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Reimagining Debt Rules:

African Positions on the G21 Common Framework

6 Recommendations by Development Reimagined

The Reason for this Policy Brief

On Friday 13th of October 2023, on the sidelines of the World Bank – IMF Annual Meetings in Marrakesh, Development Reimagined and the United Nations Economic Commission for Africa (UNECA) hosted an event titled ***"Reimagining Debt Rules: What is the African Position on the G21 Common Framework?"***

The reason for this event was clear. The current international initiatives for debt relief and restructuring - the G20 (now G21) Common Framework for Debt Treatment and a new Global Sovereign Debt Roundtable, co-chaired by the IMF, World Bank and India - are problematic for many reasons, including the fact that there are either none or very few borrowers at the table when debt negotiations or restructuring talks take place.

These mechanisms are also very slow and provide very limited fiscal breathing space for countries actively engaging in these processes. The initiatives have also involved sporadic treatment of different creditors – with some being protected through IMF arrears policies (e.g., private sector), others not included at all (e.g. multilaterals) and some only included at a later stage (e.g. domestic creditors).

On the African continent, Zambia has been the most recent victim of these initiatives –with a debt restructuring deal that took almost three years to achieve after initial default. There are multiple examples of extremely slow negotiations in previous rounds of debt management. For instance, Somalia is only now – in 2023 – expected to achieve its "completion point" under the Highly Indebted Poor Countries Initiative (HPIC), a scheme created in 1996 and which Somalia joined in 2016.

This is not a surprise. For far too long, critical discussions around debt relief and debt restructuring have taken place without the perspectives and inputs of African countries.

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The event therefore sought to examine and tease out what an African-designed alternative to the G21 Common framework would look like, that other countries might support. The event had 30 people in the room and 27 people online that joined us for the discussion. The following esteemed speakers and panellists joined:

- Dr Hanan Morsy, Deputy Executive Secretary and Chief Economist of the United Nations Economic Commission for Africa.
- Governor Dr. Denny H. Kalyalya, Bank of Zambia.
- Mr Guillaume Chabert, Deputy Director of SPR Department, IMF.
- Professor Tang Xiaoyang, Chair and Professor of the Department of International Relations at Tsinghua University.
- Mr Matthew Martin, Executive Director, Development Finance International.
- Mr Patrick Ndzana Olomo, Acting Head of Economic Policy and Sustainable Development, African Union Commission.
- Ms Hannah Ryder, CEO of Development Reimagined.

From the discussion, six tangible proposals for African-derived, borrower-centric and people-centred principles to underly the reform of the G21 Common Framework emerged.

1. There should be clear guidelines and parameters for debt relief/restructuring.

Challenge: Borrowers have expressed their need for a clear set of rules to avoid confusion and prolonged delays when rules or guidelines are disputed or discussed. For instance, there remains confusion on which creditors are/aren't involved in the G21 Common Framework (see further below), and there are no targets for amounts of debt relief to expect, etc. This dampens incentives for countries to declare debt challenges and is compounded by the fact that if a country tries to proactively restructure their debt before defaulting, the experience has been that they are penalized by Credit Rating Agencies (CRAs) as if they have actually defaulted.

The HIPC experience is instructive. During HIPC, what emerged through borrower coordination (see further) was a clear ask/ expectation from borrowers as to what can be achieved, which was taken to as many creditors as possible inside/outside the Paris Club. For example, after about one year, there was an additional topping up on debt relief, which was estimated to add around USD 13 billion (approximately 15%) to the amount of debt relief that countries got. This delivered results and should be emulated again.

Solution: Borrowers must prioritise coming together to propose a clear set of rules and guidelines for debt relief/restructuring processes.

2. Creditors should share the burden of relief/restructuring, and the benefits of doing so should be articulated.

Challenge: The issues embedded within the Common Framework are reflective of wider and deeper challenges within the international financial system – a system, which was designed during colonial regimes, and was designed to protect creditors. However, this and previous debt crises on the African continent in particular have often occurred not due to borrower behaviour but due to extraordinary events and challenges that borrowers are completely out of control of, such as the COVID19 crisis, or food/fuel inflation due to the Russia/Ukraine war (most recently).

However, putting the main burden on borrowers has real, human costs. Governments are forced to choose between financing infrastructure or health projects or having to adopt austerity measures to cut spending. Ultimately, this can lead to increased levels of poverty and slower progress towards development goals such as Agenda 2063 or the 2030 UN Sustainable Development Goals.

In contrast, for instance, African debt makes up a small overall percentage of global external debt, and often creditors' own lending portfolios. It is therefore significantly easier for creditors to manage any relief efforts than it is borrowers.

During the HPIC process, African countries came together to form an African voice, achieved through coordination amongst Presidents, Ministers and policymakers, who proactively showed creditors why debt relief was needed, and what additional funding would contribute to development. This lobbying was a form of strategic engagement which must be reignited.

Solution: The principle of a fair burden share between borrowers and creditors is essential. To make this case, African borrowers should aim to calculate and publicise the return to debt relief/restructuring to their own citizens as well as to the international community, based on their own scenarios/parameters (see below).

3. Debt relief and restructuring should have a clear, short timeline.

Challenge: Countries that have engaged in the G21 Common Framework have experienced extremely slow progress. For example, Zambia's debt restructuring has taken around three years to reach a Memorandum of Understanding (MoU) on debt restructuring with official creditors. The expectations of the original Common Framework timeline were not met.

Due to the extensive timeline delays, and the lack of clarity on debt relief/restructuring amounts, countries are continuing to face fiscal constraints. Subsequently, this prolongs periods where a country may forgo taking on debt to invest in growth-producing projects which may drive economic growth in the future.

A key challenge within this is that when restructuring is continuously delayed, countries such as Zambia will continue to face development financing challenges – whether that be meeting debt servicing payments or facing increasing interest rates as creditors and credit rating agencies (CRAs) hike up interest rates under risk presumptions due to lack of movement on debt restructuring.

Some previous debt relief/restructuring, such as the Heavily Indebted Poor Country (HIPC) initiative, eventually set out clear timelines (although some were far too long and conditional – e.g. Somalia).

Solution: Borrowers should openly propose a timeline for creditors to meet at the start of relief/restructuring deals, to hold them accountable for delays and push for rapid movement.

4. There should be potential for customised debt relief/restructuring packages for each borrower.

Challenge: Traditionally the IMF and other Paris Club lenders have applied a 'one-size-fits-all' for creditors' approach to debt relief/restructuring, based on the principle of "comparability of treatment" across creditors. This means that the IMF and Paris Club aim for a joint appraisal of the minimum necessary to have a sustainable debt pathway and use one common document – the IMF/WB's debt sustainability framework. However, this framework has its own challenges, and their assumptions are often contested not only by the borrowers but also by creditors in/out of the Paris Club (e.g. China has a different approach to debt sustainability assessment). In many cases, borrowers are looking for a more holistic picture of their economic circumstances.

Furthermore, every borrower country will have a different composition of debt (including creditor profiles, maturities, debt service levels etc), different types of prior spending and therefore asset creation with the debt, as well as future development needs delivered through additional spending, which this assessment often does not consider.

The result is to embed a "lowest common denominator" approach to debt relief/restructuring, rather than a "race to the top" to support the borrower to resume growth and development. These problems are compounded by the exclusion of the borrower from decision-making on debt relief/restructuring within the Paris Club/G21 Common Framework.

Solution: Borrowers should be supported to propose their own scenarios and parameters for relief/restructuring to its creditors one-by-one, based on lessons/experience of what has been achieved in the past with that creditor, the actual servicing and spending undertaken with the loans, and their own growth aspirations.

5. Creditors should trust each-other and in principle all be covered by debt relief/restructuring.

Challenge: The Common Framework itself arose out of a call by Paris Club creditors to expand the group to include emerging economies largely because of a lack of trust between creditors themselves (although emerging economies had already been engaging in debt relief/restructuring). On the other hand, some borrowers and think-tanks have called for the private sector and the Multilateral Development Banks (MDBs) - such as the IMF and World Bank – to also take part in debt relief/restructuring efforts, and China in particular - under the banner of common action – has been supportive. Some also believe African financial institutions should increasingly engage in debt relief/restructuring.

However, in some cases countries have sought to exclude certain sets of creditors – for example Zambia would now, having achieved restructuring of some of its external debt, would like to use a different approach to engagement with its domestic debt, versus Ghana who have restructured their domestic debt before restructuring other external creditors debt. Many borrowers are also equally happy for MDBs/RDBs and the IMF to have "preferred creditor status" (PCS) as long as they can achieve rapid new disbursements of (ideally cheaper) finance from these institutions.

Solution: A new framework should enable in principle participation of all creditors in relief/restructuring (i.e. it should eschew PCS) while enabling borrowers to make their informed decision on the balance between relief and new financing from each creditor.

6. Debt relief/restructuring should build trust in the borrower's domestic policies for growth and recovery.

Challenge: The general assumption of the international finance system and existing debt relief/restructuring framework as it stands is that borrowers who fall into debt challenges have "spent badly". Hence, during debt relief/restructuring processes creditors such as the IMF tend to insist on new policies to reform or restrict new spending, known as "austerity measures". While some of these can be helpful for restoring growth – for example Zambia is keen to stress their new growth pathway - others (e.g. Tunisia) have rejected these policies because of potential negative impacts on citizens.

These issues are compounded by a significant lack of awareness and understanding of borrowers and their realities on the ground by creditors – for instance, private sector assessments are often perception-driven, which subsequently contributes to the risk premiums African countries face and can also lead to wrong policy prescriptions.

Moreover, there is an overwhelming focus on debt as a negative product, as opposed to "debt positive" events, which might contribute to wider economic growth. The assets created by debt are not valued in future debt planning and can, for instance, lead to bias against countries that are trying to invest in public infrastructure.

Solution: A new framework should constrain the ability of creditors to impose policy reforms as a condition of debt relief/restructuring. This question should be left to borrowing governments and their citizens (who have more often than not elected their governments) to determine.

Conclusions and Next Steps

These six principles – arising out of the discussion and contributions of the panellists and attendees of the discussion - could form the basis of a new borrower-oriented, growth and recovery-oriented global framework for debt relief/restructuring. If so, there are three possible actionable next steps, in no particular order.

One step would see African governments and institutions coming together for a high-level African Debt Conference, as soon as possible. Such a conference had been originally proposed back in the 1980s but was never held. A conference which is held on the continent (e.g. in 2024) could bring together key policymakers to discuss a coordinated African position on issues such as debt restructuring and new finance, including these principles, and in preparation for the South African Presidency of the G21 in 2025.

Another step could be to promote the six principles at the next Global Sovereign Debt Roundtable. Six borrowing countries are participating - from Latin America this includes Ecuador and Suriname and from Africa, there is Ethiopia, Zambia, and Ghana with Sri Lanka the only Asian borrower at the roundtable. The borrowers could share these principles and push for them to be adopted.

Last but not least, another step would be for the African Union Presidency and African Union Commission to use their new seats at the G21 to promote these six principles.

Disclaimer: this document does not reflect the views of the individual speakers nor their organisations during the event. It is a summary of the overarching conversation put together by Development Reimagined.

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