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COMMENTARY
AUGUST 2014

AFRICAN PERSPECTIVES ON SOVEREIGN DEBT RESTRUCTURING

KEY POINTS

- 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 composition of Africa's official bilateral creditors is increasingly shifting from Western governments to new, non-Paris Club countries such as China. Moreover, African countries are increasingly turning to international capital markets for their vast borrowing needs.
- Looking forward, Africa will face challenges similar to those in emerging and advanced economies — 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.

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On August 7 and 8, 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.[1]

Coming at a critical juncture in sovereign debt governance, the conference aimed to learn from African countries' extensive and evolving experience with sovereign debt management and restructuring. There have been a total of 317 sovereign debt restructurings in Africa since the early 1980s — far more than in any other continent or region (Das, Papaioannou and Trebesch 2012) — yet African perspectives have, so far, not featured prominently in the ongoing sovereign debt debate.

Participants expressed unanimous concern over the recent and sharp rise in government debt throughout the continent, and the lack of a satisfactory international framework to help restructure such debt if it becomes unsustainable. Many countries that struggled with high debt burdens in the late 1990s and early 2000s, benefitted from substantial debt relief under the heavily indebted poor countries (HIPCs) and multilateral debt relief initiatives launched by the International Monetary Fund (IMF) and World Bank in 1996 and 2006, respectively. Despite the humiliating, if not harmful, stigma attached to being a HIPC country, participants noted these initiatives were broadly successful in reducing countries' debt burdens to sustainable levels. As most participants with first-hand experience stressed, however, these were one-off initiatives that would not be available for future use.

The Paris Club — an informal group of high-income creditor countries — is no longer a useful venue for African countries to restructure their debts, as the composition of Africa's official bilateral creditors increasingly shifts from Western governments to new, non-Paris Club countries, namely China — now the largest official bilateral creditor of many African countries. The emergence of China and other new lenders in Africa — and on the broader world stage — underscores the fading relevance not just of the Paris Club, but also of the debt-restructuring regime of which it is a part.

African countries are also increasingly turning to international capital markets for their vast borrowing needs. In recent years, Ghana, Côte d'Ivoire, Nigeria, Rwanda, Kenya and Zambia have all issued Eurobonds, and many of their neighbours are looking to raise money in the same way. Participants emphasized the need for African governments to proceed with caution and discipline in their embrace of market financing. While private loans — unlike those from the IMF or World Bank — 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.

Borrowing from these 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. To the chagrin of many participants, debt distress is not a distant prospect, as many African countries now find their external debt at par with or above pre-HIPC levels. Ghana, a post-HIPC success story until recently, is now reportedly seeking assistance from the IMF.

As the need arises, 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 — an informal group of commercial banks — provided a venue for relatively coordinated restructurings. In the contemporary era of bond finance, however, the London Club is of waning relevance. Any future restructuring of privately held bonds would, thus, be subject to the familiar problems — 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.

Most participants therefore agreed that a revised approach to sovereign debt restructuring is needed at the international level. Some noted that while a statutory solution — such as the IMF's 2001 proposal for a sovereign debt restructuring mechanism — has many advantages, political support for such an approach remains limited. At the same time, they added, the contractual approach of collective action clauses should not be seen as a substitute for a more comprehensive multilateral approach to debt restructuring.

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. Some elucidated general principles that should guide any new arrangement, while others provided more concrete proposals, such as the creation of an international sovereign debt arbitration process to settle the disputes that invariably arise during restructurings. While the IMF's new proposal (IMF 2014) for debt reprofiling was not widely mentioned, it was noted that introducing "sovereign cocos"[2] — bonds that would trigger a reprofiling in the event of a crisis — could be a good idea.

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 the continent remains present and, in some ways, more pronounced. The international community stands to learn not just 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. Africa is not the only region at risk, but perhaps the most vulnerable.

Works Cited

Das, Udaibir S., Michael G. Papaioannou and Christopher Trebesch. 2012. "Sovereign Debt Restructurings 1950-2010: Literature Survey, Data, and Stylized Facts." IMF Working Paper 203.

IMF. 2014. "The Fund's Lending Framework and Sovereign Debt — Preliminary Considerations." IMF Staff Report. June.

Endnotes

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

2. This idea has recently been advanced by Bank of Canada and Bank of England staff members in a joint paper. Martin Brooke, Rhys Mendes, Alex Pienkowski and Eric Santor, 2013, "Sovereign Default and State-Contingent Debt," Bank of Canada joint study with the Bank of England.

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