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COVID-19 MUST NOT CAUSE EROSION OF COMMERCIAL DEBT FOR AFRICAN ECONOMIES

1. PREAMBLE

The search for faster economic development dividend has endeared a number of African Governments to policy shift in order to tap into various global financing regimes, including the Private Public Partnerships (PPPs) financing modalities. Indeed, over the last quarter of a century, at least 335 PPP projects have been implemented in Africa to a tune of $60 billion by December 2019. South Africa has taken the lead with over 85 PPPs projects. Nigeria stood at 35 PPPs projects, Kenya and Uganda in excess of 25 projects each. Given the Corona Virus Disease (COVID-19).


Artistic impression of Kampala-Jinja Expressway at Kinawataka, Kampala courtesy of PM Daily.

Disease (COVID-19). The global change in financing architecture has seen a reduction in quantum of Official Development Assistance (ODA). Thus, either a shift or alternative financing beyond the traditional World Bank Group, European Union, Islamic Development Bank and AfDB channels for ODA, to emerging lenders like China, India, Turkey and the London Club.

2. ARE PPPs THE PANACEA TO FASTER ECONOMIC DEVELOPMENT DIVIDEND FOR AFRICA?

The emerging lenders tend to part with their money on commercial terms. Even the hitherto western world Grants and concessional loan givers have similarly paved way for commercial loans through private sector that leverages the PPPs. China, for instance, is not only Latin America's largest creditor in the world, with deep footing in Eastern Europe and East Asia but also across African economies. This context also finds in the playfield the western world capitalism-oriented Multilateral Financial Institutions, to give birth to such private sector-inclined entities as Private Infrastructure Development Group (PIDG) since 2002, through the ***"Emerging Africa Infrastructure Fund (EAIF) subsidiary"***. The EAIF is owned by the multi-donors including the World Bank Group (through IFC), UK through UKAID, Netherlands, Switzerland through SECO, Norway and Sweden through SIDA. Even if such arrangements front blended financing, the grant element is often small compared to the scale of equity, debt and guarantee financing.

In the case of Uganda, Investec Asset Management is said to represent financial interests of EAIF by way of medium and long-term debt finance for the country's infrastructural projects like construction of the 13 MW Bugoye hydro power station involving $29.3 million. Tororo in Eastern Uganda. Meanwhile, another case of the PPPs in Uganda involving the PIDG is the $44.5m Kalangala Infrastructure Services (KIS). The KIS is focused to solar electricity generation, ferry services, upgrading road network in Bugala Island, etc. Its financing is by i) private-sector equity (UK - InfraCo Africa, etc) ii) commercial lending (guaranteed by USAID, UK through - Guarantco) iii) lending by development finance institutions (UK- Emerging Africa Infrastructure Fund (EAIF) iv) Grant by UK Technical Assistance Facility (TAF). Also, to note that TAF, Guarantco and EAIF are all subsidiaries of PIDG which already has separate interests in the Bujagali Hydropower a PPP project.

If such PPPs financing modalities are to be the Panacea to faster Economic Development dividend for Uganda and such African economies, the following issues need to be revisited in view of COVID-19 situation;

- Since PPPs increase Uganda's commercial loans and Africa at large, how do we draw balance for debt sustainability given the degree of erosion of Africa's Commercial Debts occasioned by COVID-19?
- What will be the behavior of African States in attracting new PPPs and such commercial loans against a global slowdown in economic growth landscape due to COVID-19?
- How can African Governments best diversify investment financing sources that mitigate the economic impact of high-level debt repayment on commercial terms, given the slowed or stagnation trajectory over the economic horizon?
- Amidst COVID-19 and post COVID-19 era, how best do we ensure an obvious increase in public debt portfolio does not add onto the list of African economies already facing unsustainable debt?

3. CONCLUSION

It is well appreciated that any country looks to a faster economic development dividend. Beyond PPPs we may need to squarely look to shrinking the currently huge balance of payment deficit across Africa. Africa must seek new strategies that de-risk the creeping culture of increasing contingent on refinancing every Financial Year, partly attributed to maturity of specific loans including those under PPPs. In the case of Uganda, given COVID-19, the risk antennas of Nominal Exchange Rate of Uganda's currency being outstripped by the stronger major foreign currencies in which borrowing and payback are done, it may be time to sit back and reflect on how best to take on the PPPs element of debt into overall public debt portfolio without compromising service delivery to the citizens.

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