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CONCEPT NOTE

6th NETWORK ENGAGEMENT OF PUBLIC DEBT MANAGERS IN AFRICA

Virtual Meeting – 27 October 2022

Focus: ''Increasing Debt Vulnerabilities and/or Distress and the potential for defaults by some African Sovereigns - what policy actions do public debt managers need to see implemented to mitigate these risks and what can we learn from recent cases? How should public debt managers in Africa understand the commitment of China and other key lenders in extending infrastructure loans in Africa and the manner in which they deal with sovereign debt restructuring? Do African countries benefit from these divergent approaches and what are the key policy recommendations to ensure African countries are back on a sustainable debt path?''

1. Background and Introduction

In keeping with the resolution taken in the CABRI Kampala conference in February 2020, to initiate **a network of public debt managers** which aims to create a network for peer learning and exchange to discuss debt challenges faced by African countries and make recommendations on how best to find solutions to those problems, CABRI once again, with a long track-record of strengthening fiscal management - of which the sustainable debt management is a critical part - will focus on two themes/focus for the 6th Network Engagement event: (i) policy actions public debt managers would like to see implemented along with other policy makers, to mitigate the risks of increasing debt vulnerabilities/debt distresses, (ii) understanding the commitment of China and other key lenders in extending sovereign lending for infrastructure development, but more importantly, the sovereign debt restructuring approaches taken in the event where African countries cannot make scheduled payments and the potential defaults these could imply for the social welfare and national wealth of African nations.

2. Context

Africa's sovereign debt is expected to remain higher than pre-pandemic levels in the short to medium term, as African countries will require additional resources estimated at around US$432 billion to address the persistent socioeconomic impacts of the pandemic and to support economic recovery[1]. The report further notes that, although the increase in debt levels is nearly universal, there are notable differences among country groupings. For example, the overall sharp increase in 2020 of nearly 10 percentage points, was driven by nonoil resource-intensive economies. These countries have contributed the most to the overall increase in debt, reaching more than 85.4% of GDP in 2020.

This was followed by oil exporters (66.7% of GDP) and non-resource-intensive countries (65.3% of GDP). Debt levels in non-resource-intensive countries increased from 57.4% of GDP in 2019 to 66.1% of GDP in 2021 and are expected to remain high in the near term. It is notable that the average debt-to-GDP ratio in other resource-intensive countries is estimated to have declined to 75% in 2021 and this mainly reflects declines in São Tomé and Principe (20 percentage points), Sudan (86 percentage points), Zambia (17 percentage points) and Zimbabwe (35.1 percentage points) due to large increases

[1] African Economic Outlook, African Development Bank, 2022.

in nominal GDP relative to nominal dollar-denominated public debt and further due to lower debt service obligations in 2021 resulting from the Debt Service Suspension Initiative (DSSI).

Due to relatively higher foreign debt exposure in some of the African countries, the heightened exchange rate depreciation pressures, particularly in net importers of commodities on the back of Russia-Ukraine conflict, could potentially increase the cost of debt servicing in these countries. The potential savings from the DSSI in all 38 eligible African countries are estimated at more than US$13 billion – ranging from US$4.5 million in Liberia to US$2.9 billion in Angola.

Although the DSSI has alleviated significant immediate liquidity pressures on these and other African countries, the debt service standstill represents only a temporary solution because with the expiry of the DSSI in December 2021, participating African countries must prepare to pay back in the subsequent years their 2020 and 2021 debt service due. It may be prudent to note that the DSSI facility was not designed to address structural debt issues confronting the majority of African countries, hence in November 2020, the G20 and Paris Club Creditors reached an agreement on a Common Debt Treatment Framework (the Common Framework) to address protracted insolvency and liquidity issues in DSSI-eligible countries. What the Common Framework did was to bring in **newer Official Creditors, such as China – one of the emerging large official bilateral creditors for many African countries**.

The challenge is that nearly two years after being established, the Common Framework has not achieved its intended objectives. Agreement on general principles have proved difficult to translate into operational results due partly to the combined effect of lack of creditor coordination, information sharing and procedural transparency as well as private sector participation. Three African countries have so far requested debt treatment under the Common Framework, but none have managed to complete the process - suggesting that more structural reforms are needed to help the continent to grow out of debt.

The debt relief initiatives, including the US$33.2 billion African countries have collectively received from the IMF's general allocation of US$650 billion equivalent in Special Drawing Rights (SDRs), have not stopped debt vulnerabilities from continuing to rise - 23 African countries as at February 2022 were estimated to be in or at risk of debt distress (actually 16 countries at high risk of debt distress and 7 already in debt distress) and this is out of 38 African countries for which debt sustainability analyses were done.

CABRI's paper on China's approach to sovereign lending and debt restructuring: a primer for African public debt managers [2]indicates that one of the trends and patterns on Chinese lending to Africa has been on an upward trajectory for more than a decade. China is estimated to have lent US$152 billion to African governments and State-Owned Enterprises (SOEs) between 2000 and 2018, with a peak in 2013. With regard to terms and conditions of Chinese official lending, China tends to provide foreign aid loans in the form of zero-interest loans and concessional loans, non-foreign aid official loans and commercial loans.

When it comes to debt restructuring, China is found to be a flexible and collaborative partner, but institutional and political constraints within financial institutions means that debt cancellation is usually extremely limited and large-scale debt forgiveness highly unlikely. The widely spread rumors of asset seizures in the event of a default have not been confirmed on record. Debt scheduling, which

[2] CABRI's paper on China's approach to sovereign lending and debt restructuring: a primer for African public debt managers, 2021. www.cabri-sbo.org

extends the repayment period of the debt has become more common than haircuts that would otherwise reduce the principal amount of the loan.

3. Objective of the 6th Network Engagement meeting of Public Debt Managers in Africa

Share debt management lessons on drivers of debt vulnerabilities and debt distress, what are the early indicators and what have some of the African countries done to manage and mitigate the risk?. Share top key policy recommendations on key lenders (including China) in advancing infrastructure financing in Africa and the debt resolution mechanisms that work.