Newsflash

Rainbow bonds and beyond:

Assessing Impacts of Bonds on Africa's Indebtedness and Economic Growth

SEATINI

Strengthening Africa in World Trade

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As part of the third African Conference on Debt and Development, SEATINI Uganda held a session themed; "Rainbow Bonds and Beyond: Assessing the Impacts of Bonds on Africa's Indebtedness and Economic Growth." The objectives of the session were to: Raise awareness on the impact of bonds on Africa's indebtedness and economic growth; Analyse Africa's readiness to access and absorb the resources raised through bonds; and Generate debate around a common position on what needs to be done at respective national and regional levels to curb the negative effects of bonds on Africa's development.

Panelists during the session included; Ms. Fidialice Muthike from Transparency International Kenya, Hon Nancy Abisai, the Regional Chair EAC African Parliamentary Network on Illicit Financial Flows and Taxation (APNIFFT) and Member of EALA 3rd Assembly, Dr. Nqobizitha Dube from the Infrastructure Development bank of Zimbabwe and Dr. Fred Muhumuza, Senior Economist, Makerere University Business School. The session was moderated by Ms. Grace Namugambe, Debt and Aid Analyst at SEATINI Uganda.

Below are some of the Key issues raised during the session;

1. Three main parties are involved in the issuance of bonds; the Issuer (usually Government or Private Sector actor); the Underwriter (who is expected to guarantee if the bond has been used correctly); and the purchaser (someone moving excess liability).

2. Bonds are a quick way of raising of financing; however- being private debt; it is difficult to monitor, and thus doesn't allow accountability. Bonds might attract higher interest rates and also require collateral at times.

3. The downside could be that bonds; especially the green bonds and social bonds are often directly tied to projects hence ensuring that funds are not directed to other alternative uses. However, this also poses a challenge as countries are forced to borrow huge amounts; because of the threshold set hence the need for huge sum projects.

4. It is notable that some of the loans are serving the interests of creditors e.g. Exim bank loans treated as exports

5. Regional integration: Countries are still negotiating loan terms individually- guided by individual country policies. This mainly due to lack of harmonised policies hence affecting the bargaining power of African countries throughout loan contracting processes. This often results in unfair loan terms that contribute to countries' failure to pay back loans.

6. Bonds cash out the fiscal space; hence limiting countries from accessing other loans that might be cheaper and could be used for better purposes.

While coming up with a common position on actions at national and regional levels to curb the negative effects of bonds on Africa's development, the following need to be put into consideration;

1. Civil Society Organisations should be united towardsdeveloping a common messaging and devise means of having it trickle down. This will enable them have a common position and common voice on the use of bonds as a means for government to raise finances for their development.

2. CSOs further have a role to re-mobilise and re-organise citizens to take part in fiscal policy processes; and should leverage on the existing relationships that they have with oversight structures to push for prudent debt management policies.

3. Transparency: Governments ought to bring back policy processes to the people by engaging Citizens and CSOs in debt management processes- by sharing information and creating awareness on the utilisation of the acquired debt. Debt contracts should be disclosed and citizens should be aware of the terms set therein. This enables citizens to hold Governments accountable and ensure that borrowed funds are put to the right use.

4. Governments need to put in place prudent fiscal policies and in the case of bonds, countries should put in place frameworks to guide the issuance of bonds. Deployment strategies ought to be ready before bonds are issued.

5. Re-invigorate Domestic Revenue mobilisation efforts: Taxation remains the best solution and the most reliable source of financing. However, countries need to work towards plugging the leakages in order to maximise revenue collection.

6. Strengthening the capacity of parliamentarians remains critical: It is important that Parliamentarians are provided with simplified papers, popular toolkits on bonds. This will enable them understand the concept and work towards ensuring that the right legislation is in place to prevent countries from being driven into situations of debt distress.

Participants pose for a photo after the session. Front row (Left to right)- speakers during the session; Dr Fred Muhumuza, Ms. Grace Namugambe, Ms. Fidalice Muthike, Hon. Nancy Abisai and Dr Nqobizitha Dube

As the continent endeavors to establish strategies for maintaining sustainable debt levels, SEATINI remains committed to championing for the recommendations raised during the session. This steadfast dedication will play a pivotal role in shedding light on the overarching theme of AFCODD III, "Reimagine, Rethink, Reorganize, and Remobilize for an African World Order."

For more information please contact SEATINI Uganda

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