

EMEA WEBINAR

REFORMING INTERNATIONAL DEBT ARCHITECTURE: CAN DEBT TRANSPARENCY BE ACHIEVED FOR AFRICA?

Thursday 22 October, 2020 15:00- 16:50 CET



Moderator: Alonso Soto, Correspondent Nigeria, Bloomberg

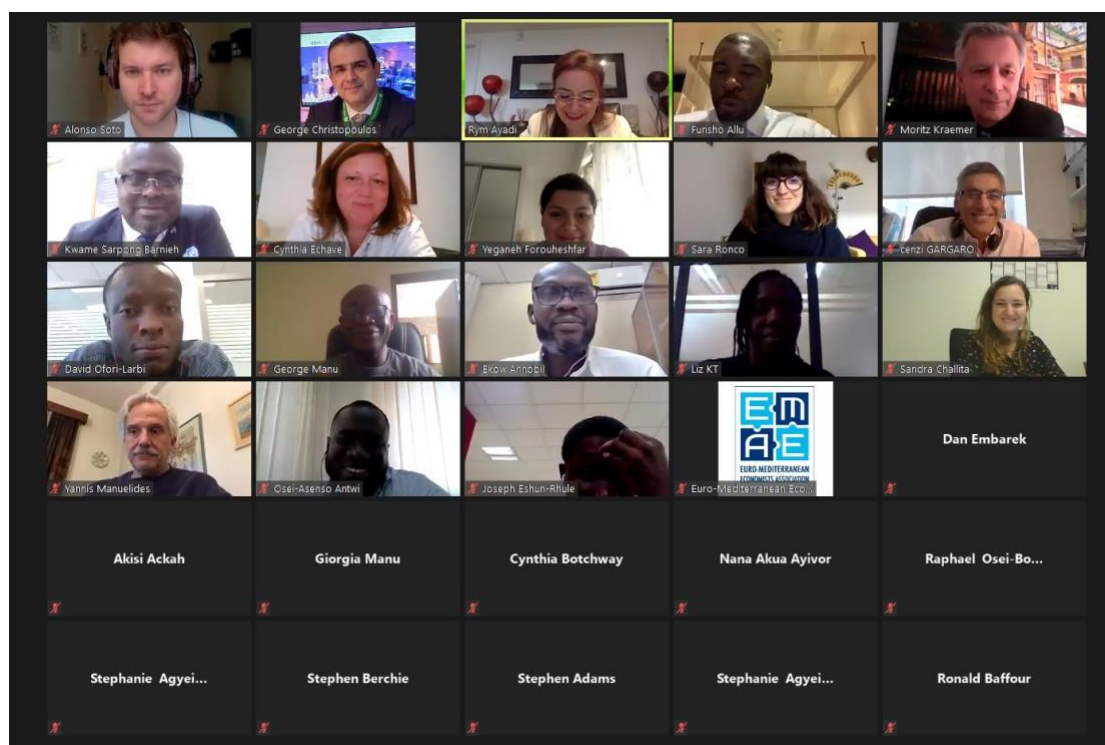
Participants:

- Prof. Rym Ayadi - President, Euro-Mediterranean Economists Association (EMEA), Professor, The Business School (Former CASS), London
- Prof. Emiliós Avgouleas - Professor, Chair, Edinburgh Law School
- Sonja Gibbs - Managing Director, Institute of International Finance (IIF)
- Thomas Wyatt Laryea - Orrick Law Firm
- Funsho Allu - Founding Partner, TIA Capital
- Moritz Kraemer - Chief Economic Advisor, Acreditus
- Kwame Sarpong Barnieh - Partner, KPMG Ghana

Rapporteur: Sandra Challita - Research Fellow, EMEA

The objective of this webinar was to discuss the recent IMF proposals to reform the international debt architecture and the role of debt transparency in achieving such a reform, particularly in Africa. The discussion tackled issues such as sovereign defaults and debt relief measures, the role of international organisations (e.g. the IMF and the EU), the private sector involvement in the DSSI and the potential path towards debt sustainability via transparency and conditionality.

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?



Welcoming note of Rym Ayadi (RA)

This webinar was organised to launch the **EMEA Transparency Debt Initiative** aimed to enhance socio-economic research and open access knowledge about sovereign debt related issues, their links in investing and financing development and the pillars towards debt sustainability essential for sustainable development in the Mediterranean and Africa. This effort could not be more timely. In [April 15, 2020 Communiqué](#), the G20 announced an agreement with the Paris Club (a group of major creditor nations) to freeze debt payments for the 77 poorest countries from 1st May to the end of 2020, when requested by eligible countries, to free up cash for the pandemic. This initiative was extended for another 6 months – until June 2021. The IMF has been active in mobilising billions of dollars in [emergency financing](#) through its **Rapid Credit Facility Instrument** and, in some cases, by increasing the size of pre-existing programmes, such as in Angola.

Through the Private Sector Involvement (PSI) element of the Debt Service Suspension Initiative (DSSI) private creditors were asked to share the burden of suspending debt service payments to eligible countries requesting such relief.

The take up of PSI, i.e. countries requesting the suspension of commercial debt service obligations, has been muted with many eligible countries fearing potential downgrades from ratings agencies as a result of such action and, with it, a potential loss of market access.

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

Amidst the persistent COVID-19 pandemic and dire global and regional economic outlooks, more African countries have transitioned to a high risk of debt distress and Zambia has already commenced the process of restructuring/reprofiling its debts.

On the eve of the October IMF-WBG Annual meeting, the [IMF Managing Director](#) demanded an urgent reform of international debt architecture. The IMF put an emphasis on **debt transparency**.

Alonso Soto introductory remarks

Debt transparency was important in Africa, especially during the last 15 years when bond holders have been replacing banks, whilst China has been the main creditor and is replacing the Paris club. Before the COVID-19 crisis, over one third of countries were approaching debt distress. The current challenges of debt restructuring are related to the financing from investment and trading companies and the role of China. Whilst the momentum for a change in global financial architecture is important, the question remains over the capacity and the willingness of African countries, leaders and creditors to open up.

Rym Ayadi (RA)

RA introduced the topic, emphasising the increasing sovereign debt in middle and low income countries and the current efforts of the international community to respond collectively amidst the global pandemic, She also shared the main proposals of a recent policy paper she co-authored with colleague Emiliós Avgouleas, which was published at the G20-T20 at the international financial architecture TF, of which she was a member. The Covid-19 pandemic has caused widespread concern about debt unsustainability in both developed and emerging economies. According to a recent paper by the IMF published on 01 OCT, since the end of 2019, average 2021 debt ratios are projected to rise by 20 percent of GDP in advanced economies, 10 percent of GDP in emerging market economies and about 7 percent in low-income-countries. These increases come on top of debt levels that were already historically high. Whilst many advanced economies still have the capacity to borrow (low interest rates and risk premia), emerging markets and low income countries face much tighter limits on their ability to carry additional debt, whilst they are at risk of a default spiral (the cases of Zambia, Argentina and others will certainly follow). In their paper, the IMF **called for the urgent need to reform international debt architecture**, a call that came on the eve of the IMF-WBG Annual Meetings – which was underpinned in three fundamental reforms: 1) more debt relief is needed, 2) strengthen contractual provisions via the extension of collective action clauses to non-bonded debt, enhanced by clauses that lower debt payments or automatically suspend debt service, such as in the event of natural catastrophes and other large economic shocks, and 3) enhance debt transparency to facilitate restructuring and resolution decisions and actions. At the same time, the WBG published historical debt data with an unprecedented level of granularity. This publication is very much welcomed and will support the research community in further examining debt accumulation and risks in the global economy

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

and welfare. To address the debt challenge during this pandemic, the G20-led debt restructuring initiative (under the G20 Debt Service Suspension Initiative - DSSI) might even be further extended to beyond mid 2021. The IMF and the WBG called for the participation of private creditors in debt relief efforts. Private creditors are rather reluctant to participate, however. She reminded the webinar that the Institute of international finance has committed to the voluntary principles for debt transparency. In this process **sovereign debt transparency** became a priority in international policy agendas. Debt transparency is essential for public governance and accountability. The recent publication of consolidated yearly debt data by the World Bank is a step in the right direction **but today is not sufficient**. She proposed going a step further and implementing a public global mechanism (a global registry as a first step) for the recording of old and new sovereign debt issues in order to boost global debt transparency. The mechanism can take the form of an independent, open access, real-time tech-driven [Debt Transparency Platform \(DTP\)](#) powered by blockchain technology where all bilateral, multilateral and private sector players can register sovereign debt transactions, thereby reducing market informational asymmetry. The platform should take the form of private-public partnership, serving as a global registry aimed at filling the gaps in newly issued sovereign debt in lower income countries (LICs) and lower middle-income countries (LMICs). It should serve as a catalyst in terms of public fund management, boosting the technical assistance efforts of the IMF and the World Bank. It could facilitate restructuring and relief involving private creditors and, hence, would limit the disastrous socio-economic effects of messy defaults and disorderly restructurings. It will help research organisations, such as EMEA, to enhance knowledge on debt related matters. Finally, the proposed DTP could also prove to be a powerful tool in the struggle to reduce corruption and public debt mismanagement.

Sonja Gibbs

Sonja considered the debt transparency platform as timely and very much needed. She provided more context about the private sector's participation in the DSSI initiative. The vast majority of borrowers are not asking private creditors for debt relief, fearing the downgrade of their credit rating, the increase in the risk of borrowing and the reduction of access to private capital. Also, bondholders are being enthusiastic in the way they can help countries. There is a lot being done outside the context of DSSI, such as new bond issues, engagement in alternative and cheaper financing structures and many global investors are taking into consideration climate and environmental considerations. There are different ways to approach DSSI and, for the private sector, there is no one-size-fits-all approach. Regarding the IMF proposals going beyond the DSSI, there is an underlying concern that the system could implode. A lot can be done, like including China and engaging different lending structures. There is a need for a multilateral approach whilst tackling debt transparency with an open and constructive dialogue between private and public creditors. Any top down approach can lead to liquidity and solvency problems, such as an increase in the risk premium. Regarding debt transparency, a multi-stakeholder initiative, with the close collaboration of all

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

counterparties, is needed. This can be achieved only by the agreement of private and public creditors.

Thomas Wyatt Laryea

Thomas underlined that debt transparency is in the interest of all countries, not only African countries. Debt transparency means four key elements: Transparency about the existence of debt, its terms, the identity of the creditor and the use of the proceeds (being the most difficult aspect). The main difficulty for debt transparency is the need for deep legal knowledge. Incentives of debt transparency remain in the subordination consequences of hidden debt. Multilateral financial institutions are still highly influential in international financial architecture. Regarding the DSSI, the commitment of transparency of the receiving country is not clear, due to errors in recording or lack of skills. Therefore, there is a need for better capacity building.

Funsho Allu

Funsho presented his view on the IMF proposal and its effectiveness. He considered that there is a geographical aspect in the debt restructuring. The perceived inefficiency of the restructuring is due to the diversity of the stakeholders. This diversity engenders complexity, making pricing credit and compliance hard to achieve. The approach to be taken should be done on a case-by-case basis. The private sector also needs to be incentivised. The debt transparency platform is important for African countries in countering hidden debt and can be beneficial to countries in lowering the cost of credit and for creditors for greater transparency. Also, there is a need to bring African voices into the debt transparency platform and improve capacity building in order to better understand and collect debt data.

Moritz Kraemer

Transparency is a fundamental credit factor and data transparency on debt is a precondition for future debt restructuring. Creating an index of debt transparency could be useful for increasing incentives to be more transparent. Data collection is a first step. but there is a need for in depth qualitative and quantitative analysis. Credit agencies have a potential role in publishing regular reports and opinions.

Regarding the fear of default shown by countries, in Moritz's opinion, it is exaggerated under the DSSI. Default has a high cost and low benefit, but the cost is not as high as we might think. The loss of market access is limited in time, because markets are closed and amidst an unprecedented level of liquidity for investors in a competitive field. Default should be done quickly with lower haircuts and shorter market exclusion, since investors will come back very quickly hunting for attractive yields.

Kwame Sarpong Barnieh

Kwame argued that there is no denying the importance of debt transparency and it is a pillar to help development in African countries. It is clear that African debt was not sustainable, especially because infrastructure development is very costly and there is no transparency on the use of funds. There is a need for a collaborative approach to

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

achieving debt transparency, that includes all key players of debt, not only the G20 and the IMF. When it comes to debt transparency, using technology to collect and to use all the data, together with the incentive to provide data, is key to using private public partnerships.

Q&A by Alonso Soto

China, India and Turkey are opposing the framework for restructuring. Is there optimism that China will coordinate with the Paris club to have a dialogue with private creditors?

Any effort towards debt restructuring is challenging and it is also a question of sovereignty. Sonja considered that there is every incentive for the non-Paris club creditors to remain at the table, whilst defending their own interests.

What about the practicalities of the DTP?

Rym emphasised that the platform should be hosted by an Independent structure that has the resources to update and ensure the good use of the data. Also, a public private partnership governance design is needed for the collaborative effort and there is a need to have the right incentives for sharing data. For the time being, what is needed is more transparency on the data side. The next step is to develop indices, with more qualitative/quantitative research on these aspects, not only on legal aspects, but also from economic and social perspectives. Sonja added that the legitimacy of an international organisation hosting the platform is important, because disclosure is sensitive for private creditors.

How important is the problem of transparency for rating agencies in Africa? Could more transparency reduce the African premium?

Moritz didn't believe in the existence of the "Africa premium". Transparency is important for credit agencies in Africa. But African countries are doing a poor job in managing their relationship with the rating agencies. Other than South Africa, there is not a good example of how the data is collected and disclosed. Often it is due to the fact that they do not have data to share.

What about the resource for loans (such as oil/gold for cash) financing?

For Thomas, the specificities of such financing were not clear yet. There is a need for concessional financing to help with the liquidity situation in the short term. Going forward, these countries need private sector financing. It is important to make sure that concessional financing is for the short term, without losing the long-term objectives that should be developed in the country.

What about the expectations on bond issuance in Africa? And what can be the impact of increasing transparency?

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

According to Funsho, it depended on the needs of Finance Ministers of each country. We are waiting to see who wants to borrow. For example, in Kenya, there is an intention to come to the market and the market is kind of still open.

If we can monitor how the money is spent, how can investors change the view about the country?

Kwame considered that this type of monitoring is critical and will provide more comfort to more investors. It will also enhance their view about the country and improve the credit process.

Concluding remarks by Rym Ayadi

International organizations and countries (Paris Club and others) should consult with the private sector over operationalising further transparency within debt architecture reform suggested by the IMF. Data is important for transparency, with a need for more granular and real time data on the new issuance of debt. More transparency will have positive implications on risk premium and recovery rates in the case of restructuring. For debt monitoring processes, indices are key. Rethinking the pay of public officers is also essential in this process. Regarding debt subordination, unreported debt should be subordinated. There is a need for greater monitoring of the use of debt. Changes must go faster in African countries towards more debt transparency, not only for today's citizens, but also for future generations.