Sustainable Investment Scaling Up in Low-Income Countries

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Outline

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Introduction

- How is the Framework different for LICs?
  - Not lumping all LICs in a single category so more realistic about heterogeinity;
  - More tailor made to countries' national development ambitions and repayment capacity;
  - Less restrictive for mature reformers whilst remaining sustainable so breaking vicious cycle

Broadly reaches overall

Introduction (cont'd)

- The current DSF is expected to strike a right balance between debt sustainability and at the same time assist LICs to access sufficient resources for investment.

- Rwanda as a "Case Study"

1. Rwanda is a mature reformer and has good track record for implementing sound macroeconomic policies (it is a PSI country since 2009).
2. Rwanda has formulated a clear economic vision and Medium Term Debt Strategy to enhance asset liability management of Government finances and increase its capacity to evaluate costs and benefits of alternative forms of financing

Government Medium Term Macro Framework & Investment program

- Overriding economic objective in the medium term is to sustain real GDP growth rates of 7 to 8 %
- To close the growing current account deficit GoR is implementing key large strategic investment projects to (i) increase competitiveness despite being landlocked, (ii) develop Rwanda as logistical hub, and (iii) focus on service sector.

    1. Broadening energy access by increasing household grid connections from 6% to 16% by 2013 Increase competitiveness for value addition
    2. Completion of fiber Optic program/ broadband wireless technology Development of

Government Medium Term Macro Framework & Investment program

3. Building a new Airport at Bugesera and investment in national carrier Rwandair Development of services + Rwanda as logistical regional hub

4. Construction of a 5 star Convention Centre for conferences and business tourism Development of services

5. Construction of line linking Rwanda-Burundi and Tanzania Increase competitiveness by reducing transport cost

Relevance of framework for Rwanda/Link financing choices to DSA

- Giving the large financing requirement for these investment projects, Government is resorting to some non concessional financing,
- Within the PSI program:
  - A DSA using 20 year projections of debt burden.
    - Overall Assessed a “moderate”, but vulnerability of Rwanda’s debt indicators to export shock,
    - Suggests that there is space
  - DSA and project analysis/financing
  - Link growth and revenue projections to projects selected
- DSA allowed a limit of non concessional loans of USD 240 million for two of the projects (the Convention Center and National Carrier).
- This showed low risk as all the debt burden indicators are well

Perspective on the "new" IMF Debt Framework

- Assessment of incremental output from investments for exports
  - Model leaves room for wrong assessment of incremental export growth i.e wrong assessment of lags and values.

- Treatment of State Owned Enterprises in External DSAs
  - Within in the framework SOE 's external debt can be removed from external DSAs if the company can borrow externally without a public guarantee and its operations pose a limited fiscal risk
  - Application of this principle can be subjective despite requirements being fulfilled (eg. BRD) .

Perspective on the “new” IMF Debt Framework

- Low understanding of in-country donors:
  - IMF to retain “full control”
  - Limited capacity to understand/analyze “non-social projects”
  - Pro-growth vs pro-poor “artificial debate”
  - Micro projects vs macro projects AND incremental vs leapfroging
  - Investment vs recurrent cost of infrastructure
- With clear“ scaling-down” of grants how much flexibility should LICs have?

THANK YOU