Speech by Dr Ayodele Odusola, UNDP Africa Finance Sector Hub Manager & Resident Representative for UNDP South Africa

Delivered at the 3rd Virtual Conference of the African Organisation of public accounts committees - AFROPAC

"Collect Comprehensively, Borrow Wisely, Spend Efficiently: Public Finance Oversight in a Time of Pandemic Recovery: Debt policy and Management"

May 18, 2022

Distinguished Members of Parliament,

Excellencies,

Distinguished Guests, ladies and gentlemen,

I would like to thank the African Organisation of Public Accounts Committees (AFROPAC) for hosting this virtual conference on Public Finance Oversight. The COVID-19 pandemic has put additional financing pressure on an already limited revenue pool in Africa. As the decline in government revenue triggered by COVID-19 led to a new wave of borrowing, robust **debt management policy** is a critically important topic in ensuring a sustainable recovery and the achievement of Sustainable Development Goals (SDGs) and Africa Union (AU) Agenda 2063.

With revenue shortfalls and higher debt levels in many countries, **fiscal space is shrinking**, and thus constraining Sub-Saharan Africa's development prospects:

- Sub-Saharan Africa's economy will grow by 3.7% in 2022 following a growth rate of 4.0% in 2021.
- The recovery follows a sharp contraction in 2020, but still represents the slowest relative to other regions.
- While advanced economies are projected to return to their pre-crisis path by 2023, the pandemic seems to have durably lowered the path of real GDP in sub-Saharan Africa, suggesting a loss of real per capita output of close to 5½% relative to the pre-crisis path.
- In 2021, the African Development Bank (AfDB) estimated that 39 million Africans were forced into extreme poverty, following about 30 million who were pushed into extreme poverty in 2020 because of the pandemic.

- Last year, half of the region's low-income developing economies were either in or at high risk of **debt distress**.
- **Debt levels** are expected to reach 56% of the GDP in 2022, compared with a pre-pandemic level of 50.4%.
- **Debt servicing** costs rose significantly in the last decade, tripling from 5 to 15% of government expenditure between 2009 and 2019.
- More recently, rating downgrades in Sub-Saharan Africa have been far-reaching and continue to threaten the sustainability of public debt due to resulting high borrowing costs.
- The lack of information on fiscal risk is a particular concern, with budget transparency, participation, and oversight showing little progress over the past decade.

The increasing debt-service costs diminish fiscal space for countercyclical measures and financing for SDGs. In most Sub-Saharan African countries, spending on debt service was greater than spending on education, health and social protection combined. Furthermore, capital flight, in particular Illicit Financial Flows (IFFs) which are estimated at US$88.6 billion per annum (equivalent to 3.7% of Africa's GDP) by United Nations Conference on Trade and Development (UNCTAD), are extracting vast sums of revenue from the continent that could be used to cater for the servicing of external debt and to provide capital for development. To meet the large SDG investment needs, debt management capacity and transparency needs to be continuously enhanced given the growing complexity of the debtor landscape and debt instruments. Post COVID-19, even the most resilient and fiscally robust countries, like South Africa, have had to borrow money from both the Bretton Woods institutions and the capital markets.

Collect Comprehensively

Ladies and Gentlemen,

This crisis is a tragedy, but can also be an opportunity for African nations to pivot towards an integrated approach to financing their national priorities. In 2015, countries agreed to the Addis Ababa Action Agenda (AAAA), which highlighted the wide range of resources that would be needed to finance the 2030 Agenda, and the many ways in which public and private financing would need to become more inclusive, more sustainable, and more resilient. The need for integrated and systems driven approaches to tackle complex financing challenges have led to the conception of the Integrated National Financing Frameworks (INFFs). INFFs can help African countries: to manage their fiscal space and channel resources towards national priorities by:

(1) reviewing financing reforms that may have long been on the policy agenda,
(2) considering new ways of mobilizing resources across the public and private financing space in an integrated manner ;
(3) setting up monitoring and review systems to track the trends and the dynamics of financing flows in an integrated manner, and;
(4) developing mechanisms for improved governance and coordination .

Borrow Wisely and Spend Efficiently

At the national level, the SDG financing strategies that are at the core of the INFF process, provide a framework to manage borrowing and debt in a sustainable fashion, to improve spending efficiency and oversight, to tackle illicit finance, increase tax revenues and wider domestic resource mobilisation, create enabling environments that leverage private sector participation in SDG investments and align public and private resources with SDGs. Regarding debt sustainability and public finance oversight, it promotes reforms such as:

- Fostering an enabling environment, governance mechanisms, monitoring and evaluation framework for issuing thematic bonds (SDG, green, blue, Islamic bonds) and debt swap mechanisms. For example, in Cabo Verde, the INFF highlighted the infrastructure that existed within the Stock Exchange for impact financing and created the environment that was needed to issue blue and social bonds, which they successfully launched for the first-time last year.
- Promoting accountability and transparency mechanisms among the entities involved in financing sustainable development, such as bond issuers, through SDG Impact Standards.

- Setting up mechanisms for improved debt management and coordination from a whole-of-society approach. As such, UNDP has joined forces with the African Forum and Network on Development and Network on Debt on Development (AFRODAD) to establish an *SDG aligned Borrowing Charter,* that aims to institute a set of harmonised principles, conditions and rules for the borrowing process at the continental level to ensure coherence across financing policies, SDG alignment, enhanced coordination, as well as transparent, accountable, and inclusive debt management systems for informed decision making.
- Tackling tax avoidance, tax evasion and Illicit Financial Flows (IFFs) by enhancing the capacity of National Tax Authorities (NTAs) and relevant agencies and providing the tools to address loopholes in tax. For instance, together with its partners, Tax Inspectors Without Borders (TIWB) has helped African governments recover more than USD 989.6 million of additional tax revenue and USD 2,726.9 million could be collected from concluded tax assessments by countries in Africa. In addition, a regional tax project aiming at supporting African countries to align tax and fiscal policy with the SDGs will be launched in March. The Financial Intelligence Centre mechanism established by South Africa, provides and instructive mechanism to safeguard Africa countries' sovereignty and plugging loopholes in the tax system and illicit financial flows.

The INFF is also establishing SDG Financing dialogue platforms with the aim of promoting private sector participation, better accountability, transparency, inclusion and ultimately pro-equal financing systems. So far, UNDP is providing programmatic support to 36 countries across sub-Saharan Africa in operationalizing an INFF and we hope to expand to the whole continent this year.

At the global level, steps have been taken to manage the debt crisis, including fresh financing by International Financial Institutions, the G20's Debt Service Suspension Initiative, and the Common Framework for Debt Treatments. However, more efforts are needed to reach highly indebted, vulnerable Middle-Income Countries and to tackle weaknesses in the international debt architecture.

On 28 May 2020, the Prime Ministers of Canada and Jamaica and the Secretary-General launched the Initiative on Financing for Development in the Era of COVID-19 and Beyond (FfDI) to identify and promote concrete financing solutions to the COVID-19 health and development emergency

Some of the recommendations that emerged from this process refer to the:

- Allocation of the **International Monetary Fund** IMF's special drawing rights. This is a low-cost way of adding to countries' international reserves, allowing them to reduce their reliance on more expensive domestic or external debt. With the support of wealthy nations, additional SDRs channelled to African governments could be a game changer for economies, the climate and children. Expanding these resources in a way that prioritizes human capital and a green recovery is crucial.
- Sovereign debt restructuring framework. The G20's new common framework is a move in the right direction in that it seeks to facilitate orderly treatment for the countries for the Debt Service Suspension Initiative (**DSSI**) via broad creditor participation and multilateral approaches. But its success will depend on whether there is appropriate burden sharing by private lenders. Currently, the DSSI lays the burden of repayment on official bilateral creditors.
- New debt mechanisms that could provide a menu of options including debt swaps, buy-backs and cancellations for vulnerable highly indebted countries.
- Measures for debt crisis prevention and resolution such as: improved public debt management, strengthening debtor/creditor transparency, state-contingent debt instruments, legislative strategies and advisory to continued technical assistance for Debt authorities to improve debt transparency.

Conclusion

Nobel Prize holder Economist Joseph Stiglitz once said “Development is about transforming the lives of people, not just transforming economies.” The way we mobilise, monitor and channel resources must always mirror people’s needs and the sustainable goals towards which we are aiming. The choices SSA countries make today will determine how fast the development trajectory of the continent will return to the levels before the pandemic and most importantly, how resilient, and solid is the foundation on which we are rebuilding the future of SSA.

As we move forward, we discover large windows of opportunities in leveraging finance for SDGs and we continue engaging with partners that bring different perspectives, know-how and opportunities to SSA. Only together and with the needs of all actors considered, we will be able to move past the pandemic and build more resilient, accountable, and sustainable societies for the future. This means looking beyond sectoral challenges for opportunities for transformative change, understanding interdependencies and leveraging linkages across interventions, as well as deepening coordination and integration across key stakeholders such as the public and private sector, civil society organizations, academic institutions, and development partners. In this way, we can come closer to the achievement of the SDGs and the national development goals- both medium and long term.

Technical capacity of public accounts committees needs to be strengthened, with content advisors and research expertise. The tradition of electing chairs of these committees from the opposition benches needs to be continued, as it strengthens oversight in a very complex financial architecture, and where the public fiscus is under a lot of strain.

Thank you.