ORGANISATION INTERNATIONALE DE la francophonie

URGENT MEASURES NEEDED TO PREVENT WIDESPREAD DEBT CRISIS

Ministerial Meeting of Low-Income Francophone Countries
Washington, 17 October 2019

Low-income Francophone country finance ministers met in Washington on 17 October, to discuss financing for development. The meeting was chaired by Mr. Richard RANDRIAMANDRATO, Minister of Economy and Finance of Madagascar, and co-chaired by Mr. Uzziel NDAGIJIMANA, Minister of Finance and Economic Planning from Rwanda.

Ministers called upon the international community to take much stronger measures to avoid a new widespread debt crisis and to support the financing of the SDGs. They also reiterated their recommendations to the IMF and the World Bank to help countries to collect higher and more progressive tax revenue and to reduce costs and risks of Public-Private Partnerships.

1) THE G20 AND BWIs MUST TAKE URGENT STEPS ON DEBT

Ministers welcome the recent acknowledgement by the BWIs that debt is again a major problem for many LICs and LMICs or the small-island developing states (SIDS). Ministers have begun a detailed analysis of their own debt situation. The average debt/GDP ratios of the group have risen sharply since 2012, and debt service now absorbs 40% of their budget revenue, crowding out SDG spending. Almost half of the countries are either in, or at high risk of, debt distress. Ministers noted that many Commonwealth LICs/LMICs and Small Island States have even higher debt burdens.

This picture reflects the combination of more ambitious Sustainable Development Goals reflected in their national development plans, recent falls in commodity prices, repeated natural disasters, linked to climate change, difficult security related situations and the stagnation of concessional finance. All these factors are forcing them to turn to more expensive finance from international (Eurobond and PPP) and domestic (bond and treasury bill) markets, and from non-OECD governments through export credit agencies and development banks.

Countries are taking measures to improve their debt management through medium-term debt management strategies, and greater transparency. However, they are suffering from a lack of capacity to design and implement high-return projects to accelerate inclusive growth; from lack of information about the best financial terms offered by each creditor; from a scarcity of measures by the international community to reduce borrowing costs; and from fragmented ad hoc debt relief negotiations (in marked contrast to the HIPC Initiative).

To avoid these trends producing a widespread developing country debt crisis, they urge the international community to:
1. increase flows of concessional assistance to offset commodity price falls and natural disasters,

keep debt sustainable and fund the SDGs;

2. enhance their capacity to design high-return projects which accelerate inclusive growth, in order to allow LICs and LMICs to use less concessional funds successfully;
3. enhance transparency on the side of debtor countries, mainly through the Commonwealth enhanced financing of the debt management system and UNCTAD
4. enhance transparency by the international community, with each creditor publishing typical lending terms, and the BWIs publishing more analysis of PPPs and collateralised loans, to help countries negotiate the best possible financing terms;
5. make more use of innovative instruments such as GDP- or revenue-contingent loans and guarantees of bonds by multilateral institutions, in order to reduce service costs.
6. ensure that debt relief is based on making debt sustainable to fund the SDGs, through greater coordination, comprehensive participation by all creditors, and speed to minimise arrears, improving on the key characteristics of the HIPC and MDRI initiatives.

2) THE WORLD BANK MUST CHANGE ITS TAX POLICIES

Countries are making some progress in enhance tax revenue collection. However, in their press conferences in 2017 and 2018, Ministers suggested changes in **World Bank policies and practices on tax** to make them fully coherent with country efforts. In spite of earlier undertakings to explore prospects for change, there has been no progress on ending requests for tax exemptions or holidays on IFC projects including PPPs, or on reconsidering the sub-criterion in Doing Business which gives countries higher scores for lower corporate taxes, and puts pressure on governments to "race to the bottom". These practices can cost countries 2-3% of GDP in lost tax revenues. Ministers regret the lack of progress and urge the World Bank Group to act immediately on these issues.

3) COSTS AND RISKS OF PUBLIC-PRIVATE PARTNERSHIPS MUST FALL

At their press conference in 2018, Ministers urged greater prudence in using Public-Private Partnership financing arrangements for large infrastructure projects. To ensure these are successful, they reiterate their call for :

1) ***new PPP laws, institutional structures, procedures and contracts*** should conform to normal country procedures for project design and approval, procurement, public financial management, and transparency/accountability to parliament & citizens.
2) Private sector Financing Institutions such as the IFC, and the IMF, to analyse and ***publish the costs*** of previous PPPs, set benchmarks for current acceptable costs for PPPs, and set objectives for reducing these dramatically in future years.
3) All DFIs to avoid ***requesting tax exemptions*** for DFI-funded PPP projects.
4) measures to guarantee and protect government budgets against market risks such as cost underestimates, revenue overestimates, and exogenous market shocks, including exploring ***the feasibility of a global contingency fund to refinance PPPs.***
5) assistance to all countries to ***analyse the fiscal costs and risks*** of its large PPPs, integrate these analyses into Debt Sustainability Analyses, and publish them with the budget so as to allow a transparent parliamentary debate.
6) ***Publication of each contract*** once it is negotiated, to promote transparency and accountability, in line with the Fiscal Transparency Code.

7) World Bank resources to go to ***public (not PPPs) investments in less high-return sectors and targeting basic goods and services*** (education, health, water, energy), so as to reach universal access.