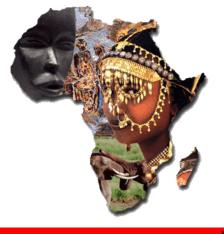


African Legal Support Facility







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Landscape of African Debt (1)

African Debt Today

- Prior to the pandemic, Africa was considered one of the fastest growing economies
- Increasingly relied on new ways to finance infrastructure development and general budgetary needs

New Lenders

- Eurobonds
 - At beginning of 2020, 21 African countries had outstanding Eurobonds for a total amount of USD 115 billion
 - Côte d'Ivoire was the first sub-Saharan African country to issue a Eurobond during the pandemic in November 2020
- Green Bonds
- Non-traditional lenders
 - "Plurilaterals" (groups of typically regional lenders)
 - Other non-Paris Club (e.g. China)



Landscape of African Debt (2)

New Structures

Islamic/ Sharia compliant lending

- Come from the prohibitions under Islamic financial law against resale of debt contracts, generation of profits without associated economic activity, and use of financing to support prohibited goods and activities
- Lender can only earn profits through participation in the activity that is being financed and only if the investment produces a profit

Resource-backed loans

- "Collateralized" or "resource-backed" loans (RBLs) are loans provided to a government or an SOE, where repayment is:
 - made directly in natural resources (payment in kind) such as oil or minerals, or from a resource-related future income stream; or
 - guaranteed by a resource-related income stream, or where a natural resource asset serves as collateral.
 - (source: NRGI "Resource-Backed Loans: Pitfalls and Potential")
 - These have offered African governments with limited access to credit or capital markets a way to gain funds for infrastructure projects by securing borrowing against future production of natural resources.



The Legal Context of Sovereign Debt Restructuring (1)

• Who are the players?

- The sovereign debtor
- The state-owned entities
- The creditors
- The IMF
- Domestic vs external debt
- The Restructuring
 - The restructuring proposals
 - The negotiation process
 - Engagement with Official Sector Creditors (including IMF, WB, AfDB and other DFIs, Paris and non-Paris creditors)
 - Engagement with Commercial Creditors (including bond holders and commercial banks)



The Legal Context of Sovereign Debt Restructuring (2)

The Restructuring

- Creditor objectives and constraints
- Tools for the sovereign debt restructurer
 - Payment holidays (pushing back on payments will pay you but not on the next payment date/giving more time to pay)
 - Change in maturity dates (reprofiling)
 - Reduce the principal amount of the debt (haircut)
 - Reduce the interest rate on the debt (coupon adjustment)
- Creditors Decision making
 - Holdout creditors and CACs
 - Bond holder meetings
 - Creditor committee



The Legal Context of Sovereign Debt Restructuring (3)

Clauses with legal implications

- Collective Action Clauses and natural disaster clauses
- Cross default, default clauses, negative pledge clauses (protection for creditors)

Lessons learnt

- Avoid letting a sovereign debt problem, become a threat to the financial stability of the banking sector of the debtor country
- Act fast do not delay in facing unsustainable debt stock
- Engage with your creditors and their advisors
- Keep track of the debt e.g. How much has been borrowed and by whom, on what terms and pursuant to what documentation?
- Get enough debt relief to regain market access



The Legal Context of Sovereign Debt Restructuring (4)

The Debt Service Suspension Initiative (DSSI)

- What it is?
- How long will the DSSI last?
- How to access DSSI?

The G20 Common Framework

- What it is?
- The role of the IMF in the Common Framework?

Related concerns

- Defaults; Cross-defaults
- Credit downgrades; market access



Challenges facing African countries in the public debt sector

Structural and institutional challenges

- The need for technical expertise and legal capacity
- The need for sufficient knowledge of good practices /standards related to contracted debt and long-term institutional knowledge
 - Asymmetrically structured debt arrangements (including RBLs)
- The improvement of intergovernmental cooperation and interaction between the public entities involved (e.g., Min fin, Min energy/petroleum, DMO, PPP Unit, etc.)
- The need for a clear framework related to the issuance of debt and government guarantees/ credit support (i.e., approval of contingent liabilities)
 - Susceptible to close less than ideal deals due to perceived weak negotiating position and external and internal pressure
- Improved levels of transparency



The End

Thank you

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