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For Africa Group 1 Constituency
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(I) Making Debt Work for Development and Macroeconomic Stability

1. As the COVID-19 pandemic triggered a collapse in economic output during the past two years, Governments have been forced to increase spending to provide essential services and offer unprecedented fiscal support to stimulate their economies. Unfortunately, new COVID-19 variants have also perpetuated disruptions to economic activity. Consequently, global public debt soared to $226 trillion, or 256 percent of GDP, in 2020 and to a new record high of nearly $300 trillion by the end of 2021. Borrowing by governments accounted for slightly more than half of this increase. The IMF estimates a rise in public debt/GDP ratio in 2021 to around 125 percent in advanced economies, 65 percent in emerging markets, and 60 percent in low-income countries. For Africa, the African Development Bank (AfDB) estimates a rise in debt/GDP ratio from 60 percent in 2020 to 75 percent in 2021, while some hard-hit countries may need to pay more than 50 percent of their annual foreign exchange earnings to continue servicing their debts on time.

2. Before the pandemic, several African countries were already in debt distress, and the list of countries has since increased. According to the World Bank, 50 percent of IDA-eligible countries are either at high risk of debt distress or are already in debt distress. Overall, the continent has seen an increase of nearly 5.0 percent in debt due to the pandemic crisis. The debt of low- and middle-income countries had risen to a record high of $726.6 billion by June 2021, more than double the total fiscal revenue in 2019 and is currently the highest of any developing region. This forces governments to divert more resources towards debt servicing and less for development. Despite sizeable domestic adjustments, the IMF estimates that Africa will need an additional $1.2 trillion in total financing through 2023. African leaders also indicated at the Financing African Economies Summit that Africa will face a fiscal spending deficit of about $285 billion over the same period. Therefore, we urge the Paris Club, G20 and other creditors to collaborate closely with the Bretton Woods Institutions (BWI) as they increase their support to enhance debt management, domestic resource mobilization and debt restructuring for distressed LICs, mainly African countries.

3. Moreover, the recent very disturbing developments in Ukraine, which have triggered multiple sanctions, have negatively impacted food and energy supply, prices, and interest rates, creating uncertainty in global markets. The current environment of rising interest rates and slower projected growth will inevitably increase debt service burdens and further reduce borrowing countries' fiscal space and investment capacity. Without swift preemptive and corrective measures to mitigate the current macroeconomic and debt sustainability environment, many of our developing countries will fall further into debt distress. We would welcome debt analysis and support offered by the BWIs in this area, factors in the impact of the Russia-Ukraine war on the economic growth and debt sustainability of developing countries, including Middle-Income Countries (MICs).

4. Africa’s experience with debt resolution has historically been complicated and protracted. Africa's debt to traditional bilateral creditors and Paris Club members has fallen from about 57 percent to 27 percent
over the past twenty years, while debt to private creditors has risen from 17 percent to 40 percent over the same period. This change in the debt structure in favor of private creditors may complicate the debt settlement process for heavily indebted countries. In this regard, many African countries need significant and rapid debt relief and restructuring to avoid slipping into debt default.

5. The BWIs are well-positioned to provide advisory and technical support to improve debt management and foster a culture of transparency in the contractual arrangements entered with private creditors. Additional support towards properly targeting debt towards productive infrastructure and sustainable recovery would go a long way toward building the resilience African countries need to grow and reduce the dilapidating impact of debt on their economies. We urge the BWIs to support debtor countries as they seek favorable treatment from other official and private creditors on terms comparable to those agreed under the G20 Common Framework.

6. African countries have benefited from the G20 Debt Service Suspension Initiative (DSSI), which allowed them to suspend payments to bilateral and official creditors. Since it took effect on May 1, 2020, the initiative has delivered more than $10.3 billion in debt relief to more than 40 eligible countries. Although these countries also benefited from the World Bank and the IMF debt relief, they account for 75 percent of the bilateral debt service due between May 2020 and December 2021, the period covered by the initiative. From April 2020 through June 2021, the World Bank also committed financial support of $36.3 billion for countries participating in the G-20 DSSI. While the DSSI was a commendable initiative, its short-term nature only served the purpose of delaying debt service. We urge the BWIs and G20 creditors to take stock of the added weight the debt service has loaded on African countries. In this regard, the BWI could provide advisory support to re-negotiate the terms and further suspend debt service while negotiations for restructuring existing loans in a sustainable manner continue.

7. In response to COVID-19, the IMF has also scaled up financing to support the region. It provided 13 times its average annual lending to sub-Saharan Africa since the start of the crisis. It also made the largest SDR allocation in its history worth US$650 billion, which included US$33 billion for sub-Saharan Africa. Countries with external solid positions have been encouraged to voluntarily channel some of their allocated SDRs to those most in need, which would further magnify the SDR allocation. We encourage the IMF to provide proper guidance and advisory support on the use of the SDR allocation for purposes of recovery, sustainable and resilient growth.

8. With the expiration of the DSSI and the tightening of international financial conditions, there is no doubt that the way forward for the debt situation will be difficult for African countries. Moreover, the sharp increase in commercial debt has complicated the debt structures of heavily indebted countries, implying that policymakers should avoid inaction. For countries that need comprehensive debt management, rapid and orderly restructuring under the Common Framework for Debt Treatments agreed by the G-20 and the Paris Club will be critical to addressing debt-related vulnerabilities. However, the recent experiences of Chad, Ethiopia and Zambia indicate that the Common Framework is complicated and needs improvement to be implemented in a timely and orderly manner.

9. We commend the Bretton Woods Institutions (BWIs) for highlighting the importance of strengthening the Common Framework for effective implementation. In this regard, we encourage them to provide the necessary capacity for countries to understand and benefit from the Framework. We equally call on the BWIs to ensure that voices of the indebted countries are heard in the process of reforming the current Framework. The commitment of private creditors to subscribe to the Common Framework for Debt Resolution on comparable terms to bilateral official creditors is also critical. We also welcome the work by the WBG and the IMF to enhance debt transparency. Both institutions have greatly contributed through the Bank’s Sustainable Development Finance Policy (SDFP) and the IMF’s Debt Limit Policy (DLP). We look forward to increased progress in IDA20 and effective implementation of the SDFP’s performance and policy actions (PPAs). We also keenly await the refinement and rollout of the IMF’s Sovereign Risk and Debt Sustainability Framework.
10. We welcome the WBG’s focus on Digitalization and Development for this Development Committee Meeting. Digital technology is rapidly transforming economies and societies and driving economic growth in many countries. Digitalization has enabled some governments and firms to adopt telework, telehealth, and remote learning. While it was instrumental in the delivery of services such as healthcare, education, agriculture, and financial services during the COVID-19 pandemic, the increased use of digital technology revealed the stark divide between those countries that have digital access and those that do not. Over 73 percent of the population in developing countries do not have internet access. This divide is particularly evident in Africa, where three-quarters of its 1.3 billion people have no access.

11. Our Constituency is concerned that, in comparison with other regions, less than 15 percent of Africa’s population has broadband Internet access, while those of North America and Europe and Central Asia have access of 88 percent and 84 percent, respectively. We also note that only 6 percent of school children in low-income countries had access to the internet. Against this background, we call on the BWIs to support African countries, particularly low-income countries and countries characterized by fragility, conflict, and violence (FCV) to design, finance and implement strategies, policies and programs that would support the digital transformation of Africa.

12. We welcome the four critical policy areas identified by the WBG for Digitalization and Development, namely: digital infrastructure, digital platforms, digital enablers, and digital safeguards. We also find the WBG’s policies on the two cross-cutting areas of gender and social inclusion as well as, regional and global collaboration, consistent with most of our governments’ strategies. We, however, call for long-term and sustainable WBG support to address digital economy challenges, including risk and financing in sub-Saharan Africa.

13. Within the African context, we emphasize the need for the BWIs’ increased support and investments in digital infrastructure. As highlighted by the Governors during the 2021 African Caucus, these investments should consider the nexus between digitalization and access to energy. We believe that enhancing access to electricity would also strengthen the implementation of the WBG Strategy on Digitalization and Development while also improving efficiency and public service delivery, increasing productivity, promoting domestic revenue mobilization, enhancing tax efficiency and payments systems and ensuring financial inclusion. Increasing Sub-Saharan Africa’s energy baseload would not only spur growth but would enhance the region’s competitiveness and ability to harness the benefits of digital technology and create job opportunities.

14. We also urge the WBG and the IMF to provide advisory and financial services that would capacitate African countries to undertake policy reforms to create an enabling policy, legal and regulatory environment. This would enable the private sector to generate and upscale appropriate digital solutions, protect intellectual property rights and personal data, address inefficiencies, and develop early warning systems capable of detecting potential cyber risks.

15. We further urge IFC and MIGA to crowd-in private sector investments and de-risk the environment in African countries. We believe that expanding network coverage to rural areas where many people do not live within reach of mobile broadband is vital. We call on the WBG/IMF to design a digital policy that ensures that broadband and digital markets are competitive. We urge the WBG to promote and provide advisory support towards developing more balanced tax policies for the digital sector that aim at incentivizing investment, innovation, and domestic revenue mobilization. Additionally, we urge IFC and MIGA to support African governments to establish more tech hubs/incubators across the Continent instead of having them concentrated in a few African countries. This will attract more youth into the digital economy which holds the promise of generating more and better jobs. Finally, as experience elsewhere shows that the digital economy thrives on the network effect, we urge the WBG to leverage the African Continental Free Trade Area (AfCFTA) in helping African countries develop regional or sub-regional digital markets.
16. We recognize that digital technologies touch all aspects of public and private domains, including all facets of the economy and society. However, the effective participation of all key players in the digital space requires significant investment in digital platforms and safeguards. Whereas developed countries have the capacity and know-how to strengthen their legal and regulatory frameworks for data access and protection, most LICs, countries in Fragile, Conflict, and Violence (FCVs) situations, and Middle-Income countries (MICs) face huge debt and acute financial and economic challenges to adequately invest in cybersecurity and digital literacy and know-how. In this regard, we urge the WBG/IMF to work with African governments and the private sector to support regulatory environments, establish a strong foundation, set up the right parameters, develop inclusive, safe digital economies and maximize digitalization impact. We also call on the WBG to support African countries to invest in digital technology, fin-tech and digital money while ensuring the privacy and protection of personal and non-personal data.

17. Finally, we commend the WBG for ensuring that IDA20 addresses affordability, usage, inclusion, and personal data protection while also addressing cyber risks and gender gaps among other issues. We also welcome the WBG's commitment to Special Themes, including achieving technology-related policy commitments in the Jobs and Economic Transformation (JET), Gender and Development, and Fragility, Conflict and Violence (FCV) Agendas. The inclusion of technology as a cross-cutting theme goes further into recognizing that technology is indeed an enabler of socio-economic transformation, especially for developing countries. To that end, we urge the WBG to facilitate the effective use of IDA resources to develop robust digital frameworks to support the broad needs of both LICs and blend countries.

III. Delivering on the WBG Twin Goals in an Era of Compounding Crises

18. Attaining the WBG twin Goals is increasingly becoming out of reach as increases in inequality, poverty, and human capital losses due to the COVID-19 pandemic are compounded by political crises and social unrest. We note that although incidents of political crises and social unrest significantly increased among middle and higher-income countries, the Horn of Africa has also been experiencing high levels of conflict, particularly over the past year. The ongoing war in Ukraine has not only triggered a large-scale humanitarian crisis, but the accompanying sanctions have also led to supply chain disruptions, commodity prices and interest rate increases beyond the borders of the directly involved country. While it is difficult to estimate the potential impact of the war, it is likely to have a global reach and disproportionate effect on the poor and vulnerable. The recovery of many emerging markets and developing economies (EMDEs) has been much slower than that of advanced countries, hampered by fiscal constraints, climate impacts, human capital losses, mounting debt and inflation, growing food insecurity, and heightened instability. We urge the WBG to build the resilience and adaptive capacity of poorer countries and regions to handle and adapt to crises at all levels.

19. We further note with concern the adverse impact of the pandemic on economies and the human capital gains made in the past decade. Therefore, we support the continued focus of the WBG COVID-19 crisis response on the pillars of health, social, and economic responses, coupled with policies, institutions, and investments for better rebuilding. We also welcome the prioritization of accelerated vaccination, addressing fragility within the broader GRID approach, and increasing support to areas that include human development, jobs and economic transformation (JET), debt sustainability, institutional and community development, and infrastructure. We encourage the WBG to continue exploring options to expand entry points to engage on FCV and broader risks in MICs, including concessional financing and de-risking resources and instruments for private sector development. However, in pursuing its policy to remain engaged in unstable settings, we urge the WBG to give equal treatment and priority to all situations and avoid withdrawing much-needed support from vulnerable communities during the conflict. In enhancing its approach to adaptive management in crises, the WBG should consider the increased use of third parties to reach fragile and conflict situations.