AIO Keynote:

Title: Africa's Debt Burden

Introduction

Good morning, everyone.

It is an honour to be part of the 51st Conference and Annual General Assembly of the African Insurance Organisation. My sincere thanks to Secretary General Mr. Jean Baptiste Ntukamazina, President Ms. Patty Karuaihe-Martin, and members of the General Assembly for your leadership and precision in dedicating this year's theme to address one of the most pressing challenges of our time - "Balancing the Books: Africa's Debt Problem" and for posing the critical question: "*Why Does Country Debt Impact Insurers?*"

As Ethiopia's Minister of Finance for two decades from 1995 to 2015, I was responsible for our public spending, taxation, and debt management. Over that period, I had quite some experience with debt and risks. I also interacted with insurance and reinsurance companies when I was in office and more recently as a Board member of the Centre for Disaster Protection, a technical and policy advisory organization focused on disaster risk finance.

So, when I received the invitation to be here today to share some reflections and opportunities with our continent's leading insurance and reinsurance professionals on how countries across the continent should approach debt and risk, I was pleased to accept.

With the time we have together today, I intend to cover four specific areas:

- I would like to begin by focusing on the issue of government debt across Africa, and specifically, how access to credit provides an opportunity. That is not to contradict the theme of this meeting, but I will argue that debt is only a burden if we make it so. That access to credit brings opportunities as well as risks. And that the conversation we have within our countries as well as across Africa needs to be focused on how to address debt issues constructively, systematically, and with a risk-informed perspective, rather than always equating debt with fiscal repair.

- I will then go on to talk about one of the big fiscal risks of our day – the risks that come from a changing climate, and how we can approach both the economics and the politics in tackling that.

- Next, I will stress just how important it is for governments to go forward hand in hand with the insurance industry on issues around fiscal risks, particularly climate risks.

- And finally, I will conclude with a set of key messages that I hope we can take forward together as we begin the AIO Conference and Annual General Assembly this year.

1. *Africa's Debt Burden*

Let us begin by looking at the debt landscape today.

According to the African Economic Outlook, last year, 20 African countries were at high risk of debt distress. Median public debt stands around 60% of GDP, up from about 30% fifteen years ago. The cost of servicing this debt has also doubled since the early 2010s. On the resource mobilization side, the median tax-to-GDP ratio in Africa is under 14% — which is far below emerging economies outside of Africa and much far below high-income economies. At the same time, international aid — once significant — is shrinking. In fact, key donors have recently announced cuts and these reductions have affected essential sectors such as health, food security, and education.

Some of this may remind historians among you of the sovereign debt crisis in the 1990s and early 2000s, where debt-to-GDP ratios across the continent also averaged 60 percent. However, whilst in the early 2000s, debt relief and restructuring were a key part of the solution, today our creditors are more diverse. We have moved away from borrowing from traditional Paris Club member countries, with more debt towards new non traditional lenders and private creditors on commercial terms.

While governments generally welcome a range of creditors to diversify external funding sources, a more diverse creditor landscape makes debt issues much slower to resolve. This has been the recent experience of several African countries after the COVID-19 pandemic, which have sought to restructure their debts with the G20 Common Framework. These restructurings illustrate the significant challenges in how contemporary restructurings for low and middle-income countries work: that they are too little, too late, and too complex.

But to echo a statement by President of Ghana Nana Akufo-Addo, President of Kenya William Ruto, and President of Zambia Hakainde Hichilema, "we must look within for solutions."

And as I see it, the solution is simple. Not easy, but simple. That solution has three components – recognising opportunity, utilisation, and mobilisation. Let me go through these in order.

First, as I have already signalled, we must recognise that access to credit provides an opportunity. Most countries around the world borrow money from a range of creditors. Yes, debt has to be repaid, and so in that sense it is a burden. But debt also gives African countries the ability to invest in growth. The underlying logic of government debt is that the funds borrowed to finance public expenditure and investment will ultimately be repaid from future government revenue streams, including those generated by higher growth rates facilitated by the borrowings themselves.

In 2024, half of the world's top 20 fastest-growing economies were African, a trend sustained for more than a decade. That growth - and the economic transformation it is bringing - is fuelled by investment. Yes, much of this is private investment. But this investment would not be flowing without the significant public investments needed in an enabling environment for growth. Such growth would not be possible if those countries were not able to borrow.

Given these statistics, I am most concerned about countries and firms that are credit-constrained, rather than those that are not. This includes entrepreneurs who cannot invest in their businesses, farmers who cannot borrow to invest in their farms, and governments who cannot make the capital investments needed for growth.

So, if we recognise that access to credit is an opportunity, how do we make the most of it?

This brings me to the **second** part of the solution: utilisation. The IMF's rule of thumb is that government capital expenditure, which is often referred to as public investment, yields twice the long-term boost to the economy as spending on consumption. Now, this is only a rule of thumb, and obviously, the precise details of the investments matter. But the principle is important. Well prepared and efficiently executed government capital investments are crucial to growth, such as expenditures on infrastructure, new universities and schools, and new hospitals, and we must ensure that investing in economic development has political support. As Finance Minister, I had to walk this tightrope for many years, and some of the challenging decisions were when I had to cut our capital investment budget to respond to shocks such as the financial crisis of 2008, or for significant droughts. Response to shocks is needed, but if funded entirely by reallocating away from capital investment, it can be costly indeed.

My **third** point is that debt cannot be the only way countries mobilise resources. Debt is not free money – you must repay it, with interest. Governments that want sustainable public finances need to increase tax revenues. As I have already said, most African governments currently collect less than 14 percent of GDP in tax revenues. We have an opportunity to increase this. Domestic resource mobilisation can contribute to efforts to reduce poverty and inequality, ensure the provision of quality health and education services, and strengthen infrastructure to support inclusive growth. And with declining aid budgets, increasing domestic resource mobilization needs to be a much bigger part of the conversation on how we fund investment in our economies. If we want economic growth, the private sector is crucial, but it cannot do it all alone. Government investment is also needed. This is the approach Ethiopia is taking to significantly increase the Tax/GDP ratio.

So, in conclusion, I would like to constructively challenge framing around debt as a burden, and focus on its opportunity, such as financing much-needed investments in our growth and development. Of course, too much of a good thing can be a bad thing, and there are risks associated with accumulating too much debt. But debt should not be taboo. We must borrow to invest in growth, and we must increase resource mobilization. If we do this, then to the AIO's core theme this year, the books can be balanced.

2. ***Fiscal Risks and the Impact of Climate Change***

This leads me to the second part of what I want to consider today, around fiscal risks - that is, risks to government spending and taxation. While I am optimistic about Africa's potential, we *do* face risks, and how we confront them could define the next decade.

The planet is warming, and nature is holding us accountable. Many parts of our continent are warming at a faster rate than the global average. And we are already witnessing an increase in extreme events, such as heatwaves, heavy precipitation, droughts, and tropical cyclones.

Risks and related losses and damages from climate change will escalate with every further increment of global warming.

As you will know, one of the biggest threats is how climate change will exacerbate the vulnerability of agricultural systems, which employ 55 percent of the workforce across the continent. Agriculture systems in semi-arid areas and lands will be particularly impacted, as will reduced cereal crop productivity, including maize and wheat, with adverse effects on food security and livelihoods.

So, how should we adapt?

Africa did not cause climate change – we contributed less than four percent of total global emissions cumulatively. And we alone cannot stop it. Yet we are being harmed by it – we lose $7 to $15 billion every year due to climate change. Losses are projected to escalate to $50 billion by 2040. These risks not only increase the cost of borrowing but also run the risk of derailing debt management plans.

Finance Ministers will need to guide their economies both to adapt and thrive in a changing climate. But finance ministers need to recognize that they cannot control how climate risks are managed in their countries. They have levers, they have influence. But many decisions about how climate risks are managed will need to be made by people and businesses, not by government- for example, what plants are grown and where people choose to live.

Where governments need to take particular care is that, without planning for it, climate risks can end up on the government's balance sheet. Governments are not insurers, but after a disaster, they can often end up acting as reinsurers of last resort. And the more fiscal space a government has, the more pressure there will be on it to allocate finance to respond to disasters. When farmers are hit by droughts or when homeowners or businesses find their properties flooded, they may collectively advocate for relief. What the government does in that moment is tricky. It has two costs.

The first is the simple cost – the government will need to allocate a budget for relief. And if the government is going to provide similar relief after future disasters, this means more resource mobilization will be needed. Taxpayers will essentially be acting in solidarity with those affected by disasters.

The second is a cost that you, as insurers, know very well – that of moral hazard. If the government provides relief after every drought or heatwave, what incentives will farmers have to adapt to a changing climate? If the government provides relief after every flood, what incentives do homeowners have to make their homes resilient? And if those able to reduce the risk do not invest to do so, the ultimate cost to society will be much larger. All we end up doing is paying for shocks rather than managing risks.

I am convinced that when it comes to climate risks, we can take a more proactive approach. So, the bad news is that the next disaster is coming. But the good news is that it does not have to be a surprise.

3. *Closing the Crisis Protection Gap*

This leads me to my final point. This year's central theme presents a timely opportunity to spotlight how Africa's risk financing architecture is evolving –the architecture that can deliver on protection, not just relief—and why that evolution matters.

One of the most powerful lessons from disaster risk management is that the way we pay for disasters has a big impact on whether anyone invests in reducing risks or preparing to respond.

And in particular, if we only mobilise funding after the disaster, we will build institutions of relief, not of protection.

What we need to focus on is finance arranged ahead of shocks, called *pre-arranged finance*. Arranging finance ahead of shocks can impact the predictability, speed, and efficiency of a response after a crisis, but crucially, it can also help create incentives for investing to reduce risks and in preparing to respond. Building robust risk financing systems—particularly through sovereign and sub-sovereign mechanisms—is central to how we help countries absorb shocks without derailing long-term investment and progress.

This is great in principle, but how are we doing on getting this pre-arranged finance into place?

The Centre for Disaster Protection has found that globally, $76 billion of international aid went to crisis finance – money spent on responding to disasters – in 2022, but that less than two percent of this funding was arranged in advance. The rest was all put in place during or after the crisis. In Sub-Saharan Africa, pre-arranged financing accounted for only 0.4 percent in 2022. That is equivalent to just $65 million out of the $14.7 billion in international crisis financing spent on disasters in total. Pre-arranged financing is currently a drop in the ocean compared to the money that is arranged during or after crises.

But there ***are*** signs of progress, and many of these involve the insurance industry. **To put some examples of financing instruments more concretely within the African context, I wanted to highlight a few:**

1. **The first is parametric sovereign risk transfer**, where a government buys a parametric insurance product or catastrophe bond to protect its balance sheet against disaster risks. Such products are growing – in 2023, regional risk pools and development banks issued global coverage of $2.8 billion, and cumulatively, they have paid out more than $800 million. Across Sub-Saharan Africa, the largest such insurance coverage for disasters is from the African Risk Capacity, which supports 15 countries. The African Development Bank has supported the uptake of such products and has mobilized donor funding to subsidise many of them.

2. **The second is contingent credit from multilateral development banks**, where the country can only draw down the loan after a pre-defined trigger is met, such as declaring a national emergency. These instruments are mostly provided by the World Bank and some regional development banks, and can provide very quick financing to governments after a disaster. At a global level, these instruments have disbursed more than $4 billion. For Africa, the World Bank has contingent credit agreements with countries including Benin, Cabo Verde, The Gambia, Malawi, and Mauritania.

3. **The third is climate-resilient debt clauses or pause clauses.** Pause clauses are built into debt contracts, loans, and bonds, and give governments a temporary pause in their debt repayments if an eligible disaster occurs. They can be useful for disasters that cause short-term liquidity problems for the government, but are less useful for disasters that threaten solvency, because they only delay debt repayments; it doesn't reduce it. The World Bank currently offers them to small island developing states. However, the African Development Bank made an announcement in 2023 on its offer to incorporate them in future sovereign lending.

4. **The fourth is public-private partnerships in agricultural insurance.** Increasingly, African countries are partnering with the insurance industry to protect at-risk farmers or livestock producers. In many countries, like Senegal and Kenya, the government pays part of the premium, with the expectation that this will increase access to credit and farmers' ability to invest, as well as provide reliable protection against shocks.

5. **The fifth relates to new or improved disaster contingency funds or established disaster response reserve funds.** For example, Ethiopia's new Disaster Risk Response Fund has been established using domestic resources, providing a new layer of risk protection that does not need to use budget reallocations from essential social spending when shocks occur. It plans to finance disaster risk reduction, emergency response, and recovery. I have confidence that the proposed reserve fund builds Ethiopia's own capacity to establish pre-arranged financing for pre-disaster, during disaster and post-disaster operations effectively.

6. **Finally, I would like to draw your attention to an area of pre-arranged finance that I believe can be strengthened.** Many of our countries are exposed to floods and cyclones, which can damage both public and private infrastructure. Yet, property catastrophe insurance markets are limited. It is my view that governments should consider insuring their public assets against such shocks, both to reduce their fiscal risks and also help the domestic insurance industry develop the knowledge and skills to be able to offer such products to homeowners and businesses.

These examples all fill me with hope, and I am pleased that there is momentum behind each of them.

When reading the Africa Insurance Pulse 2024 on Disaster Resilience by the African Insurance Organisation, one statistic stood out to me the most. In interviews with senior executives from 19 leading insurers, reinsurers, and brokers operating in Africa, 95 % of respondents said that they should and can promote disaster risk reduction and resilience-building in Africa. The survey also asked respondents to specify the role of the insurance industry in promoting resilience in African societies and economies. Majority of respondents highlighted climate risk assessment management, while the second most frequent response was disaster risk financing and transfer, followed by infrastructure investments.

This signals a huge momentum of the industry across the continent to not only be observers of Africa's debt and climate risk challenges, but also active contributors to their resolution.

Key Messages and Recommendations

So, with the time that I have remaining with you today, I wanted to leave you all with some forward-looking considerations or sectoral nudges from a former Minister of Finance, and one who has spent most of his lifetime in the city we find ourselves in today:

1. **The first is that credit provides opportunities for fiscal resilience as much as it provides a risk of fiscal repair, and we must remember this as we talk about debt.** Used well, debt provides an opportunity to invest in the future, bringing job creation, revenue generation, and economic growth. Its mismanagement can have

the opposite effect, pushing governments into precarious situations with high debt servicing costs and longstanding economic consequences.

2. **The second is that domestic resource mobilization needs to be a key part of Africa's growth**. If governments do not raise taxes, we will not have the funding needed to transform our economies for growth. Debt will become a burden, not an opportunity. Domestic resource mobilisation can support paying back debt, in addition to contributing to efforts to reduce inequality, provide quality health and education services, and strengthen infrastructure to support inclusive growth.

3. **The third is that when it comes to climate change and climate risks, we need to build protection, not relief. I encourage us to consider increasing the quality and scale of pre-arranged financing.** A recent Communique by the Vulnerable 20 Group of Finance Ministers (which 28 of its 70 Member States are African) calls on increasing the amount of pre-arranged financing as part of the solution to building strategic resilience. Pre-arranged financing is also gaining political momentum in South Africa's G20 Presidency in the Disaster Risk Reduction Working Group to take a more proactive, rather than reactive, approach to disaster risk.

4. **Contributing to this leads me to my fourth point, in which insurers and governments should co-anchor solutions.** Climate risks need to be managed, and governments cannot do this alone. Governments need to do more to make fiscal risks visible, to make it clear what the government will and will not do in the event of a disaster, and be open about how much this will cost and what it means for tax revenue. As someone who has sat on the other side of the table, I strongly encourage insurers and financial actors to work more closely with Ministries of Finance and sectoral ministries, to integrate risk transfer and pre-arranged finance into national budgeting and public investment planning—particularly in high-risk, shock-prone sectors.

5. **Finally, amid the challenges posed by debt levels and climate risk, insurers can play even more of a central role in resilience across the continent**. This includes investing and scaling in Africa's actuarial, regulatory, and reinsurance capacity. This also includes scaling regional platforms and risk pools that offer governments and the private sector pre-arranged funding and protection in the face of climate and disaster shocks. These platforms can connect with capital markets and blended finance vehicles, unlocking long-term investment in resilience.

Closing

So, over the last 30 minutes, have we gone some way toward answering the question set at the outset - why does national debt impact insurers?

I have argued that debt is not automatically a problem; in fact, it can be key to enabling countries to realise their development aspirations. I have recognised that the impact of disasters and climate shocks can undo development progress. And I have set out how those shocks can, in turn, deplete funds and increase indebtedness, which reduces the funding available to proactively manage shocks and reduce risks, including through insurance and other forms of pre-arranged finance. That, in turn, increases future exposure and vulnerability, potentially trapping countries in a vicious cycle of disaster risk.

But I hope I have also made clear the opportunities to break that cycle and the role that insurers can play in providing pre-arranged finance at scale and in working with governments to not only manage existing risk but incentivize and galvanize risk reduction and resilience-building efforts across the continent. There are a few sessions throughout the week that go deeper into these topics, such as two by the **African Development Bank on the Africa Climate Risk Insurance Facility for Adaptation**, on Tuesday afternoon.

Lastly, I want to thank you all for the work that you do in shaping the future of insurance across the continent. I also want to acknowledge and commend your conviction to building resilience in the face of the world's most pressing challenges- and how special it is- to do it together.