SERGE EKUÉ

President of the West African Development Bank

Lionel Zinsou, Co-Chair of SouthBridge, Chairman of Terra Nova think tank, former Prime Minister of Benin

Serge, as a man of the financial markets and now a man of DFI, development financial institution, could you tell us how you see the recovery? You have been very successful in raising funds in the first quarter of this year. You have been oversubscribed in a major Eurobond issue with environmental and social goals at record low cost for an African issuer. You are at the center of what is happening in terms of the financing, as Bertrand Badré mentioned this morning in the first session, with some elements of doubt about financing development. Do you share this view or are you a bit more optimistic? What do you see in terms of the recovery of development?

Serge Ekué

Thank you very much, my dear Lionel, Mr. Prime Minister. Before I answer your question, I would like to thank the organizers of the WPC for having made this conference possible in the context we all know and in such a gorgeous place. I would also like to thank Thierry de Montbrial in person.

Mr. Prime Minister, to come back to your questions, there are three key elements I would like to share with you today. The first one is this debate about inflation versus deflation or stagflation. Second, in the current post-pandemic situation how do we deal with the question of the pay down of public debt? The third element, to come back to the last point you highlighted, the role of development banks and, which might appear a bit counterintuitive, our strong belief in global markets, which are the confrontation between offer and demand.
The first thing is the risk of inflation or deflation, notably in the event of deglobalization or partial deglobalization in the mid-term. There are two pitfalls we need to avoid, or at least try to avoid as far as possible. The first is self-sustained deflation, the risk of a self-fulfilling prophecy: the anticipation of lower prices will lead to less dynamic and slower demand, lower investment and at the end of the day, to lower prices. We should not forget that lower asset prices lead to higher real interest rates, which is naturally something we need to avoid from the sovereign public issuers' perspective. The second thing is the opposite, a sharp increase in prices. That could lead to the situations faced in countries like South Africa, Lebanon, Argentina, Israel... From a social standpoint hyperinflation should be avoided as much as possible.

Thus, the best compromise is a little bit of inflation, which the world can afford in a context of high economic growth. We currently stand at less than 3% so the world can afford a little bit of inflation that would lead to painless debt repayment. We believe that the current tensions we currently face on prices are non-recurrent: they are transitional and mark the mismatch between supply and demand. As we speak, the supply chain is destabilized but the situation is temporary. The surge of economic growth we face is fueled by strong demand and the subsequent inflation is also led by this demand.

The second element I would like to emphasize today, is how in this context public debt can be paid down without slowing down economic growth and provoking a crisis of confidence. The debt write-off can be a very seductive debate and it is one we have had recently. We do not believe that it is the ultimate situation, the optimal solution. Other solutions should be explored by the international community. First, alleviating the debt service. Second, providing concessional funding long-term with lower sensitivity to government budgets. Third, as an illustration, and you rightly mentioned, Prime Minister, this question of the Special Drawing Rights granted by the IMF. There is a natural definition of the SDR as a monetary solution but there is also – and this is what we have been pushing for – a financial definition of the SDR, which is a way to support emerging countries post-pandemic. On this debate (monetary vs. financial), the golden rule is at any point in time cash is king, liquidity is king. Cash being king, what has been put in place recently by the IMF on August 23rd is a very good solution providing emerging countries with the means to face non-budget funding and to immediately inject into the system liquidity by converting SDR. Fourth, another solution from the public sovereign issuers' standpoint, setting up budget consolidation policies in the context of the risk of potential social tensions. Again, South Africa can be an illustration of that perspective. Fifth solution, debt reprofiling to benefit from the very low current interest rate environment, since we know that intrinsic interest rates are negative today. It is a huge unique opportunity. Last, debt restructuring to restore the sustainability of public debt and avoid repayment defaults. This is a key element that I emphasize in my regular meetings with governments and Finance Ministers. If there are difficulties, let us discuss reprofiling and restructuring because we should avoid repayment defaults at any point.

Mr. Prime Minister, on your very last question, yes, (and this was my first observation when I moved from the pure private capital market sector to a development bank), DFIs, notably in Africa, are far too undercapitalized. That is why, as you have mentioned, we are currently roadshowing in order to double our Tier 1 capital and to raise debt in the market. We strongly believe that there are huge opportunities in the market, which has strong liquidity pockets for a number of reasons including ageing populations, over saving in a number of places, notably in Asia with Japan, etc.

To convince investor we recall that our region's economic growth is very vivid, even in 2020 despite the pandemic, the economic growth in our region was positive at 0.9%, one of the few regions in the world where that was the case. The median age in the region is 20 years old, which is a huge opportunity to sustain this growth but also a challenge. Our job as development banks is precisely to capture this energy and to wrap it up and offer it to investors in the market.

We basically work on four criteria that the market expects from us. First, yield: what is the return on assets? Second, rating and the BOAD is one of the best-rated organizations in the region or in Africa, rated Baa1 (Moody's) so investment grade which makes us eligible to a number of investors. Third, process and use of proceeds: which is why we launched, as you already mentioned, the first sustainability bond in Africa that had great success earlier this year. Transparency and traceability of the fund are paramount. What are the impacts of the funding or the means we are granting? Last, which is a bit technical, format: we have to provide a Special Purpose Vehicule (SPV) to investors who are seeking to invest in an SPV, loans or bonds, structured deposits, swaps, etc., to others willing to go through those formats. This is about our flexibility and our capacity to adapt to the market.

That will be all from me Mr. Prime Minister. Thank you.

Lionel Zinsou

Thank you very much, Serge. That was very comprehensive and, in a sense, very optimistic because you have a toolkit for managing the increase in debt, which is quite impressive. I am not sure how to say it, but you are willing to face a bit of inflation without fear and sometimes it can be dangerous to get into that sort of situation. You said that it is affordable.

Serge Ekué

It is affordable.

Lionel Zinsou

Yes, and maybe for a short while. It was very important that you emphasized the fact that our value chains are totally disrupted for the time being and the jury is still out on whether this inflation is here to last or is essentially an incidental effect of the supply chain disturbed by the strength of the recession and by contrast, the strength of the recovery. Thank you very much for all those elements.