Debt Vulnerabilities and Development Needs in Low-Income Countries

April 12, 2019
10:45 a.m. to 12:00 p.m.
Meeting Halls A&B, HQ1-3-430A&B

Moderator: **Nancy Kacungira**, Presenter, BBC Africa

Opening Remarks:
Mitsuhiro Furusawa, Deputy Managing Director, IMF

Panelists:
Mahamat Abakar Allali, Minister of Finance and Budget, Chad
Daniel Hanna, Global Head of Public Sector and Development Organizations, Standard Chartered Bank
Margaret Mwanakatwe, Minister of Finance, Zambia
Abdur Rout Talukder, Finance Secretary, Bangladesh
Jakob von Weizsäcker, Chief Economist, Ministry of Finance, Germany

Rapid increases in public debt have emerged recently in low-income countries while development needs remain large. A panel of discussants from both public and private sectors discussed various drivers of debts and how to find the right balance between borrowing for development needs and containing debt vulnerability.

Key Points:

- **Debt vulnerabilities and development needs.** *Furusawa* noted that all stakeholders - national authorities, bilateral and multilateral partners, and private creditors - have a role to play in containing debt vulnerabilities while meeting development needs. *Mwanakatwe* noted that although Zambia is a middle-income country, it is still under high risk of debt distress. The debt trend is concerning, but there may be still room for debt to finance investment in health and education. *Talukder* stated that the Bangladesh's way to balance these two targets is to invest in physical infrastructure and human capital development, and make sure that fiscal deficit is kept below five percent of GDP. *Allali* noted the importance of mobilizing local resources, extending tax base, and using new technologies for revenue collection to minimize human intervention and leakages.
- **Leveraging private financing for development needs.** *von Weizsäcker* stated that low-income countries could usefully benefit from private sector financing to meet development needs. *Hanna* noted the long-term benefits from sharing risks with private sector through Public-Private Partnerships (PPPs) to mobilize resources. *Talukder* noted that it is important to make sure that public funding does not crowd out private investment. *Allali* noted that it would be necessary to find a way of increasingly leverage the private sector and that the Fund programs tended to be unnecessarily restrictive in this regard.
- **Importance of debt Transparency.** *Mwanakatwe* noted that debt transparency is critical and it can make potential investors more confident. *Hanna* argued that private investors may be more risk averse. Keeping information transparency and establishing transparency

lending protocols can help diverse funding sources for countries. *von Weizsäcker* emphasized that it is important to share information with investors and get more new lenders into the Paris Club. Responsible lending and responsible borrowing are two sides of the same coin.

Quotes:

"If we manage to rethink the way we view Africa and find a way to help it, Africa will surprise everyone." (Translated from French) **Mahamat Abakar Allali,**

"The debt trend is concerning and might be contagious, but we need some more optimism. Good debt is when you invest in health, education and attract private investment." **Margaret Mwanakatwe**

"We must not neglect the role that private sector investment can play as well." **Jakob von Weizsäcker**

"Low-income countries would need around $350bn each year to achieves SDGs…The private sector has to play a role to effectively fill up this gap…for the private sector, it is about how to channel the money to go where it matters the most." **Daniel Hann**

Contributor: Bo Zhao