CIGI PAPERS

NO. 43 — SEPTEMBER 2014

AFRICAN PERSPECTIVES ON SOVEREIGN DEBT RESTRUCTURING

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TABLE OF CONTENTS

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ACRONYMS

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
CACs	collective action clauses
HIPC	heavily indebted poor countries
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
NDP	National Development Plan
OECD	Organisation for Economic Co-operation and Development
PEAP	Poverty Eradication Action Plan
PRSP	Poverty Reduction Strategy Paper
PV	present value
SDRM	sovereign debt restructuring mechanism
SSA	Sub-Saharan Africa

EXECUTIVE SUMMARY

On August 7 and 8, 2014, CIGI's Global Economy Program co-hosted a conference with Uganda Debt Network to discuss African perspectives on sovereign debt restructuring. The proceedings, opened by the vice president of Uganda, took place in Kampala, and featured several distinguished participants — including current and former finance ministers and central bank governors, academics and practitioners, and civil society representatives — from Uganda, Liberia, Cameroon, Ghana, Nigeria, Zambia and Zimbabwe. Participants also came from civil society organizations and intergovernmental institutions representing broader groups of African countries or the continent as a whole.

Since the early 1980s, there have been a total of 317 sovereign debt restructurings in Africa, yet African perspectives have not featured prominently in the ongoing sovereign debt debate. The conference thus aimed to learn from African countries' extensive and evolving experience with sovereign debt management and restructuring.

Traditionally, African countries have borrowed mostly from multilateral lenders and high-income bilateral creditors belonging to the Paris Club — an informal group of high-income creditor countries. Consequently, when African countries have restructured their debts, they have done so through the Paris Club and through specific debt relief initiatives set up by their multilateral creditors. More recently, however, the composition of Africa's creditors has been changing, as more countries turn to international capital markets and new bilateral creditors — principally China and other emerging market governments — for their borrowing needs.

Among other things, this shift implies that the creditor-specific mechanisms used to facilitate past debt restructurings in Africa are fading in relevance and will be of diminished utility in the event of future debt difficulties. What is worse, severe debt distress is not a distant prospect for a number of African countries, which have been accumulating external debt at an unsustainable pace and remain highly susceptible to changes in external financial and economic conditions.

Conference participants expressed unanimous concern over the recent and sharp rise in government debt throughout the continent, as well as the lack of a satisfactory international framework to help restructure such debt if it becomes unsustainable. In light of these challenges, they also provided suggestions on the type of international framework needed to reduce the costs of sovereign debt workouts.

INTRODUCTION

African countries have considerable experience with sovereign debt restructuring. Since the early 1980s, there have been a total of 317 sovereign debt restructurings in Africa — far more than in any other continent or region (Das, Papaioannou and Trebesch 2012). And yet African perspectives on debt restructuring have been largely absent from the ongoing sovereign debt debate. Drawing on a series of papers and presentations commissioned for a recent conference, this paper highlights the views and concerns of several African debt experts in an effort to learn from the continent's extensive and evolving experience with sovereign debt management and restructuring.

Traditionally, African countries have borrowed mostly from multilateral lenders — namely, the International Monetary Fund (IMF), the World Bank and the African Development Bank (AfDB) — and high-income bilateral creditors belonging to the Paris Club. Consequently, when African countries have restructured their debts, they have done so through the Paris Club and through specific debt relief initiatives — such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) — set up by their multilateral creditors. More recently, however, the composition of Africa's creditors has been changing, as more countries turn to international capital markets and new bilateral creditors — namely China and other emerging market governments — for their borrowing needs.

Among other things, this shift implies that the creditor-specific mechanisms used to facilitate past debt restructurings in Africa — the Paris Club, the HIPC Initiative and the MDRI, and, to a lesser extent, the London Club — are fading in relevance and will be of diminished utility in the event of future debt difficulties. What is worse, severe debt distress is not a distant prospect for a number of African countries, which have been accumulating external debt at an unsustainable pace and remain highly susceptible to changes in external financial and economic conditions.

On August 7 and 8, 2014, CIGI's Global Economy Program co-hosted a conference[1] with Uganda Debt Network to discuss African perspectives on sovereign debt restructuring. The proceedings, opened by the vice president of Uganda, took place in Kampala, and featured several distinguished participants — including current and former finance ministers and central bank governors, academics and practitioners, and civil society representatives — from Uganda, Liberia,

1 For the full conference agenda see the appendix. We are grateful to the many people who helped make the conference happen. In particular, we would like to acknowledge Suzanne Cherry, who took the lead for CIGI in organizing the conference and whose hard work and dedication were instrumental to making it a success.

Cameroon, Ghana, Nigeria, Zambia and Zimbabwe. Participants also came from civil society organizations and intergovernmental institutions representing broader groups of African countries or the continent as a whole.[2] Conference participants prepared papers and presentations on various topics related to sovereign debt governance, including Africa's past experience with sovereign debt restructuring, its stake in sovereign debt governance going forward and the desirability of reforming the international sovereign debt architecture. The aim of this paper is to distill the main insights from these timely and important contributions. Africa's extensive experience with sovereign debt restructuring, as well as the changing nature of its international debt relations, make the perspectives contained in this paper valuable contributions to the ongoing debate over how best to govern sovereign debt at the international level. The paper also sheds light on the interests and concerns of African leaders regarding sovereign debt — an issue that is particularly critical to Africa's development prospects.

The next section of the paper will provide a brief history of sovereign debt restructuring in Africa, with a particular focus on Paris Club restructurings and the debt relief offered under the HIPC Initiative and MDRI. Sections three and four will examine the changing supply and demand sides, respectively, of sovereign debt in Africa. Here, the focus is on African countries' high demand for external borrowing and their growing tendency to turn toward international capital markets and new bilateral creditors to meet that demand. The opportunities and risks associated with the shift toward new sources of credit are also briefly considered. The fifth section explores African perspectives on why and how the international sovereign debt architecture should be reformed, and the final section offers concluding remarks.

A BRIEF HISTORY OF SOVEREIGN DEBT RESTRUCTURING IN AFRICA

African countries have ample experience accumulating and restructuring sovereign debt for many reasons. First, the vast development needs of Sub-Saharan Africa (SSA) necessitate heavy borrowing from external sources; domestic resources are simply insufficient to meet those needs. On the supply side, various global economic and political developments drive lending to the region, sometimes under difficult or dubious conditions.[3] At the same time, weak institutional frameworks for managing public finances, maintaining accountability and reining in corruption at the domestic level have led to the gross mismanagement of sovereign debt by many African governments. In Uganda, for example, between 1986 and 2006, "virtually every ministry and government agency could borrow on behalf of the country" — a situation not unlike many other countries in the region, which either have or have had very anemic legal and regulatory systems to govern external borrowing (Bategeka, Kiiza and Suruma 2014, 7).

For a combination of these reasons, African countries built up very large, and ultimately unsustainable, sovereign debt positions between the mid-1970s and late 1990s (Nafziger 1993; Elbadawi, Ndulu and Ndung'u 1997). For SSA countries, the average stock of external public debt to GDP rose from less than 50 percent in the 1970s to more than 250 percent in the 1990s (Boote and Thugge 1997). According to IMF estimates, the overall debt of HIPCs tripled from $60 billion in 1980 to $190 billion in 1995 (Abrego and Ross 2001).[4] At the same time, HIPCs experienced a significant deterioration in export performance, as their share of world trade declined from 2.2 percent in 1970 to 0.7 percent in 1997 (ibid.). For several African countries, the revenue stream from which they drew on to service their rapidly accumulating external public debts all but dried up.

When their public debt burdens became unbearable, these countries sought relief through sovereign debt restructuring. Most of the outstanding debt was owed to multilateral institutions — namely, the IMF, World Bank and AfDB — and bilateral lenders that belonged to the Paris Club. As such, debt restructuring took place predominately through these multilateral and bilateral channels. African governments also restructured debts owed to private foreign creditors through debt swaps and buybacks, and through the so-called London Club — an informal group of commercial banks. The proportion of this privately held debt, however, was usually smaller than that owed to multilateral and bilateral official creditors.

Debt rescheduling through the Paris Club and, to a lesser extent, the London Club was the most common form of debt relief given to African countries during the

2 Examples include the Macroeconomic and Financial Management Institute of Eastern and Southern Africa — a regional institute with 13 member countries — and the African Forum and Network on Debt and Development (AFRODAD) — an Africa-wide civil society organization.

3 Since their independence, many African countries have received loans for outright political or security-related reasons rather than for simple financial return. Even some of those seeking financial return have lent to the region in a reckless and predatory way. In both cases, lenders have not made a careful or honest assessment of the borrower's ability to repay and, thus, bear some responsibility for the borrower's indebtedness and eventual inability to service debt. Loans have also been made conditional on economic reforms, some of which have been misguided and have not improved the recipient's economic situation and ability to repay debt.

4 All figures in the paper are in US dollars.

1970s and 1980s. For the most part, however, it failed to comprehensively address the underlying debt situation in many low-income countries. It was not until the IMF and World Bank launched the HIPC Initiative in 1996, supplemented by the MDRI in 2006, that SSA countries were granted sufficiently deep debt relief to restore the sustainability of their sovereign debt positions.

THE PARIS CLUB

Traditionally, the Paris Club has been an important venue for African countries to restructure sovereign debt owed to bilateral official creditors. A number of SSA countries — Liberia, Uganda, Tanzania, Côte d'Ivoire, Mozambique, Zambia, Cameroon, Senegal and others — have restructured debts with the Paris Club more than once (Paris Club 2014). Uganda, for example, received its first Paris Club treatment in 1981, and negotiated multiple rounds of debt relief — including both rescheduling and write-offs — in the decade and a half after that (Bategeka, Kiiza and Suruma 2014).

Until 1988, Paris Club restructurings largely took the form of cash flow relief through debt rescheduling (Paris Club 2014). From that point onward, however, it became increasingly clear that the mounting debt burdens of low-income countries reflected underlying solvency problems that, to resolve, required not just a rescheduling of debt payments, but rather a significant reduction in the debt stock itself. In October 1988, the Paris Club began offering relief through actual debt reduction, starting with the Toronto Terms, which allowed for a 33 percent reduction in the total amount of public debt a given country owed the club (Otieno 2014). The level of debt reduction — including on commercial claims purchased by Paris Club members — was gradually increased from the Toronto Terms in 1988 to the London Terms in 1991 (50 percent reduction), Naples Terms in 1995 (50 to 67 percent reduction), Lyon Terms in 1996 (80 percent reduction) and Cologne Terms in 1999 (90 percent reduction) (Abrego and Ross 2001; Paris Club 2014).[5] Between 1989 and 2006, the Paris Club met with Cameroon seven times and rescheduled or cancelled over $12 billion of its sovereign debt (Paris Club 2014; Thierry 2014). Several other African countries have benefitted from multiple trips to the Paris Club.

Paris Club treatments are conditional on a country's participation in an appropriate IMF program (IMF 2014a). The program is intended, first, to demonstrate the country's inability to meet its external debt obligations and thus the need for a new payment arrangement with its creditors and, second, to introduce policy reforms that restore sound macroeconomic fundamentals, thus lowering the probability of future financial difficulties and debt defaults (Mutazu 2014). The Paris Club has therefore had to work closely with the IMF and World Bank, especially during the HIPC Initiative.

THE MULTILATERALS AND THE HIPC INITIATIVE AND MDRI

During the 1990s, there was increasing recognition among governments, international organizations and NGOs around the world that, despite previous bilateral debt relief efforts, the external debts of many low-income countries were too high to service and were impeding their ability to pursue meaningful economic development and poverty reduction (Kiawu et al. 2014). In 1996, against this backdrop, the IMF and World Bank — themselves the largest creditors of most low-income countries — launched the HIPC Initiative "with the aim of ensuring that no poor country faces a debt burden it cannot manage" (IMF 2014b).

To qualify for debt relief under the HIPC Initiative, countries were required to undertake economic and structural reforms and prepare a Poverty Reduction Strategy Paper (PRSP) outlining planned poverty alleviation programs, which were to be funded by the money that would have otherwise been used to service debt (IMF 2014b; Bategeka, Kiiza and Suruma 2014). Under this first phase of the HIPC process — called the "decision point" — the IMF and World Bank provided interim debt relief. Once a country had demonstrated a track record of good performance, implemented the agreed upon reforms and had its PRSP in place for at least a year, the IMF and World Bank provided more substantial relief in the form of debt writeoffs (Kiawu et al. 2014). This second and final phase of the process is referred to as the "completion point."

While the HIPC Initiative was a strong step in the right direction, by the mid-2000s it had become clear that low-income countries required greater levels of debt relief. In June 2005, the Group of Eight proposed the MDRI, under which three multilateral institutions — the IMF, the International Development Association of the World Bank and the African Development Fund — would agree to cancel 100 percent of their debt claims on countries that successfully passed through the full HIPC Initiative process. Launched in 2006, the MDRI was intended to help low-income countries advance toward the United Nations' Millennium Development Goals (IMF 2014c).

5 The Cologne Terms specified a 90 percent debt reduction, or more if needed under the HIPC Initiative.

Table 1: Debt Indicators of the 36 Post-Decision Point HIPCs

	1999	2011
PV of debt-to-exports	457%	80%
PV of debt-to-GDP	114%	19%
Debt service-to-exports	18%	3%
PV of debt-to-revenue	552%	110%
Debt service-to-revenue	22%	5%

Source: World Bank 2012.
Note: Data are simple averages.

To date, debt relief packages under the HIPC Initiative and MDRI have been approved for 36 countries, 30 of them in Africa, providing around $115 billion in debt relief since 1996 (IMF 2013a). Despite the humiliating, if not harmful, stigma attached to being labelled an HIPC, these initiatives were broadly beneficial to the countries that received debt relief. As the IMF (2013a, 1) reports, "Debt relief under the Initiatives has substantially alleviated debt burdens in recipient countries and has enabled them to increase their poverty-reducing expenditures by almost three and a half percentage points of GDP between 2001 and 2012." In a comprehensive cost-benefit analysis of the initiatives, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) (2010, 52) concludes that "the benefits of [this] debt relief far outweigh the costs." Among these benefits are irrevocable debt relief, reduced debt service payments, increased expenditure toward poverty reduction, improved standards of living, rejuvenation of economic activity, a more stable macroeconomic environment, and an improved investment climate (MEFMI 2010). As many conference participants with first-hand experience stressed, however, the HIPC Initiative and MDRI were one-off initiatives that will not be available for future use.

POST-HIPC DEVELOPMENTS

The HIPC Initiative and MDRI sharply reduced the external debt burdens of beneficiary countries. Table 1 shows the dramatic improvement in the debt indicators of the 36 post "decision point" countries between 1999 and 2011. As a result of these initiatives, the average present value (PV) of debt-to-GDP, for example, declined from 114 percent in 1999 to 19 percent in 2011 (World Bank 2012). After the MDRI, the total public debt stock of 36 post-HIPC countries stood at just $12 billion, compared to $117 billion prior to HIPC Initiative and MDRI debt relief (ibid.).[6]

The post-HIPC era has been characterized by robust economic growth and strong investment rates (Bayraktar and Fofack 2011; Kasekende, Brixova and Ndikumana 2010). Economic growth rates across post-HIPC countries have averaged five percent over the past decade (Bayraktar and Fofack 2011). Despite the worldwide economic slowdown brought on by the 2008 global financial crisis, most of these countries have managed to maintain positive growth rates (IMF 2009).

Importantly, the sharp decline in public debt created much greater fiscal space for SSA governments, which allowed them to increase social expenditures and capital investments. But greater fiscal space, coupled with strong growth, also opened up room for "a new round of aggressive borrowing" (Otieno 2014, 2). As a result, public debt levels across the region are again rapidly rising and, in some countries, have surpassed their pre-HIPC highpoints (ibid. 2014).[7] The IMF reports that sovereign debt levels in Africa are set to hit a 10-year high in 2014 (Blas 2014).

In the majority of post-HIPC African countries, external public debt is growing both in nominal terms and as a percentage of GDP (Otieno 2014). Despite positive growth rates, debt dynamics in several post-HIPC African countries raise concerns about short- to medium-term debt sustainability in the region. In 2013, the IMF reviewed the debt sustainability of 76 low-income countries and concluded that a number of them face moderate to high risk of renewed debt distress (IMF 2013b). In fact, around half of the countries that benefitted from debt relief under the HIPC initiative/MDRI process were deemed to be at high risk for, or already in, debt distress (ibid.). Unsurprisingly, conference participants expressed unanimous concern over the recent and sharp rise in government debt throughout the continent, the prospect of another widespread sovereign debt crisis in Africa and the lack of a satisfactory international framework to help restructure unsustainable debt and resolve sovereign debt crises.

6 These figures are measured in end-2011 PV terms.

7 Raphael Otieno is director of the Debt Management Programme at MEFMI. MEFMI has access to the financial data of its 13 member countries: Angola, Botswana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

THE DEMAND SIDE OF SOVEREIGN BORROWING IN AFRICA

African countries' demand for external credit is driven overwhelmingly by their vast, and ever-changing, development needs. Since domestic resources are far too paltry to meet these needs, development must be financed primarily through external debt. However, while demand for external credit remains strong, the traditional sources of supply are proving insufficient or difficult to access. Concessional lending from the IMF and World Bank, confirmed conference participants, is simply not voluminous enough to fund many of the big infrastructure projects that are needed. Concessional loans are also sometimes difficult to access because they are in such high demand amongst eligible borrowers. As one Liberian debt expert noted, countries that remain under the purview of an IMF program are also subject to strict borrowing limits, making it very hard for them to finance expensive, but desperately needed, development projects (Kiawu et al. 2014).

African countries also face new challenges in borrowing from their traditional bilateral official creditors. Take the case of Uganda. During the late 1990s and early to mid-2000s, Uganda's development priorities were guided by its Poverty Eradication Action Plan (PEAP), which fit nicely with the rules that govern the Organisation for Economic Co-operation and Development's (OECD's) lending. Uganda was thus a darling in the eyes of its main development partners, all of whom were OECD members. In 2008, however, Uganda replaced the PEAP with a new National Development Plan (NDP), which was revised in 2013. While previous goals such as social spending remain important, the NDP focuses more on employment-generating growth, major aspects of which — such as infrastructure development — fall outside of the funding guidelines of the OECD. Hence, Uganda's access to finance from its traditional bilateral creditors has been largely cut off (Bategeka, Kiiza and Suruma 2014).

Following Uganda's discovery of oil deposits, for example, hardly any of Uganda's traditional development partners showed willingness to fund the oil sector. Yet, according to current and former Ugandan officials who participated in the conference, the country is seeking to use its oil revenues to drive its economic development going forward (ibid.).

Although Uganda's development strategy has been altered in response to changing conditions, its demand for external funding remains as strong as ever. Unfortunately, the country's traditional multilateral and bilateral official creditors have, so far, failed to respond to its vast and changing development needs. Conference participants confirmed that a similar, sometimes more desperate, story applies to many other SSA countries. This failure is not without broad consequences though. To paraphrase one conference participant: if the multilateral institutions and their Western shareholders are unwilling or unable to respond to the changing needs of Africa, then Africa will turn to new international lenders — public and private — who are proving better able to meet the broad development needs of the continent. And that is exactly what many African countries are doing.

THE (CHANGING) SUPPLY SIDE OF SOVEREIGN DEBT IN AFRICA

As mentioned above, Africa's traditional external creditors have in many ways not been able to provide the scale or type of financing that the continent desperately requires. In other words, the supply of credit has been too small or inflexible to meet demand. To fill this widening gap in the development marketplace, African countries are increasingly turning to new, non-Paris Club creditor countries — namely, China and other emerging powers — as well as international capital markets for their vast borrowing needs. While the changing composition of Africa's debt structure presents new development opportunities, it also poses risks and challenges vis-à-vis debt sustainability and the governance of future sovereign debt crises.

THE NEW BILATERAL OFFICIAL CREDITORS

In the span of less than a decade, China has become the single most important creditor country in Africa. China is now the largest bilateral official creditor of many countries that it scarcely lent to just 10 years ago. For example, between 2005 and 2013, China's proportion of total outstanding sovereign debt holdings went from one percent to eight percent in Kenya, from zero percent to eight percent in Uganda, from one percent to 10 percent in Zimbabwe, and from zero percent to 17 percent in Malawi (MEFMI 2014). The dramatic relative increase in China's lending activities has in turn been accompanied by a relative decline in the importance of Paris Club creditors. Paris Club lending accounted for 10 percent of Malawi's total sovereign debt profile in 2005, but by 2013 had fallen to a mere one percent. In Uganda, Paris Club lending represented seven percent of outstanding debt in 2005 but only two percent in 2013, and in Zambia the change has been even starker: 15 percent in 2005 compared to three percent in 2013 (ibid.). In Uganda, in place of the OECD/Paris Club countries, China has stepped in to finance — and help construct — several large infrastructure projects, such as the construction of hydroelectric dams, paved roadways, railway systems and more (Bategeka, Kiiza and Suruma 2014).

While conference participants noted the opportunities associated with China's unmatched capacity to finance large-scale infrastructure projects, as well as the advantages of diversifying their sovereign debt portfolios, they were also cognizant of the risks of such new borrowing. These risks include new forms of dependency and external political influence, the potential exploitation of domestic natural resources by outside actors, and the familiar dangers of over-borrowing. Beyond these opportunities and risks, the changing composition of Africa's creditors also presents new challenges to the effective governance of future sovereign debt restructurings.

IMPLICATIONS FOR SOVEREIGN DEBT RESTRUCTURING

For many years, the Paris Club was the premier forum through which African countries restructured their sovereign debt. But as the composition of Africa's official bilateral creditors increasingly shifts from Western governments to new, non-Paris Club countries, the relevance of this forum fades — as does the relevance of the broader debt-restructuring regime of which it is a part. This raises important questions about the mechanisms that will be used to resolve future defaults and debt restructurings on the continent. Can the governance gap left by the Paris Club's retreat be filled with a new arrangement or mechanism to facilitate sovereign debt restructurings? If not, what are the implications? If so, what might such an arrangement look like?

The Paris Club's relevance can be restored, of course, if the new bilateral creditors are allowed and decide to join. In October 2013, Paris Club officials met with representatives from emerging creditor countries in an effort to begin to harmonize approaches to lending and restructuring. In addition to the 19 Paris Club members, the meeting included China, India, Mexico, Turkey and Arab Gulf countries (Weiss 2013). This suggests that the club's membership could be widened, or that its rules and principles could serve as a useful template for resolving future sovereign debt crises.

The prospect of considerable dissonance between the Paris Club and emerging market creditors should not be ruled out, however. Clearly, emerging powers have at least some desire to build their own international institutions to supplement or compete with existing ones. This has been demonstrated by the recent establishment of the New Development Bank, operated by the BRICS (Brazil, Russia, India, China and South Africa) countries. In fact, BRICS countries may choose to use their new development bank as an institutional venue for restructuring the debts of their borrowers should they become unsustainable.

Even if the Paris Club is reformed or replaced by a more relevant mechanism, there remains good reason to worry about the prospect of uncoordinated, protracted and ultimately costly sovereign debt restructurings on the African continent. The lack of a contemporary framework for restructuring debt owed to the multilaterals is one worry; another is the absence of adequate rules and procedures for restructuring privately held sovereign bonds — an increasingly compelling reason in light of current trends.

INTERNATIONAL CAPITAL MARKETS

Along with new bilateral creditors, African countries are increasingly turning to international capital markets to fill their demand for borrowing. Since 2006, several SSA countries — including Seychelles, Ghana, Gabon, Namibia, Zambia, Senegal, Côte d'Ivoire, Nigeria, Kenya, Rwanda, Zambia and the Republic of Congo — have issued Eurobonds on international markets. Several others are looking to raise money in the same way. In 2013, African countries raised over $8.1 billion from bond issuances, dwarfing the $1.2 billion they raised from such issuances a decade ago (Blas 2013). In June 2014, Kenya successfully raised $1.5 billion on markets, and in July Côte d'Ivoire raised $750 million. Ghana has voiced its intention to issue a $1.5 billion Eurobond later this year, and Zambia recently raised $1 billion through the sale of 10-year dollar-denominated bonds to finance its swelling budget deficit (Mutazu 2014; World Bank 2014).

Considering how quickly it has occurred, this shift toward market financing is remarkable. In 2005, none of the countries mentioned above had issued any international bonds. By 2013, such bonds made up 21 percent of Zambia's, 27 percent of Rwanda's and 56 percent of Namibia's total sovereign debt (MEFMI 2014).

Conference participants elaborated on some of the reasons behind the recent surge of sovereign bond issuances by African countries. Among other things, they attributed this surge to the increase in fiscal space created by the HIPC Initiative and MDRI; large borrowing needs to finance development; changes in the institutional environment, giving low-income countries more flexibility in their borrowing; the lowering of international borrowing costs as a result of unconventional monetary policies in advanced economies, as well as steady growth rates in Africa; and the fact that private loans do not come with strings attached and governments therefore have more control over where they channel borrowed money (Sy 2013). One participant even noted that issuing international bonds has become more than simply a financial issue for African finance ministers; it has become a rite of passage, a ticket into an elite club for them and their countries.

As conference participants noted, there are many upsides to borrowing from private markets. First and foremost, private loans — unlike those from the IMF and World Bank — are not made conditional on the fulfillment of painful, and sometimes misguided, policy adjustments. They do, however, still encourage sound macroeconomic policies and debt management practices, which positively influence market perceptions of a country's creditworthiness and, in doing so, increase its access to affordable international credit. Borrowing from international markets can also improve government transparency and fiscal management due to the enhanced scrutiny and information standards of foreign investors. Furthermore, issuing sovereign bonds can help African countries better integrate into global markets; for example, they serve as a benchmark for pricing corporate bonds in international markets. Private borrowing also allows African countries to diversify their investor base (Osafo-Maafo 2014).

With such rewards, however, come considerable risks. Conference participants emphasized the need for African governments to proceed with caution and discipline in their embrace of market financing. While private loans do not come with strings attached, they do come with much higher and more volatile interest rates, especially at a time when the US Federal Reserve's "tapering" activities are driving large capital outflows from developing and emerging economies.

Indeed, one of the biggest external risks to Africa in 2014 stems from the Fed's tapering program (Osafo-Maafo 2014). Since the Fed announced its intention to scale back its asset purchases in May 2013, several developing and emerging economies have witnessed considerable capital flight and, with it, downward pressure on their domestic currencies and upward movement on their international borrowing costs. According to a study by Deutsche Bank, South Africa experienced net capital outflows of $632 million in June 2013, causing its currency to depreciate by almost 18 percent against the US dollar (Masetti and Mihr 2013). The study also reports that yields on Eurobonds issued by SSA countries have increased by more than 100 basis points since the introduction of the tapering program. The interest rate on Ghana's 10-year bond has jumped from 7.5 percent to just under 10 percent. Nigeria has been forced to accept a rate of 6.6 percent for its Eurobond issuance in July 2014 — nearly twice the 3.6 percent yield for its bond issuance in early 2013 before tapering began. Zambia's recent $1 billion bond issuance was priced at 8.6 percent, compared to 5.3 percent on its inaugural bond issuance in 2012 (World Bank 2014). In light of these trends and the prospect of further Fed tapering in the near future, conference participants worried about Africa's growing exposure to adverse global financial developments.

Given the spiking levels and servicing costs of sovereign debt in Africa, conference participants expressed unanimous concern over the prospect of a new round of sovereign defaults and debt restructurings. Several SSA countries have already recently experienced sovereign debt difficulties. In 2008, Seychelles defaulted on a $230 million Eurobond; in 2011, following election disputes, Côte d'Ivoire missed a $29 million interest payment on a bond issued in 2010 (Sy 2013). Ghana's current debt difficulties are forcing it to put on hold its plan to issue a $1.5 billion Eurobond in 2014, and Gabon is struggling to find money for a 10-year $1 billion Eurobond. Importantly, defaults on private debt carry much harsher penalties than do defaults on the concessional public debt held by the IMF and World Bank.

Borrowing from capital markets also comes with the risk of costly litigation and a loss of access to affordable international credit in the event of a default and/or restructuring. As mentioned, debt distress is not a distant prospect, as many African countries now find their external debt on par with or above pre-HIPC levels (Otieno 2014). Ghana, a post-HIPC success story until recently, is now reportedly seeking assistance from the IMF.

If the need arises, then, through what mechanism could African countries restructure their growing private debts? During the 1970s and 1980s, when bank loans were the predominant form of private lending to sovereigns, the London Club provided a venue for relatively coordinated restructurings. In the contemporary era of bond finance, however, the London Club is of waning relevance. Even if the club were of greater significance, it was never a comprehensive solution to the many problems that plague sovereign debt restructurings. Any future restructuring of Africa's privately held bonds will thus, in the absence of reform, be subject to the familiar problems[8] — legal disputes, coordination challenges, recalcitrant creditors — that tend to delay and escalate the cost of debt workouts and, in doing so, postpone a country's return to economic health.

GOVERNING SOVEREIGN DEBT IN AFRICA: CLEAR PROBLEMS, CLOUDY SOLUTIONS

Maintaining sovereign debt sustainability remains a critical challenge for post-HIPC countries, especially in light of their vast development needs. To meet these needs, African countries are entering uncharted territories as they increasingly turn toward new bilateral lenders and international financial markets, both of which offer credit on harder terms, and both of which present new political and economic risks and opportunities. As one participant noted: "The new frontiers of borrowing have a completely different risk profile compared to the concessional loans that most low income countries held up to the 2000s" (Otieno 2014, 2). Others noted that while the diversification of borrowing has many positive features, the greater availability of credit from a greater variety of sources has also led to higher levels of borrowing, with the distinct downside risk of future defaults and debt restructurings. A greater number and variety of creditors can also further complicate restructuring processes by introducing more opportunities for collective action problems and conflicts of interest (ibid.).

8 For an overview of these problems and the proposed solutions, see Brooks and Lombardi (2014).

Despite the risk of future sovereign debt difficulties in Africa, there is a dearth of suitable mechanisms for dealing with defaults and restructurings in an orderly, timely and fair manner. As participants reiterated many times over, the HIPC Initiative and MDRI were deliberately designed as one-off exercises and will, therefore, not be available to help resolve future cases of sovereign debt distress, which seem increasingly probable, on the African continent (Magande 2014). Moreover, as the composition of Africa's debt structure shifts toward new public and private lenders, the Paris Club becomes an increasingly impotent mechanism for restructuring African countries' sovereign debt. There are also few well-defined procedures for negotiating the restructuring of sovereign bonds. "Despite long-standing experiences with sovereign insolvencies," commented one participant, "no mechanism presently exists to deal with the complex debt structures of many countries in a comprehensive way" (Otieno 2014, 3). The prospect of severe debt difficulties, coupled with the lack of a clear method of resolving them, thus "underscore[s] the need for a new global framework for debt restructuring" (ibid.).

Most participants therefore agreed that a revised approach to sovereign debt restructuring is needed at the international level. Several participants commented on the advantages of a statutory approach to sovereign debt restructuring, such as the IMF's 2001 proposal for a sovereign debt restructuring mechanism (SDRM) (Krueger 2002). One noted that a statutory approach is preferable because it would be capable of binding creditors that hold different debt instruments to a common solution — something collective action clauses (CACs) have thus far failed to do (Acquah 2014). Another remarked that fears that an SDRM-like arrangement would encourage debtor moral hazard are overblown, because sovereign debtors do not take the issue of default lightly (Tumusiime-Mutebile 2014). Even if an effective restructuring mechanism did exist, defaults and debt restructurings would continue to carry very high costs for sovereign borrowers — including reputational damage and increased borrowing costs — and would thus be avoided to the greatest extent possible.

Despite the theoretical strengths of a statutory arrangement, participants conceded that political support for such an approach remains limited. The so-called contractual approach, by contrast, was seen as more practical, since it enjoys greater support and does not require political agreement at the international level. At the same time, noted one participant, CACs and other contractual innovations should not be seen as a substitute for a more comprehensive multilateral approach to debt restructuring (ibid.).

Alternatively, between these two poles, a number of participants advocated a hybrid approach that could blend together key elements of both contractual and statutory proposals (Acquah 2014; Otieno 2014). Some elucidated general principles that should guide any new arrangement (ibid.). One participant, for example, argued that "Africa needs to think of a hybrid mechanism that is guided by key principles of objectivity, impartiality, inclusivity, comprehensiveness and conclusiveness" (Otieno 2014, 14). Others, however, provided more concrete proposals, such as the creation of a fair, independent and transparent international sovereign debt arbitration process to settle the disputes that invariably arise during restructurings (Mutazu 2014). Unlike the proposed SDRM, this arbitration process would take place within a non-creditor institution, such as the United Nations. While participants agreed that this would neutralize the conflict of interest that arises when creditor institutions such as the IMF and World Bank adjudicate creditor-debtor disputes to which they are a party, some questioned the economic and legal efficacy of such a mechanism, fearing that it would encourage moral hazard and bring with it new forms of costly litigation (Otieno 2014).

In light of the observation that sovereign debt restructurings are often "too little, too late," some spoke of the need for a proactive approach to assessing debt sustainability and the benefits of conducting pre-emptive, early restructurings when necessary (Osafo-Maafo 2014; Thierry 2014). Another participant opined that a debt ceiling should be put in place for debtor countries, especially in SSA, to ensure discipline in their borrowing (Osafo-Maafo 2014).

Participants also voiced their concern regarding holdout creditors — creditors that refuse to participate in otherwise widely accepted debt-restructuring deals (Acquah 2014; Kiwanuka 2014). Pejoratively referred to as "vulture funds," these creditors use litigation to block restructuring agreements, making the default and recovery process more protracted and costly for the debtor as well as other creditors. As the African Development Bank (2014) aptly describes, "The vulture fund modus operandi is simple: purchase distressed debt at deep discounts, refuse to participate in restructuring, and pursue full value of the debt often at face value plus interest, arrears and penalties through litigation." Individual lawsuits often take between three and 10 years to "settle," with vulture funds averaging recovery rates of about three to 20 times their investment (equivalent to returns of 300 to 2000 percent) (ibid.).

According to the African Legal Support Facility, prior to "decision point," a number of HIPC countries repaid holdouts in full because of either a fear of costly litigation, a desire to avoid disrupting commercial relationships or a fear of losing productive assets in cases where commercial debt was collateralized (AfDB 2014). At least 20 HIPCs have been threatened with or subjected to legal action by holdout creditors since 1999 (AfDB 2014). Having bought $3 billion worth of bad Zambian debt, one vulture fund sued the country for $55 million and was awarded $15.5 million (ibid.). To defang these predatory vulture funds, some participants advocated the setting up of special and permanent courts to settle disputes, while others recommended the pursuit of international agreements on a stronger and more uniform contractual approach. Others still returned to the idea of a statutory, treaty-based approach to sovereign debt restructuring, which could effectively neutralize the threat of vulture funds.

On the role of the IMF, participants noted that at the very least there should be a well-functioning framework to guide the IMF's role in sovereign debt crisis management. Such a framework should specify the conditions under which funds will be disbursed before any program, including debt restructuring, is put together. Going further, one participant suggested that the IMF should establish an emergency fund for SSA countries, which would provide bridge financing over a specified time period to help them get through short-term liquidity crunches. While the IMF's new proposal (IMF 2014) for debt reprofiling was not widely mentioned, it was noted that introducing "sovereign contingent convertible" (coco) bonds — bonds that would trigger a reprofiling in the event of a crisis — could be a good idea (Tumusiime-Mutebile 2014).

CONCLUDING REMARKS

Africa's debt structure is in the midst of transformative change. But even as the continent shifts toward international markets and new bilateral creditors, the threat of a new round of debt crises in Africa remains present and, in some ways, more pronounced. The international community stands to learn not only from Africa's extensive experience with debt restructuring, but also from its current transition. Perhaps the most powerful lesson offered by African policy makers and debt experts is a somewhat familiar, but no less disconcerting one: the current regime lacks the mechanisms to fairly and efficiently restructure sovereign debt, whether it is owed to multilateral, bilateral or private sector lenders. While Africa is not the only region at risk, it is perhaps the most vulnerable.

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APPENDIX: CONFERENCE AGENDA

All sessions will take place at the Lake Victoria Serena Resort.

WEDNESDAY, AUGUST 6, 2014

Swimming Pool Deck

19:00–21:00 **Welcome Reception**

THURSDAY, AUGUST 7, 2014

Kalangala Hall A – 1st Floor

8:30–9:00 **Registration (just outside Kalangala Hall, opposite the Business Centre)**

9:00–9:30 **Opening and Welcoming Remarks**

Speakers:

- **Tumwebaze Patrick,** *Executive Director, Uganda Debt Network*
- **Domenico Lombardi**, *Director, Global Economy Program, Centre for International Governance Innovation*
- **Ezra Suruma,** *Senior Presidential Advisor, Uganda; Chair of the Board, Uganda Debt Network*

9:30–10:30 **Keynote Address:**

- **His Excellency Edward Ssekandi,** *Vice President of the Republic of Uganda*

10:30–11:00 **Tea and Coffee Break**

11:00–13:00 **Session I: Is the International Debt Architecture in Need of Fundamental Reform?**

Introductory Presentation

- **Domenico Lombardi**, *Director, Global Economy Program, Centre for International Governance Innovation*
- **Skylar Brooks,** *Research Associate, Global Economy Program, Centre for International Governance Innovation*

Panel Discussion

- Chair: **Ezra Suruma,** *Senior Presidential Advisor, Uganda; Chair of the Board, Uganda Debt Network*

Presenters:

- **Abubarkar M. S. Kiawu,** *Deputy Director Debt Management, Ministry of Finance, Liberia*
- **Siewe Guillaume Thierry,** *Assistant Director of Debt Operations, Caisse Autonome d'Amortissement du Cameroun*

Respondents:

- **Keith Muhakanizi,** *Permanent Secretary, Ministry of Finance, Planning and Economic Development, Uganda*
- **Lawrence Bategeka,** *Senior Independent Development Consultant, Economic and Financial Management Consultancy, Uganda*

13:00–14:00 **Lunch (Citadel Restaurant)**

14:00–15:30 **Session II: Sovereign Debt Restructuring: African Perspectives on the Debate**

- **Chair: Domenico Lombardi,** *Director, Global Economy Program, Centre for International Governance Innovation*

Presenters:

- **Raphael Otieno,** *Director, Debt Management Programme, Macroeconomic and Financial Management Institute of Eastern and Southern Africa, Zimbabwe*
- **Paul A. Acquah,** *Former Governor, Bank of Ghana*

Respondents:

- **Hon. Maria Kiwanuka,** *Minister of Finance, Planning and Economic Development, Uganda*
- **Emmanuel Tumusiime-Mutebile**, *Governor, Bank of Uganda*

15:30–16:00 **Tea and Coffee Break**

16:00–17:30 **Session III: Equity and the Ethics of Sovereign Debt and Sovereign Debt Restructuring**

- **Chair: Hon. Mayanja Nkangi,** *former Minister of Finance and Economic Planning, Uganda; Advocate*

Presenters:

- **Tirivangani Mutazu,** *Senior Policy Officer, African Forum and Network on Debt and Development, Zimbabwe*
- **James S. Roberts,** *Executive Director, Global Campaign Against Poverty and Hunger in Liberia*
- **Tumwebaze Patrick,** *Executive Director, Uganda Debt Network*

Respondents:

- **Isaac Ngoma,** *President, Economics Association of Zambia*
- **Mukunda Julius,** *Coordinator, Civil Society Budget Advocacy Group, Uganda*
- **Sarah Ssewanyana,** *Executive Director, Economic Policy Research Centre, Uganda*

18:30 **Dinner (Citadel Restaurant)**

FRIDAY, AUGUST 8, 2014

Kalangala Hall A – 1st Floor

9:00–10:30 **Session IV: Governing Sovereign Debt: What's at Stake for Africa?**

- **Chair: Augustus Nuwagaba,** *Department of Social Work and Social Administration, Makerere University, Uganda*

Presenters:

- **Ezra Suruma,** *former Minister of Finance, Planning and Economic Development, Uganda*; with **Lawrence Kiiza,** D*irector of Economic Affairs, Ministry of Finance, Planning and Economic Development, Uganda*
- **Yaw Osafo-Maafo,** *former Minister for Finance and Economic Planning, Ghana*

Respondent:

- **Ng'andu Peter Magande,** *former Minister of Finance and National Planning, Zambia*

10:30–11:00 **Tea and Coffee Break**

11:00–13:00 **Session V: Summary and Conclusions**

- **Chair: Ng'andu Peter Magande,** *former Minister of Finance and National Planning, Zambia*
- Panellists selected from previous four sessions will give a brief summary of their perspectives, followed by plenary discussion.

Closing Remarks

- **Domenico Lombardi,** *Director, Global Economy Program, Centre for International Governance Innovation*
- **Ezra Suruma,** *Senior Presidential Advisor, Uganda; Chair of the Board, Uganda Debt Network*

13:00–14:00 **Lunch (Citadel Restaurant) followed by departure**

SESSION TOPICS

Session I: Is the International Debt Architecture in Need of Fundamental Reform?

This session will focus on the pros and cons of reforming the current approach to sovereign debt restructuring. Many commentators argue that sovereign debt restructurings are too costly and that new mechanisms are needed to facilitate more timely, orderly and fair restructurings. They maintain that the creation of appropriate mechanisms will help to eliminate creditor moral hazard and the efficiency losses associated with debt restructuring. Others, however, argue that sovereign debt restructuring is supposed to be costly, and that any mechanisms to reduce this cost will also make restructurings more frequent and will raise the cost of borrowing for sovereign debtors. What are the advantages and disadvantages of reforming the international debt architecture?

The literature on sovereign defaults and debt restructurings illustrates how a lack of coordination among creditors and a lack of information among/between creditors and debtors can delay necessary restructurings and postpone a country's return to economic health. The literature also highlights how the lack of a credible commitment (during normal times) to restructure unsustainable debt can encourage the type of over-lending and over-borrowing that leads to sovereign debt crises in the first place. Are these problems familiar to the African experience? Are there other problems with sovereign debt and sovereign debt restructuring that are more relevant to the African experience generally or to your country's experience specifically? Do HIPC initiative restructurings differ from restructurings during a sovereign debt crisis? What are the key lessons to draw from your experience with sovereign debt restructuring?

Session II: Sovereign Debt Restructuring: African Perspectives on the Debate

This session will focus on the evolving debate on how best to govern sovereign debt restructuring. Over the last decade, this debate has become increasingly polarized between two alternative approaches to restructuring: the market-based *contractual approach* of CACs; and the treaty-based *statutory approach* of an international bankruptcy regime. How can African perspectives inform this debate? Are CACs the only practical approach? Does a statutory approach — such as the SDRM proposed by the IMF in 2001 — protect debtor interests better than CACs? How would a statutory approach affect borrowing costs for African countries? How does Africa's current position within the global economy and global economic governance institutions, as well as some countries' history with odious debt, shape its preferences for a particular approach to sovereign debt restructuring?

Since the onset of the euro-zone crisis, a number of new proposals for handling sovereign debt restructuring have also been put forward. These proposals — such as the creation of a semi-formal Sovereign Debt Forum or the creation of sovereign coco bonds and GDP-linked bonds — represent innovative hybrid approaches that do not fit cleanly into the statutory-versus-contractual dichotomy. What do delegates think about these new prospective approaches? Do they improve upon CACs? Are they more politically feasible than a statutory sovereign bankruptcy regime? Do these proposals strike an appropriate balance between creditor and debtor interests?

Session III: Equity and the Ethics of Sovereign Debt and Sovereign Debt Restructuring

This session will focus on fairness and the distributional implications of sovereign debt restructuring. Although it is often written and spoken about in technical language, sovereign debt restructuring is in fact a very politically charged issue, wrapped up in personal judgements about equity and the appropriate balance of public-private burden sharing during financial crises. On one hand, many private sector representatives and free-market advocates oppose sovereign debt restructuring because it represents a redistribution of capital from creditors (often private) to debtors (public). On the other hand, private losses that generate financial crises are often socialized and borne by the public sector, representing a large redistribution of pain from private financial actors to the population writ large. Furthermore, when the IMF and bilateral official creditors bail-out countries with sovereign debt problems, domestic populations are often left to bear the brunt of the crisis (for example, through austerity measures), while the country's international private creditors remain unscathed. For many, this is a deeply unfair distribution of the costs and benefits of sovereign debt and sovereign debt crises.

Drawing on African countries' experiences, what are the different distributional concerns that arise from sovereign debt and sovereign debt restructuring? What is the best way to balance these different concerns? Should the interests of some groups (such as creditors, debtors, citizens) be privileged over the interests of others? Are lenders and borrowers equally (or differentially) responsible for the buildup of unsustainable debt? What does that imply for burden sharing in resolution of sovereign debt crises?

Session IV: Governing Sovereign Debt: What's at Stake for Africa?

This session will focus on African countries' interests and concerns regarding the buildup and resolution of sovereign debt in Africa and in the global economy more generally. In Africa, there have been significant new developments in sovereign borrowing; most notably, many African countries are increasingly looking to private international capital markets, rather than other governments, for their financing needs — a development that carries both opportunities and risks. Outside of Africa, there are a number of heavily indebted countries whose debt difficulties could have international ramifications that affect Africa (and other continents). From these observations, several questions arise.

For African countries, what are the main opportunities and challenges of borrowing from international capital markets? Is there a risk that the US Federal Reserve's tapering of its quantitative easing program will put upward pressure on African borrowing costs? What are African countries' main concerns regarding sovereign debt and the prospect of future sovereign debt crises (reduced demand for African exports, a freezing of international capital flows, intergenerational equity, fairness of IMF treatment)? What interest do African countries have in reforming the institutional arrangements (such as London Club, Paris Club, CACs, IMF programs and others) that govern sovereign debt? What are the implications of such reform? What is an appropriate and fair role for the IMF in sovereign debt crises?

ABOUT CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's current research programs focus on three themes: the global economy; global security & politics; and international law.

CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion, and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion. Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario.

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