United Nations
Economic Commission for Africa

Concept note

Debt Statistics for Effective Debt Restructuring

Workshop

Macroeconomic and Governance Division

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Addis Ababa, Ethiopia (Hybrid)

1. Background

Borrowing is an indispensable tool for financing development in physical and human capital crucial to the attainment of the Sustainable Development Goals (SDGs) and Agenda 2063: The Africa We Want. Additionally, sovereign borrowing permits government finance to perform a countercyclical role throughout economic cycles,; the importance of this cannot be more overemphasized by recent multiple and overlapping shocks.

Between 2000 and 2020 alone, Africa's external debt increased more than fivefold and accounted for almost 65 percent of its GDP in 2022. Even though Africa's average debt-GDP ratio is expected to decrease to 62.7 percent in 2023 and then stabilize at around slightly above 60 per cent in 2024, Africa faces an escalating debt crisis. Three years after the COVID-19 outbreak, the debt crisis facing low-income and also many middle-income developing nations continues to deepen despite various domestic and international efforts. Public finances are becoming overstretched due to rising debt interest costs, more costly imports of food and energy and currency depreciation, amongst other issues, caused by multiple and intersecting shocks. Rising public debt, exacerbated by low tax revenues, high interest rates and the feuding of world superpowers over debt relief, is a key impediment to development and achievement of the SDGs as it limits governments' ability to invest in essential services such as health care and education. As an example, Africa currently spends more on debt service costs than on health care.

Due debt service payments, clustered in 2023–2025, may further increase vulnerabilities and risks. These payments, as cited by various sources, may range from United States Dollar (USD) 23 billion to USD 69 billion in 2023, with private creditors accounting for over 40 percent of African debt, while bilateral creditors make up 26.6 percent and multilateral creditors 32.5 percent. ECA (2022) estimates that, in 2023, the principal repayment of at least USD2.7 billion on Eurobonds issued by African countries will be due, on which a premium of approximately 2 percent is paid compared to other regions.

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In many heavily indebted nations, debt restructuring is therefore necessary to bring debt burdens back to sustainable levels and limit the negative impact of greater debt servicing on what is already a fragile socioeconomic environment. Historically, debt relief has come 'too little too late', therefore pre-emptive debt restructuring would help to avoid a debt crisis with disastrous socioeconomic repercussions and provide additional fiscal space as countries recover from past and current overlapping shocks and build resilience thereto.

This call is echoed in the set of nine principles of the debt restructuring processes, *particularly the principal on sustainability,* contained and endorsed in a United Nations (UN) resolution on 10 September 2015, following years of negotiations and deliberations on sovereign debt restructuring processes. These principles are also in line with the UN guiding principles on foreign debt and human rights[1].

Basic Principles on Sovereign Debt Restructuring Processes[2]

1. A Sovereign State has the right, in the exercise of its discretion, to design its macroeconomic policy, including restructuring its sovereign debt, which should not be frustrated or impeded by any abusive measures. Restructuring should be done as the last resort and preserving at the outset creditors' rights.

2. Good faith by both the sovereign debtor and all its creditors would entail their engagement in constructive sovereign debt restructuring workout negotiations and other stages of the process with the aim of a prompt and durable re-establishment of debt sustainability and debt servicing, as well as achieving the support of a critical mass of creditors through a constructive dialogue regarding the restructuring terms.

3. *Transparency should be promoted in order to enhance the accountability of the actors concerned, which can be achieved through the timely sharing of both data and processes related to sovereign debt workouts.*

4. Impartiality requires that all institutions and actors involved in sovereign debt restructuring workouts, including at the regional level, in accordance with their respective mandates, enjoy independence and refrain from exercising any undue influence over the process and other stakeholders or engaging in actions that would give rise to conflicts of interest or corruption or both.

5. Equitable treatment imposes on States the duty to refrain from arbitrarily discriminating among creditors, unless a different treatment is justified under the law, is reasonable, and is correlated to the characteristics of the credit, guaranteeing inter-creditor equality, discussed among all creditors. Creditors have the right to receive the same proportionate treatment in accordance with their credit and its characteristics. No creditors or creditor groups should be excluded ex ante from the sovereign debt restructuring process.

6. Sovereign immunity from jurisdiction and execution regarding sovereign debt restructurings is a right of States before foreign domestic courts and exceptions should be restrictively interpreted.

7. Legitimacy entails that the establishment of institutions and the operations related to sovereign debt restructuring workouts respect requirements of inclusiveness and the rule of law, at all levels. The terms and conditions of the original contracts should remain valid until such time as they are modified by a restructuring agreement.

8. *Sustainability implies that sovereign debt restructuring workouts are completed in a timely and efficient manner and lead to a stable debt situation in the debtor State, preserving at the outset creditors' rights while promoting sustained and inclusive economic growth and sustainable development, minimizing economic and social costs, warranting the stability of the international financial system and respecting human rights.*

9. Majority restructuring implies that sovereign debt restructuring agreements that are approved by a qualified majority of the creditors of a State are not to be affected, jeopardized or otherwise impeded by other States or a non-representative minority of creditors, who must respect the decisions adopted by the majority of the creditors. States should be encouraged to include collective action clauses in their sovereign debt to be issued.

[1] United Nations. 2012. Available at : https://documents-dds-ny.un.org/doc/RESOLUTION/GEN/G12/162/01/PDF/G1216201.pdf?OpenElement
[2] United Nations. 2015. Basic Principles on Sovereign Debt Restructuring Processes. Available at: https://unctad.org/system/files/official-document/a69L84_en.pdf

2. Debt statistics are critical in the restructuring process

Another pertinent key principle on sovereign debt restructuring processes critical to debt restructuring, within the context of the workshop, is that of *transparency*. Access to comprehensive information regarding sovereign debt, allows borrowers and lenders to make more informed financial decisions, and is crucial for maintaining manageable levels of governmental debt. Therefore, comprehensive debt statistics are vital for both debt crisis prevention and resolution, consequently high-quality statistics are crucial for sound decision-making. The monitoring and judicious management of debt obligations is a critical component of national financing strategies and is essential for reducing vulnerabilities.

In particular, the Addis Ababa Action Agenda:

- Calls international organisations and member states to increase domestic capability, transparency, and accountability in debt statistics,

- Calls on the appropriate organisations to consider compiling data on debt restructurings in a centralised database, and

- Stresses that governments increase openness and information sharing about debt management to guarantee that assessments of debt sustainability can be made with accurate and complete information.

Although debt transparency has improved over time in African member States, there are still major issues with the accuracy and reporting of public debt data in many countries. In the debt management context, measures to ensure accountability are multi-layered. Accountability starts within the debt management office itself, with the development of guidelines and standard operating procedures to guide the compilation of debt statistics and lead debt management. Despite the growing importance of domestic financing and the complexity of investment portfolios, many countries have not yet met basic requirements in various aspects of reporting. A prevalent issue is insufficient coverage of public debt overall, with particular challenges related to subnational debt and contingent liabilities. The problem of high employee turnover persists as a perennial issue and many governments lack the appropriate human and technical capacity to handle public resources and liabilities effectively, as well as to prepare risk analysis and debt strategy. Weak capacity for debt recording and reporting is therefore a significant challenge for developing countries.

It is therefore a pertinent task of the United Nations Economic Commission for Africa (ECA) to assist African countries in achieving long-term debt sustainability through capacity building and policy development support and advice aimed at supporting debt financing endeavours, debt relief, debt restructuring and solid debt management.

3. Objectives

The objective of this workshop is to strengthen capacity of African member States in debt statistics compilation through an in-depth debt statistics compilation methodology session. Additionally, member states will be provided with an overview of the debt sustainability assessment (DSA) processes, a review of emerging market governments progress to obtain debt in local currency, an overview of the principles of official statistics and its applicability to the compilation of debt statistics, a debt restructuring options peer-learning session, and investigating the roles of transaction advisory services in debt resolution. Finally, the meeting will seek to establish a debt transaction advisory partnership (consisting of member States) that will endeavour to share experiences and aid member states that are in similar debt restructuring situations.

Expected outcomes:

- Capacity building of member states in debt statistics compilation;
- Enhanced knowledge of public debt managers debt sustainability analysis, the principles of official statistics and the role of transaction advisory services in debt restructuring;
- Sharing of knowledge between member States on debt restructuring options; and
- The establishment of a debt transaction advisory partnership amongst member States.

Participating member State delegates will be required to complete a post-event survey as well as a survey two months after the event to evaluate the usefulness thereof and whether any of the recommendations and learnings were implemented in-country.

ECA will develop knowledge products as determined by needs and requests from member States, including a working paper on the domestic debt clearance strategies in Africa.