CABRI Policy Dialogue

Raising and Managing Debt for post-COVID Recovery 6–7 July 2021

POST-EVENT REPORT

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On 6 and 7 July 2021, CABRI facilitated a Policy Dialogue on Raising and Managing Debt for post-COVID recovery. Attended by 74 participants from 24 countries (22 African countries), this event explored debt sustainability as part of the budget process as well as the four most pressing challenges currently facing public debt managers regarding high public debt levels in Africa:

1. managing refinancing risks,
2. mobilizing additional financing,
3. maintaining and improving investors relations and confidence,
4. restructuring unsustainable debt portfolios.

This note summarises the 7 key messages emerging from the policy dialogue. All conference materials (videos, presentations and background papers) can be accessed here.

Key message 1

The path of the pandemic remains uncertain in the region, as several African countries currently struggle with more virulent variants, and the prospect for broad-based vaccination remains uncertain. Africa's development plans have also been set back significantly, and the continent finds its income per capita levels and growth rates diverging from the rest of the world. This has come at a time when countries were trying to consolidate spending and reduce funding pressures.

Countries that implemented structural reforms prior to the COVID-19 crisis were in a stronger position to respond to the crisis, with sufficient fiscal space to accommodate additional spending pressures. Many countries, however, will face difficult trade-offs between consolidating expenditures, or increase or decrease borrowing. Fiscal space will remain limited as countries realises that it will take longer to return to pre COVID growth and budget levels.

Key message 2

Refinancing risks have increased in the WAEMU region in West Africa – Less concessionary funding available, social crises in some countries, volatility in foreign markets and higher borrowing requirements led to countries borrowing more in domestic markets. However, the funding available in the domestic market is of a short-term nature – average term to maturity in the region is 3 years, which is the main reason for the refinancing risks. Countries, such as Benin (2018) and Cote D'Ivoire, (2020) have effectively reduced the risk of refinancing through reprofiling actions and adopting a proactive approach to debt management. This was made possible by country stability, institutional reforms, improved sovereign ratings and the implementation of prudent debt management strategies. One of the critical roles of public debt managers, is to educate and inform policymakers about the impact of high debt levels on the economic and stability of the country's financial system.

Key message 3

In financing governments' financing needs, public debt managers need to carefully evaluate the costs and risks of innovative or alternative financing options. Private sector investors are increasingly considering sovereigns' Environmental, Social and Governance risks and performance when making investment decisions, even for vanilla eurobonds. There is also a growing investor appetite for labelled bonds such as green and social bonds. While labelled bonds may not be suitable for every African country given their circumstances, public debt managers should explore other opportunities for integrating ESG issues into their debt management activities such as their annual debt report or even the in their Debt Sustainable Analysis (DSA). A well-developed ESG narrative can potentially improve investors' understanding of a country, improve ESG scores and reduce the premium in the price of African bonds linked to uncertainty.

Key message 4

Public debt managers must proactively take steps to ensure they get the most favourable terms and conditions available. Export Credit Agencies' financing is generally attractive in terms of costs and tenor compared to bank or bond market. However, there are roughly 100 ECAs and they offer different options. Sovereigns must take control of the whole process when engaging with ECAs as well as introduce competitive tension through a tender panel process to get full transparency and best terms. If unfamiliar with ECA financing, appointing an ECA advisor will also be important to get the best terms and conditions.

> *"Countries that implemented structural reforms prior to the COVID-19 crisis were in a stronger position to respond to the crisis, with sufficient fiscal space to accommodate additional spending pressures"*

Key message 5

Public debt managers play an important role is building and maintaining relationships of trust with investors during good and bad times. During times of crisis, it is important that investors are kept informed of all developments to reduce uncertainty and retain confidence in the sovereign. African governments must control their narrative, as leaving your credit story to third parties might create the wrong perception. Market participants would like to be informed of the relevant and timely information, as they do not appreciate uncertainty. As noted in several sessions throughout the conference, the DMO plays a critical role in producing and facilitating the disseminating of information in collaboration with other key government units (Budget Office and officials overseeing State Owned Entities (SOEs)).

Recommended good practices for engaging with investors, based on the experience of Egypt, South Africa, Benin and Morocco, include regular conference calls and roadshows, creating a dedicated unit responsible for all investor communication, providing clear and accurate information to the media and other communication platforms, keeping websites up-to-date, and where relevant, including other units outside the DMO in investor communications. For these practices to be effective, it is crucial to obtain buy-in from senior government officials as well as the commitment from the Minister of Finance to take part in conference calls or roadshows.

Key message 6

Sovereign debt restructuring should not be postponed but dealt with sooner than later – unsustainable debt levels leave countries vulnerable to potential future shocks. History has shown that delaying restructuring, because of unsustainable high debt levels, increases the likelihood of protracted negotiations, and larger haircuts. While technocrats such as public debt managers usually understand this, it is often difficult to convince politicians given the negative connotations of a default and credit downgrades. In making a stronger case of the urgency for restructuring, public debt managers could get other actors discreetly involved, such as financial and legal advisors with experience in restructuring unsustainable debt globally and on the continent. Once a country decides to engage on restructuring its public debt, it is imperative that it communicates such intentions well in advance, in a transparent manner. Lack of transparency during such negotiations or interactions with creditors/investors, have impeded recent sovereign debt restructurings.

Key message 7

The international architecture for sovereign debt restructuring is also evolving with contractual innovations and the G20 Common Framework. Angola noted that that even under the Common Framework, bilateral/partial agreements are still possible and should be sought when appropriate. The recent agreement between Angola and China on its oil-backed facilities is a good example of what can be done in this area, where long-term benefits of a 'partial-reprofiling' are clearly more beneficial than outright, generic restructuring. There is also growing support amongst International Financial Institutions (IFIs) for initiatives that link debt restructuring to climate change, and we are likely to see concrete proposals soon in this area.

Negotiating and renegotiating public debt is an ongoing topic – CABRI's next CABRI Policy Dialogue in October 2021 – will deal with this topic in more details and sharing of countries experiences. During times of uncertainty, it is important for public debt managers on the continent to share and stay engaged.