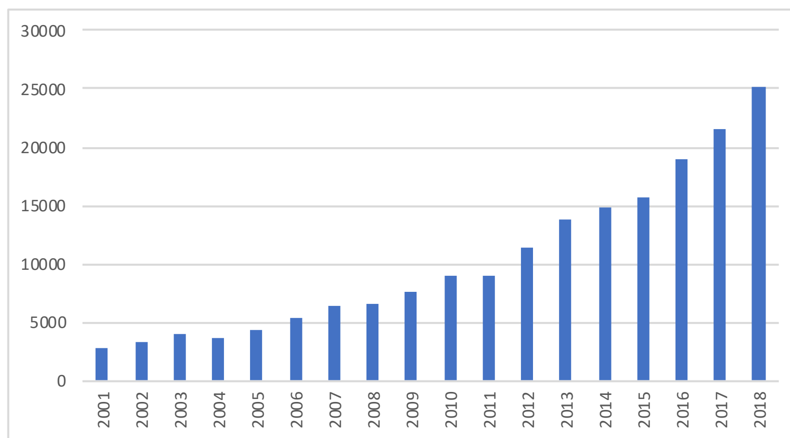
Source: International Debt Statistics, World Bank Online database

Domestic debt in Kenya

Kenya's domestic debt stood at around $25 billion (Figure 39), representing 49 percent of the country's total public debt in 2018 and 28 percent of GDP (Kenya National Treasury, 2018). Between 2001 and 2010, domestic debt grew at an average annual rate of 14.3%, compared to 13.9% between 2011 and 2018. The ease of obtaining domestic debt relative to external debt explains the accumulation of the former. It is vital to recognize that there are significant costs associated with domestic debt, especially high interest rates, which are likely to remain high and even increase as budget financing needs rise while revenue declines due to the coronavirus pandemic.

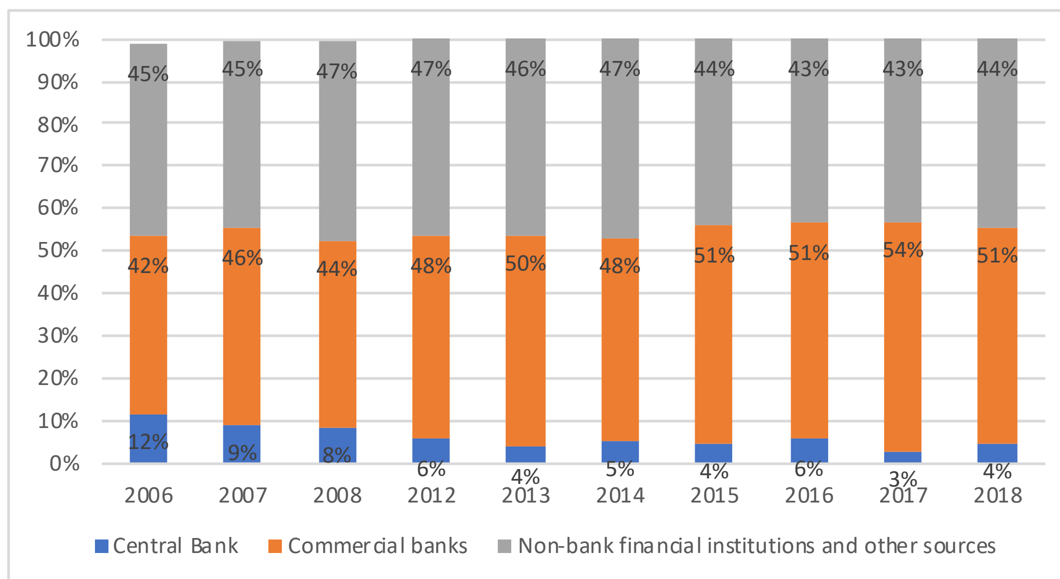
In terms of sources of domestic debt, as of June 2018, around 4.5 percent of domestic debt was from the Central Bank of Kenya, 51% from commercial investors, while 44.4% was from non-bank financial institutions (Figure 40). While historically the main source of domestic debt was from the non-bank financial institutions, since 2012, commercial banks became the main financier of government domestic debt.

Figure 39: Kenya: Trend of domestic debt ($ million)



Source: (Kenya National Treasury, 2008, 2016, 2018)

Figure 40: Kenya: Holders of government domestic debt (% of total)

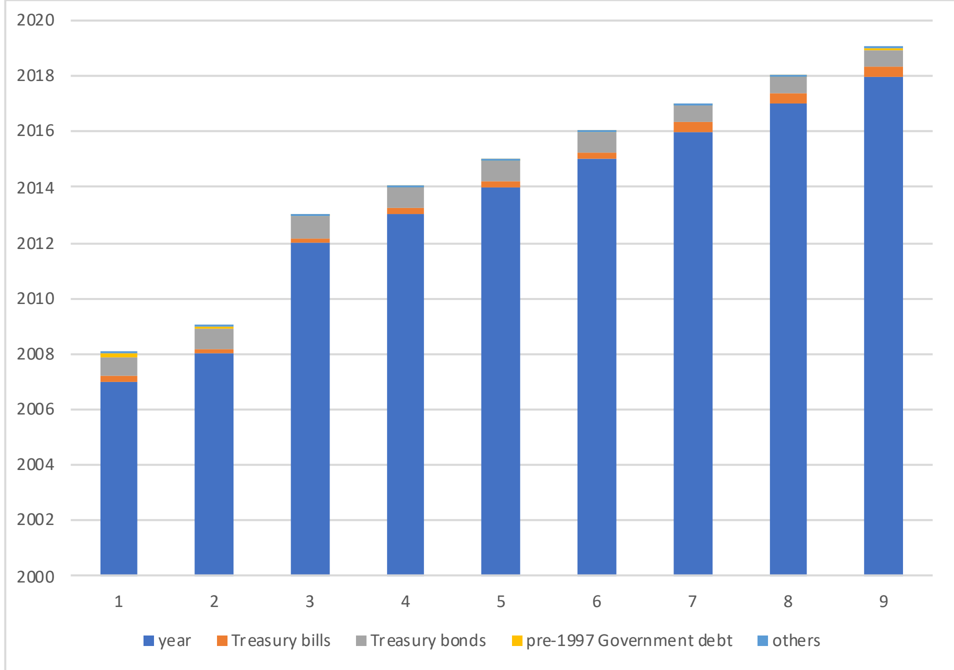


Source: (Kenya National Treasury, 2008, 2016, 2018)

An important issue regarding domestic debt is that it tends to contain a large share of short-term debt. Kenya government borrows from the domestic market mainly through Treasury bills or Treasury bonds. In 2007, the share of Treasury bills in total stock of domestic debt was 23.3 percent while the share of treasury bond was 67% (Figure 41). By 2018, the share of Treasury bills in total stock of debt was 35 percent while the share of Treasury bonds was 61 percent. Given Treasury bills are short term instruments with less than one-year maturity, they tend to have higher interest rates.

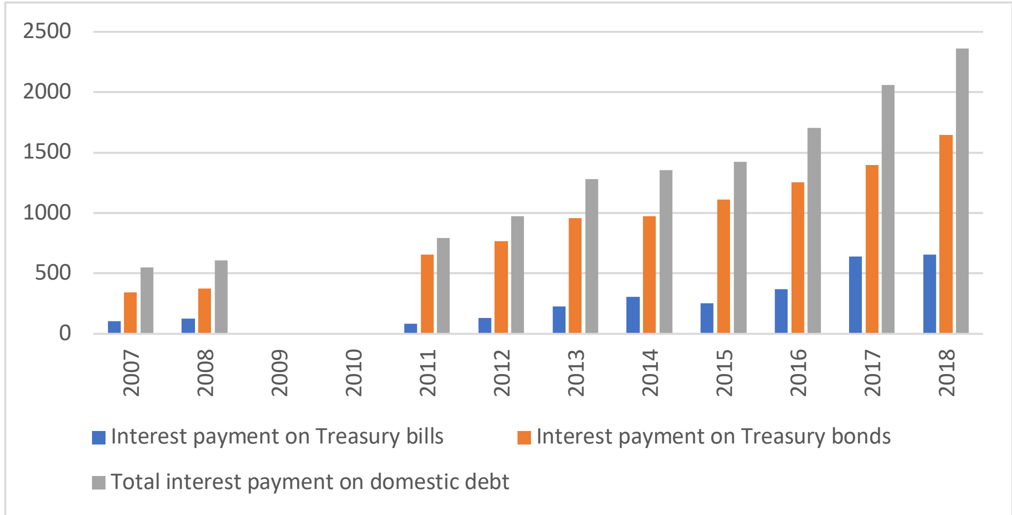
As the government continued to increase the share of borrowing domestically, the interest payment on domestic debt also increased (Figure 42). The cost of domestic borrowing from both Treasury bills and bonds follows steep upward trends. The Treasury bonds take the lion's share of the interest payment since most of the borrowing are financed through bonds.

Figure 41: Kenya: Domestic debt composition by instruments (percent of total)



Source: (Kenya National Treasury, 2008, 2016, 2018)

Figure 42: Interest payment on domestic debt by instruments ($ million)



Source: (Kenya National Treasury, 2008, 2016, 2018)

Debt by state-owned corporations in Kenya

The increase in overall public debt has also been partly driven by borrowing by state-owned enterprises (SOEs), whose debt is guaranteed by the Kenyan government. SOCE have borrowed from both domestic and foreign commercial lenders. The following is a sample of SOE:

Kenyatta University: A loan of Ksh10 billion ($100 million) by Exim Bank of China for the construction and stocking of Kenyatta University Teaching, Referral and Research Hospital (Mutai, 2018).

Kenya Power: A total debt of Ksh113 billion ($1.13 billion) at the end of 2018, which includes commercial loans from Standard Chartered Bank, Rand Merchant Bank, Equity Bank, Stanbic and on-lent borrowing through National Treasury (Kenya Power and Lighting Company Limited, 2018).

Kenya Pipeline Company: A long term loan representing, as at 30 June 2018, a $350 million facility agreement with Commercial bank of Africa, Citibank, CfC Stanbic Bank,[32] Rand Merchant Bank and Cooperative Bank of Kenya for construction of a pipeline between Nairobi and Mombasa (Kenya Pipeline Company, 2018).

Kenya Ports Authority: Loans amounting to Ksh24.2 billion ($242 million USD) as at 30 June 2017. This includes two long-term loans from Japan International Cooperation Agency for Mombasa Port Development Project phases I and II (Kenya Ports Authority, 2017).

Kenya Railways Corporation: As at 30 June 2018, East African Loan Stocks[33] amounting to Ksh.36.8 million, Exim Bank with Ksh395 billion related to the construction of standard gauge railway (Kenya Railways Corporation, 2018).

9.3 The Case of Uganda

Background

The Ugandan economy has grown at a high rate with an annual average of 6.9% in the 1990s and 7.1% between 2000 and 2009. However, the economy slowed down between 2011 and 2018 with an annual average of 5.3%, mainly due to adverse climate change such as prolonged drought, floods and landslides, instability in neighboring South Sudan and DRC, private sector credit

[32] CFC Bank Limited (CFC Bank) was incorporated in 1955 as 'Credit Finance Corporation', a finance institution. It obtained a commercial banking license from the Central Bank of Kenya in March 1995 and changed its name to CfC Bank Limited. On 12 November 2007, CFC Bank and Stanbic Bank merged, eventually leading to creation of CfC Stanbic Bank Limited.

[33] The 'East African loans' were debts accrued by East African Railways and Harbors Corporation. When the East Africa Community broke in 1977, the Kenya railways took the operations in Kenya. The loans were taken in 1954, 1957, 1975, 1970, and 1971.

constraints, and poor implementation of government projects such as infrastructure and oil exploitation (World Bank, 2018b). Uganda has an enormous potential for rapid economic growth and development due to its rich natural resource endowment including large area of fertile land, mineral deposits and good climate (Uganda National Planning Authority, 2015).

The country has enjoyed a decline in inflation since 2013, going all the way down to 2.6% in 2018. The low inflation rate was attributed to the conducive weather conditions that led to an increase in agricultural production, the stable exchange rate and the relatively subdued aggregate demand (Bank of Uganda, 2018).

Uganda has remarkably low unemployment rate, averaging 2.3% between 2011 and 2018 from 2.9% between 2006 and 2010. Female unemployment is much higher than male counterparts – 2.8% and 1.7%, respectively between 2011 and 2018. The unemployment rate is even higher for the youth, estimated at 3.3% over 2011-2018, and especially female youth at 3.9% over the same period.

Nonetheless, an increasing trend in Uganda's per capita income based on country's GDP is observed. It increased from an average of $ 392.1 between 1990 and 2005 to $ 681.3 between 2011 and 2018 (World Bank, World Development Indicators). This may be attributed to the sustained high economic growth of around 7 percent annually for two decades between 1990 and 2009 and moderately high growth of 5.3 percent annually thereafter.

Poverty remains high, but it has been on the downward trend, with the poverty headcount ratio at $3.20 a day (2011 PPP) declining from 86.8% to 69.9% between 1992 and 2016. The government has implemented a number of poverty eradication programs such as a plan for modernization of Agriculture, national agricultural advisory services, operation wealth creation, allowances for the elderly, a national youth fund and a women's entrepreneurship fund. Uganda has been one of the leading countries in Sub-Saharan Africa in reducing poverty (World Bank, 2010).

The country has recorded substantial improvements in social and human development indicators over the past two decades. It was the first country in Sub-Saharan Africa to introduce universal primary education (UPE) in 1997 with an aim of achieving education for all. This resulted to an increase in enrolment levels in primary schools. This was followed by the introduction of universal secondary education (USE) in 2007.

Trends in public debt in Uganda

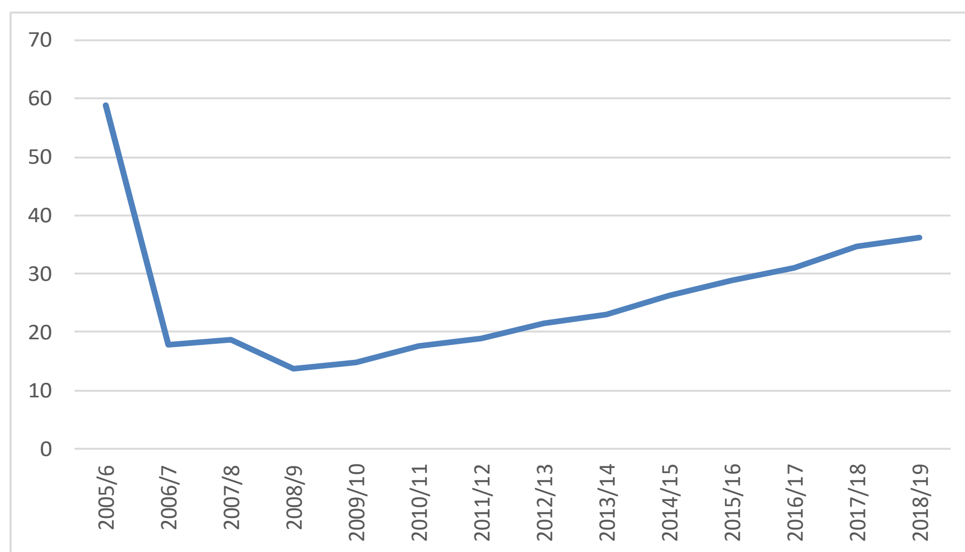
The recent years have witnessed rapid increase in public debt, as is observed in other developing countries. The stock of Uganda's total public debt grew from $10.7 billion at end of June 2018 to $12.5 billion by the end of June 2019. This represents an increase in debt to GDP ratio from 34.8 percent in June 2018 to 36.1 percent in June 2019 as presented in Figure 43 (Uganda Ministry of Finance Planning and Economic Development, 2019).

External debt accounted for 24 of GDP, while domestic debt to GDP ratio was recorded at 12.1 percent. These ratios combine are still way below the IMF's 70 percent threshold for Uganda. In addition, it is also below the threshold of 50 percent contained in the Charter for Fiscal

Responsibility, Public Debt Management Framework (PDMF) and the East African Monetary Union (EAMU) Protocol.

Uganda was one of the African countries that qualified for and obtained both HIPC in 1998 and MDRI in 2006. As a result, the country's high level of debt of 58.8 percent of GDP in 2005/2006 came down to 17.8 percent of GDP in the following fiscal year 2006/2007 (Uganda Ministry of Finance Planning and Economic Development, 2019). It reached the lowest level of 13.7 percent in 2008/2009 but the ratio started to rise again and reached 36 percent of GDP in 2018/2019.

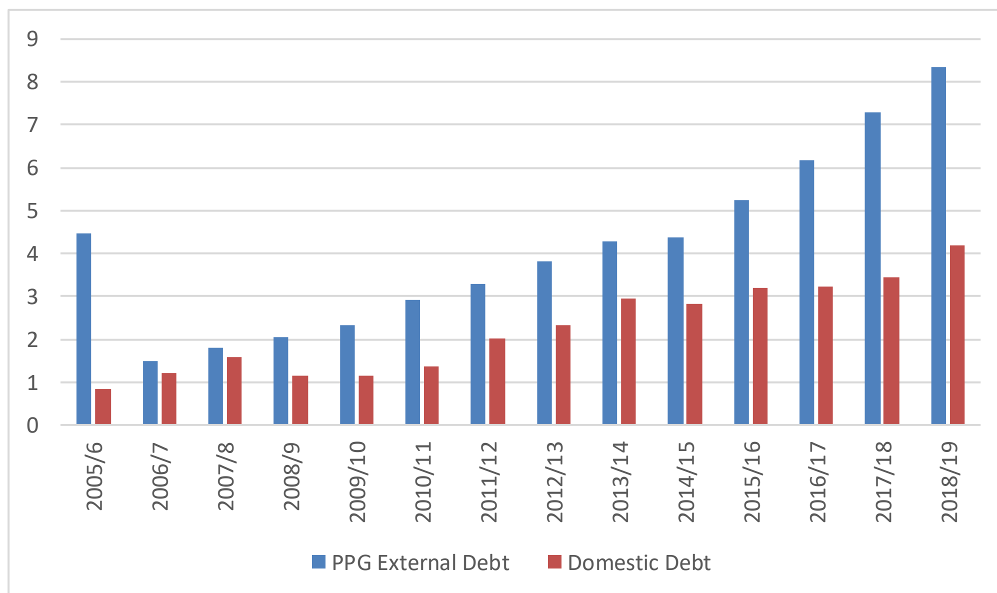
Figure 43. Uganda: Public debt to GDP ratio (percent)



Source: Uganda Ministry of Finance, Planning and Economic Development (2019)

The increase in public debt has been driven by both domestic and external borrowing. While the public and publicly guaranteed (PPG) external debt remains substantially higher than domestic debt, the two have followed the same trend over the past decade (Figure 44).

Figure 44. Uganda: Public and publicly guaranteed external debt and domestic debt (billion USD)



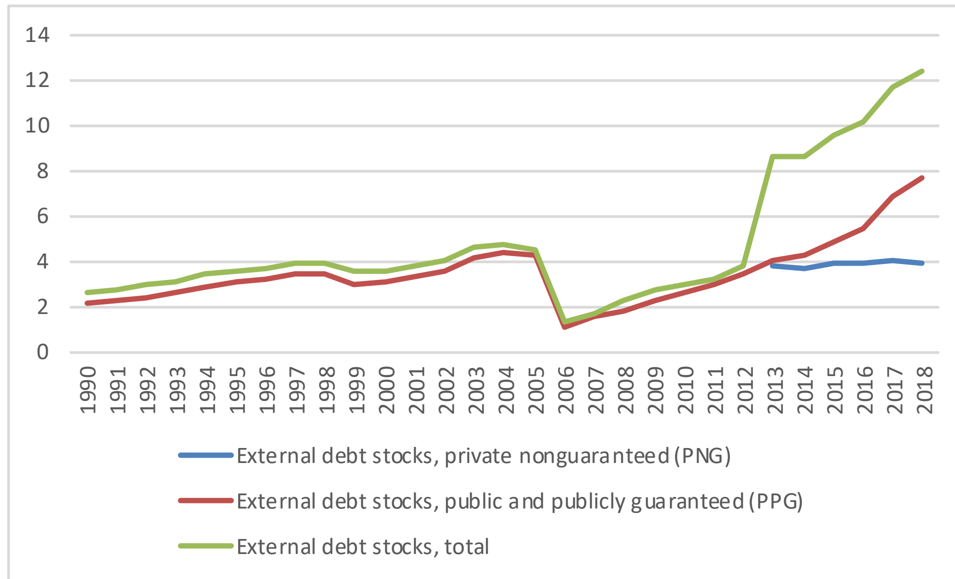
Source: Ministry of Finance, Planning and Economic Development (2019)

External debt in Uganda

Uganda's total external debt stock increased rapidly from $1.3 billion in 2006 to $12.3 billion in 2018. The PPG component accounted for $7.7 billion while PNG contributed around $3.8 billion (Figure 45).[34] Uganda had no private non-guaranteed loan up to 2012, meaning that external borrowing was completely by the central government and public institutions.

[34] Note: PPG + PNG = Long-term debt; Total debt stock = long-term debt + short-term debt + Use of IMF credit.

Figure 45. Uganda: External debt by type (billion USD)

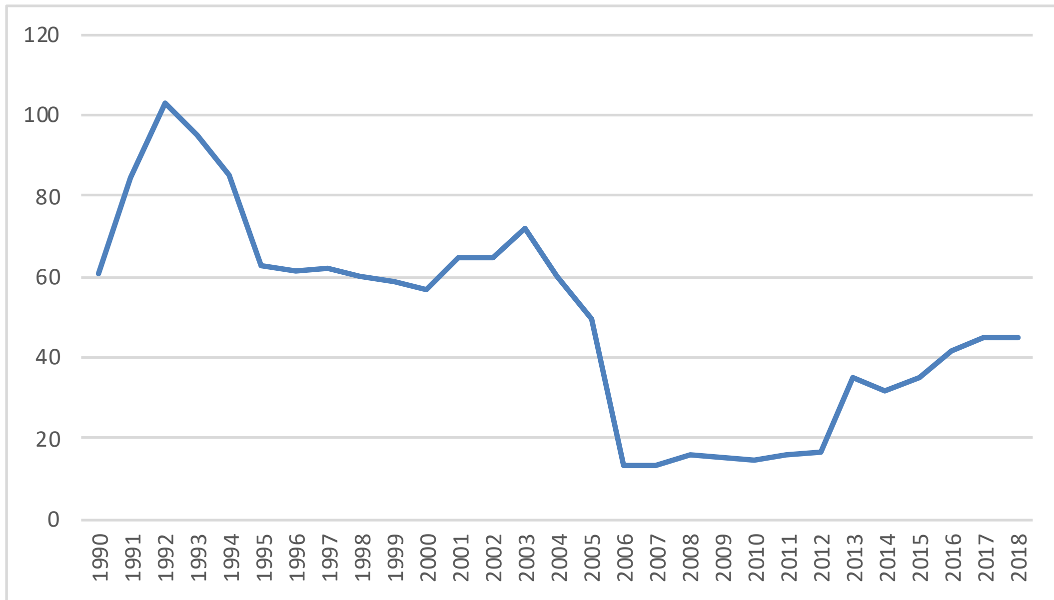


Source: World Bank, International Debt Statistics

Uganda benefited from debt relief, which resulted in substantial decline in the debt burden. The debt to GDP ratio declined steadily from 103% in 1992 all the way down to 13% in 2006. But the ratio has accelerated rapidly since 2011, reaching 45% in 2018 (Figure 46).

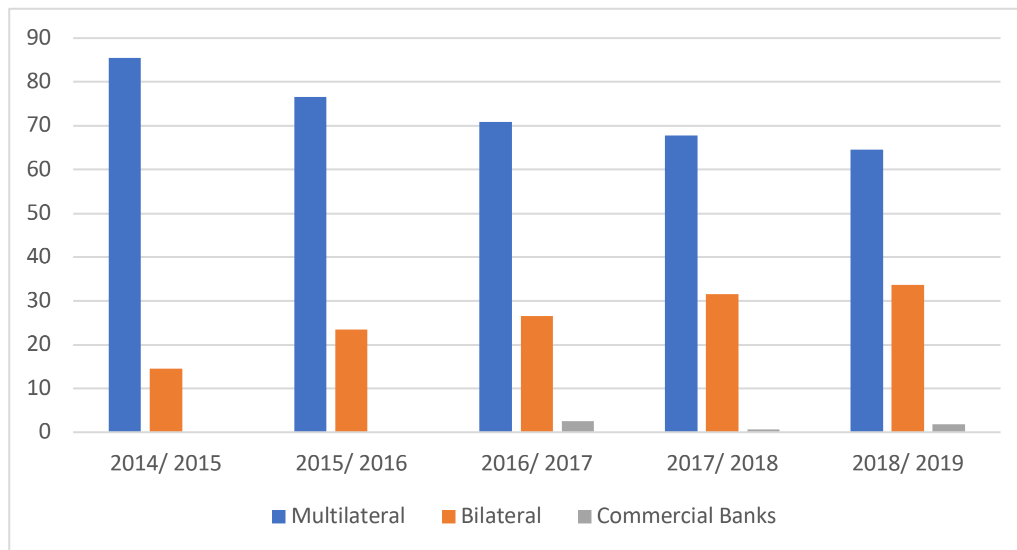
About 64.5 percent was sourced from multilateral creditors while 33.7 percent came from bilateral creditors and 1.8 percent from commercial banks (Figure 47). China dominates the bilateral creditors which accounted for 26.5 of the PPG external debt (Figure 48). In the recent years, there has been a reduction in the stock of debt owed to multilateral lenders mainly from IDA in favor of bilateral lenders, particularly China. This is occasioned by the insufficiency of concessional resources, leading to increased recourse to non-concessional borrowing, which is typically characterized by terms that are more expensive.

Figure 46. Uganda: Total external debt as percent of GDP



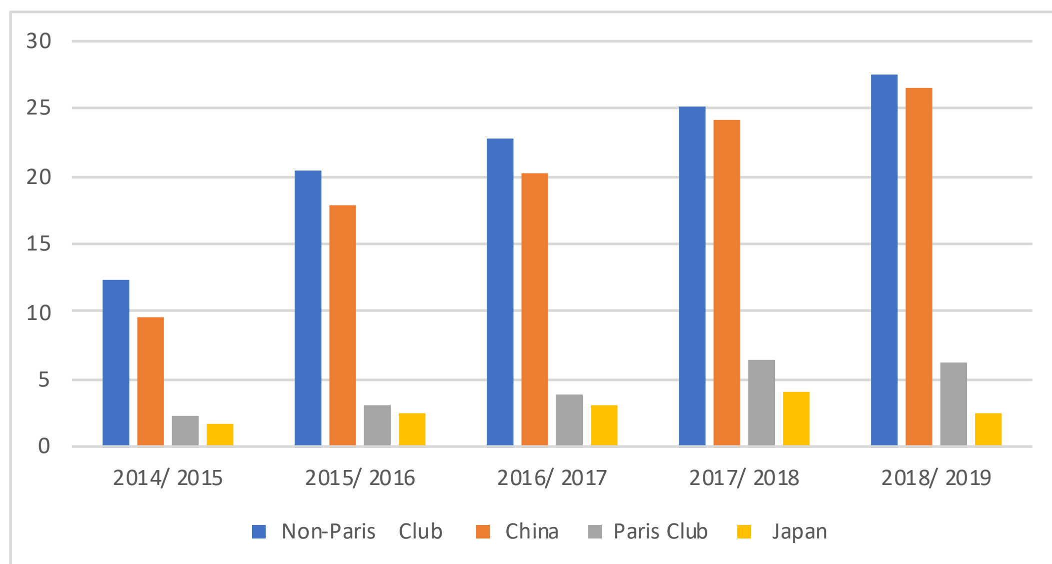
Source: World Bank, World Development Indicators.

Figure 47. Uganda: External debt by sources (percent of total)



Source: Uganda Ministry of Finance, Planning and Economic Development (2019)

Figure 48. Uganda: Bilateral external debt by creditors (percent of total)



Source: Uganda Ministry of Finance, Planning and Economic Development (2019)

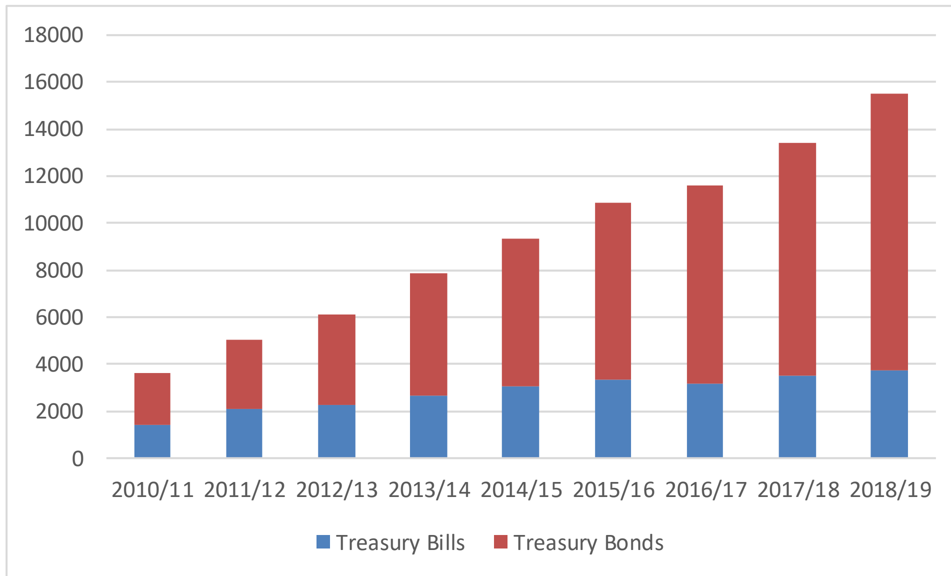
Domestic debt in Uganda

Uganda's domestic debt stood at 3.7 billion Ugandan shillings (equivalent to $4.1 billion)[35] at the end of June 2019 (Figure 49). The country's domestic debt is mainly financed through sales of government bonds. The share of longer-term dated instruments in total public domestic debt has been increasing over the years (Figure 48). This is consistent with Government's decision to issue more long-term debt to reduce refinancing risk associated with the portfolio, and to smoothen the redemption/repayment profile. As at end December 2018, long-term debt (Treasury bonds) accounted for 74.9 percent of total domestic debt while the short-term debt (Treasury bills) constituted the remaining 25.1 percent.

The main creditors are the pension and provident funds and commercial banks holding 42 and 41 percent, respectively (Figure 50). The Bank of Uganda only held a small amount of around 1 percent of the total domestic debt. Others includes Retail Investors, Institutional Investors, Insurance Companies, Deposit Protection Funds, and Other Market Intermediaries.

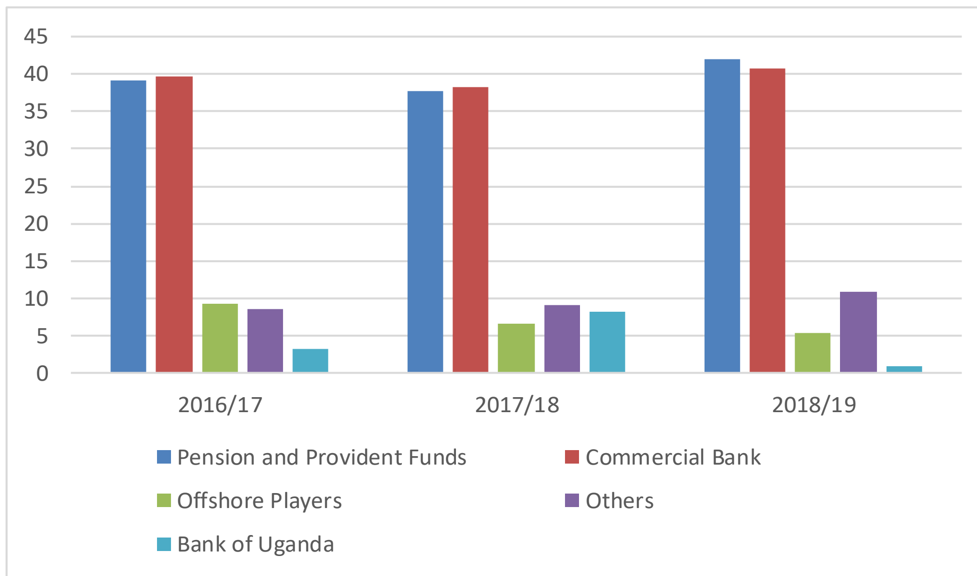
[35] Debt stock converted from Ugandan shilling to USD using annual average Ush/USD exchange rate.

Figure 49: Uganda: Domestic debt by Treasury instrument (billion UGX)



Source: (Bank of Uganda, 2019)

Figure 50: Uganda: Composition of public domestic debt by holder (percent)



Source: Bank of Uganda (2019)

Debt service in Uganda

In 2018, Uganda's total debt service stood at $2.3 billion, with $353.4 million paid to external creditors and $1.9 billion to domestic creditors (Table 13). Although external debt makes up a larger share of total debt, it is the domestic debt that accounts for higher service payment. This means that borrowing domestically, particularly from commercial banks, is more expensive. This is because a large proportion of its external debt comprises concessional loans from multilateral sources.

Table 13: Uganda: Total Public Debt service as at 31st December 2018 (Million USD)

	Dec 2015	Dec 2016	Dec 2017	Dec 2018
Total debt service	1003.2	1069.1	1092.8	2258.6
External	153.51	55.69	120.98	353.44
As percent of total debt service	15.3	5.2	11.1	15.6
As percent of total external debt stock	3.5	1.02	1.8	4.6
Domestic	849.6	1,013.40	971.8	1905.2
As percent of total debt service	84.7	94.8	88.9	84.4
As percent of total domestic debt stock	28.2	31.5	29.1	49.8

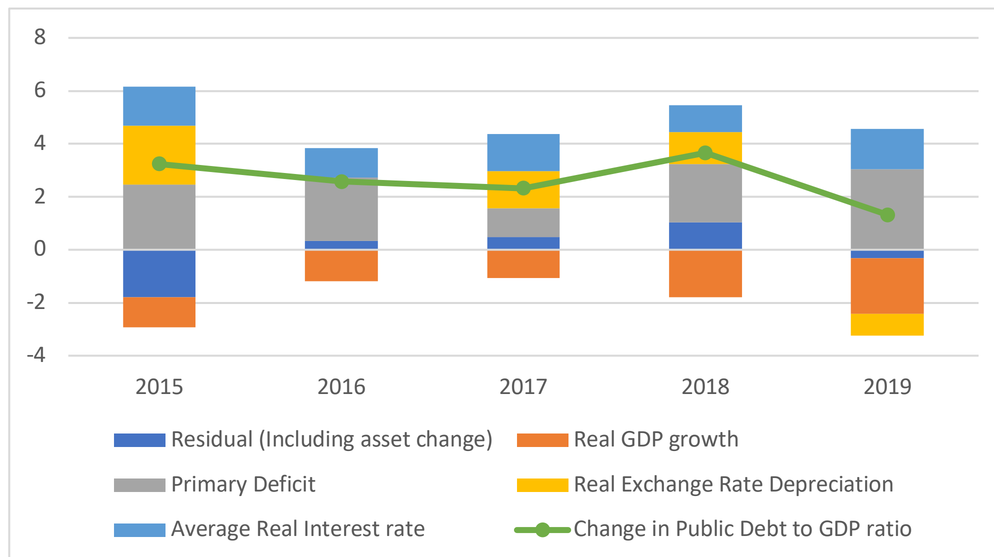
Source: Uganda, Ministry of Finance, Planning and Economic Development (2019)

Drivers of debt accumulation in Uganda

Consistent with Government's policy of closing the infrastructure gap in order to enhance the country's productive capacities, the primary deficit has been the major driver of the increase in Uganda's debt over the last five years. The other notable contributor to rising debt levels has been the average real interest rate on public debt. This was consistent with the increasingly less concessional external debt. The main factor mitigating the increase in debt has been high real GDP growth. For debt to remain sustainable, it is critical that real GDP continues to grow at a rate higher than the average real interest rate on government debt.

While the real exchange rate depreciation has also been a driver of debt accumulation in the recent years, it is worth noting a reversal in fiscal year 2018/19 where it is one of the mitigating factors following the appreciation of the shilling against major foreign currencies. The contribution of various factors to the change in public debt is presented in Figure 51.

Figure 51: Uganda: Contributions to changes in public debt (percent)



Source: Uganda, Ministry of Finance, Planning and Economic Development (2019)

Government loan guarantees in Uganda

There were seven active loan guarantees as of end of 2018, with a total guaranteed amount of $55 million. Islamic Development Bank (IDB) is the top guaranteed creditor, followed by Arab Bank for Economic Development in Africa (BADEA). Islamic University in Uganda (IUIU) and Uganda Development Bank Limited (UDBL) were the biggest guarantee beneficiaries (Table 14). The exposure to disbursed and outstanding guaranteed debt as at December 2018 amounted to 19.9 million USD (UGX 75 billion), representing a 143 percent increase compared to $8.2 million (UGX 29.8 billion) as at December 2017. This increase is mainly attributed to the disbursements of the BADEA and IDB loans to UDBL. In the financial year 2018/19, two guarantees, totaling to $20 million were approved in fiscal year 2018/19 as of 31st March 2019. The two loans are for UDBL from Exim Bank of India and African Development Bank (AfDB).

Table 14. Government loan guarantees in Uganda

Creditor	Project	Beneficiary	Year of signature	Amount of loan guaranteed (USD)
IDB	Student hostel project	IUIU	2004	4,302,676
IDB	Student hostel project-additional financing	IUIU	2010	983888
IDA	E.A trade and transport facilitation	Rift Valley Railways	2006	10,000,000
BADEA (Trade Finance)	To finance import transactions from Arab countries to UDBL's eligible	UDBL	2017	10,000,000
BADEA (Private Sector Dev't)	Private sector projects and trade transactions in the republic of Uganda	UDBL	2017	6,000,000
IDB	Private sector projects and trade transactions in the republic of Uganda	UDBL	2017	10,000,000
IDB	Construct a faculty of engineering, upgrade the library and purchase ICT equipment	IUIU	2018	13,790,000
Total				**55,076,564**

Source: Uganda Ministry of Finance, Planning and Economic Development (2019)

Non-guaranteed debt and other liabilities of State-Owned Enterprises (SOEs) and Extra Budgetary Units (EBUs)

As at June 2018, the stock of debt (direct domestic and external borrowing plus on-lent) of public entities amounted to UGX 8,009 billion (USD 2.06 billion), indicating a 35 percent increase from UGX 5,950 billion (USD 1.66 billion) as at June 2017. The increase was mainly attributed to the disbursements for the government on-lent loans to SOEs in the energy sector. As of June 2018, 78 percent of the total borrowing was attributed to government on-lending, followed by 20.7% from direct domestic creditors (including overdrafts & lease facilities) and 1.2% from external creditors. However, the total debt to assets ratio decreased from 25% to 20.3%, as total assets increased significantly.

10. Conclusion and Policy Options

Summary

This study has examined the literatue and data on sub-Saharan Africa as a whole, and focused in more detail on three countries – Ghana, Kenya, and Uganda (and in less detail South Africa) – with a view to shed light on the recent concerns about a 'looming debt crisis' in the continent.

Indeed, the analsyis shows that Sub-Saharan African countries have experienced rapid accumulation of sovereign debt since the 2008 global financial crisis, marked by increases in both domestic and external debt. The increase in non-concessional borrowing and costly private short-term loans have contributed to raising the overall costs of debt. The last few years have witnessed rapid increase in eurobonds issuance, some with short maturities, raising concerns about the ability of SSA countries to repay when these bonds become due.

The acceleration of public debt is due to internal factors as well as external factors to varying degrees. On the domestic side, the growth in debt is due to the need to finance public infrastructure investment, weaker economic performance, larger size government, poor governance and corruption. External factors include the adverse effects of the global financial crisis, terms of trade shocks, currency depreciation, a low global interest rate environment and the search for higher yields by foreign investors. Revenue mobilization has not kept pace with spending needs, leading to a shift in the expenditure mix in favor of debt servicing costs, a reduction in the share of capital expenditure and an increase in the share of recurrent expenditure, in particular wages and subsidies.

The results from debt sustainability analysis conducted by the IMF/World Bank DSF before the Covid-19 pandemic suggestd that debt ratios will stabilize or decline by 2023, assuming that fiscal consolidation plans are successfully implemented and that most drivers of the debt accumulation dissipate in the near future. With the Covid-19 pandemic, debt ratios in SSA are likely to rise and would only stabilize at a much later period if African economies are hit with a full-blown crisis as witnessed by advanced economies. The concern now is that the coronavirus crisis will exacerbate debt distress in countries that were already in weak conditions. It is therefore imperative for Africa's creditors and the donor community in general to assist African countries in combatting the pandemic and minimizing its impact on the economies by alleviating the debt burden through an expanded debt relief and a robust debt restructuring program.

Strategies for 'growing with debt'

It is undeniable that the rapid increase in debt levels in SSA is a matter that requires serious attention from African governments, their creditors and their development partners in general. The evidence also reveals that country experiences vary significantly across the continent. This implies that there is no unique solution that can be universally applied across the continent. While some countries may be able to sustain even higher levels of debt than today, most countries may not. So, the solution is not to halt borrowing, but to adopt a 'smart borrowing' strategy. Given that African countries need high levels of financing to reach and sustain higher growth rates, they must find ways of 'growing with debt.' On the African countries' side, the strategy will include a combination of the following initiatives:

- Strengthening domestic resource mobilization, including both government revenue and private saving to contain fiscal deficits and saving-investment gaps.
- Borrowing smart by pursuing low-cost loans and exercising caution in tapping international private debt markets.
- Strengthening public debt management with an emphasis on increasing transparency and accountability in decisions regarding borrowing and utilization of public debt.

- Improving the quality of debt data reporting and promoting full disclosure of information on the volume and utilization public debt to the benefit of the general public and civil society organizations in particular, which will enhance accountability in public debt management.
- Setting up and enforcing effective rules on parastatal sector management to reign in borrowing by state-owned enterprises.
- Deploying a set of industrial policies aimed at expanding export capacity through diversification of export-oriented activities, which will help strengthen the capacity of SSA countries to meet external debt service obligations.

Africa's creditors – and its development partners in general – also have a major responsibility in helping African countries to achieve debt sustainability, and to maximize the developmental gains from external borrowing. Furthermore, Africa's lenders have the responsibility to ensure that sovereign lending follows transparent, accountable, and development-oriented procedures, which will benefit not only African economies but also the lender's own interest. The Covid-19 pandemic calls for concerted efforts by the continent's creditors and donors to alleviate the debt servicing burden on SSA countries through comprehensive debt relief and debt restructuring, to enable them to finance crisis response programs and sustain investment in vital social services.

Enhanced cooperation with SSA development partners to enhance responsibility, transparency and mutual accountability in lending practices to minimize the leakages of borrowed funds through capital flight and ensure that debt is used to effectively finance the intended development initiatives. In this regard, Africa's creditors are called to abide by the United Nations principles of responsible sovereign lending and borrowing as part of the overall strategy for enhancing development financing to reach the sustainable development goals.

The recent debt acceleration is certainly a phenomenon that needs to be taken seriously. The urgency of public debt sustainability has been exacerbated by the coronavirus pandemic, which is likely to depress economic growth and revenues at a time where government spending is rising to finance rescue programs. To cushion the impact of the pandemic on debt sustainability, it is critical for creditors to expand the coverage of debt relief beyond the group of least developed countries in the continent.

The recent debt acceleration does not call for closing the tap on external borrowing. Instead, the expansion of sources of external borrowing presents a unique opportunity for African countries and their development partners to re-examine the development financing framework with a view to initiate appropriate reforms that will help put SSA countries on a path of steady progress towards achieving sustainable development goals.

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APPENDIX A: Additional Tables

Table A1: International sovereign bond issuances in SSA countries

Country	Face value (millions of U.S. Dollars)	Coupon	Fitch	Moody's	S&P	Issue Date	Maturity
Angola	1500	9.5	B	B3	-	2015	2025
Angola	1750	8.25	-	B3	-	2018	2028
Angola	1750	8	Be	-	-	2019	2029
Angola	1750	9.375	-	B3	-	2018	2048
Angola	1250	9.125	Be	-	B-	2019	2049
Benin	567	5.75	B	B2	B+	2019	2026
Cameroon	750	9.5	B	-	B	2015	2025
Côte d'Ivoire	750	5.375	B+	Ba3	-	2014	2024
Côte d'Ivoire	1,232	5.125	-	-	-	2017	2025
Côte d'Ivoire	1000	6.375	B+	Ba3	-	2015	2028
Côte d'Ivoire	1050	5.25	B+	Ba3	-	2018	2030
Côte d'Ivoire	2300	5.75	B+	-	-	2010	2032
Côte d'Ivoire	1250	6.125	B+	Ba3	-	2017	2033
Côte d'Ivoire	1050	6.625	B+	Ba3	-	2018	2048
Ethiopia	1000	6.625	B	B1	B	2014	2024
Gabon	1500	6.375	B	-	NR	2014	2024
Gabon	700	6.95	B	Caa1	NR	2015	2025
Ghana	750	9.25	B	B3	B	2016	2022
Ghana	1000	7.875	B	B3	B	2013	2023
Ghana	1000	8.125	B	B3	B	2014	2026
Ghana	750	7.875	B	B3	B	2019	2027
Ghana	1000	7.625	B	B3	B	2018	2029
Ghana	1000	10.75	BB-	B1	-	2015	2030
Ghana	1250	8.125	B	B3	B	2019	2032
Ghana	1000	8.627	B	B3	B	2018	2049
Ghana	1000	8.95	B	B3	B	2019	2051
Kenya	2000	6.875	NR	-	B+	2014	2024
Kenya	900	7	B+	B2u	B+	2019	2027
Kenya	1000	7.25	B+	B2u	B+	2018	2028
Kenya	1200	8	B+	B2u	B+	2019	2032
Kenya	1000	8.25	B+	B2u	B+	2018	2048
Mozambique	900	5	-	-	-	2019	2031
Mozambique	500	10.5	-	WR	-	2013	2023
Namibia	500	5.5	BB	Ba1	-	2011	2021
Namibia	750	5.25	BB	Ba1	-	2015	2025
Nigeria	500	6.75	B+	-	B	2011	2021

Nigeria	300	5.625	B+	B2	B	2012	2022
Nigeria	500	6.375	B+	-	B	2013	2023
Nigeria	1118	7.625	B+	B2	B	2015	2025
Nigeria	1500	6.5	B+	B2	B	2017	2027
Nigeria	1250	7.143	B+	B2	B	2018	2030
Nigeria	1000	8.747	-	-	-	2018	2031
Nigeria	1500	7.875	B+	B2	B	2017	2032
Nigeria	1250	7.696	B+	B2	B	2018	2038
Nigeria	1500	7.625	B+	B2	B	2017	2047
Nigeria	750	9.248	B+	B2	B	2019	2049
Rwanda	400	6.625	B+	-	B+	2013	2023
Senegal	500	8.75	-	Ba3	B+	2011	2021
Senegal	500	6.25	-	Ba3	B+	2014	2024
Senegal	1200	4.75	-	Ba3	B+	2018	2028
Senegal	1100	6.25	-	Ba3	B+	2017	2033
Senegal	1000	6.75	-	Ba3	B+	2018	2048
Seychelles	169	8	-	-	-	2010	2026
Seychelles	15	6.5	-	-	-	2018	2028
South Africa	2000	5.5	BB+	Baa3	BB	2010	2020
South Africa	1000	5.875	BB+	Baa3	BB	2007	2022
South Africa	1500	4.665	BB+	Baa3	BB	2012	2024
South Africa	2000	5.875	BB+	Baa3	BB	2013	2025
South Africa	1250	4.875	BB+	Baa3	BB	2016	2026
South Africa	1000	4.85	BB+	Baa3	-	2017	2027
South Africa	2000	4.3	BB+	Baa3	BB	2016	2028
South Africa	2000	4.85	BB+	Baa3	BB	2019	2029
South Africa	1400	5.875	BB+	Baa3	BB	2018	2030
South Africa	750	6.25	BB+	Baa3	BB	2011	2041
South Africa	1000	5.375	BB+	Baa3	BB	2014	2044
South Africa	1000	5	BB+	Baa3	BB	2016	2046
South Africa	1500	5.65	BB+	Baa3	-	2017	2047
South Africa	600	6.3	BB+	Baa3	BB	2018	2048
South Africa	3000	5.75	BB+	Baa3	BB	2019	2049
Tanzania	600	7.9885	-	-	-	2013	2020
Zambia	750	5.375	-	-	B+	2012	2022
Zambia	1000	8.5	-	-	B+	2014	2024
Zambia	1250	8.97	-	-	-	2015	2027

Source: Various sources, including Bloomberg

Table A2: Debt burden thresholds and benchmarks under the DSF

Debt Carrying Capacity	PV of external debt in percent of		External debt service in percent of		PV of total public debt in percent of
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

Notes: On the basis of these thresholds and benchmark, DSAs include an assessment of the risk of external and overall debt distress based on four categories:
Low risk: when there are no breaches of thresholds;
Moderate risk: when thresholds are breached in risk scenarios;
High risk: when thresholds are breached in the baseline scenario; and
In Debt distress: when a distress event, like arrears or a restructuring, has occurred or is considered imminent.
Source: Joint World Bank-IMF Debt Sustainability Framework for Low-income Countries – Factsheet (IMF, 2020).

Table A3. Principles of responsible sovereign lending and borrowing: Lenders' and Borrowers' Responsibilities

Lenders' responsibilities	Borrowers' responsibilities
1. Agency: Lenders should recognize that government officials involved in sovereign lending and borrowing transactions are responsible for protecting public interest (to the State and its citizens for which they are acting as agents).	8. Agency: Governments are agents of the State and, as such, when they contract debt obligations, they have a responsibility to protect the interests of their citizens. Where applicable, borrowers should also consider the responsibility of lenders' agents toward their organizations.
2. Informed Decisions: Lenders have a responsibility to provide information to their sovereign customers to assist borrowers in making informed credit decisions.	9. Binding Agreements: A sovereign debt contract is a binding obligation and should be honored. Exceptional cases nonetheless can arise. A state of economic necessity can prevent the borrower's full and/or timely repayment. Also, a competent judicial authority may rule that circumstances giving rise to legal defense have occurred. When, due to the state of economic necessity of the borrower, changes to the original contractual conditions of the loan are unavoidable, Principles 7 and 15 should be followed.
3. Due Authorization: Lenders have a responsibility to determine, to the best of their ability, whether the financing has been appropriately authorized and whether the resulting credit agreements are valid and enforceable under relevant jurisdiction/s.	10. Transparency: The process for obtaining financing and assuming sovereign debt obligations and liabilities should be transparent. Governments have a responsibility to put in place and implement a comprehensive legal framework that clearly defines procedures, responsibilities and accountabilities. They should particularly put in place arrangements to ensure the proper approval and oversight of official borrowings and other forms of financing, including guarantees made by State-related entities.
4. Responsible credit decisions: A lender is responsible to make a realistic assessment of the sovereign borrower's capacity to service a loan based on the best available information and following objective and agreed technical rules on due diligence and national accounts.	11. Disclosure and publication: Relevant terms and conditions of a financing agreement should be disclosed by the sovereign borrower, be universally available, and be freely accessible in a timely manner through online means to all stakeholders, including citizens. Sovereign debtors have a responsibility to disclose complete and accurate information on their economic and financial situation that conforms to standardized reporting requirements and is relevant to their debt situation. Governments should respond openly to requests for related in-formation from relevant parties. Legal restrictions to disclosing information should be based on evident public interest and to be used reasonably.

5. Project financing: Lenders financing a project in the debtor country have a responsibility to perform their own ex ante investigation into and, when applicable, post-disbursement monitoring of, the likely effects of the project, including its financial, operational, civil, social, cultural, and environmental implications. This responsibility should be proportional to the technical expertise of the lender and the amount of funds to be lent.	12. Project Financing: In the context of project financing, sovereign borrowers have a responsibility to conduct a thorough ex ante investigation into the financial, operational, civil, social, cultural and environmental implications of the project and its funding. Borrowers should make public the results of the project evaluation studies.
6. International Cooperation All lenders have a duty to comply with United Nations sanctions imposed against a governmental regime.	13. Adequate Management and Monitoring: Debtors should design and implement a debt sustainability and management strategy and to ensure that their debt management is adequate. Debtor countries have a responsibility to put in place effective monitoring systems, including at the sub-national level, that also capture contingent liabilities. An audit institution should conduct independent, objective, professional, timely and periodic audits of their debt portfolios to assess quantitatively and qualitatively the recently incurred obligations. The findings of such audits should be publicized to ensure transparency and accountability in debt management. Audits should also be undertaken at sub-national levels.
7. Debt Restructurings: In circumstances where a sovereign is manifestly unable to service its debts, all lenders have a duty to behave in good faith and with cooperative spirit to reach a consensual re-arrangement of those obligations. Creditors should seek a speedy and orderly resolution to the problem.	14. Avoiding Incidences of Over-Borrowing: Governments have a responsibility to weigh costs and benefits when seeking sovereign loans. They should seek a sovereign loan if it would permit additional public or private investment, with a prospective social return at least equal to the likely interest rate.
	15. Restructuring: If a restructuring of sovereign debt obligations becomes unavoidable, it should be undertaken promptly, efficiently and fairly.

Source: UNCTAD (2012)

APPENDIX B: Glossary of selected concepts and indicators

This information below is extracted from World Bank (2019) and IMF (2014)

Central government: ministries of state and all government-controlled tax-funded agencies responsible for carrying out policy.

General government: includes all government units of central, state, provincial, regional, and local government and municipalities.

Non-financial public sector: the general government and all government owned non-financial corporations.

Overall public sector: the non-financial sector and government owned financial corporations and the central bank.

Net transfers on external debt are net flows minus interest payments during the year; negative transfers show net transfers made by the borrower to the creditor during the year. Data are in current U.S. dollars.

Net flows on external debt, total (NFL, current US$): Net flows on external debt are disbursements on long-term external debt and IMF purchases minus principal repayments on long-term external debt and IMF repurchases up to 1984. Beginning in 1985 this line includes the change in stock of short-term debt (including interest arrears for long-term debt). Thus, if the change in stock is positive, a disbursement is assumed to have taken place; if negative, a repayment is assumed to have taken place.

Public debt consists of debt liabilities both domestic and external, of the public sector. According to the 2019 External Debt Statistics Bulletin of the World Bank, there are a number of ways to define "public debt". The simplest is the liability of the central government which comprises of ministries of state and all government-controlled tax-funded agencies responsible for carrying out policy. The most comprehensive is the debt liabilities of the entire public sector which component include: (i) central government, (ii) general government, (iii) non-financial public sector, and (iv) overall public sector. In this study, the public debt stock is defined by the "general government gross debt" which encompasses debt of central government and excludes non-financial public sector and the overall public sector.

Appendix C: Public Debt management in Ghana and Kenya

Box 1. Public debt management in Ghana

The analysis in this section utilizes information based on interviews held with officials at Bank of Ghana and The Ministry of Finance in December 2019 and published documents from institutions responsible for the oversight and management of the public debt.

Policy Instrument

The government's policy instrument that governs public debt management is the Public Financial Management (PFM) Law (ACT 921, 2016). The mission of ACT 921 is to "regulate the financial management of the public sector within a macroeconomic and fiscal framework; to define responsibilities of persons entrusted with the management and control of public funds, assets, liabilities and resources, to ensure that public funds are sustainable and consistent with the level of public debt; to provide for accounting and audit of public funds and to provide for related matters." To strengthen Ghana's fiscal transparency and accountability, the government also passed the PFM Regulation L.I. 2378 on March 12, 2019. The stipulated regulations are to ensure stronger cash management, spending execution, and budget monitoring.

Government Entities Involved

The management of public debt involves three main government entities: The Ministry of Finance, the Controller & Accountant General, and Bank of Ghana, with oversight from the Parliament of Ghana. The Ministry of Finance is the main institution tasked with the contraction of government loans, coordinating and implementing government debt management policies. The Controller & Accountant General has the responsibility of disbursing the resources and the provision of advice on accounting matters to the government. The Ministry of Finance coordinates with the Bank of Ghana to report to the public and to ensure prudent, efficient, and effective management of public debt.

Coordination among the three main government entities is the responsibility of the Ministry of Finance. The Treasury and Debt Management Division (TDMD) of the Ministry of Finance coordinates with other divisions in the Ministry in the analysis of the country's debt sustainability and the preparation of the medium-term debt strategy. The TDMD also coordinates with the Resource Mobilization and External Relations Division (RMERD) to ensure effective implementation of the debt strategy with regards to multilateral and bilateral loans, for which RMERD performs much of the front office functions. The TDMD also coordinates with the Budget Division and the Controller and Accountant General's Department in assessing the government's financing needs and cash management and the payment of government debt obligations. The TDMD coordinates with the Bank of Ghana in assessing the domestic capital market and the auction and settlement of government debt securities. The Bank of Ghana handles external debt service payments on behalf of the Government of Ghana. Ensuring financial accountability is the responsibility of the legislature and public audit institutions.

Public Awareness: Government Borrowing and Debt Uses

The regular publication of the Budget documents (Statement of Economic and Financial Policies), the Medium-Term Debt Strategy document, Annual Public Debt Report, the Quarterly and Annual Public Debt Statistics Bulletins, and the Bank of Ghana bi-monthly Monetary Press Release reports and Summary of Economic and Financial Data, keeps the public informed about government borrowing and debt-funded projects. The public has the opportunity to review and comment on government borrowing, during the budgeting process, is when the budget is read at Parliament, where the Members of Parliament ask questions. The Parliament of Ghana is the representative of the public and is tasked with the responsibility of reviewing and approving government borrowing, as proposed in the budget.

Box 2. Ghana Ministry of Finance's assessment of the debt situation and prospects

This section is based on interviews with Ministry of Finance officials.

A country is classified as being "in debt distress" when it experiences difficulties in servicing its debt, as evidenced, for example, by the existence of substantial arrears. The Ministry of Finance's assessment is that Ghana is not facing such situation at the moment. The Treasury and Debt Management Division (TDMD) has an active liability management program to deal with Eurobond and other Domestic Bond maturities. The TDMD also prepares, publishes, and implements a comprehensive Medium-Term Debt Management Strategy that takes into consideration all the risks identified in the DSA. The Medium-Term Debt Management Strategy is monitored and reviewed regularly.

New financing will entail the maximization of available funding envelopes from concessional and semi-concessional external sources, taking into account what may be readily available within a given period before exploring other external funding sources. Access to non-concessional financing is expected to increase going forward for financially viable projects, in line with plans to scale up infrastructure development.

Growth is expected to be driven by the oil and non-oil sectors. The expected growth reflects the impact of the government's flagship programs such as the planting for food and jobs, infrastructure for poverty eradication program, and one-district-one-factory program. Achieving growth targets is also contingent on addressing key structural challenges, including closing the growing infrastructure gap and diversifying the non-commodity economy.

Tight fiscal policy stance and strong performance in the external sector as well as improved trade balance, increase in foreign reserves buffers, and the resumption of capital flows should alleviate the risks of further exchange rate depreciation and help to contain inflation.

The country is satisfied with the disbursement of debt from non-concessional sources. These are usually not encumbered by lengthy creditor/donor processes, and the implementation of debt-funded projects are on schedule.

Box 3: Public debt management in Kenya

In Kenya, debt management is done by the Debt Management Department under National Treasury. The department publishes two major documents which aim to inform Kenyans on the stock and composition of public debt and strategies to unsure that public debt is sustainable. The medium-term debt management strategy (MTDS) is the key planning tool for public debt management. The aim of MTDS is to minimize the cost of public debt, develop debt markets, and spread of the costs and benefits of public debt among different generation. Recently, public debt management has become a concern due to the increase in external debt, especially commercial loans and low revenue growth. However, the government believes that public debt remains within the target (Kenya National Treasury, 2018).

In 2017/2018, the Kenya government preferred to borrow on medium term in the domestic market and external markets. Therefore, the government was to achieve its financing needs by borrowing 40 percent from the domestic markets and 60 percent from external sources. External sources included 20 percent concessional, 30 percent semi-concessional and 10 percent commercial (Kenya National Treasury, 2018).

Using World Bank's country policy and institutional assessment (CPIA) index, Kenya is rated as a strong performer in terms of institutional quality and hence, its sustainability threshold is 70 percent of present value of debt to GDP. A lower-middle-income country is required to maintain the following debt thresholds: 50 percent for the net present value (NPV) of external debt to GDP ratio, 200 percent for the NPV of external debt to export ratio, 300 percent for the NPV of external debt to revenue ratio, 25 percent for the external debt service to exports ratio, and 22 percent for the external debt service to revenue ratio.

Kenya has been able to achieve two of the indicators (NPV of debt to GDP ratio and NPV of debt to revenue ratio), but it has breached the debt service to revenue ratio which stood at 30.5 percent in 2018. Hence, the IMF (2018) argues that due to increase in non-concessional borrowing, Kenya fiscal vulnerability has increased, although the risk of debt distress remains moderate. The IMF (2018) argues that the breach of these indicators is due to refinancing requirements of the commercial loans. Since the breaches occurs under extreme condition scenarios and only one indicator is marginally breached and it is in the short term, it is safe to assume that Kenya's public debt is currently sustainable.