

Debt Sustainability and Development Implications of Moderately Concessional Lending Terms for ADF Countries

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Introduction

Since the November 2015 mid-term review of ADF-13, it has become increasingly clear that donors' capacity and willingness to provide pure grants has diminished on account of entrenched fiscal and political problems in their own countries. One consequence has been the potential inclusion of concessional loan instruments in the funding mix for ADF, something that has already transpired for the recently concluded ADF-14 replenishment. This "new reality" has prompted donor concern that less-concessional lending terms to ADF countries, needed for preserving the financial viability of ADF itself, might trigger another round of debt sustainability problems.

In response, the ADF Policy Innovation Lab ("ADF Lab")² examined the impact of less-concessional lending terms on debt sustainability for ADF countries. The findings reported in this working paper are based on debt sustainability calculations for 33 out of the 38 ADF countries. Comoros, Eritrea, Somalia and South Sudan were excluded because of insufficient data and Nigeria was excluded because it is in transition status and expected to graduate soon from ADF. In addition, the ADF Lab visited 5 countries: Cote d'Ivoire, Ghana, Mozambique, Rwanda and Uganda, to obtain feedback on the debt sustainability findings.

Moderately Concessional Loan (MCL) Terms

The ADF Lab adopted the following working definition for less-concessional lending terms, which we label "moderately concessional": a 40-year US dollar (USD) loan with 10 years' grace and charging an interest rate of about 3% benchmarked off the current 30-year US Treasury bond yield. Annex 1 examines the concessionalism embedded in MCLs relative to ADF and IDA lending terms and shows that MCLs compare favorably.

There is, however, a point worth emphasizing. The progressive hardening of terms in ADF and IDA typically involve both raising interest rates above concessional levels *and* shortening grace periods and loan maturities. The ADF Lab considers higher interest rates (but still well below commercial terms) preferable to shortened grace periods and loan maturities. The reason is that the large investments in infrastructure and human capital needed to spur development have exceptionally long payback periods.

It is also noteworthy that MCL terms are far superior to the terms ADF country governments have been obtaining on their Eurobond issues or other commercial loans, including those obtained by parastatals.

Main Findings

The main findings from the debt sustainability assessments and five country visits are as follows:

(1) 17 countries possess high potential eligibility for MCLs based on government marginal borrowing cost considerations. These predominantly include countries which have issued Eurobonds or domestic (local currency) debt on commercial terms or both. But there is no presumption of automatic access to MCLs, which will require demonstrating the capacity to absorb and use the money well in the context of an enhanced policy dialogue (EPD), the reasons for which are spelled out in this working paper. The remaining 16 have low potential eligibility, with MCL terms likely to exacerbate debt sustainability problems in 6 countries while the remaining 10 are relatively better off. These countries are generally poorer and fragile on account of the Ebola epidemic, regional insecurity or domestic political crises. Their Country Policy and Institutional Assessment (CPIA) ratings tend to be at the lower end of the scale with generally weak economic governance.

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² The ADF Policy Innovation Lab was created under the Bill & Melinda Gates Trust Fund as an independent think-tank in the AfDB Group. It comprises a high level panel of eminent persons and an advisory team.

(2) MCL terms are unlikely to be a tipping point for public debt sustainability (DS) problems in the 17 countries with high potential eligibility for two reasons. First, in most cases, MCLs will be less costly and of longer maturity than the market borrowing alternatives being pursued domestically and via Eurobonds. Second, poor use of public funds (not just from ADF, but overall fiscal revenues, including especially proceeds from natural resources), insufficient emphasis on value for money and exchange rate collapses are much more important for debt sustainability than the envisaged MCL interest rate.

(3) An acute tension exists in ADF countries between the vast public investment requirements needed on the one hand and public debt sustainability on the other. African countries urgently need funds for infrastructure and human capital investments in order to maintain their growth momentum, combat poverty, and take advantage of the demographic transition and "youth bulge" over the next 20-30 years.

(4) The capital market is unlikely to be a good or stable source of development finance--it is too myopic and unforgiving, and costs quickly rise with successive bond issues. At the other extreme, concessionality in the post-HIPC-MDRI world has not delivered either sustainable public debt profiles (in spite of significant debt write offs) or a strong foundation for sustained growth and development.

Findings (2), (3) and (4) point to the need for a fundamental rethink of the present configuration governing Official Development Assistance (ODA). ADF countries need frontloaded development funding for the vast investment requirements in connection with the Sustainable Development Goals (SDGs). For example, the UNCTAD 2016 Economic Development report on debt dynamics and development finance for Africa notes that financing the SDGs could require investments of between \$600 billion and \$1.2 trillion per year, with infrastructure alone costing \$93 billion, of which Africa can raise only half (UNCTAD 2016). But ADF countries must simultaneously demonstrate their capacity to use the funds well, and innovative financing mechanisms must be found that will lower the fiscal burden on donors.

(5) Donor fiscal and political constraints combined with the first four findings indicate the need for rejuvenating the African country-donor relationship by defining a new middle ground with the following features:

- Funding instruments that frontload ODA while simultaneously lowering the fiscal burden on donors. This can be achieved by securitizing a portion of grants now given to African countries so as to raise a large amount of money upfront by using mechanisms similar to Gavi and IFFIm (International Finance Facility for Immunisation). By on-lending the funds to ADF countries via MCLs that are eventually repaid, the demand on donors for future ODA will decline
- A higher bar for MCL access combined with an EPD that focuses on debt sustainability via better management of the public finances and improved growth policy. A portion of front-loaded funds can be used for regional infrastructure projects (where the ADB Group has a comparative advantage) with the balance going to countries which fulfil stringent criteria on public financial management and have demonstrated absorptive capacity
- A two-tier structure consisting of the current Performance Based Allocation (PBA) system with a focus on countries not currently eligible for MCL access plus a new window for MCLs with more stringent criteria
- Active collaboration between ADF and IDA as well as with other development agencies operating in Africa to make frontloaded ODA and the EPD a success.

Conceptual Framework

The ADF Lab focused on *public* debt sustainability in examining the implications of MCLs. In contrast, the IMF-World Bank Debt Sustainability Framework for Low-Income Countries (DSF) assesses debt distress in relation to total *external* debt, public plus private. Three reasons explain the Lab's focus on public debt:

- i. The immediate impact of less-concessional terms will be on the public finances and public debt
- ii. Fuller debt coverage is enabled, since both public and publicly guaranteed external debt *and* domestic debt are included. Domestic (local currency) debt has become increasingly important at the margin for governments and is typically at commercial terms
- iii. Addressing unsustainable debt requires policies to remedy public debt dynamics (via fiscal policy, domestic revenue mobilization, etc., and growth policy).

In addition to public debt dynamics, the vulnerability of ADF countries to shifting market sentiment has grown, especially in countries where external financial integration is high and non-residents hold a large fraction of local currency government debt. Likewise, current account deficits, total external debt and foreign exchange reserve adequacy are becoming increasingly important, and these variables are touched upon where relevant. The 2016 review of the IMF-World Bank DSF launched during the 2016 Spring Meetings echoes many of the above concerns, in particular, the need to pay more attention to public debt and market borrowings (IMF 2016a).

As with an earlier working paper examining the debt sustainability implications of less-concessional lending terms for a sample of ADF countries (ADF Lab 2016), two questions were posed for each ADF country: (i) is there any evidence of deterioration in public debt dynamics based on outcomes for 2013-15, and if yes, what are the main causes? And (ii) what is the prime determinant of the marginal cost of borrowing, official funds or market borrowing?

The answer to question (i) is obtained by using the standard framework for public debt sustainability based on primary fiscal deficits (total revenue minus non-interest spending), the interest rate on public debt and the GDP growth rate. These three variables determine public debt dynamics, that is, the path of the ratio of public debt to GDP (the “debt ratio”) over time. For example, if the government is running a primary deficit and interest rates exceed growth rates, the debt ratio will grow without bound in the absence of corrective fiscal policy, eventually resulting in a crisis. Similarly, a rise in the ratio of the primary deficit to GDP, or an increase in interest rates or a collapse in growth rates or some combination of these outcomes will worsen debt dynamics and could precipitate a crisis.

The exchange rate has become a key variable impacting public debt dynamics in ADF countries. This is because the average share of public debt denominated in foreign currency (“forex debt”) is close to 70%. Large currency depreciations such as we have witnessed over the last couple of years quickly increase the burden of forex debt and the debt ratio. Therefore, the framework incorporates calculations that enable the impact of currency volatility on forex debt to be captured. These show that the strong appreciation of the US dollar, which started in 2014, along with the collapse in commodity prices linked to the slowdown in China’s growth rate, has been a major factor in increasing debt ratios in ADF countries over the past three years.

Similarly, debt ratios can be adversely affected by contingent liabilities from state-owned enterprises and commercial banks. If the state-owned energy company, or a failing bank, needs a bailout, this will add to the public debt burden.

Question (ii), on the marginal cost of borrowing, is relevant when assessing whether a country can cope with MCLs. A country issuing a \$1 billion Eurobond at a 10% yield with a bullet payment at the end of 10 years could actually improve its debt profile by obtaining USD funds from official MCLs at 3-4% with 40 years maturity and 10 years grace. But this crucially assumes that MCLs are accompanied by an expanded envelope of official resources which will displace more expensive market borrowing. This is an important consideration given the vast and immediate investment needs in Africa to meet the SDGs, as noted above.

The two questions taken together enable the impact of MCLs on debt sustainability to be assessed. Since debt sustainability is essentially a forward-looking exercise, the conclusions about countries’ ability to cope with MCLs reflects the judgment of the ADF Lab on how key variables are likely to move in the light of the medium-term macroeconomic outlook for Africa.³

Development Issues

Debt sustainability is not an end in itself but a necessary foundation for long-run growth and development. Therefore, this working paper also dwells on issues falling under the rubric of African development. The guiding principles draw from:

- i. Development economics and the notion of diminishing marginal returns to capital, which in principle imply high returns to investment, public and private, in Africa
- ii. Estimates of the sources and marginal cost of government borrowing especially as public investment is ramped up, subject to data availability. And:

³ A recent comprehensive assessment of Africa’s macroeconomic situation is contained in [IMF](#) (2016b). [World Bank](#) (2017) contains an excellent account of key economic issues, including Africa’s Infrastructure deficit.

- iii. The importance of long debt maturities and grace periods. This is essential considering that Africa will need substantial time, possibly at least another generation, to establish a solid foundation for long-run growth. Based on the Solow Model and development economics, this would require convergence in technology (faster total factor productivity growth) and capital deepening (raising capital/labor ratios, importantly through large public investments in infrastructure), as well as sustainable public finances, and good governance, leadership and institutions to underpin the management of economic and political volatility.

This combination of debt sustainability and development is the perspective adopted by this working paper. The country assessments are contained in Annex 3. Annex 2 contains a guide to interpreting these country assessments, while Annex 4 contains the derivations of the formulas used for calculating the interest rate on public debt as well as its two sub-components, that on local currency debt and that on foreign currency debt, expressed in local currency-equivalent terms. Doing so captures the effect of exchange rate movements on debt dynamics.

Country Results: Debt Sustainability

Four broad results emerge from the ADF Lab's assessment of public debt sustainability in ADF countries.

First, debt dynamics have become more challenging and are likely to remain so over the medium-term. While the deterioration is most obvious for commodity exporters (owing to diminished medium-term prospects for growth, fiscal revenues and the terms-of-trade), it applies to other countries as well.

Second, the external financing constraint is binding. African countries need to frontload infrastructure investments as a foundation for long-run growth and development. Such investments will pay off only over the longer run. But there will be an immediate and sizable upward impact on public and external debt and current account deficits owing to the paucity of national savings. Indebtedness will then have to be brought down to sustainable levels. The latter rests on being able to increase growth, domestic revenue mobilization and exports. But this assumes that the selection and implementation of public investments is of high quality and that the necessary investment in human capital, production and exports takes place and bears fruit.

Third, the natural resource curse appears to be alive and well.⁴ Now is a good time to combat it given the indifferent outlook for hydrocarbon and mineral and metal prices over the medium term. Besides, as some African policymakers have noted in conversations with the ADF Lab, adversity and crisis could have positive benefits by concentrating the mind on difficult policy and institutional reforms.

Fourth, the foundation for sustained long-run growth and development is far from established. This includes the transparent and effective management of the public finances, establishing local currencies as a credible store of value, raising national savings rates and developing solid financial systems to mobilize and invest such savings, and managing economic and political volatility by strengthening governance, institutions and leadership. Also important is the agenda for diversifying away from commodities and the integration of the African continent. The ADF Lab's assessment is that it will take another generation to address these topics in a convincing manner.

ADF countries were divided into three groups in order to extract the insights on the impact of MCLs:

1. Countries which have issued Eurobonds
2. Countries with GNI per capita (2012-14 average) less than USD 500 and have never issued a Eurobond
3. Remaining countries (GNI pc greater than USD 500, never issued a Eurobond).

One country, Ethiopia, overlaps categories 1 and 2. In principle, Groups 1 and 2 represent the two extremes in terms of potential eligibility for MCLs while Group 3 is somewhere in the middle. Table 1 provides a snapshot of public debt dynamics as of 2015.

⁴ An oil or copper boom can be thought of as having two effects. The first is the so-called Dutch Disease effect, whereby the real appreciation of the exchange rate leads to a shrinkage of agriculture and manufacturing, leading to a concentration of the commodity in exports and fiscal revenues. The key issue is to smooth real appreciation by recognizing that the boom will not last forever. The second is the failure to use natural resource wealth well because of weak institutions and corruption. The "curse" refers to the latter set of effects.

Group 1: Countries issuing Eurobonds

The first set includes the 10 countries which have issued Eurobonds, listed here in descending order of the CPIA score for the 2016 ADF PBA (performance-based allocation): Rwanda, Senegal, Kenya, Tanzania, Ethiopia, Cameroon, Ghana, Côte d'Ivoire, Zambia and Mozambique. Annex 5 lists Eurobond issuances up to the end of 2016.

Five observations are worth making.

First, Ghana, Zambia and Mozambique have obvious debt sustainability problems in spite of having benefited only recently from HIPC-MDRI debt reduction. These countries could benefit from MCLs on cost and maturity grounds. For example, Ghana issued yet another Eurobond in September 2016 for \$750 million at 9.25% with an average maturity of just 5 years; its average Eurobond issuance of \$450 million per year since 2007 dwarfs its ADF 2016 allocation of UA 47 million (approximately \$64 million). But access to MCLs needs to be conditioned on clear improvements in economic governance.

Table 1 - Snapshot of Public Debt Dynamics for 2015

	Public Debt		Debt dynamics (2015)					Non-interest current account deficit (2015)
	End-2015	Change 2013-2015	Primary deficit	Nominal GDP Growth	Nominal interest rate			
					Composite	Local currency	Forex	
	% GDP	p.p. GDP	% GDP	%	(%)			
Countries which have issued Eurobonds								
Rwanda	35.40	8.60	3.90	8.18	10.03	9.40	10.18	12.70
Senegal*	54.40	7.80	2.90	5.31	12.04	6.91	13.82	7.00
Kenya*	52.70	8.60	5.40	12.89	13.12	10.86	15.49	7.40
Tanzania	30.60	0.90	1.60	13.21	20.06	15.75	21.46	8.20
Ethiopia	50.70	13.00	7.10	16.59	5.86	5.06	6.54	11.60
Cameroon*	32.60	13.40	4.90	7.91	14.80	1.60	21.33	4.80
Ghana	73.80	15.70	-0.20	23.43	23.61	19.16	26.51	4.50
Côte D'Ivoire*	42.60	8.40	3.10	10.68	7.79	2.92	12.48	1.60
Zambia*	40.30	11.70	4.90	13.52	18.74	12.34	24.58	-0.70
Mozambique*	73.40	22.50	4.70	11.72	31.46	8.04	35.60	29.10
Countries with GNI pc (2012-14 average) less than USD 500								
Niger*	43.10	16.00	6.50	6.17	10.62	4.14	12.74	17.00
Guinea	55.70	12.90	8.10	6.71	9.20	5.21	12.27	22.10
Malawi	53.80	3.20	2.00	24.61	36.03	20.98	42.81	8.00
Liberia*	24.60	12.20	8.20	4.39	5.04	-	-	33.50
Burundi*	30.40	-2.30	0.40	11.72	5.84	6.60	5.25	13.20
Congo, Dem. Republic*	18.00	-1.40	-1.10	11.60	2.36	2.30	2.38	7.20
Madagascar	41.00	7.10	2.40	10.94	18.68	5.99	24.61	1.60
Gambia*	101.50	18.20	-3.30	11.20	15.46	15.22	15.67	13.50
Central African Republic	48.50	10.00	0.10	11.30	4.33	0.78	12.94	12.50
Countries that never issued Eurobonds but with a GNI pc (2012-14 average) greater than USD 500								
Uganda	31.10	7.80	3.00	9.41	23.09	15.35	28.04	6.90
Burkina Faso	32.10	2.50	1.00	5.66	12.06	4.55	14.99	6.10
Benin	37.10	11.70	5.10	6.04	8.79	5.24	10.70	11.00
Mauritania	93.30	25.50	2.30	-3.70	9.23	4.90	9.61	17.50
Lesotho	48.10	4.70	2.90	7.63	13.93	9.41	14.10	6.20
Mali	36.50	5.10	2.40	8.26	10.60	6.40	11.84	2.20
São Tomé and Príncipe	59.00	14.80	8.60	12.63	11.96	-	-	16.40
Djibouti*	74.30	17.50	11.50	9.69	4.03	-	-	25.40
Chad	42.60	12.30	2.80	4.85	13.41	2.28	17.23	11.30
Togo*	62.50	12.40	4.00	8.03	7.48	3.63	11.99	12.20
Sierra Leone	43.80	13.30	3.80	-1.61	12.72	5.75	15.68	15.50
Guinea-Bissau*	50.90	1.10	-0.10	10.88	5.11	2.30	10.78	3.50
Zimbabwe	70.80	4.90	0.30	-0.21	0.99	-	-	10.60
Sudan	72.90	-17.00	-0.80	20.53	5.93	6.40	5.86	5.80

Source: IMF data and own calculations. Countries listed in descending order of CPIA within each group. * Projections.

Mozambique has decided to restructure its sovereign debt with IMF support. Ghana already has an IMF program while Zambia is engaged in discussions on an IMF program. For these countries, growing out of their debt problems is unlikely if the emerging market (EM) experience is any guide, not to mention indifferent medium term prospects for economic growth and the terms of trade. The focus must be on raising the primary surplus (through higher domestic resource mobilization and current expenditure rationalization) and lowering country risk, thereby reducing the interest rate. The short-term growth impact will be negative, but the alternatives of defaulting on forex debt and inflating away domestic (local currency) debt are less palatable. Reestablishing policy credibility the old-fashioned way, by raising primary surpluses and lowering the country risk, would emulate the response of countries like Brazil and Turkey to their debt problems between 2001 and 2008.⁵

An EPD focusing on achieving sustainable public debt trajectories along the lines described combined with access to MCLs as policy credibility gets re-established would serve as a signal that the ADF and the MDBs more generally are not going to bail out African countries when they get into debt problems.

Second, banking on natural resource (NR) wealth has played a role in all three countries. Without appropriate institutions and policies, NR wealth could be squandered instead of helping with long-run development. Mozambique is only the most recent illustration. The collapse of natural gas prices has drawn attention to the need for more transparency regarding the public finances and debt, and eventually on the use of NR wealth to benefit the country, including future generations, instead of enriching only a well-connected few.

In the case of Ghana, once the poster child for HIPC-MDRI debt relief, the ADF Lab's visit in February 2017 indicated relying heavily on revenues from new oil fields as well as issuing Eurobonds (to avoid soaring interest costs in the domestic market) as a strategy for lowering the public debt-to-GDP ratio. This approach can be at best a temporary palliative. Instead, Ghana needs to address its fundamental fiscal imbalance which requires implementing "the new government's intentions to reduce tax exemptions, improve tax compliance and review the widespread earmarking of revenues".⁶ In short, ensuring that the public finance management (PFM) system works and public investments are carefully selected and executed is highly important. Indeed, Ghana's fiscal consolidation suffered a setback in 2016, with the eventual cash fiscal deficit estimated at 9% of GDP compared to its target of 5.25%. Public debt rose to 74% of GDP at end 2016 compared to a projected 70.4% in the debt sustainability analysis contained in IMF (2016c). An important reason was "significant public spending commitments that bypassed PFM systems".

Third, relying on market-based finance is unlikely to be a feasible strategy for long run growth and development. In the case of EMs, tapping the international capital markets has tended to enhance macroeconomic vulnerability instead of promoting long-run growth. In fact, the fastest growing EMs have tended to self-finance the investment needed for their growth by increasing saving and running current account surpluses.⁷ But this latter course would not be easy for African countries given their relatively low per capita incomes.

From a development perspective, even for countries that can access Eurobonds at reasonable rates, the volume of funds that can be raised by this route is unlikely to be sufficient to meet the development spending needs. In addition, the cost is very likely to increase with each successive Eurobond issue, not to mention the risk associated with the currency mismatch. Similarly, the typical maturity of 10 years for a Eurobond is not long enough to obtain the growth and revenue payoff needed for servicing the debt.

Fourth, Kenya is an outlier. It is neither NR-rich nor has it benefited from the HIPC-MDRI debt write off. Yet its economic performance has been among the best in Sub-Saharan Africa and it is currently the highest rated ADF sovereign credit. Nevertheless, Kenya has public debt sustainability issues even though it is rated at low risk of external debt distress (see Annex 3). Similarly, other countries issuing Eurobonds such as Cote d'Ivoire, Ethiopia and Rwanda have fared much better than Ghana, Zambia and Mozambique. Nevertheless, even in these countries, the tension between the need for frontloading human capital and infrastructure investment and keeping public debt sustainable is ever-present, in addition to current account deficits that are worryingly large when compared with EMs. For example, five EMs were singled out as being exceptionally vulnerable when the chair of the US Federal Reserve Board first mentioned tapering its asset purchase program in May 2013: Brazil,

⁵ Details may be found in [Pinto \(2014\)](#).

⁶ This quote and the one below are from [IMF's February 10 2017 Press Release 17/43](#).

⁷ [Gill and Pinto \(2005\)](#). [Aizenman, Pinto and Radziwill \(2007\)](#).

India, Indonesia, Turkey and South Africa. They were labeled the “Fragile Five”, but their current account deficits were in the 3-5% of GDP range, far lower than in most ADF countries.

Ethiopia is the only Eurobond issuing country with a GNI per capita less than USD 500. While it does not face overt debt sustainability problems, concerns exist about its heavy reliance on public investment as a growth driver (Annex 3). Another important question is whether a country can design a development strategy which includes financial repression and real overvaluation of the exchange rate as important drivers. Both can give the appearance of sustainable debt dynamics, the first by keeping domestic interest rates artificially low, the second by lowering the birr equivalent of interest rates on forex loans; but the ability to maintain such policies indefinitely is questionable.

Fifth, the conversations of the ADF Lab with policymakers in countries issuing Eurobonds led to a few salient points. An important one is about the secondary role of the interest rate on forex loans compared to how money is used and currency volatility. The need for hard budget constraints to incentivize governments to implement difficult reforms was emphasized, as well as the crucial importance of anticipating and addressing the NR curse.

Group 2: Countries with GNI per capita less than USD 500

Nine ADF countries fall into this category, in descending order of the January 2016 CPIA: Niger, Guinea, Malawi, Liberia, Burundi, Democratic Republic of Congo (DRC), Madagascar, The Gambia, and Central African Republic (CAR).

Five of the 9 countries are NR-dependent (Niger, Guinea, Liberia, DRC and CAR) and three are small, with population size below 5 million (Liberia, The Gambia, CAR). Of the 9 countries all have unsustainable debt dynamics except for DRC, which has maintained prudent fiscal policies (although domestic arrears have accumulated over the years) and managed to keep currency volatility low. But, like The Gambia and Burundi, DRC has been rocked by political instability related to the inability to ensure a smooth transfer of power following presidential elections (and in the case of DRC, the postponement of elections).

The other 8 countries all have elements of unsustainable debt dynamics stemming from large primary deficits (Niger, Guinea, Malawi, Liberia), currency depreciation leading to a rise in the forex interest rate (Niger, Guinea, Malawi, Madagascar and The Gambia) or sluggish growth. Yet, most of them also have high shares of domestic debt in total public debt, which is typically at commercial terms.

Four countries appear incapable of handling MCLs: Liberia, Burundi, Madagascar and CAR. The reasons include political fragility and recovering from the Ebola epidemic. Another four, namely, Guinea, Malawi, DRC and The Gambia, are better off but nevertheless vulnerable on account of dependence upon a single commodity (DRC, Guinea), weak economic governance (all) and fallout from the Ebola epidemic (The Gambia, Guinea).

For these countries, exchange rate collapses have been a major factor spurring unsustainable public debt outcomes over the past few years. Minimizing exchange rate volatility requires good macroeconomic policy, economic diversification and making local currencies a credible store of value through transparent and sound monetary policy. But this is a medium-to-long term program. There are no immediate fixes. Donors can help by lengthening loan maturities beyond 40 years while also increasing grace periods. This will give African countries time to implement policies and reforms that will spur growth and total factor productivity growth, enabling some real appreciation via the so-called Balassa-Samuelson result.

From a development perspective, it is notable that none of the countries in Group 2 has a CPIA above 4.0. The fact that a significant fraction of African countries remains poor and beset with debt sustainability problems is a stark reminder that concessionality of official loans combined with HIPC-MDRI has not guaranteed either debt sustainability or a firm foundation for economic development. Other variables, such as the quality of governance and level of corruption, are likely to have interfered with economic outcomes, leading to poor economic performance and unsustainable public finances. These variables need to be given due prominence as part of a more candid policy dialogue that the ADB Group is in an ideal position to lead in collaboration with other African development partners and IDA and the IMF.

The policy dialogue should also aim to minimize the NR curse, since mismanagement of NR wealth for even a few years can have long-term adverse consequences. Thus, Nigeria took a full generation to resolve the debt overhang it had developed in the mid-1980s as a result of poor management of the oil windfall it received from the oil price shocks of 1973-4 and 1979-80, not to mention the destructive effects on agriculture and manufacturing of the exchange rate policy it pursued after oil prices collapsed in the early 1980s. The debt

overhang was finally resolved by its 2005 agreement with the Paris Club.⁸ Unfortunately, Nigeria has repeated the same mistakes on exchange rate policy after the most recent collapse in oil prices.⁹

Group 3: Remaining Countries

The remaining countries include those with a per capita GNI greater than USD 500, but which have never issued a Eurobond. 14 countries belong to this group, in descending order of CPIA: Uganda, Burkina Faso, Benin, Mauritania, Lesotho, Mali, São Tomé and Príncipe (STP), Djibouti, Chad, Togo, Sierra Leone, Guinea-Bissau, Zimbabwe and Sudan. These countries exhibit wide variance in performance and prospects. Four are small (population less than 5 million): STP, Lesotho, Mauritania and Djibouti.

Of the 14, two are clear-cut cases where MCLs would cause DS problems: Mali and Zimbabwe. Most of Mali's debt is in forex and from official sources, meaning a low marginal cost of borrowing. It remains fragile and must increase spending in connection with the peace deal signed in June 2015. Zimbabwe is a storied case of poor governance destroying the economy and is now in a situation where it must settle arrears to ADB, IDA and IBRD and garner support for a Paris Club agreement.

Another 5 countries, STP, Sierra Leone, Chad, Guinea-Bissau and Sudan, present a dilemma in that they have elements of unsustainable debt dynamics for various reasons, including regional insecurity and economic problems caused by epidemics like Ebola. Yet all are NR-rich, pointing to the need for better institutions and an EPD along a path to MCL access. A sixth country, Togo, has been accumulating public debt at a rapid pace after HIPC-MDRI and is now vulnerable to high fiscal and current account deficits increasingly financed by local currency borrowings. These 8 countries (the 6 mentioned in this paragraph plus Mali and Zimbabwe) exhibit the lowest CPIA ratings among the countries in Group 3 and are also dogged by fragility.

Yet even in the remaining 6 countries in Group 3, of which Uganda has the highest CPIA rating, serious challenges remain in establishing a stable foundation for long-run growth and development. This is evident from the ADF Lab's informal discussions held in September 2016 in Kampala with senior policymakers as well as NGOs focused on debt issues to discuss the findings of ADF Policy Innovation Lab (2016). Uganda is in the IMF's Policy Support Instrument (PSI) program, meaning that the IMF endorses its macroeconomic policies. It certainly redounds to Uganda's credit that it has so far refrained from issuing a Eurobond given the currency and maturity mismatches associated with these on any ADF government's balance sheet. And the Bank of Uganda hiked its policy rate by 600 basis points in 2015 to meet inflation targets, a healthy sign of independence and the determination to make its currency a credible store of value.

However, feedback received during the ADF Lab visit indicates that Uganda is "starved of long-term capital" and "we are not saving". Agriculture as a sector must be engaged. Infrastructure must be linked to agriculture. But smallholder agriculture and land tenure are severe obstacles, with only a small fraction of land titled. On commodity prices, it is a "different world from 10 years ago", with much bleaker prospects. There is a shortage of medium-sized firms that can produce tradables and save to accumulate capital. It was observed that the economic situation would be tough for the next 5-10 years.

Uganda also illustrates the ever-present tension in ADF countries between the infrastructure investments needed and macroeconomic sustainability as well as the need to ensure sound use of public resources. The IMF noted in a January 2017 press release: "The scaling-up of infrastructure investment implies a temporary increase in debt, putting a premium on domestic revenue mobilization and ensuring that public investment yields the intended growth dividend."¹⁰ In the ADF Lab's view, the scaling up of investments is going to cause much more than just a temporary increase in debt. This is going to be a persistent medium-to-long term challenge. On the use of public resources, in September 2016, the World Bank issued a statement on the freezing of new lending to Uganda: "We continue to actively work with the Ugandan authorities to address the outstanding performance issues in the portfolio, including delays in project effectiveness, weaknesses in safeguards monitoring and enforcement, and low disbursement."¹¹ A related issue pertains to the use of Ugandan oil wealth anticipated to the tune of \$1.5-2 billion per year starting in 2020. During the ADF Lab's country visit, some policymakers saw this as a solution, with oil revenues used to jumpstart agriculture, while others were more circumspect. One

⁸ See [Okonjo-Iweala \(2012\)](#).

⁹ Pinto ([1987](#), [2014](#) Box 3.6).

¹⁰ See [IMF Executive Board Completes the Seventh Review Under the Policy Support Instrument for Uganda, January 2017](#).

¹¹ See [World Bank Statement on Withholding New Lending to Uganda, September 2016](#).

suggestion was to keep a list of flagship public investment projects ready to make sure the oil wealth becomes a boon for development.

More insights from the 5 country visits are contained in the next section.

Insights from Country Visits

Three hypotheses drawn from ADF Lab (2016) were discussed with senior policymakers in the ministries of finance, central banks, debt management offices, NGOs and the private sector in the five countries visited. The first was that MCLs are unlikely to be the pivotal factor in causing DS problems. Weaknesses in fiscal and financial institutions, governance failures and exchange rate collapses are much more important. In general, there was little opposition to this hypothesis, which fits with the evidence from the country DS assessments. A point repeatedly highlighted was that how public resources are used is the key variable; public resources include not just borrowed funds, but also fiscal revenues, including those from natural resource wealth where applicable. The interest rate on the official component of loans is secondary. It is the waste of public resources that hurts the most.

The second hypothesis was that countries would welcome MCLs if accompanied by a bigger envelope of resources that would reduce the dependence on market borrowings. This hypothesis was not seriously disputed and once again, this squares with the evidence. Even countries that have not issued Eurobonds have often borrowed at commercial terms from the domestic market or on semi-concessional terms for various public investment projects, including from China. While data on these borrowing terms are not systematically available, examples suggest that MCLs would compare favorably. However, scepticism was expressed about whether donors would actually increase the overall envelope of funding resources, even with MCLs.

The third hypothesis was that MCLs could serve as a wake-up call for improved governance by signaling that the era of cheap money is over. But one view was that even a 3% interest rate on USD loans would not be high enough to improve government behavior and the use of public resources. It would take a crisis to persuade governments to implement difficult reforms. This response underlines the importance of accompanying front-loaded development finance with an EPD.

Only in the case of Mozambique (embroiled in a serious debt and foreign exchange crisis) was the ADF Lab asked to justify how MCLs squared with the ADF's mandate of concessionality. The answer given was two-fold. First, ADF countries in principle should be able to easily pay a 3-4% on 40-year USD loans since the return to capital should be high given its scarcity in Africa and the untapped economic potential there. Second, concessionality has not prevented debt sustainability problems from re-emerging in the post HIPC-MDRI world (Mozambique has benefited from this program), while a solid foundation for long-run growth is lacking. Besides, it would be reasonable for donors to expect African countries to do more for themselves, especially when massively endowed with NR wealth, as Mozambique is.

Three other insights from the country visits are worth highlighting:

1. The current macroeconomic deterioration is more than just a rough patch and African countries need a major structural adjustment to diversify away from commodities and increase national saving. Most African countries have current account deficits as a ratio of GDP far higher than in the emerging markets deemed vulnerable, such as the so-called Fragile Five in 2013, as noted above. With external financing conditions deteriorating and commodity prices falling, external finance is likely to become the binding constraint on public investment and growth.
2. Senior policymakers do not expect ODA to last forever and are cognizant that it is steadily declining as a share of public budgets. Anyone who thinks ODA will last forever "is dreaming. It's in the process of ending." In this context, a hopeful nascent trend is the growing public insistence on value for money and accountability on the part of government officials, issues singled out during Ghana's recent elections, the others being corruption and the electricity shortage.
3. The donor community places considerable emphasis on greater DRM and leveraging the private sector. The country visits underline the importance of accompanying greater DRM with simultaneous assurance that the funds will be used well and that tax collection is based on rules and computerized filing rather than being negotiated face-to-face with officials in the countries' revenue authorities, a concern voiced by everyone in Ghana, from taxi drivers to think-tanks, to give a striking example. Similarly, the idea of engaging the private sector to solve Africa's economic problems must be tempered with realism. The

investment climate needs improvement and macroeconomic and political stability assured before the private sector, domestic or foreign, would be willing to make long-term commitments to Africa. This will require persistent effort for several years.

Conclusions and the Way Forward

Table 2 lists ADF countries based on their potential eligibility for MCL access. Of the 33 ADF countries examined, 17 exhibit high potential eligibility for MCLs based on the government's marginal borrowing costs. This list includes: Rwanda, Senegal, Kenya, Tanzania, Ethiopia, Cameroon, Ghana, Côte d'Ivoire, Zambia and Mozambique (have issued Eurobonds in the last 5 years); Niger (average per capita GNI over 2012-14 less than USD500); and Uganda, Burkina Faso, Benin, Mauritania, Lesotho, and Djibouti (per capita GNI more than \$500, have never issued a Eurobond but borrow on commercial terms in the domestic market or on semi-concessional terms from China).

As emphasized above, however, there is no presumption of automatic access to MCLs. Thus, Mozambique is seeking to restructure its external debt and this process will need to be completed. Ghana is already in an IMF program to address its debt sustainability problems while Zambia is engaged in discussions on an IMF program. Access to MCLs would require sufficient progress on re-attaining debt sustainability combined with an EPD.

Cameroon, Ghana, Mauritania and Djibouti are all classified as being at high risk of external debt distress by the IMF-World Bank Debt Sustainability analyses. Yet all are above the operational GNI per capita cutoff income level for ADF and three (Cameroon, Ghana and Mauritania) are NR-rich while Djibouti reaps rents from its strategic military location. On incentive grounds, there is good reason to charge these countries MCL rates, combining this with an EPD aimed at diversification and restoring sustainable debt profiles.

The remaining 16 countries exhibit low potential eligibility for MCLs, which are likely to exacerbate debt sustainability problems in 6 countries: Liberia, Burundi, Madagascar and Central African Republic from Group 2, and Mali and Zimbabwe from Group 3. Another 10 are somewhat better off but still vulnerable: Guinea, Malawi, DRC, The Gambia (Group 2), São Tomé and Príncipe, Sierra Leone, Chad, Togo, Guinea-Bissau and Sudan (Group 3).¹² The reasons include fragility from regional insecurity or epidemics such as Ebola, or weak ability to use NR wealth to promote development or poor governance, or some combination of these factors.

However, even countries with low potential eligibility can transform themselves over the next 5-10 years, if not sooner. Thus, Guinea and Togo both have a high share of local currency debt in public debt, which is typically at short maturities and at commercial terms. Both have ambitious public investment programs. For example, Guinea is planning a 550 MW hydroelectric dam at Souapati at a cost of around 20% of GDP. Its financing will not be feasible based on available instruments. Access to MCLs at some point could help because of the very long maturities involved, assuming the project has been adequately vetted. Such potential access could serve as a powerful incentive for reform.

Frontloading ODA via the Big Bond

Africa's vast development needs argue for frontloading ODA on two grounds. First, growth momentum needs to be restored. With China's slowdown and the collapse in commodity prices, Sub-Saharan African growth has slowed dramatically from the 5-7 percent range during 2005-14. This slowdown is worrisome because of the vital importance of fast growth for poverty eradication, lowering infant mortality and fighting malnutrition. Fast growth is also vital for Africa's burgeoning youth, in order to create jobs for them and prevent an uncontrolled exodus of refugees to OECD countries. At the same time, the average country size in Africa is relatively small and integrating the continent and helping landlocked countries through appropriate regional infrastructure projects is vitally important.

Second, the investment needs for restoring growth momentum, creating jobs and regional integration are vast, as demonstrated in ADF Policy Innovation Lab (2017). The related financing requirement is unlikely to be met either by a ramp-up in domestic savings in view of Africa's relative poverty or by the market owing to its myopic and unforgiving nature. Rwanda, the highest ranked ADF country based on the January 2016 CPIA, was downgraded by S&P from B+ (negative outlook) to B (stable outlook) in September 2016, five levels below investment grade, because of its growing current account deficits. But these deficits have been necessitated by

¹² In all groups or sub-groups, countries are listed in descending order of the CPIA.

infrastructure imports for supporting its long-run development. Ghana and Zambia's successive Eurobond issues have been done at rapidly rising interest rates and with maturities much shorter than those needed for long gestation infrastructure projects. The only feasible option left is to frontload ODA. But asking donors to do more seems a tall order in view of their own fiscal and political problems.

In these constrained circumstances, the ADF Lab proposes a win-win solution involving frontloading via the "Big Bond". Similar frontloading has been successfully used for financing vaccines and saving lives by the International Finance Facility for Immunisation (IFFIm) under the aegis of Gavi. Donor countries can take advantage of the fact that interest rates in their countries are close to their historical lows. Official development assistance (ODA) to Africa is about \$50 billion per year, of which approximately \$34 billion consists of pure grants. With the 30-year US Treasury currently at about a 3 percent yield, securitizing about \$5 billion, or less than 15 percent of the annual \$34 billion in grants, would enable donor countries to raise \$100 billion upfront. By on-lending the Big Bond proceeds to ADF countries via MCLs, donors would be fiscally better off in a net present value sense.

MCLs combined with larger funding volumes enabled by the Big Bond could actually bolster debt sustainability in the 17 countries with high potential eligibility because the interest rate would be lower than the marginal cost of their commercial borrowings. Moreover, the far longer maturities and grace periods compared to market finance would reduce the growing pressure on foreign exchange reserves.

Two guidelines can be followed in allocating the proceeds of the Big Bond. First, part of the proceeds can be used to finance a big push on African growth through regional infrastructure projects. Examples include projects that have long been stuck, such as the East Africa Railway connecting Tanzania, Rwanda, and Burundi, and a highway stretching from Nigeria to Côte d'Ivoire.

Second, a portion of the proceeds can be targeted at country-level infrastructure projects in the 17 countries with high potential eligibility for MCLs. Doing so will serve as an attractive carrot for an EPD aimed at strengthening the foundations for long-run development in these countries along the lines set out above. This structure could co-exist with the existing PBA system by creating a new window for disbursing the Big Bond proceeds. Such a two-tier system with a higher bar for accessing Big Bond funds will increase the incentives for all ADF countries to make the grade.

Enhanced Policy Dialogue

Frontloading ODA via MCLs will be more acceptable to donors if accompanied by a sunset provision for economic aid to Africa, for example, a stipulation that economic aid will be offered only for another generation, say, the next 40 years. This would not come as a big surprise to policymakers based on the ADF Lab's country visits; climate change finance and humanitarian assistance will need to be dealt with separately. An appropriate EPD is essential for making such a structure work. It should focus on growth policy, absorptive capacity and the selection and implementation of public investment projects, strengthened public finance management and safeguards to ensure that NR wealth is used to support development. Above all, the ADF Lab's public debt sustainability assessments and country visits underline the crucial importance of governance, leadership and institutions. African leaders must assume primary responsibility and be held accountable for the continent's development at both the national and regional levels.

The EPD will need to be guided by three principles.

- First, it must build upon the existing PBA framework, which incorporates the CPIA ratings and guidance from the IMF and World Bank's DSF, to focus explicitly on the requirements for making front-loaded ODA a success. The ADF can use its "African franchise value" to urge African leaders to take primary responsibility for economic governance while avoiding the frequent domestic shocks from corruption, political instability and mismanagement of public finances and NR wealth.
- Second, while the ADB Group should spearhead the EPD agenda, it would need to collaborate actively with the IMF, World Bank and other development partners working on Africa.
- Third, the EPD needs to be integrated with the ADB Group's decentralization strategy and its expertise in regional infrastructure and other aspects of regional integration, co-opting other development partners and the private sector as needed.

To conclude, Africa is yet again at a critical juncture as a result of China's growth slow down which, together with a tightening of global financing conditions, has contributed to diminished medium-term growth prospects and uncovered weaknesses in governance and fiscal institutions. Combined with currency depreciation, public debt

dynamics have deteriorated in several countries, most notably in commodity exporters. At the same time, funding requirements for human capital and infrastructure are massive. The “unforgiving” market is unlikely to be a viable source of development funding. But donors are facing their own economic and political difficulties. This is a good time to assess what is working and what is not working in the ADF country-donor relationship.

This ADF Lab Working Paper has attempted to contribute to a reinvigoration of this relationship through its examination of the debt sustainability and development challenges African countries face. It has tabled the Big Bond as an instrument to help maintain Africa’s growth trend while simultaneously lowering the fiscal burden on donors. Lending the proceeds of the Big Bond to eligible countries via MCLs will boost debt sustainability by displacing more costly and shorter maturity market alternatives. This process should be conducted in tandem with the current PBA system in ADF, the focus of which can shift to countries with low levels of eligibility for MCLs. An EPD is an integral part of this package to make sure that all public resources, whether borrowed or not, are used well and contribute to a better economic future for all ADF countries.

Table 2 - List of ADF countries based on their potential eligibility

Country	ADF classification	Fragile	MCL potential eligibility	CPIA
<i>Countries which have issued Eurobonds</i>				
Rwanda	ADF-Only		High	4.85
Senegal	ADF-Only		High	4.43
Kenya	Blend		High	4.31
Tanzania	ADF-Only		High	4.24
Ethiopia	ADF-Only		High	4.22
Cameroon	Blend		High	4.19
Ghana	Gap		High	3.96
Côte d'Ivoire	Gap		High	3.65
Zambia	Blend		High	3.57
Mozambique	ADF-Only		High	3.47
<i>Countries with GNI pc (2012-14 average) less than USD 500</i>				
Niger	ADF-Only	Fragile	High	3.68
Guinea	ADF-Only		Low	3.46
Malawi	ADF-Only		Low	3.44
Liberia	ADF-Only	Fragile	Low	3.39
Burundi	ADF-Only	Fragile	Low	3.30
Congo, Dem. Republic	ADF-Only	Fragile	Low	3.30
Madagascar	ADF-Only	Fragile	Low	3.17
Gambia	ADF-Only	Fragile	Low	3.14
Central African Republic	ADF-Only	Fragile	Low	2.41
<i>Countries that never issued Eurobonds but with a GNI pc (2012-14 average) greater than USD 500</i>				
Uganda	ADF-Only		High	4.16
Burkina Faso	ADF-Only		High	4.03
Benin	ADF-Only		High	3.89
Mauritania	ADF-Only		High	3.84
Lesotho	Gap		High	3.76
Mali	ADF-Only	Fragile	Low	3.63
São Tomé and Príncipe	Gap		Low	3.35
Djibouti	Gap	Fragile	High	3.32
Chad	ADF-Only	Fragile	Low	3.31
Togo	ADF-Only	Fragile	Low	3.21
Sierra Leone	ADF-Only	Fragile	Low	3.15
Guinea-Bissau	ADF-Only	Fragile	Low	2.69
Zimbabwe	ADF-Only	Fragile	Low	2.65
Sudan	ADF-Only	Fragile	Low	2.54

* Classification per ADF-14. Countries in each eligibility group (high and low) are listed in descending order of the CPIA rating

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Abbreviations and Acronyms

ADB: African Development Bank

ADB Group: African Development Bank Group (Bank Group)

ADF: African Development Fund

ADF Lab: ADF Policy Innovation Lab

CAD: Current account deficit

CPIA: Country Policy and Institutional Assessment

DRM: Domestic resource mobilization

DS: Debt sustainability

DSA: Debt sustainability analysis

DSF: IMF-World Bank Debt Sustainability Framework

EAC: East African Community

ECF: Extended Credit Facility

EFF: Extended Fund Facility

EM: Emerging market

EPD: Enhanced policy dialogue

HIPC-MDRI: Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative

IBRD: International Bank for Reconstruction and Development

IDA: International Development Association

IMF: International Monetary Fund

MCL: Moderately concessional loans

NR: Natural resource

ODA: Official development assistance

PFM: Public financial management

PSI: Policy Support Instrument

RCF: Rapid Credit Facility

SBA: Stand-by Arrangement

SCF: Standby Credit Facility

REER: Real Effective Exchange Rate

USD: US dollar

UA: Units of Account

XAF: Central African CFA Franc

XOF: West African CFA Franc

WAEMU: West African Economic Monetary Union

Annex 1: Defining MCL Lending Terms

Illustrative MCL terms consist of a 40-year USD loan with 10 years grace and an interest rate of 3%, benchmarked off current readings on the US 30-year Treasury bond. While ‘harder’ than concessional terms, MCLs nevertheless retain a significant degree of concessionality and are also highly concessional when compared with the commercial terms many ADF countries borrow on.

Annex Table 1 compares MCL terms with those offered by ADF and IDA. ADF and IDA loan terms are linked to countries’ income levels and creditworthiness. As countries advance to Blend or other transition status, interest rates rise and maturity and grace periods shorten. The ADF Lab believes there is a case for raising interest rates but not for shortening maturities and grace periods. This is because it is likely to take another generation for African countries to reap the benefits from their needed infrastructure and human capital investments and establish a solid foundation for sustained rapid growth. Hence, the scenarios for MCLs include an interest rate of 3% or 4% on a USD loan with maturity-grace periods of 40-10 years or 60-20 years.

The table contains the grant element for the various loan terms using the OECD-DAC discount rate of 9%. It is apparent that a 3% USD MCL loan with maturity-grace of 40-10 or 60-20 (Scenarios 1 and 2 in Annex Table 1) has a level of concessionality comparable to that for IDA Blend, Transitional Support and Hard-term Lending USD loans. A direct comparison of MCL and ADF terms was not possible because the latter terms are for UA loans.

Lastly, the ADF Lab proposes a two-tier structure with MCLs to apply only to ADF countries deemed eligible for such terms, as noted in the main report. Fragile countries would still need a high degree of concessionality as now provided.

Annex Table 1 - Comparison of ADF/IDA and MCL Lending Terms

	Maturity (years)	Grace Period (Years)	Service charge (%)	Interest rate (%)	Total Interest rate (%)	Grant Element* (%)
ADF (UA loans)						
ADF-Only (Regular)	40	10	0.75	0.00	0.75	77.6
ADF-Only (Advance)	40	5	0.75	0.00	0.75	72.5
Blend, Gap and Graduating	30	5	0.75	1.00	1.75	58.8
IDA 17 (USD loans) (effective January 1, 2017)						
Regular (small Island)	40	10	1.41	0.00	1.41	71.4
Regular (IDA only)	38	6	1.44	0.00	1.44	66.7
Blend	25	5	1.47	1.38	2.85	46.9
Transitional Support	25	5	0.75	3.08	3.83	39.4
Hard-term Lending	25	5	0.75	2.12	2.87	46.8
ADF - MCLs (USD loans)						
Scenario 1	40	10	0.75	2.25	3.00	56.4
Scenario 2	60	20	0.75	2.25	3.00	63.3
Scenario 3	40	10	0.75	3.25	4.00	47.0
Scenario 4	60	20	0.75	3.25	4.00	52.7

* We assumed equal principal payments over the remaining maturity of the loan following the expiry of the grace period, no commitment charge, and the OECD-DAC 9% Discount Rate for assessing the loan concessionality, with a minimum grant element of 45%.

Sources: ADF, IDA and own calculations

Annex 2: Guide to Country DSA Tables in Annex 3

Each country has one page divided into three blocks:

1. The first block gives the Country Profile, including income, population and poverty rate. Its also includes the country's ADF allocation, CPIA rating, IMF-World Bank DSA status based on total external debt, and grant share.
2. The second block consists of a table with calculations related to Public Debt Sustainability for the three years 2013-2015. Data on external debt and the non-interest current account deficit (including grants) are also presented. The source of the raw data, namely, the IMF Debt Sustainability Analysis, is embedded in a hyperlink to the relevant IMF country report.
3. The third block has two sections: observations on public debt sustainability based on the preceding table; and an assessment of the impact of MCL lending terms.

The Public Debt Sustainability table includes data on public debt. The coverage varies from country-to-country but in principle includes the debt of the general government and guaranteed debt of parastatals. The foreign currency share of public debt is also provided.

The focus is on public debt dynamics, that is, looking at the main factors driving changes in the public debt-to-GDP ratio from year-to-year. These factors are the primary deficit (non-interest spending minus revenues), growth rates and interest rates.

Both the nominal and real growth rates are given.

Three nominal interest rates are computed, with the definition and derivations of the formulas given in Annex 4: (i) the composite nominal interest rate, which is a weighted average of (ii) the interest rate on local currency debt ("local currency") and (iii) the local currency-equivalent interest rate on forex debt ("forex"), that is, the forex interest rate adjusted for currency appreciation/depreciation. For example, suppose Ghana issues a US dollar USD Eurobond at a yield of 9%. Then the forex interest rate is 9%, a USD interest rate. If the cedi depreciates against the USD by 7% during the year, then the local currency-equivalent interest rate of the 9% USD interest rate is 16%.¹³ This is what is given in the table as the interest rate on forex debt. The reader will recognize this as ex post interest parity.

The composite real interest rate is the composite nominal interest rate deflated by the GDP deflator. For example, if the composite nominal interest rate is 8.5% and inflations based on the GDP deflator is 2%, then the composite real interest rate = $(1.085)/(1.02)-1=0.0637$ or 6.37%.

Conventions

The following conventions are observed:

Currency depreciation is measured by change in the local currency price of foreign currency. If this goes up, there is a depreciation, and if it goes down, there is an appreciation. For example, Zambia's exchange rate rose from 6,390 kwacha per USD at the end of 2014 to 11,000 kwacha per USD at the end of 2015, implying a depreciation of 72.14%.¹⁴ This computation is the right one for converting foreign currency interest rates into local currency equivalents.

"Debt" always refers to "public debt" unless otherwise noted and the "debt ratio" refers to the ratio of public debt to GDP.

¹³ The exact number is $1.09 \times 1.07 - 1 = 0.1663$, or 16.63%.

¹⁴ The IMF computes depreciation/appreciation based on the USD price of the local currency.

Annex 3: Country Assessments

GROUP 1 - COUNTRIES WHICH HAVE ISSUED EUROBONDS

RWANDA

Country Profile

GDP USD bn (2014)	7.91
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	670.00
Population (million) (2014)	11.61
Poverty %, Nat. Poverty Line	44.90
(last year available)	(2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	48.88
Overall CPIA (2015)	4.85
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	26.80	29.30	35.40
Forex share %	82.46	80.55	80.51
Primary deficit/GDP %	3.60	4.10	3.90
Nominal GDP growth %	9.62	10.96	8.18
Composite Nominal Interest rate %	8.33	5.99	10.03
of which: local currency %	-	6.19	9.40
of which: Forex %	-	5.95	10.18
Real GDP growth %	4.70	7.00	6.90
Composite Real interest rate %	3.47	2.21	8.72
External debt/GDP %	26.60	28.00	32.80
of which: public share %	83.08	84.29	86.89
Non-interest current account deficit/GDP %	7.00	9.90	12.70

Source: IMF and own calculations based on [IMF CR 2016/06](#)

PUBLIC DEBT DYNAMICS

Rwanda is in a relatively good position regarding its debt dynamics, with solid economic governance, relatively rapid growth, most of its forex debt from official sources and limited domestic debt. But public debt has increased by 9 percentage points of GDP over 2013-15, which clearly merits watching, and dynamics have worsened, with interest rates exceeding growth rates in 2015.

The primary deficits (needed for infrastructure projects in energy and roads) are sizable.

IMPACT OF MCLs

The country's main vulnerability stems from its exposure to minerals exports, with the sharp decline in commodity prices and 7.6% currency depreciation in 2015 based on end-year exchange rates. Rwanda's medium strategy is to diversify exports, borrow prudently, increase revenues and pursue medium-term fiscal consolidation. Whether or not hardened terms have a negative impact on debt dynamics depends upon borrowing plans and the returns to prospective public investments. If the latter are high and the record of good economic governance continues, it is entirely conceivable that Rwanda can absorb MCL terms without too much difficulty.

Rwanda has the highest CPIA rating among ADF countries and would clearly benefit from larger volumes of official funds at MCL terms, which would be preferable to issuing Eurobonds on both cost and maturity considerations. The main issue would be currency volatility and the ability to keep balance of payments pressures under control. Indeed, Standard & Poor's downgraded the country's credit rating from B+ to B (stable outlook) on account of a widening current account deficit and rising external debt during the first half of 2016¹⁵.

¹⁵ <http://www.reuters.com/article/idUSFWN1BLOFT>

SENEGAL

Country Profile

GDP USD bn (2014)	15.66
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1040.00
Population (million) (2014)	15.13
Poverty %, Nat. Poverty Line (last year available)	46.70 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	38.58
Overall CPIA (2015)	4.43
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	46.60	53.20	54.40
Forex share %	69.53	74.25	72.24
Primary deficit/GDP %	4.00	3.20	2.90
Nominal GDP growth %	1.63	4.80	5.31
Composite Nominal Interest rate %	0.44	11.78	12.04
of which: local currency %	6.44	6.51	6.91
of which: Forex %	-1.95	14.09	13.82
Real GDP growth %	3.60	4.70	5.10
Composite Real interest rate %	2.39	11.67	11.82
External debt/GDP %	66.00	66.90	70.00
of which: public share %	49.09	59.04	56.14
Non-interest current account deficit/GDP %	9.40	7.80	7.00

Source: IMF and own calculations based on [IMF CR 2016/01](#)

PUBLIC DEBT DYNAMICS

Despite the lower primary deficits, debt sustainability has worsened with the public debt to GDP ratio increasing significantly between 2013 and 2015. Dynamics became adverse, with the composite interest rate (both in nominal and real terms) exceeding the economic growth rates. Given that the bulk of the public debt is denominated in external currency, the rise in the composite interest rate was essentially driven by the depreciation of the CFA franc against the USD. As a result, unless there is a continued fiscal adjustment, growth accelerates, and the exchange rate stays flat, debt is on an unsustainable trajectory.

The high debt reflects the government's strategy of addressing the large infrastructure needs to improve living standards. The IMF seems optimistic about Senegal's prospects provided that the government improves governance (tackles rent-seeking) and implements structural reform. In fact, if good governance ensures that public investments and reforms will result in higher growth rates, debt dynamics could improve. The latest Article IV (June 2016) supports this view given that the Government seems to be on track to reduce the primary deficit (to 2.4% in 2016) and the revised economic growth rates are encouraging (6.5% in 2015 and 6.6% in 2016). Still, we should note that the non-interest current account deficit remains high, highlighting the vulnerability to external shocks.

IMPACT OF MCLS

Senegal issued two USD 500 million 10-year Eurobonds in 2011 and 2014. The 2014 bond was issued at a yield of 6.3%. The DSA notes that the medium-term debt strategy will prioritize concessional borrowing over non-concessional financing and that Eurobond issuance would only be an option when terms are favorable and financing from MDBs is limited. Still, the government announced its intention to issue an additional USD 1 billion in the international markets, to finance its ambitious infrastructure development plan in May 2016¹⁶. Senegal appears to be a country that could benefit from receiving additional financing from MDBs at moderately concessional terms instead of turning to the international capital markets.

¹⁶“[Senegal President Sall Says Nation Will Sell Bond This Year](#)”. Bloomberg, May 2016.

KENYA

Country Profile

GDP USD bn (2014)	61.40
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1186.70
Population (million) (2014)	46.05
Poverty %, Nat. Poverty Line (last year available)	45.90 (2005)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	36.70
Overall CPIA (2015)	4.31
ADF/TSF Lending Eligibility (2016)	Blend/Not-Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	44.10	49.20	52.70
Forex share %	43.99	48.78	54.08
Primary deficit/GDP %	3.00	4.60	5.40
Nominal GDP growth %	10.99	13.20	12.89
Composite Nominal Interest rate %	7.26	9.35	13.12
of which: local currency %	11.93	11.05	10.86
of which: Forex %	1.84	7.18	15.49
Real GDP growth %	5.70	5.30	5.60
Composite Real interest rate %	2.15	1.72	5.81
External debt/GDP %	29.50	37.20	42.50
of which: public share %	65.76	64.52	67.06
Non-interest current account deficit/GDP %	8.40	9.70	7.40

Source: IMF and own calculations based on [IMF CR 2016/03](#)

PUBLIC DEBT DYNAMICS

Debt dynamics deteriorated in 2015, with a continued large primary deficit and the composite real interest rate rising above the real growth rate. This latter has been driven by the depreciation of the Kenyan shilling in 2015 in conjunction with a forex share in public debt of around 50%. Achieving a sustainable debt trajectory rests on reducing the primary deficit from 5% of GDP to close to zero by 2020, as noted in the March 2016 DSA. This is based on the idea that the primary deficit has been driven by large infrastructure investments (such as the Standard Gauge Railway). These investments and related imports have similarly swelled the current account deficit (CAD). Once these projects are completed, both the primary deficit and CAD will fall substantially.

However, there could be other infrastructure investments needed to underpin long-run growth. Another factor mentioned is that public debt needs to include the legacy debts of county governments and those of state enterprises, as well as investment needs for road projects. Kenya's experience illustrates yet again the tension in Africa between the needed big push on infrastructure on the one hand and debt and balance of payments sustainability on the other.

Kenya is rated at low risk of debt distress on external debt based on CPIA-linked thresholds for external debt and official (EAC convergence) benchmarks. These would be appropriate if Kenya's debt was primarily from official sources. But much of Kenya's borrowing at the margin is from the market on commercial terms.

IMPACT OF MCLS

Kenya issued \$2 billion in Eurobonds in June 2014: a \$500 million five-year note with a yield of 5.9% and a \$1.5 billion 10-year bond at 6.9%. In December 2014, \$250 million was added to the five-year tranche at a 5.0% yield and \$500 million to the 10-year tranche at 5.9%, bringing the total to \$2.75 billion. By January 2016, the yield on the 10-year note was above 9%, reflecting concerns about global growth. Subsequently, yields have dropped to the 7-8% range. In addition, Kenya has contracted "semi-concessional" debt from China for the SGR project. Kenya will benefit from MCL lending terms because of the lower costs and longer maturities as it continues its public investments.

In March 2016, Kenya entered into precautionary 24-month SBA and SCF agreements with the IMF for a total of \$1.5 billion. A November 4 2016, IMF Press release stresses the need for keeping debt on a sustainable path and expresses concerns about new interest rate controls introduced in September that could hurt both financial inclusion and growth.

TANZANIA

Country Profile

GDP USD bn (2014)	48.03
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	843.30
Population (million) (2014)	53.47
Poverty %, Nat. Poverty Line (last year available)	28.20 (2011)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	102.59
Overall CPIA (2015)	4.24
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	29.70	31.40	30.60
Forex share %	77.10	75.48	74.84
Primary deficit/GDP %	3.80	2.00	1.60
Nominal GDP growth %	15.86	13.85	13.21
Composite Nominal Interest rate %	6.49	7.33	20.06
of which: local currency %	15.86	16.40	15.75
of which: Forex %	3.55	4.64	21.46
Real GDP growth %	6.20	7.10	7.00
Composite Real interest rate %	-2.39	0.97	13.47
External debt/GDP %	26.50	27.00	28.60
of which: public share %	86.42	87.78	80.07
Non-interest current account deficit/GDP %	10.20	10.40	8.20

Source: IMF and own calculations based on [IMF CR 2016/07](#)

PUBLIC DEBT DYNAMICS

The public debt level is low but debt dynamics have worsened in 2015, because of the rise in the forex interest rate. While real growth has remained strong (at around 7%) and the primary deficit has improved, a significant increase in debt to above 40% of GDP is expected from 2016 onwards, following the recognition of contingent liabilities amounting to 7.6% of GDP. In addition, according to the IMF DSA, the government is expected to almost double public investment to address the country's infrastructure gap. If economic growth remains robust, interest rates remain low and the currency stabilizes, then debt levels would be manageable. But the non-interest current account deficit is sizable and pressure on currency may pose some downside risks.

Somewhat puzzlingly, the debt ratio for 2015 goes down in spite of a positive primary deficit and a real interest rate much higher than the growth rate. In fact, the public DSA table in the July 2016 IMF report shows a sizable negative residual of -5% of GDP, suggesting the debt ratio should have been 5% of GDP higher in 2015 based on the identified debt creating flows. In fact this is picked up in the projected debt ratio for 2016, which jumps to 40%.

IMPACT OF MCLS

Tanzania is an IMF Policy Support Instrument (PSI) country, meaning it does not need BoP support and that macro policies are good. Debt is still mostly concessional, but against the decline in aid from development partners, non-concessional borrowing has increased. This means that the country should be able to handle MCLS terms, which would be preferable to a quick transition to market financing for the scaling up of public investment. The country needs long term financing to invest in infrastructures and to attract FDI, in particular to explore the untapped natural gas reserves.

ETHIOPIA

Country Profile

GDP USD bn (2014)	55.61
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	476.70
Population (million) (2014)	99.39
Poverty %, Nat. Poverty Line (last year available)	29.60 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	91.87
Overall CPIA (2015)	4.22
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	37.70	41.30	50.70
Forex share %	55.97	54.48	55.82
Primary deficit/GDP %	5.90	7.30	7.10
Nominal GDP growth %	15.94	22.32	16.59
Composite Nominal Interest rate %	6.60	6.10	5.86
of which: local currency %	6.45	5.91	5.06
of which: Forex %	-	6.25	6.54
Real GDP growth %	9.90	10.30	10.20
Composite Real interest rate %	1.04	-4.33	0.06
External debt/GDP %	24.10	25.80	31.60
of which: public share %	87.55	87.21	89.56
Non-interest current account deficit/GDP %	5.70	7.70	11.60

Source: IMF and own calculations based on [IMR CR 2016/10](#)

PUBLIC DEBT DYNAMICS

In spite of a large negative differential between the nominal interest rate and nominal growth rate, Ethiopia's public debt-to-GDP increased by a significant 9 percentage points in 2014/15.¹⁷ This was driven by a large primary deficit and additional borrowings of 6% of GDP to support investments by nonfinancial public enterprises (informal communication with IMF Staff, captured in the DSA residual).

The 2015 IMF Article IV report expressed concern about the speed of public investment, the sharp real appreciation of the birr and the issuance of domestic debt at highly negative real interest rates. While the latter two improve the appearance of debt dynamics (by keeping the nominal interest rate both on domestic and forex debt low), the sustainability of such policies remains at question. Besides, real overvaluation (put by the IMF at 30% in June 2015 and reiterated in the 2016 IMF Article IV report) could hurt growth and exports.

Ethiopia's external debt distress rating was raised from low to moderate in 2015 and is retained at this level in 2016. Mitigating factors include long-maturity debt mainly from concessional sources and low levels of external financial integration combined with capital controls.

IMPACT OF MCLS

Ethiopia issued its first Eurobond in December 2014 for \$1 billion at a yield of 6.625%. Its strategy of front-loading infrastructure investments that will pay off only over the longer run is a prime example of the African development finance challenge. There is a sizable upward impact on public and external debt and current account deficits, which then have to be brought down to sustainable levels. Doing so rests on being able to increase growth, domestic resource mobilization and exports. It also assumes that the selection and implementation of public investments is of high quality and that the necessary investment in production and exports takes place and bears fruit. For example, the 2016 Article IV notes: "Investments in hydro-power, industrial parks, export processing zones, and public policies targeting emerging manufactures, food processing, and FDI technology transfers are expected to support export growth and diversification."

The key is for Ethiopia to use borrowed funds well and to have sufficiently long maturities to let the borrowing pay off. The big question is for how long Ethiopia can continue to rely on financial repression and overvalued real exchange rates. MCLS should not be a problem if high-return public investments are selected and maturities are sufficiently long.

¹⁷ Shown as 2015 in the table. The DSA is done on a fiscal year basis, running from July to June.

CAMEROON

Country Profile

GDP USD bn (2014)	32.05
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1293.30
Population (million) (2014)	23.34
Poverty %, Nat. Poverty Line (last year available)	37.50 (2014)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	11.21
Overall CPIA (2015)	4.19
ADF/TSF Lending Eligibility (2016)	Blend/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	19.20	26.60	32.60
Forex share %	63.54	66.92	66.56
Primary deficit/GDP %	3.60	4.40	4.90
Nominal GDP growth %	6.98	8.01	7.91
Composite Nominal Interest rate %	0.03	3.51	14.80
of which: local currency %	1.60	1.70	1.60
of which: Forex %	-1.12	4.56	21.33
Real GDP growth %	5.50	6.00	6.00
Composite Real interest rate %	-1.35	1.58	12.77
<i>External debt/GDP %</i>	<i>12.20</i>	<i>17.80</i>	<i>21.70</i>
<i>of which: public share %</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>
<i>Non-interest current account deficit/GDP %</i>	<i>3.80</i>	<i>4.20</i>	<i>4.80</i>

Source: IMF and own calculations based on [IMF CR 2015/12](#)

PUBLIC DEBT DYNAMICS

Cameroon's debt ratio registered a large increase between 2013 and 2015, with dynamics turning sharply adverse in 2015 on account of a high primary deficit and the composite interest rate rising high above the growth rate, chiefly on account of the forex interest rate.

The December 2015 IMF-World Bank DSA finds debt distress to be high for both public and external debt even though the *level* of the debt ratio is not very high either for public or total external (public plus private) debt. This implies an assumption that the adverse *dynamics* will be maintained at least until 2024, when the PV of public debt/GDP threshold is expected to be breached. Furthermore, the DSA projects public debt-to-GDP to double from 26.6% in 2014 to 53.2% by 2030.

This appears strange in that some policy correction could occur before then, most likely forced by the market as Cameroon increasingly borrows from commercial sources.

IMPACT OF MCLS

Cameroon is a clear case of market-based development finance not working because maturities are not long enough and costs go up quickly. According to the IMF report, debt dynamics are being driven by a public investment boom and recourse to non-concessional borrowing. Now the country is adversely affected by the fall in the oil price and instability related to Boko Haram.

What should Cameroon do? Suspend its public investment program, which could be costly, in order to keep debt on a sustainable trajectory? Or seek access to long term funds at 3-4% from official sources with an enhanced policy dialogue? The assessment of this report is that some middle ground could be found between these two extremes, allowing Cameroon to cope with MCL terms.

GHANA

Country Profile

GDP USD bn (2014)	38.62
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1640.00
Population (million) (2014)	27.41
Poverty %, Nat. Poverty Line (last year available)	24.20 (2012)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	46.37
Overall CPIA (2015)	3.96
ADF/TSF Lending Eligibility (2016)	Gap/Not-Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	58.10	70.70	73.80
Forex share %	54.91	60.54	65.99
Primary deficit/GDP %	5.60	3.80	-0.20
Nominal GDP growth %	24.04	21.37	23.43
Composite Nominal Interest rate %	23.54	39.12	23.61
of which: local currency %	19.99	19.97	19.16
of which: Forex %	26.08	54.86	26.51
Real GDP growth %	7.30	4.00	3.90
Composite Real interest rate %	6.87	19.22	4.05
External debt/GDP %	36.40	47.80	52.70
of which: public share %	87.64	89.54	92.41
Non-interest current account deficit/GDP %	9.80	6.80	4.50

Source: IMF and own calculations based on [IMF CR 2016/10](#)

PUBLIC DEBT DYNAMICS

Ghana's debt-to-GDP ratio rose by 16 percentage points between 2013 and 2015 to 74%. This is an elevated level for any developing country, but especially one that has benefited from HIPC-MDRI debt relief and had its GDP numbers revised sharply upwards in 2010. The Government is engineering a significant fiscal adjustment to restore sustainable debt dynamics in the context of a three-year ECF IMF program that began in April 2015.

The primary balance has swung impressively from an average deficit of 4.7% of GDP during 2013-14 to a small surplus of 0.2% in 2015. This is expected to persist and grow significantly over the medium term under a reform and adjustment scenario. If this happens, the currency stabilizes and growth rises to the 7-8% range during 2017-19, the debt-to-GDP ratio is projected to fall to 55% in 2021 in the September 2016 DSA.

Overall, debt sustainability remains fragile given the bleak outlook for commodity prices, slowing global growth and market concerns about Ghana's debt sustainability, reflected in high Eurobond yields and high domestic borrowing costs. In addition, contingent liabilities from implicit guarantees to loss-making state enterprises and non-performing loans in the banking system remain an issue, as noted in the September 2016 DSA. In September, Moody's reaffirmed Ghana's sovereign credit rating at B3 (equivalent to B- or six levels below investment grade) but with the outlook changed from negative to stable.

IMPACT OF MCLs

Ghana's marginal forex borrowing costs are significantly higher than the envisaged scale of MCL lending terms. In October 2015, Ghana issued a \$1 billion Eurobond at a high yield of 10.75% in spite of an IDA partial guarantee, with the principal to be repaid in equal instalments in 2028, 2029 and 2030 (an average maturity of 14 years). The reported purpose was to refinance maturing domestic debt and infrastructure projects. Similarly, in September 2016, Ghana issued a \$750 million Eurobond at a yield of 9.25% and an average maturity of just 5 years, in part to help with its 2007 Eurobond maturing in 2017, which involves a bullet repayment.

Ghana's strategy of relying on Eurobond issues is fraught with exchange rate risk. To some extent, this indicates the high level of domestic borrowing costs (the Bank of Ghana's policy rate stands at 26% to combat inflation) and fear of crowding out the private sector.

Ghana is a clear case where additional official funds such as MCLs would improve debt sustainability since these would come at a lower cost with much longer maturities. Simultaneously, an enhanced policy dialogue is vital to ensure that a pro-growth fiscal adjustment takes place (as is occurring under the IMF's ECF) and that any additional flows from the oil and gas sector are used as a basis for long-run development.

CÔTE D'IVOIRE

Country Profile

GDP USD bn (2014)	34.25
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1360.00
Population (million) (2014)	22.70
Poverty %, Nat. Poverty Line (last year available)	46.30 (2015)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	31.56
Overall CPIA (2015)	3.65
ADF/TSF Lending Eligibility (2016)	Gap/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	34.20	38.30	42.60
Forex share %	47.95	50.91	58.92
Primary deficit/GDP %	1.90	2.30	3.10
Nominal GDP growth %	10.87	8.55	10.68
Composite Nominal Interest rate %	1.33	9.18	7.79
of which: local currency %	2.41	2.21	2.92
of which: Forex %	0.30	16.75	12.48
Real GDP growth %	8.70	7.90	8.40
Composite Real interest rate %	-0.65	8.53	5.57
External debt/GDP %	31.90	33.60	38.80
of which: public share %	51.41	58.04	64.69
Non-interest current account deficit/GDP %	0.60	0.30	1.60

Source: IMF and own calculations based on [IMF CR 2015/12](#)

PUBLIC DEBT DYNAMICS

Debt dynamics remain under control with the rise in the primary deficit offset to some extent by a favorable shift in the interest rate- growth rate difference from positive to negative. The IMF notes that after reaching the enhanced HIPC completion point in 2012, Côte d'Ivoire has ramped up its energy and infrastructure investments. Naturally, the ability to continue such investments is key to faster long-run growth and future taxes, which in turn will underpin long-run debt sustainability.

IMPACT OF MCLS

Côte d'Ivoire issued Eurobonds in 2014 (\$750 million) and 2015 (\$1 billion, at 6.625%, average maturity 12 years). The IMF's December 2015 DSA notes that as of end 2014, commercial creditors (mainly Eurobonds) accounted for 55% of public and publicly guaranteed external debt. The financing scenario envisaged "incorporates projected disbursements of four large semi-concessional loans (Soubre hydroelectric dam, extension of the Port of Abidjan (2014), potable water for Abidjan (2014), and extension and rehabilitation of the electricity network (2015) during 2015–19: \$364 in 2015, \$601 million in 2016, \$448 million in 2017, \$317 million in 2018, and \$42 million in 2019."

Côte d'Ivoire's marginal cost of borrowing is determined by the terms on the semi-concessional loans mentioned above, which are not known. If it goes back to the Eurobond market, it is very likely to pay at least 6.625% (the yield at issuance on its 2015 Eurobond). MCL terms are not likely to tip the country into debt sustainability problems especially if it displaces some of the planned non-concessional borrowing and especially if the loans are euro-denominated, given the relative stability of the CFA franc-euro exchange rate. As can be seen from the table, the main change in debt dynamics in 2014 and 2015 has been the rise in the forex interest rate, linked to the depreciation of the euro and hence the CFA franc against the USD. The key is to make the necessary institutional improvements in debt management noted by the IMF, including collecting data on the debts of public enterprises, maintain social peace and harmony and ensure public spending is pro-growth, that is, focused on infrastructure and human capital.

The IMF announced in October 2016 that it had reached agreement at the Staff level on a three-year program for Côte d'Ivoire, involving a total of USD674 million from the ECF and EFF to support the "2016-2020 National Development Plan (NDP) by addressing impediments to a sustainable balance of payments position and economic growth". The maturity of these loans is approximately 10 years.

ZAMBIA

Country Profile

GDP USD bn (2014)	27.13
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1676.70
Population (million) (2014)	16.21
Poverty %, Nat. Poverty Line (last year available)	60.50 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.22
Overall CPIA (2015)	3.57
ADF/TSF Lending Eligibility (2016)	Blend/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	28.60	34.80	40.30
Forex share %	46.15	52.30	64.52
Primary deficit/GDP %	5.20	3.30	4.90
Nominal GDP growth %	12.78	13.10	13.52
Composite Nominal Interest rate %	10.57	16.26	18.74
of which: local currency %	12.15	13.31	12.34
of which: Forex %	9.17	19.70	24.58
Real GDP growth %	6.70	5.60	5.60
Composite Real interest rate %	4.61	8.55	10.46
External debt/GDP %	20.10	23.90	32.40
of which: public share %	65.67	76.15	80.25
Non-interest current account deficit/GDP %	0.20	1.10	-0.70

Source: IMF and own calculations based on [IMF CR 2015/06](#)

PUBLIC DEBT DYNAMICS

Based on the June 2015 DSA, Zambia's debt dynamics are unsustainable, with sizable primary deficits and interest rates far greater than growth rates. The collapse in copper prices has had a big negative impact. The situation has worsened since the June 2015 IMF report, indicating how volatile the economic environment has been for commodity exporters dependent upon Chinese growth. The eventual fiscal deficit for 2015 was 9.1% of GDP including grants. The depreciation of the kwacha (from 6,390 per USD at the end of 2014 to 11,000 at the end of 2015) alone would have added over 11 percentage points to the debt-to-GDP ratio during 2015. According to data from the IMF's Sub-Saharan Africa Regional Economic Outlook published in October 2016, the actual 2015 debt-to-GDP ratio was 56%, substantially higher than the 40% projected in June 2015, with Eurobonds accounting for 24% of the public debt stock. Actual growth in 2015 was just 3% compared to the June 2015 projection of 5.6%.¹⁸

A November 1, 2016 IMF press statement expects growth to stay at 3% in 2016 with the deficit on a commitment basis (cash basis plus net accumulation of arrears) close to 10% of GDP. The fiscal deficit is being financed by the Bank of Zambia. Government arrears and tight monetary policy have become a source of stress for the private sector and banks.

IMPACT OF MCLS

Zambia issued a third Eurobond for \$1.25 billion in July 2015 at a yield of 9.375% (with tranches maturing in 2025, 26 and 27). The yield on Zambia's 2024 Eurobond (issued in 2014) was close to 16% in the secondary market in February 2016, indicating default concerns, but has since fallen back to the 9-10% range.

S&P lowered Zambia's credit rating from B+ to B with a stable outlook in July 2015. In April 2016, Moody's cut the rating further from B2 to B3 (equivalent to S&P's B-, six levels below investment grade) with a negative outlook on account of slowing growth and rising fiscal deficits.¹⁹ As with Ghana, Zambia would benefit from additional official resources even at moderately concessional terms if this enabled it to refrain from expensive market borrowing. Besides, the maturity on official loans would be much longer, making debt management easier. (The yield on 1-year Treasury Bills in late October 2016 was 25% compared to inflation of around 20%). An enhanced policy dialogue is also vitally important to spur diversification away from copper and implement needed fiscal and structural reforms.

¹⁸ The IMF has not yet had the 2016 Article IV consultation with Zambia. The report with final numbers for 2015 will not be available at least until March 2017.

¹⁹ Moody's 19 April 2016: https://www.moody.com/research/Moodys-downgrades-Zambias-issuer-rating-to-B3-with-negative-outlook--PR_347053

MOZAMBIQUE

Country Profile

GDP USD bn (2014)	16.95
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	583.30
Population (million) (2014)	27.98
Poverty %, Nat. Poverty Line (last year available)	54.70 (2008)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	30.75
Overall CPIA (2015)	3.47
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	50.90	56.60	73.40
Forex share %	83.30	84.98	86.38
Primary deficit/GDP %	1.80	9.60	4.70
Nominal GDP growth %	11.28	11.06	11.72
Composite Nominal Interest rate %	3.19	11.93	31.46
of which: local currency %	9.41	6.40	8.04
of which: Forex %	2.22	13.04	35.60
Real GDP growth %	7.10	7.20	6.30
Composite Real interest rate %	-0.68	8.04	25.08
External debt/GDP %	78.30	84.50	106.30
of which: public share %	54.15	56.92	59.64
Non-interest current account deficit/GDP %	38.40	33.20	29.10

Source: IMF and own calculations based on [IMF CR 2016/01](#)

PUBLIC DEBT DYNAMICS

Mozambique's public debt was projected at 73% of GDP for end-2015, but an IMF June 2016 press release indicated that "the discovery in April of \$1.4 billion (10.4% of Mozambique's GDP) of previously undisclosed loans has pushed the total stock of debt at end-2015 to 86% of GDP". Dynamics are adverse: (i) the primary deficit surged in the election year (2014) and was still excessively high in 2015; and (ii) nominal growth rate exceeded the composite interest rate in 2013 and was close to it in 2014, but this reversed massively in 2015 due to a 36% depreciation of the metical against the USD.

In July 2016, the central bank raised its policy rate by 325 basis points, to 17.5%, to support the collapsing metical and combat soaring inflation. On October 21, the rate was hiked further to 23.25%.

IMPACT OF MCLS

Mozambique issued its first sovereign Eurobond for \$727 million at a yield of 14.4% on April 6, 2016, as part of restructuring the guaranteed debt of the state-owned tuna fishing company (EMATUM).²⁰ This is separate from the discovery of the \$1.4 billion undisclosed loans noted above. Massive external liabilities are being accumulated in connection with a \$100 billion LNG venture expected to make Mozambique the third largest natural gas exporter in the world. Current account deficits are 40% of GDP and projected to reach 90% GDP before gas exports start (by 2023 if no delays). On October 25, Mozambique announced it would seek debt restructuring prior to agreeing a loan from the IMF in 2017, pushing its tuna bond yield to 23%. The IMF has put two conditions on the table: that the public debt should be rendered sustainable; and that an independent international audit be conducted of the undisclosed loans.

The main factors tipping Mozambique into unsustainable debt are the collapse of the currency in conjunction with a high share of forex debt and large undisclosed debts. In addition, there are contingent liabilities from guarantees on external debt and massive current account deficits in connection with the LNG project, whose estimated size is over 6 times GDP. While re-attaining debt sustainability is the immediate goal, the overwhelming long-run development priority is how to harness gas wealth for the benefit of current and future generations instead of benefiting only a well-connected few. Given its high marginal cost of borrowing, Mozambique should be able to cope with MCL lending terms following its debt restructuring.

²⁰Source: Bloomberg. <http://www.bloomberg.com/news/articles/2016-04-01/mozambique-to-issue-sovereign-bond-as-tuna-investors-accept-swap>

GROUP 2 - COUNTRIES WITH GNI PER CAPITA LESS THAN USD 500

NIGER

Country Profile

GDP USD bn (2014)	8.25
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	403.30
Population (million) (2014)	19.90
Poverty %, Nat. Poverty Line (last year available)	48.90 (2011)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	44.64
Overall CPIA (2015)	3.68
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	27.10	35.80	43.10
Forex share %	83.39	75.42	76.57
Primary deficit/GDP %	2.50	8.10	6.50
Nominal GDP growth %	3.55	7.01	6.17
Composite Nominal Interest rate %	-3.19	9.77	10.62
of which: local currency %	1.77	3.60	4.14
of which: Forex %	-4.40	11.00	12.74
Real GDP growth %	4.60	6.90	4.40
Composite Real interest rate %	-2.21	9.66	8.77
External debt/GDP %	48.80	54.90	68.10
of which: public share %	46.31	49.18	48.46
Non-interest current account deficit/GDP %	15.20	16.00	17.00

Source: IMF and own calculations based on [IMF CR 2015/12](#)

PUBLIC DEBT DYNAMICS

HIPC-MDRI lowered Niger's external public debt from 90% of GDP in 2000 to 17% in 2010. Since then, the government has been borrowing rapidly mainly to finance natural resource projects in oil and uranium. According to the IMF DSA, public debt is expected to continue to rise to 54% of GDP in 2017, and to stabilize thereafter owing to increased revenues from the oil and uranium sectors. Meanwhile, the country is facing serious security challenges owing to jihadist attacks, which together with lower oil prices, have resulted in high primary deficits and lower economic growth. Despite its bad geography, Niger is a resource rich country, mainly dependent on oil.

Debt dynamics have worsened as a result of sizable primary deficits and a rise in the composite interest rate in conjunction with a deceleration in growth. The share of forex debt is high, and as a result, the currency depreciation has put significant pressure on the cost of debt (Niger is part of the WAEMU). At the same time, the interest rate on local currency debt is also increasing. Overall, with economic growth slowing, and primary deficits remaining high, debt dynamics have become unsustainable.

IMPACT OF MCLS

Local currency debt is increasing rapidly via the issuance of regional bonds (terms: 6.25% for 5-year maturity and 1-year grace period). According to the DSA, Niger will also benefit from a USD 1 billion credit line from China's Eximbank for infrastructure projects (terms: 2% interest rate, for 25-years maturity and 5-years grace period per footnote 6 in the DSA). Niger seems to be able to accommodate MCLs and would also benefit from receiving additional resources from MDBs rather than relying increasingly on more costly domestic financing.

GUINEA

Country Profile

GDP USD bn (2014)	6.62
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	450.00
Population (million) (2014)	12.61
Poverty %, Nat. Poverty Line (last year available)	55.20 (2012)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	15.06
Overall CPIA (2015)	3.46
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	42.80	47.10	55.70
Forex share %	52.57	56.48	49.37
Primary deficit/GDP %	4.40	3.40	8.10
Nominal GDP growth %	7.01	11.01	6.71
Composite Nominal Interest rate %	5.68	5.04	9.20
of which: local currency %	22.07	5.85	5.21
of which: Forex %	-	4.32	12.27
Real GDP growth %	2.30	1.10	0.10
Composite Real interest rate %	1.04	-4.33	2.44
External debt/GDP %	22.50	26.60	27.50
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	26.90	25.90	22.10

Source: IMF and own calculations based on [IMF CR 2016/03](#)

PUBLIC DEBT DYNAMICS

Guinea was hit by a devastating Ebola epidemic between end-2013 and end-2015, which lowered economic growth significantly, especially in 2015. The 2015 fiscal deficit widened because of higher spending to fight the epidemic, costs of guaranteed investments, transfers to the electricity company, EDG, and a 40% increase in base salaries (Box 2 of the IMF DSA). This is reflected in the large primary deficit for 2015 and the big increase in the debt ratio.

The DSA assumes a zero primary deficit in 2016 compared to 8.1% of GDP in 2015, while growth is expected to rebound to 4% owing to the recovery associated with the eradication of Ebola, in particular in the mining sector. Unless the sharp fiscal adjustment and growth turnaround materialize, public debt will be on an unsustainable trajectory, as the interest rate-growth rate differential has turned positive in 2015.

Guinea has also a large current account deficit financed by FDI in mining projects (bauxite and iron ore).

IMPACT OF MCLS

According to the DSA, recourse to domestic financing has increased – including Central Bank and commercial bank borrowing and Central Bank Guarantees on private loans – while concessional new borrowing from multilaterals has fallen progressively. This suggests that Guinea could cope with MCLs, given the much longer maturities and possibly lower costs than the commercial loans now being resorted to. More official funding could help with large investment projects, such as the planned 550 MW hydroelectric dam at Souapati, which is expected to cost 20% of GDP. Its financing will not be feasible based on available instruments. Potential MCL access could serve as a powerful incentive for reform.

Guinea is a natural resource-rich country, underlining the importance of avoiding the natural resource curse. Its mines at Simandou, which are regarded as the richest untapped iron ore site in the world, have been at the center of numerous court battles among the world's biggest mining conglomerates. Rio Tinto Group revealed to law enforcement agencies in the US, UK and Australia in November 2016 that it had made a \$10.5 million payment in consultancy fees to a friend of Guinea's president following a review by a law firm.²¹

²¹ ["Rio Tinto offered Bribe for Mine, ex-Guinea Minister Says"](#). Bloomberg Nov 17 2016.

MALAWI

Country Profile

GDP USD bn (2014)	6.05
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	283.30
Population (million) (2014)	17.22
Poverty %, Nat. Poverty Line (last year available)	50.70 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	28.58
Overall CPIA (2015)	3.44
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	50.60	48.00	53.80
Forex share %	60.87	68.96	68.77
Primary deficit/GDP %	2.20	0.30	2.00
Nominal GDP growth %	33.92	27.79	24.61
Composite Nominal Interest rate %	30.92	17.18	36.03
of which: local currency %	30.61	25.86	20.98
of which: Forex %	-	11.61	42.81
Real GDP growth %	5.20	5.70	2.90
Composite Real interest rate %	2.84	-3.07	12.33
External debt/GDP %	34.80	36.70	40.40
of which: public share %	88.51	90.19	91.58
Non-interest current account deficit/GDP %	8.50	8.40	8.00

Source: IMF and own calculations based on [IMF CR 2016/06](#)

PUBLIC DEBT DYNAMICS

Malawi's public debt dynamics show significant deterioration in 2015, with the primary deficit returning to 2013 levels and a big gap opening up between the composite interest rate and GDP growth, be it in nominal or real terms.

The IMF-World Bank DSA deals with this incipient unsustainability by assuming a significant real appreciation in 2016 (13%) compared with 18% real depreciation in 2015. It also assumes a low real interest rate on domestic debt and a big pick up in real GDP growth starting in 2017 combined with a flat real exchange rate and rapidly shrinking primary deficits. This places the public debt-to-GDP ratio on a downward course.

The question is how robust these projections are: on fiscal outcomes, the real exchange rate, growth rate and domestic real interest rates. For example, the non-interest current deficit is exceptionally large. Is this compatible with a large real appreciation in 2016? (And paragraph 13 of the revised DSA notes that prior to 2012, the exchange rate was highly overvalued. So there is no persuasive reason for it to appreciate now.)

There is clearly a high level of macroeconomic uncertainty surrounding Malawi's public debt sustainability. Unless fiscal effort goes up to raise primary surpluses, growth picks up and the real exchange rate stays flat, one would have to conclude that public debt dynamics are veering towards unsustainability. Note that with the high share of forex debt, there is a strong positive correlation between real depreciation and high composite real interest rates.

IMPACT OF MCLs

Malawi's economic governance remains weak as attested by the 2013 "Cashgate" scandal. Yet, it is also poor and has been badly affected by drought in recent years, with almost half the population at risk of food insecurity. This creates a dilemma for donors. At the moment, given the food crisis and concerns about debt sustainability, Malawi does not appear to be ready for MCLs.

LIBERIA

Country Profile

GDP USD bn (2014)	2.01
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	366.70
Population (million) (2014)	4.50
Poverty %, Nat. Poverty Line (last year available)	63.80 (2007)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	6.93
Overall CPIA (2015)	3.39
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	12.40	16.10	24.60
Forex share %	100.00	100.00	100.00
Primary deficit/GDP %	1.40	1.80	8.20
Nominal GDP growth %	17.18	15.42	4.39
Composite Nominal Interest rate %	8.66	7.98	5.04
of which: local currency %	-	-	-
of which: Forex %	-	-	-
Real GDP growth %	8.50	5.70	-2.80
Composite Real interest rate %	0.61	-1.12	-2.20
<i>External debt/GDP %</i>	<i>10.90</i>	<i>13.60</i>	<i>23.40</i>
<i>of which: public share %</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>
<i>Non-interest current account deficit/GDP %</i>	<i>25.00</i>	<i>30.20</i>	<i>33.50</i>

Source: IMF and own calculations based on [IMF CR 2016/07](#)

PUBLIC DEBT DYNAMICS

Liberia was hit by falling commodity prices, including iron ore and rubber, just as the devastating Ebola outbreak of 2014-15 was receding. This combination has constituted a big setback and contributed to the rising debt-to-GDP ratio as a result of slowing growth and diversion of fiscal resources to combat the epidemic. While still relatively low, public debt has doubled as a share of GDP between 2013 and 2015. Dynamics are expected to remain adverse over the medium term as a result of large primary deficits (driven in part by needed infrastructure investments) as well as slowing growth.²²

IMPACT OF MCLS

Given its fragility, very low per capita income and high poverty rate, it would be advisable for Liberia to aim for extended maturities and concessional terms. While debt relief under HIPC-MDRI was completed in 2010 and created fiscal space for new borrowing, the dynamics are adverse as noted above. Liberia also faces a tension between debt sustainability and continuing with much-needed infrastructure investments, as noted in IMF Country Report 16/238. Furthermore, the factors that contributed to the violent conflict that ended in 2003 have not diminished. These include ethnic differences, extreme inequality and food insecurity. For all these reasons, Liberia would not be able to cope with MCLS lending terms.

²² IMF country report 16/238 (July 2016) shows 2015 growth as zero in the main text but as -2.8% in the DSA Table A3 in Annex V. This is because growth rates in the text refer to the calendar year whereas those in the DSA refer to the July-June fiscal year. Note also that domestic public debt is also USD-denominated and that there is no private external debt.

BURUNDI

Country Profile

GDP USD bn (2014)	3.09
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	253.30
Population (million) (2014)	11.18
Poverty %, Nat. Poverty Line (last year available)	64.60 (2014)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	8.52
Overall CPIA (2015)	3.30
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	100

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014 P	2015 P
Public Debt/GDP %	32.70	32.30	30.40
Forex share %	59.94	56.35	59.21
Primary deficit/GDP %	0.20	2.30	0.40
Nominal GDP growth %	16.73	13.18	11.72
Composite Nominal Interest rate %	2.18	3.14	5.84
of which: local currency %	4.77	5.51	6.60
of which: Forex %	0.45	1.56	5.25
Real GDP growth %	4.50	4.70	4.80
Composite Real interest rate %	-8.53	-4.59	-0.72
External debt/GDP %	19.60	18.20	18.00
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	18.30	17.50	13.20

Source: IMF and own calculations based on [IMF CR 2015/03](#)

PUBLIC DEBT DYNAMICS

Burundi is a fragile state with an ongoing civil conflict. The latest available DSA is from March 2015, and rated the country at high risk of external debt distress and as a poor policy performer. The public debt-to-GDP ratio was expected to be stable, with a small primary deficit and growth rates much higher than interest rates. Most forex debt is concessional, and according to the IMF, 70% of the domestic debt (which equals 40% of total public debt) is medium- and long-term. The main risks were expected to come from the external side, given the large current account deficit (23% of GDP in 2014, excluding grants), a very narrow export base and scarce international reserves.

Following the March 2015 DSA, political turbulence escalated after the disputed July 2015 presidential elections, leading to a recession. GDP is expected to have contracted in 2015 (-4.2% according to the IMF's WEO, -7.2% according to the Economist Intelligence Unit and -2.5% according to the World Bank) and the debt ratio to have increased to 38.4% of GDP (WEO) compared to the March 2015 projection of 30.4%.

IMPACT OF MCLS

Burundi is a poor country with a low CPIA and politically and socially fragile. Official donors have suspended assistance to the government following the upheaval associated with the disputed 2015 elections. It clearly will not be able to handle MCL terms, even though the government issued 2 year T-bills at 14.5% in 2016.

CONGO, DEMOCRATIC REPUBLIC

Country Profile

GDP USD bn (2014)	32.78
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	366.70
Population (million) (2014)	77.27
Poverty %, Nat. Poverty Line (last year available)	63.60 (2012)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	98.03
Overall CPIA (2015)	3.30
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	19.40	16.90	18.00
Forex share %	77.84	75.15	79.44
Primary deficit/GDP %	-1.90	-0.20	-1.10
Nominal GDP growth %	18.59	10.62	11.60
Composite Nominal Interest rate %	1.51	0.36	2.36
of which: local currency %	-	-	2.30
of which: Forex %	-	-	2.38
Real GDP growth %	8.50	9.20	9.20
Composite Real interest rate %	-7.13	-0.93	0.15
External debt/GDP %	17.50	16.60	19.70
of which: public share %	86.29	76.51	72.59
Non-interest current account deficit/GDP %	10.60	9.10	7.20

Source: IMF and own calculations based on [IMF CR 2015/10](#)

PUBLIC DEBT DYNAMICS

The Democratic Republic of Congo (DRC) benefited hugely from the HIPC-MDRI program, which lowered public external debt from 75% GDP in 2009 to 22% GDP in 2010. Since then, the authorities have been able to keep the overall public debt ratio low as a result of prudent fiscal policies. Small primary surpluses and GDP growth rates considerably higher than the composite interest rate paid on public debt have kept dynamics favorable.

IMPACT OF MCLS

According to the August 2015 DSA, the government is planning to increase investments in the mining industry and public infrastructure. The main source of funds will be channeled through Sicominex, a joint venture between the Congolese state-owned Gecamines and Chinese partners. The loans will come from Chinese banks and the Chinese partners of Sicominex; but the interest rates are not mentioned. Much of the domestic public debt consists of various arrears accumulated over the years.

In the circumstances, it is hard to estimate DRC's marginal cost of borrowing. Moreover, the country remains highly vulnerable to shocks in commodity prices, especially copper. However, DRC should be able to cope with some MCLS provided it is able to keep currency volatility low, which it seems to have done so far. More recently, it has been mired in a political impasse with the President refusing to step down following the end of his term in December 2016.

MADAGASCAR

Country Profile

GDP USD bn (2014)	11.01
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	436.70
Population (million) (2014)	24.24
Poverty %, Nat. Poverty Line (last year available)	75.30 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	21.21
Overall CPIA (2015)	3.17
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	33.90	35.80	41.00
Forex share %	67.26	68.16	69.27
Primary deficit/GDP %	3.20	1.70	2.40
Nominal GDP growth %	7.52	10.12	10.94
Composite Nominal Interest rate %	1.46	13.04	18.68
of which: local currency %	5.84	3.72	5.99
of which: Forex %	-0.26	17.58	24.61
Real GDP growth %	2.30	3.30	3.10
Composite Real interest rate %	-3.47	6.04	10.30
External debt/GDP %	43.80	45.00	48.60
of which: public share %	52.05	54.22	58.44
Non-interest current account deficit/GDP %	5.60	0.10	1.60

Source: IMF and own calculations based on [IMF CR 2016/08](#)

PUBLIC DEBT DYNAMICS

Debt dynamics have deteriorated in 2015. Primary deficit increased and the nominal interest rate growth differential widened notably, so definitely on an unsustainable path. This was driven by a rise in the nominal interest rate on foreign currency debt, due to the depreciation of the local currency (of 16% in 2014 and 23% in 2015). Most of the external debt is highly concessional (owed to multilateral development Banks), but given the decline in donors assistance during the 2008-2013 political crisis, the government has borrowed increasingly from domestic sources to finance budget deficits.

The IMF DSA assumes that the public debt will rise at most to 45.7% of GDP by 2021, but assuming that economic growth picks up to 5% over the medium term and that the real exchange rate remains stable starting in 2016. On the other hand the EIU expects economic growth to decelerate in 2016 to 2.2% on the back of lower agriculture production, and to pick up to only 3.7% by 2017. Thus, unless an optimistic growth scenario materializes, there is a high risk that debt gets quickly unsustainable, given the vulnerability to currency depreciation and the uncertainty about ODA because of the domestic political instability.

IMPACT OF MCLS

Madagascar is one of the poorest countries in Africa, with poverty rate of 75% (2010) and per capita income of USD 440. It is still recovering from its 2009-13 political crisis, and it ranks low in terms of political governance. It is positioned at 154 out of 188 countries in the Human Development Indicators, and has not reached any of the Millennium Development Goals.²³ According to Transparency International, rent-seeking and weak governance are serious impediments to tax collection and quality public spending. Against this background, there is a large need to increase spending in infrastructure and social sectors, but low implementation capacity is an issue. Given its fragility, Madagascar will not be able to cope with MCL terms.

²³ <http://www.worldbank.org/en/country/madagascar/overview>

GAMBIA, THE

Country Profile

GDP USD bn (2014)	0.85
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	483.30
Population (million) (2014)	1.99
Poverty %, Nat. Poverty Line (last year available)	48.40 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.00
Overall CPIA (2015)	3.14
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014 P	2015 P
Public Debt/GDP %	83.30	101.70	101.50
Forex share %	55.46	53.69	56.75
Primary deficit/GDP %	4.60	8.40	-3.30
Nominal GDP growth %	10.77	6.39	11.20
Composite Nominal Interest rate %	12.64	17.24	15.46
of which: local currency %	10.88	13.85	15.22
of which: Forex %	13.99	19.97	15.67
Real GDP growth %	4.80	-0.20	5.10
Composite Real interest rate %	6.57	9.98	9.13
External debt/GDP %	50.30	57.70	60.30
of which: public share %	91.85	94.63	95.52
Non-interest current account deficit/GDP %	9.90	12.60	13.50

Source: IMF and own calculations based on [IMF CR 2015/04](#)

PUBLIC DEBT DYNAMICS

The Gambia is a highly indebted country with clearly unsustainable dynamics on account of high primary deficits and composite real interest rates exceeding real growth rates. While fiscal corrective measures were being implemented, reflected in a primary surplus of 3.3% of GDP in 2015 and continued primary surpluses projected over the medium term, it does not appear likely that the authorities will adhere to the necessary fiscal and macroeconomic discipline needed to place the debt-to-GDP ratio on a sustainable trajectory.

Indeed, in March 2015, the Government requested that the then IMF Extended Credit Facility (ECF) be cancelled and replaced with a highly concessional Rapid Credit Facility (RCF) plus a one-year Staff-Monitored Program (SMP) as a stepping stone to a new ECF program (IMF Country Report 15/104). The twin goals were to help with the external shock from the 2014-15 regional Ebola outbreak, which led to a halving of tourism revenues, and address various fiscal policy slippages exacerbated by public spending to support key public enterprises in financial difficulty. However, by September 2015, after the RCF disbursement, the SMP was seriously off-track with policy slippages, a big fiscal deterioration and rising inflation and Treasury bill rates. Moreover, in May 2015, the President set the official exchange rate at a premium of over 20% relative to prevailing market rates, according to IMF Country Report 15/272.

IMPACT OF MCLS

The Gambia suffered a serious exogenous shock as a result of the regional Ebola outbreak. Yet, its problems have been magnified by repeated policy slippages. Presidential elections were held in December 2016. However, the incumbent refused to concede defeat leading to an impasse that was eventually resolved towards the end of January 2017. The new government is engaged in discussions on support for macro-fiscal reforms with the IMF, World Bank and AfDB. While the immediate goal is to attain a sustainable public debt profile, requiring a focus on highly concessional finance, access to MCLS down the road could provide a powerful incentive for fiscal discipline and continuing reform.

CENTRAL AFRICAN REPUBLIC

Country Profile

GDP USD bn (2014)	1.69
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	373.30
Population (million) (2014)	4.90
Poverty %, Nat. Poverty Line (last year available)	62.00 (2008)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5
Overall CPIA* (2015)	2.41
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	100

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	38.50	51.10	48.50
Forex share %	37.92	29.16	29.90
Primary deficit/GDP %	5.90	-3.60	0.10
Nominal GDP growth %	-32.27	12.21	11.30
Composite Nominal Interest rate %	0.30	6.09	4.33
of which: local currency %	1.65	1.21	0.78
of which: Forex %	-1.62	14.08	12.94
Real GDP growth %	-36.70	1.00	4.80
Composite Real interest rate %	-6.26	-4.51	-1.76
External debt/GDP %	14.60	14.90	14.50
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	2.70	5.20	12.50

Source: IMF and own calculations based on [IMF CR 2016/08](#)

PUBLIC DEBT DYNAMICS

Central African Republic (CAR) is a small-scale diamond producer but the true scale of production is unknown. It also has other mineral resources but unexplored: uranium reserves, gold, iron ore and hydrocarbons. Soft commodities include timber and cotton.

Following violent conflicts in 2013, which led to a collapse of state institutions and deep recession, CAR finally returned to democracy in April 2016 and is now under a three-year IMF Extended Credit Facility (ECF) program that aims at restoring public debt sustainability and fostering inclusive growth.

The authorities are making progress and rely mainly on budget support and technical assistance from donors. The decline in the debt ratio between 2014 and 2015 resulted from strong budget support from the international community, with grants equalling 10.7% of GDP (which also explains the big primary surplus in 2014). Nevertheless, and not surprisingly, given the earlier disruption, CAR remains at high risk of debt distress. The DSA underlines the need to adopt prudent fiscal policies and to rely exclusively on highly concessional debt financing.

IMPACT OF MCLS

CAR is clearly not in a position to take on MCLS, being poor and also a poor policy performer. The low forex share in total public debt obviously helps, but once again, short of receiving pure grants, the country would be vulnerable to currency volatility, although being a member of a currency union (the Central African CFA franc) offers some insulation.

GROUP 3 - COUNTRIES THAT NEVER ISSUED A EUROBOND BUT WITH A GNI PER CAPITA GREATER THAN USD 500

UGANDA

Country Profile

GDP USD bn (2014)	27.00
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	633.30
Population (million) (2014)	39.03
Poverty %, Nat. Poverty Line	19.50
(last year available)	(2012)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	65.79
Overall CPIA (2015)	4.16
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	23.30	26.40	31.10
Forex share %	65.24	60.98	62.06
Primary deficit/GDP %	2.20	2.70	3.00
Nominal GDP growth %	7.54	7.01	9.41
Composite Nominal Interest rate %	9.47	6.55	23.09
of which: local currency %	14.61	16.42	15.35
of which: Forex %	5.97	1.29	28.04
Real GDP growth %	3.30	4.60	5.00
Composite Real interest rate %	5.16	4.15	18.13
External debt/GDP %	29.30	30.80	36.80
of which: public share %	51.88	52.27	52.45
Non-interest current account deficit/GDP %	6.30	6.70	6.90

Source: IMF and own calculations based on [IMF CR 2015/11](#)

PUBLIC DEBT DYNAMICS

Even though there has been an increase of 8 percentage points between 2013 and 2015, Uganda's public indebtedness is not high. Dynamics at the margin are adverse, with significant primary deficits and interest rates on both domestic and forex debt much higher than growth. Regarding domestic debt, The Bank of Uganda hiked the policy rate by 600 bps in 2015 to 17% to meet inflation targets. In 2016, it started cutting the policy rate in April, ending the year at 12%. Similarly, a large depreciation of the currency in 2015 (by 21%) pushed up the interest rate on forex debt.

IMF (June 2016) is happy with Uganda's fiscal trajectory and does not anticipate debt sustainability problems on account of the needed public infrastructure investments, which have raised the primary deficit: "Enhanced revenue mobilization and non-priority expenditure restraint are expected to contribute to this effort and are essential in maintaining debt sustainability. The current medium-term fiscal projections remain consistent with the low risk of debt distress assessed under the Debt Sustainability Analysis undertaken during the Fifth review (IMF Country Report No. 15/321)." But the IMF also cautions vigilance regarding contingent liabilities from infrastructure PPPs (see paragraph 28) (PPPs: public-private partnerships).

IMPACT OF MCLS

Uganda's terms of trade has improved with the fall in oil prices. However, it expects to be producing oil and gas in the future and will hopefully learn from the wealth of available experience to avoid falling victim to the natural resource curse. Like Tanzania, Uganda is in the IMF's PSI (Policy Support Instrument) program and should be able to handle MCLS provided it improves and maintains a high level of economic governance. The main concern will be to maintain macroeconomic discipline, thereby keeping interest rates on domestic debt and currency volatility low. Uganda is a clear case of benefiting from higher official funds at moderately concessional rates provided absorptive capacity improves. It has not so far accessed the Eurobond market.

BURKINA FASO

Country Profile

GDP USD bn (2014)	12.55
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	666.70
Population (million) (2014)	18.11
Poverty %, Nat. Poverty Line (last year available)	40.10 (2014)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	34.67
Overall CPIA (2015)	4.03
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 E
Public Debt/GDP %	29.60	28.10	32.10
Forex share %	74.66	71.89	73.21
Primary deficit/GDP %	3.90	-0.40	1.00
Nominal GDP growth %	5.75	2.23	5.66
Composite Nominal Interest rate %	-1.57	10.52	12.06
of which: local currency %	5.05	5.57	4.55
of which: Forex %	-	12.20	14.99
Real GDP growth %	6.60	4.00	4.00
Composite Real interest rate %	-0.78	12.43	10.29
External debt/GDP %	22.10	20.20	23.50
of which: public share %	-	100.00	100.00
Non-interest current account deficit/GDP %	-	7.80	6.10

Source: IMF and own calculations based on [IMF CR 2016/06](#)

PUBLIC DEBT DYNAMICS

Debt dynamics have been under control during 2013-15, with only a modest increase in the debt-to-GDP ratio. Primary deficits have been lowered but growth has slowed and real interest rates far exceeded growth rates in 2014-15 owing to the depreciation of the currency and its impact on the forex interest rate. Forex debt accounts for the bulk of public debt and is mainly concessional, mostly denominated in non-USD currencies (3/4 according to the IMF). On the other hand, a stronger USD helped to improve the current account deficit (revenues mainly from the mining sector).

IMPACT OF MCLS

The IMF observes that Burkina Faso is making progress in tapping the domestic and regional debt markets. This is a country with a reasonably strong CPIA relative to the ADF group average of 3.39 (for 38 countries) and should easily be able to handle moderately concessional terms on official loans provided maturities are long, economic governance strengthens and currency volatility is under control. Keeping political volatility under control is obviously crucial for the investment climate and long-run growth.

BENIN

Country Profile

GDP USD bn (2014)	9.58
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	783.30
Population (million) (2014)	10.88
Poverty %, Nat. Poverty Line (last year available)	36.20 (2011)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	19.48
Overall CPIA (2015)	3.89
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Green
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 Est.
Public Debt/GDP %	25.40	30.90	37.10
Forex share %	66.14	65.05	60.38
Primary deficit/GDP %	2.10	1.60	5.10
Nominal GDP growth %	8.61	5.12	6.04
Composite Nominal Interest rate %	-0.71	8.84	8.79
of which: local currency %	2.11	2.06	5.24
of which: Forex %	-2.80	12.31	10.70
Real GDP growth %	6.90	6.50	5.20
Composite Real interest rate %	-2.27	10.27	7.92
External debt/GDP %	16.80	20.10	22.40
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	9.30	9.10	11.00

Source: IMF and own calculations based on [IMF CR 2016/01](#)

PUBLIC DEBT DYNAMICS

Benin's public debt/GDP ratio is not high, but has increased by 12 percentage points of GDP between 2013 and 2015, with dynamics deteriorating in 2014 and 2015. Not only has the primary deficit risen, the nominal interest rate is far higher than the nominal growth rate, driven by the forex interest rate. But the local currency interest rate has also risen on account of growing non-concessional XOF borrowing for infrastructure projects.

IMF analysis notes (paragraph 4 of the January 2016 DSA) that the Government plans to issue bonds in the regional market and raise a projected total of 4% of GDP in non-concessional borrowing over 2016-20 to finance the increase in public investment. Given estimated 2015 GDP at around \$8.5 billion (numbers from IMF Table 1, selected economic and financial indicators of Country Report n. 16/6), this means roughly \$350 million.

IMPACT OF MCLS

Marginal borrowing costs went up during 2014 and 2015. Regarding local currency ("domestic") debt, the Government borrowed money from BOAD (West African Development Bank) for road projects. The average cost is above 7%, higher than the 6.5% interest rates on government bonds. The government planned to mobilize, in 2016, more than \$200 million-equivalent through this channel with a nominal interest rate of 7-8%. The amount could be higher if the new decision to pre-finance projects with private enterprises to build roads is taken into account.

The government planned to borrow non-concessional forex debt amounting to \$125 million with an estimated interest rate of 6% in 2016. There is also an estimated \$500 million of semi-concessional resources (interest rate 2.3%, maturity 20 years) to be raised from multilateral and bilateral partners, beyond concessional resources.

MCLS will bolster Benin's debt sustainability if accompanied by expanded official funding and an enhanced policy dialogue. The longer maturities will alleviate liquidity problems emanating from Benin's large current account deficits. The key is to ensure that the large public investments during 2015-19 in roads, regional railways and hydropower are executed well and spur growth.

In June 2016, the IMF issued a press release on a possible IMF program for Benin. It noted that the widening fiscal deficit was being financed by relatively expensive regional bond issues, and that "Worse, during the last quarter of 2015 and first of 2016, contracts were signed for off-budget projects close to 24 percent of GDP. These loans are expensive and have short maturities." Benin has also been hurt by the slowdown in its biggest trading partner, Nigeria.

MAURITANIA

Country Profile

GDP USD bn (2014)	5.44
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1296.70
Population (million) (2014)	4.07
Poverty %, Nat. Poverty Line (last year available)	42.00 (2008)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.00
Overall CPIA (2015)	3.84
ADF/TSF Lending Eligibility (2016)	ADF-Only/Not-Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	100

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	67.80	80.40	93.30
Forex share %	93.66	92.04	93.89
Primary deficit/GDP %	-1.00	2.40	2.30
Nominal GDP growth %	6.72	-3.42	-3.70
Composite Nominal Interest rate %	1.79	5.84	9.23
of which: local currency %	4.31	5.37	4.90
of which: Forex %	-	5.87	9.61
Real GDP growth %	6.40	6.60	1.90
Composite Real interest rate %	1.48	16.82	15.59
<i>External debt/GDP %</i>	<i>76.80</i>	<i>89.20</i>	<i>103.20</i>
<i>of which: public share %</i>	<i>82.68</i>	<i>82.96</i>	<i>84.88</i>
<i>Non-interest current account deficit/GDP %</i>	<i>20.20</i>	<i>26.10</i>	<i>17.50</i>

Source: IMF and own calculations based on [IMF CR 2016/05](#)

PUBLIC DEBT DYNAMICS

Mauritania's debt-to-GDP ratio is high with adverse dynamics. It has suffered from a big drop in iron ore prices, which led to a large negative terms-of-trade shock even though it is an oil importer. This negative shock has lowered growth, exports and foreign exchange reserves while widening the fiscal deficit and increasing financial risks.

The DSA notes that debt relief from Kuwait (in connection with the country's 2002 Paris Club agreement, which requires comparable relief from Kuwait), amounting to 21% of GDP, could be finalized in 2016. When this happens, it will lower the debt-to-GDP ratio to around 70%, which is still high.

But achieving positive debt dynamics in the medium term will remain a challenge as iron ore prices remain depressed. An important reason is that, while concessional, most of Mauritania's public debt is either USD denominated or denominated in currencies tied to the USD (such as the Saudi riyal and Kuwaiti dinar). In addition to the large depreciation of ouguiya against the USD, Mauritania has been suffering from deflation (as a result of real appreciation against trading partner currencies even while its currency has depreciated in real terms against creditor currencies), raising the composite real interest rate while real growth rates have plunged.

IMPACT OF MCLS

The big shock to Mauritania's debt dynamics have come from the real depreciation against the USD and growth slowdown, not from interest rate levels. The medium-term challenge is to adjust to the persistent terms-of-trade shock, both fiscally and in terms of competitiveness relative to trading partners. MCL lending terms on the scale envisaged is not going to impede this process and could even spur it. The development challenge is to diversify the economy away from natural resources and strengthen fiscal, financial and other economic institutions. Certainly, the long maturities and grace periods built in to official lending even at moderately concessional terms will give Mauritania, whose per capita GNI is relatively high, ample time to strengthen its foundations for long-run development.

LESOTHO

Country Profile

GDP USD bn (2014)	2.18
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1460.00
Population (million) (2014)	2.14
Poverty %, Nat. Poverty Line (last year available)	57.10 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.00
Overall CPIA (2015)	3.76
ADF/TSF Lending Eligibility (2016)	Gap/Not-Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 Est.
Public Debt/GDP %	43.40	42.70	48.10
Forex share %	94.70	96.25	94.39
Primary deficit/GDP %	1.80	-1.30	2.90
Nominal GDP growth %	11.06	9.50	7.63
Composite Nominal Interest rate %	19.05	13.54	13.93
of which: local currency %	9.24	9.39	9.41
of which: Forex %	19.87	13.77	14.10
Real GDP growth %	3.60	3.40	2.60
Composite Real interest rate %	11.06	7.21	8.61
External debt/GDP %	41.10	41.10	45.40
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	10.20	7.70	6.20

Source: IMF and own calculations based on [IMF CR 2016/02](#)

PUBLIC DEBT DYNAMICS

Lesotho's public debt is almost entirely external but mainly concessional. A significant depreciation of the currency (linked to the devaluation of the South African Rand—whose economic prospects have been deteriorating) has pressured the nominal interest rates. As a result, the composite nominal interest rate is excessively high and above the nominal rate of growth, resulting in unfavorable debt dynamics. Besides, the primary deficit is expected to rise in 2015, driven by lower SACU revenues and an elevated public sector wage bill (22% of GDP, the highest in SSA).

Lesotho is a very small landlocked country with a population of only about 2 million. According to the IMF, despite considerable spending on social sectors (30% of GDP) little improvement has occurred, and the poverty rate remains high. It follows that there is a need not only to adjust fiscal policy but also to improve governance.

IMPACT OF MCLs

The Government is planning to develop the second phase of a large hydropower plant project, with an estimated cost of around USD 500 million. The project could have substantial positive effects on growth and government revenues, but the additional external borrowing could also increase the country's vulnerability to external shocks. The authorities intend to rely mostly on commercial borrowing to finance this project (80% according to the IMF). But then again, for a project of this nature, it would be preferable to rely on MCLs with their extended maturities to avoid running into macroeconomic difficulty.

MALI

Country Profile

GDP USD bn (2014)	14.39
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	633.30
Population (million) (2014)	17.60
Poverty %, Nat. Poverty Line (last year available)	43.60 (2009)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	20.37
Overall CPIA (2015)	3.63
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 Est.
Public Debt/GDP %	31.40	32.40	36.50
Forex share %	81.53	77.16	76.71
Primary deficit/GDP %	2.20	2.70	2.40
Nominal GDP growth %	3.02	9.02	8.26
Composite Nominal Interest rate %	-1.74	11.45	10.60
of which: local currency %	6.06	7.70	6.40
of which: Forex %	-3.06	12.30	11.84
Real GDP growth %	1.70	7.20	4.90
Composite Real interest rate %	-3.00	9.59	7.17
External debt/GDP %	25.60	25.00	28.00
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	3.10	5.20	2.20

Source: IMF and own calculations based on [IMF CR 2015/12](#)

PUBLIC DEBT DYNAMICS

Based on the December 2015 DSA (IMF country report 15/339), Mali's debt dynamics are adverse with significant primary deficits and interest rates well above growth rates. The latter is driven by the high share of forex debt in total public debt (about 80%). Although nominal interest rates on foreign currency debt are low (with commercial creditors virtually absent), currency depreciation has pushed up the effective cost considerably, as shown by the rise in the forex interest rate.

IMPACT OF MCLS

The fifth review of Mali's ECF program was completed in June 2016 (IMF country report 16/149). While progress has been good on growth and inflation, security conditions remain fragile in spite of a peace agreement having been signed in June 2015. The increase in the fiscal deficit for 2016 (related to spending under the peace deal) will be financed by borrowing from the domestic and regional markets as well as the IMF. Box 1 of the report discusses the 2015 rebasing of the National Accounts, which will raise nominal GDP by 20%. This will lower the debt-to-GDP numbers shown in the table, which come from the December 2015 DSA (the June 2016 report does not include a new DSA). For example, the debt ratio will fall from the 36.5% for 2015 shown in the table to 31.3%.

Nevertheless, given the fragile security situation and the dependence upon gold (gold accounts for 60% of exports), Mali is a case where even marginal increase of MDB terms would worsen the debt situation.

SÃO TOMÉ AND PRÍNCIPE

Country Profile

GDP USD bn (2014)	0.34
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1536.70
Population (million) (2014)	0.19
Poverty %, Nat. Poverty Line (last year available)	61.70 (2009)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.00
Overall CPIA (2015)	3.35
ADF/TSF Lending Eligibility (2016)	Gap/Not-Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	44.20	50.00	59.00
Forex share %	100.00	100.00	100.00
Primary deficit/GDP %	0.00	5.50	8.60
Nominal GDP growth %	12.84	11.71	12.63
Composite Nominal Interest rate %	-3.62	15.00	11.96
of which: local currency %	-	-	-
of which: Forex %	-	-	-
Real GDP growth %	4.00	4.50	4.00
Composite Real interest rate %	-11.17	7.57	3.38
<i>External debt/GDP %</i>	<i>44.20</i>	<i>50.00</i>	<i>59.00</i>
<i>of which: public share %</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>
<i>Non-interest current account deficit/GDP %</i>	<i>12.90</i>	<i>21.30</i>	<i>16.40</i>

Source: IMF and own calculations based on [IMF CR 2016_06](#)

PUBLIC DEBT DYNAMICS

Public debt is elevated and totally forex-denominated. The gap between economic growth and the composite interest rate turned positive in 2015, due to a smaller depreciation of the currency, but the primary deficit is exceptionally high. The currency is pegged to the euro, and that explains the negative composite interest rate in 2013 (because of the euro appreciation against the USD in 2013, although the euro depreciated significantly against the USD in 2014 and 2015).

Debt dynamics are adverse, and highly vulnerable to external shocks given the large current account deficit and dependency on imports. Yet, debt is mainly concessional and external grants remain the main source of revenue for the government (about 50%). We should also note that despite the “Red” status of the DSA, Sao Tome e Principe is not entitled for grants under the ADF criteria given that is a “Gap” country (GNI per capita exceeds the operational cut-off of USD 1,215 in FY 2015).

IMPACT OF MCLs

São Tomé and Príncipe is a small island state with a high poverty rate. The country depends heavily on donor grants for budget support, and therefore does not seem prepared to MCLs. Nevertheless, the prospect of commercial oil production could relax the financing constraint, with the government planning to embark on significant infrastructure investments (such as the construction of a deep-water port – with an estimated cost of USD 800 million, more than double the country’s GDP). Despite the positive impact that these investments could have in boosting economic growth, there is considerable uncertainty about whether or when these investments will materialize. But given the currently high risk of debt distress, any additional financing should be provided on highly concessional terms and extended maturities along with an enhanced policy dialogue aimed at averting the natural resource curse with a path to access MCLs.

DJIBOUTI

Country Profile

GDP USD bn (2014)	1.59
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1597.00
Population (million) (2014)	0.89
Poverty %, Nat. Poverty Line (last year available)	n.a. (n.a.)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.00
Overall CPIA (2015)	3.32
ADF/TSF Lending Eligibility (2016)	Gap/Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	0

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014 P	2015 P
Public Debt/GDP %	56.80	62.00	74.30
Forex share %	85.21	90.00	93.94
Primary deficit/GDP %	5.20	9.70	11.50
Nominal GDP growth %	7.52	9.18	9.69
Composite Nominal Interest rate %	1.09	4.37	4.03
of which: local currency %	-	-	-
of which: Forex %	-	-	-
Real GDP growth %	5.00	6.00	6.50
Composite Real interest rate %	-1.28	1.33	1.00
<i>External debt/GDP %</i>	<i>48.40</i>	<i>55.80</i>	<i>69.80</i>
<i>of which: public share %</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>
<i>Non-interest current account deficit/GDP %</i>	<i>22.7</i>	<i>25.20</i>	<i>25.40</i>

Source: IMF and own calculations based on [IMF CR 2015/12](#)

PUBLIC DEBT DYNAMICS

Djibouti is accumulating public debt at a rapid pace, as is evident from the table. The dynamics are driven by a very large primary deficit, compensated to some extent by a large positive difference between growth rates and interest rates, and occasional large privatization revenues (as in 2013). The primary deficit is in turn driven by massive public investment projects; total investment (public plus private) is expected to peak at 60% of GDP in 2015 and then gradually decline. Naturally, current account deficits are massive.

The main public investments are a railways project and a water pipeline project, with the government's strategy to front-load the investment. Loans from China are a prime source of financing, with most public debt forex-denominated. But so far, the local-currency equivalent interest rate on forex loans has been kept in check by Djibouti's currency board arrangement, whereby the Djibouti franc is pegged to the US dollar (and helped by the strength of the USD).

Main risks stem from Djibouti's being concentrated in port services (with Ethiopia the prime client) and use of land for military purposes, given the country's strategic location. According to IMF Country Report 15/338, December 2015: "At the same time, internal production of the main import items such as food and manufactured goods is non-existent due to unfavorable climate and a range of other of supply-side constraints."

IMPACT OF MCLS

The DSA assesses Djibouti at high risk of external debt distress with serious solvency and liquidity risks. There is also a tail risk that the peg with the USD could be moved. Nevertheless, Djibouti has a small population of around 0.9 million with a per capita GDP about \$1500. Its borrowings from China are on nonconcessional terms (for example, for the railways project). It should therefore be able to handle MCLs, especially given the small ADF allocation. The tipping points for debt unsustainability are the rapid pace of public investment combined with risk of economic problems in Ethiopia.

CHAD

Country Profile

GDP USD bn (2014)	13.92
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	973.30
Population (million) (2014)	14.04
Poverty %, Nat. Poverty Line (last year available)	46.70 (2011)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	13.14
Overall CPIA (2015)	3.31
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	100

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	30.30	39.20	42.60
Forex share %	69.97	74.49	58.92
Primary deficit/GDP %	1.30	2.60	2.80
Nominal GDP growth %	3.69	10.32	4.85
Composite Nominal Interest rate %	-0.28	11.41	13.41
of which: local currency %	1.83	3.10	2.28
of which: Forex %	-1.19	14.98	17.23
Real GDP growth %	5.70	6.90	1.80
Composite Real interest rate %	1.65	7.96	10.11
External debt/GDP %	21.20	29.20	25.10
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	8.60	8.30	11.30

Source: IMF and own calculations based on [IMF CR 2016/08](#)

PUBLIC DEBT DYNAMICS

The debt ratio increased by 13 percentage points of GDP between 2013 and 2015, and the dynamics have also deteriorated, with composite nominal interest rates exceeding growth rates in 2014 and especially in 2015. The outlook is not good, with expected slow growth over the medium term compounded by low oil prices and regional insecurity. Dynamics therefore appear to be unsustainable.

Indeed, the IMF recommends a big upfront fiscal adjustment combined with policies to spur diversification and increase non-oil revenue mobilization while protecting vulnerable segments of the population.

IMPACT OF MCLs

Chad is dependent on oil and also has a difficult geography. It is a fragile state with recurrent coup d'état attempts in addition to regional insecurity related to Boko Haram. It is also rated one of the most corrupt countries in the world. The July 2016 DSA rates the country at high risk of external debt distress.

Chad did not accumulate a fiscal or foreign exchange reserves cushion during the oil boom years. It now requires a draconian fiscal adjustment to get debt dynamics under control. It has also been borrowing from non-traditional sources, such as China and Libya, as well as from commercial sources for infrastructure. This means that it should be able to cope with MCLs that might also strengthen the incentives for better governance. The country ranks much below the Sub-Saharan African average on both corruption as well as the World Bank's *Doing Business* indicators.

At the same time, countries like Chad face regional insecurity and this presents a problem on how to separate the assistance that might be required to deal with insecurity from that needed for economic development.

TOGO

Country Profile

GDP USD bn (2014)	4.48
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	526.70
Population (million) (2014)	7.30
Poverty %, Nat. Poverty Line (last year available)	55.10 (2015)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.87
Overall CPIA (2015)	3.21
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	50.10	58.40	62.50
Forex share %	40.12	46.06	46.88
Primary deficit/GDP %	3.50	3.90	4.00
Nominal GDP growth %	7.51	5.93	8.03
Composite Nominal Interest rate %	0.98	7.62	7.48
of which: local currency %	2.92	3.21	3.63
of which: Forex %	-2.16	14.19	11.99
Real GDP growth %	5.40	5.40	5.40
Composite Real interest rate %	-1.00	7.08	4.86
<i>External debt/GDP %</i>	<i>22.00</i>	<i>32.20</i>	<i>36.00</i>
<i>of which: public share %</i>	<i>91.36</i>	<i>83.54</i>	<i>81.39</i>
<i>Non-interest current account deficit/GDP %</i>	<i>12.70</i>	<i>12.30</i>	<i>12.20</i>

Source: IMF and own calculations based on [IMF CR 2015/11](#)

PUBLIC DEBT DYNAMICS

The primary deficit is large, and together with the real exchange rate, drives debt dynamics. As a result, public debt increased rapidly between 2013 and 2015, which the IMF attributes to an expansion in public investment. The share of domestic debt is high but the nominal interest rate on domestic debt seems to remain under control. Instead, the interest rates on forex debt have increased markedly driven by currency depreciation.

Economic growth is expected to average 5% in the medium term, stimulated by high public investment, but high fiscal and current account deficits leave the economy vulnerable.

IMPACT OF MCLs

Given such high fiscal and current account deficits, Togo could in principle benefit from access to MCLs given the long maturities. Fiscal deficits have been increasingly financed domestically, with growing access to the regional financial market under the WAEMU. However, relying on commercial sources with such high twin deficits leaves the country vulnerable to market sentiment. Nevertheless, Togo will need to implement fiscal and structural reforms before it can be eligible for MCLs. In January 2017, a staff-level agreement was reached on a three-year IMF ECF program “aimed at accelerating implementation of key reforms in revenue administration and public financial management, strengthening debt management, addressing the weaknesses in the public banks, and supporting private sector development”.²⁴

²⁴ “[IMF Staff Reaches Staff-level Agreement with Togo on an Extended Credit Facility Arrangement](#)”. IMF Jan 2017.

SIERRA LEONE

Country Profile

GDP USD bn (2014)	5.01
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	633.30
Population (million) (2014)	6.45
Poverty %, Nat. Poverty Line (last year available)	52.90 (2011)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	6.74
Overall CPIA (2015)	3.15
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	30.50	35.00	43.80
Forex share %	69.84	70.29	72.15
Primary deficit/GDP %	0.40	2.90	3.80
Nominal GDP growth %	29.03	6.48	-1.61
Composite Nominal Interest rate %	8.05	14.51	12.72
of which: local currency %	15.24	9.23	5.75
of which: Forex %	5.11	16.79	15.68
Real GDP growth %	20.70	4.60	-21.10
Composite Real interest rate %	1.07	12.49	-9.60
External debt/GDP %	21.30	24.60	31.60
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	17.50	18.20	15.50

Source: IMF and own calculations based on [IMF CR 2016/06](#)

PUBLIC DEBT DYNAMICS

Debt has risen by 13 percentage points of GDP between 2013 and 2015, to 44%. Growth, which surged in 2012 and 2013, subsequently collapsed because of the Ebola epidemic (in March 2016 the country declared Ebola-free) and the big fall in iron ore prices. This latter has caused production disruptions as the state-owned iron ore company is making losses, leading to a loss of exports. At the same time, the leone has been depreciating sharply against the USD. In 2016 alone (January-October) the leone price of the USD has gone up by some 35%.

With a high forex share in public debt, iron ore prices over the medium term at levels far below the \$75 per ton break-even price estimated by the IMF for Sierra Leone, and growth around 5 percent, the debt-to-GDP ratio can be expected to climb higher. The IMF estimates that the REER is overvalued by about 15%, suggesting further upward pressure on the debt-to-GDP ratio. Indeed, the very high inflation rate and the large real appreciation in 2015 dampened the effect of the nominal depreciation on debt dynamics. But this is not sustainable given the large current account deficit. In addition, the two state banks have high non-performing loan ratios and this will add to debt if a bailout is needed.

IMPACT OF MCLS

In view of its fragility and unsustainable public debt dynamics (the IMF rates external debt distress as moderate but acknowledges the shaky foundations in paragraph 57 of the 2016 Article IV Report), Sierra Leone would find it hard to cope with MCL lending terms.

However, some 30% of public debt is domestic and likely to be at commercial rates. Furthermore, a significant agenda of reforms and development challenges remains. This includes diversifying away from iron ore and diamonds towards agriculture and fisheries and raising DRM through the application of the Goods and Services tax to electricity bills, reduction in tax exemptions and duty waivers and elimination of fuel subsidies. Furthermore, improving the business climate and addressing the infrastructure deficit remain important challenges. The latter (because of its impact on public investment and eventually, current account deficits) puts Sierra Leone in the category in which many African countries are: those with “protracted balance of payments problems”. Therefore, a transition path to moderately concessional lending terms must be developed, incorporating an enhanced policy dialogue.

GUINEA-BISSAU

Country Profile

GDP USD bn (2014)	1.11
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	566.70
Population (million) (2014)	1.84
Poverty %, Nat. Poverty Line (last year available)	69.30 (2010)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	5.00
Overall CPIA (2015)	2.69
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Yellow
Grant share (%) (2016)	50

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015 P
Public Debt/GDP %	49.80	51.90	50.90
Forex share %	33.33	33.14	35.36
Primary deficit/GDP %	1.60	1.10	-0.10
Nominal GDP growth %	-0.21	8.03	10.88
Composite Nominal Interest rate %	-1.26	4.56	5.11
of which: local currency %	0.48	0.13	2.30
of which: Forex %	-4.13	13.43	10.78
Real GDP growth %	0.80	2.50	4.70
Composite Real interest rate %	-0.27	-0.79	-0.75
External debt/GDP %	16.60	17.20	18.00
of which: public share %	100.00	100.00	100.00
Non-interest current account deficit/GDP %	4.30	0.90	3.50

Source: IMF and own calculations based on [IMF CR 2015/07](#)

PUBLIC DEBT DYNAMICS

Debt dynamics seem sustainable because local interest rates are low (and negative in real terms), which results in a substantial positive differential between economic growth and the composite interest rate. Forex interest rates have increased in 2014 and 2015, reflecting the currency depreciation, but foreign currency debt has a low weight and is mostly concessional.

The DSA dates to July 2015 and has not so far been updated. Besides, the IMF suspended the ECF because of the Government's insistence on bailing out some banks. In September 2016, the IMF announced an agreement on fiscal measures needed for 2016 in order to complete the ECF review.

IMPACT OF MCLs

Guinea-Bissau is a fragile state, with an unstable political situation (18 military coups - actual, attempted and alleged since independence) and poor governance. The economy is highly dependent on exports of cashew nuts (1/3 of GDP and 85% of exports) and on external aid from development partners. This explains the slowdown in economic growth in 2013-2014, which followed the suspension of external aid after the last military coup.

Domestic debt increased significantly in recent years as the authorities searched for financing alternatives when aid was shut down, and essentially, treasury bills were used to finance the fiscal deficit. In the meantime, with external relations improving, the authorities expect to rely again on concessional support to advance with public investments. Guinea-Bissau does not seem a candidate for MCL terms, but at the same time, given the poor governance reflected in the low CPIA rating, an enhanced policy dialogue is needed to ensure a more effective use of concessional funds.

ZIMBABWE

Country Profile

GDP USD bn (2014)	14.20
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	810.00
Population (million) (2014)	15.60
Poverty %, Nat. Poverty Line (last year available)	72.30 (2011)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	7.59
Overall CPIA (2015)	2.65
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	100

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	65.90	66.10	70.80
Forex share %	100.00	100.00	100.00
Primary deficit/GDP %	1.90	0.70	0.30
Nominal GDP growth %	8.16	5.15	-0.21
Composite Nominal Interest rate %	0.24	0.52	0.99
of which: local currency %	-	-	-
of which: Forex %	-	-	-
Real GDP growth %	4.50	3.80	1.10
Composite Real interest rate %	-3.15	-0.77	2.32
<i>External debt/GDP %</i>	<i>74.00</i>	<i>77.00</i>	<i>83.70</i>
<i>of which: public share %</i>	<i>77.84</i>	<i>70.65</i>	<i>67.98</i>
<i>Non-interest current account deficit/GDP %</i>	<i>18.10</i>	<i>15.10</i>	<i>10.60</i>

Source: IMF and own calculations based on [IMF CR 2016/05](#)

PUBLIC DEBT DYNAMICS

As noted in the 2016 IMF Article IV consultation (Country Report 16/109), Zimbabwe is in a difficult and unique situation. It is a clear outlier, given its history of hyperinflation, poor governance, international sanctions and domestic political uncertainty, reflected in an extremely low CPIA rating.

Assessing debt dynamics, which is inherently a forward-looking exercise, is rendered difficult by not knowing exactly when the substantial arrears on external debt will be cleared. News reports indicate that the country has settled its arrears to the IMF in October 2016, but arrears to ADB, IDA and IBRD persist. However, the 2016 Article IV report notes that clearing arrears to the IFIs, which will unlock concessional financing, is only a small part of the challenge. Zimbabwe must garner support for a Paris Club agreement, continue with economic reform and minimize nonconcessional borrowing. Absent such agreement and suitable reform, Zimbabwe will remain mired in deep debt distress.

IMPACT OF MCLs

Zimbabwe has numerous hurdles to cross before attaining a sustainable debt trajectory, including addressing an exceptionally high public sector wage bill that cuts into social and developmental spending. The IMF 2016 Article IV gives the policy makers high praise for adhering to the macroeconomic targets under the SMP (Staff Monitored Program) that concluded at the end of 2015. In the meanwhile, it has been hit by the El Nino-induced drought, which has placed 3 million people in food insecurity, the appreciation of the US dollar (which it adopted following the debasement of its own currency) and lower commodity prices. It is not currently capable of coping with MCLs. Besides, given the formidable challenges it faces in reengaging with the international community and re-establishing policy and institutional credibility, it is not clear when it will be ready to do so.

SUDAN

Country Profile

GDP USD bn (2014)	73.81
GNI per cap. (Atlas meth., USD) (avg. 2012-14)	1676.70
Population (million) (2014)	40.23
Poverty %, Nat. Poverty Line (last year available)	46.50 (2009)

Source: World Bank and ADF 2016 Performance Based Allocations

ADF

ADF Allocation (UA million) (2016)	19.61
Overall CPIA (2015)	2.54
ADF/TSF Lending Eligibility (2016)	ADF-Only/Fragile
DSA Status at 10 Jan. 2016	Red
Grant share (%) (2016)	100

Source: Classification per ADF-14 and ADF 2016 Performance Based Allocations

Public Debt Sustainability

	2013	2014	2015
Public Debt/GDP %	89.90	76.80	72.90
Forex share %	88.21	86.07	82.17
Primary deficit/GDP %	-0.60	-1.60	-0.80
Nominal GDP growth %	39.21	30.86	20.53
Composite Nominal Interest rate %	30.20	8.88	5.93
of which: local currency %	4.04	8.45	6.40
of which: Forex %	34.35	8.94	5.86
Real GDP growth %	5.30	1.60	4.90
Composite Real interest rate %	-1.51	-15.47	-7.80
External debt/GDP %	81.80	68.40	61.90
of which: public share %	96.94	96.64	96.77
Non-interest current account deficit/GDP %	6.10	4.70	5.80

Source: IMF and own calculations based on [IMF CR 2016/10](#)

PUBLIC DEBT DYNAMICS

Since the creation of South Sudan as an independent state in 2011, Sudan has retained the total external debt stock which is still waiting for an international agreement for debt relief under the HIPC initiative. In the meantime, Sudan has lost access to external financing due to arrears with creditors. Public debt remains extremely high and mainly forex-denominated. That is a big source of vulnerability for debt sustainability, even though dynamics look satisfactory given the primary surplus and the positive differential between composite interest rate and growth rates. Inflation decelerated but it is still at double-digit levels.

IMPACT OF MCLs

Sudan is a natural resource-rich country, with oil reserves and significant mineral deposits of manganese and chrome. But significant challenges remain regarding the country's human rights record and ongoing tensions with South Sudan. Given this context, Sudan may have difficulty in coping with MCLs. But donors need to strike a balance between concessionality and generating incentives for improved governance.

Annex 4: Computation of Interest Rates on Public Debt

This annex contains the derivations for the three nominal interest rates included in the debt sustainability component of the country tables in Annex 3. These are (i) the composite nominal interest rate, (ii) the interest rate on domestic (local currency) debt and (iii) the interest rate on forex (foreign currency) debt. As the name suggests, the composite nominal interest rate on public debt is a weighted average of the other two rates, after converting the interest rate on forex debt into a local currency-equivalent using ex post interest parity, that is, by taking into account the impact of nominal exchange rate movements. A depreciation means a capital loss on forex debt, increasing its burden in local currency terms, while an appreciation means a capital gain, lowering the burden of forex debt in local currency terms. The weights used are the shares of domestic and forex debt at the end of the previous year.²⁵

The preceding description suggests that the interest rates on domestic and the local currency-equivalent interest rate on forex debt need to be computed before the composite rate. To do so, one would need the precise currency composition of forex debt: how much in USD, how much in EUR, JPY etcetera. This currency breakdown is typically not available. The procedure developed for this report sidesteps this problem by reversing the order: it first calculates the composite interest rate on public debt and then obtains the local currency-equivalent rate on forex debt using the information provided on the interest rate on domestic debt and the weights of forex and local currency debt in total public debt. All the data come from the joint IMF-World Bank DSA (debt sustainability analysis) for each country.

Composite Nominal Interest Rate on Public Debt

The IMF-World Bank Public Debt Sustainability Analysis table has, for each year, the "identified debt-creating flows" during that year. This has two components: the primary deficit; and the so-called "Automatic Debt Dynamics" or ADD. Together, the primary deficit plus ADD capture the impact of the fiscal deficit (primary deficit plus interest payments on debt), GDP growth and the impact of exchange rate movements on the forex component of the public debt.

By itself, ADD captures the impact of interest rates, exchange rates and growth rates on debt dynamics. In the IMF's public debt table, ADD is given by the equation:

ADD= Contribution from interest rate/growth rate differential + Contribution from real exchange rate depreciation.

In turn, the first term on the right hand side of the above equation is given by:

Contribution from interest rate/growth rate differential=contribution from average real interest rate + contribution from real GDP growth.²⁶

In discrete time, the decomposition, into various components, of the increases in the debt-to-GDP ratio from year to year is given by the equation:

$$(1) \quad d_t - d_{t-1} = pd_t + \frac{(r_t - g_t)}{(1 + g_t)} d_{t-1}, \text{ where:}$$

d denotes the public debt-to-GDP ratio, pd is the ratio of the primary fiscal deficit to GDP, r is the composite real interest on domestic and forex debt, including the impact of real exchange rate changes, g is the real growth rate and t denotes the year.²⁷ In terms of the discussion above, the second term on the right hand side of equation (1) equals ADD.

Now the real growth rate, g , as well as inflation measured by the GDP deflator, π , are given in the "Key macroeconomic and fiscal assumptions" at the bottom of the IMF-WB's DSA table for public debt. This can be used to compute the nominal growth rate, G , given by the equation: $(1 + G) = (1 + g)(1 + \pi)$.

²⁵ For the technically inclined: the derivations follow from the discrete-time difference equation for public debt expressed as a ratio of GDP. The change in the debt-to-GDP ratio relative to the previous year is determined by the primary deficit, the GDP growth rate, interest rates and exchange rate movements during the year in question. The interest rate calculation implicitly assumes one-year debt as a simplification.

²⁶ Note that contribution from real GDP growth is given by $-[g/(1 + g)]d_{t-1}$, where g is real GDP growth in year t and d_{t-1} is the public debt-to-GDP ratio at the end of year $(t-1)$.

²⁷ For a complete derivation, see Annex 2 in Pinto, Brian (2014) *How Does My Country Grow? Economic Advice Through Story-Telling*. Oxford University Press.

The next step is to use the fact that the second term on the right hand side (which equals ADD) can also be written as:

$$(2) \quad \frac{(i_t - G_t)}{(1 + G_t)} d_{t-1} = ADD.$$

In equation (2), i_t is the composite nominal interest rate on domestic and forex debt and also, by construction, captures the impact of exchange rate movements on the forex component of public debt. The formula used for the various country tables in this report to compute the composite nominal interest rate is obtained by rearranging equation (2):

$$(3) \quad i_t = G_t + \frac{ADD}{d_{t-1}} (1 + G_t).$$

Nominal Interest Rates on Local Currency and Forex Debt

The “Key macroeconomic and fiscal assumptions” at the bottom of the IMF-WB’s DSA table for public debt also include the real interest rate on domestic debt. Let us denote this as r^d . Then its nominal equivalent is given by the equation:

$$(4) \quad i^d = (1 + r^d)(1 + \pi) - 1, \text{ where } \pi \text{ is inflation once again measured by the GDP deflator.}^{28}$$

The final step is to calculate the local currency-equivalent of the interest rate on forex debt, which we denote i^f . This is given implicitly by the formula:

$$(5) \quad i = w i^d + (1 - w) i^f.$$

In (5), i is the composite nominal interest rate on public debt computed in accordance with (3) and w is the weight of local currency (domestic) debt in total public debt at the end of the previous year. The only unknown is i^f , and it can be solved for using (5).²⁹

Composite Real Interest Rate on Public Debt

The composite real interest rate, r , is given implicitly by the equation:

$$(6) \quad (1 + r) = (1 + i)/(1 + \pi), \text{ where:}$$

i is the composite nominal interest rate given by equation (3) and π is inflation measured by the GDP deflator.

²⁸ The reason for using the GDP deflator to obtain the nominal interest rate is that we are looking at the ratio of debt-to-GDP and the same price that is used to convert real growth into nominal growth should be used to obtain the nominal interest rate.

²⁹ Note that i^f is the local currency-equivalent interest rate on forex debt. To give an example: suppose all forex debt is in USD and carries a (dollar) interest rate of 2%. In other words, $i^\$ = 0.02$. Now suppose the nominal exchange rate, expressed as the local currency price of the USD, goes up by 10% during the year. Then i^f would be 12% taking into account the currency depreciation (it would actually be slightly higher given the discrete time setting in which the formulas in this annex have been presented).

Annex 5: Government Eurobond Issuances

Annex Table 2 - Government Eurobond Issuances

	Million USD	Settlement Date	Maturity (years)	Yield at Issue
Cameroon	750	Nov-2015	10	7.94
Ethiopia	1,000	Dec-2014	10	6.63
Ghana	750	Sep-2007	10	8.50
Ghana	1,000	Aug-2013	10	8.00
Ghana	1,000	Sep-2014	11	8.25
Ghana	1,000	Oct-2015	(*) 14	10.75
Ghana	750	Sep-2016	(*) 5	9.25
Côte D'Ivoire	750	Jul-2014	10	5.63
Côte D'Ivoire	1,000	Mar-2015	(*) 13	6.63
Kenya	500	Jun-2014	5	5.90
Kenya	1,500	Jun-2014	10	6.90
Kenya	250	Dec-2014	5	5.00
Kenya	500	Dec-2014	10	5.90
Mozambique	727	Apr-2016	7	14.40
Rwanda	400	May-2013	10	6.88
Senegal	500	May-2011	10	9.13
Senegal	500	Jul-2014	10	6.25
Tanzania	600	Mar-2013	7	6.45
Zambia	750	Sep-2012	10	5.63
Zambia	1,000	Apr-2014	10	8.63
Zambia	1,250	Jul-2015	12	9.38

Source: Bloomberg, Reuters, IMF; (*) average maturity