CONCEPT NOTE

Peer-learning - Debt Management Strategies

3-6 April 2023
Lusaka, Zambia

Participants - UNECA, UNCTAD, South Africa, Zambia, Sudan, Ethiopia and Sierra Leone

1. Background

Although Africa has experienced notable growth performance since the mid-late 1990s, many countries were already facing socio-economic challenges due to an unfavorable global environment in the decade preceding the COVID-19 pandemic. The world is currently experiencing its third weakest period of growth since 2001, after the 2008–2009 global financial crisis and the severe phase of the coronavirus pandemic. The current period is characterized by a global slowdown, elevated prices fuelled by the Ukrainian conflict, climate change and worsening international economic and financial conditions. The likelihood of a mild global recession is high.

In the past six decades, every global recession has led to a rise in global government debt and particularly over the past decade, many countries in Africa have increased their public debt levels. Most of the current public debt was made during the fiscal years of 2020 and 2021, when countries took on debt to deal with the effects of the Covid-19 pandemic. The negative supply and demand shocks due to the Covid-19 pandemic and ensuing economic contraction have deepened budgetary imbalances and increased the debt burden generally on the continent. Multiple and overlapping shocks such as the Covid-19 pandemic, the Russia-Ukraine war, extreme weather events, conflict and tightening of global financial conditions, are widening Africa's development financing gap and elevating their debt vulnerabilities. By the end January 2023, according to the latest list of LIC DSAs for PRGT Eligible Countries, by the IMF, nine (9) countries are currently in debt distress and eight (8) of these are from Africa, with 13 African countries at high risk of debt distress. As a result, an array of development challenges has arisen, among others, household poverty, food insecurity, energy insecurity, and social instability.

Debt distress have been aggravated by huge current account deficits, massive redemption schedules, and lack of access to conventional lending markets. Countries often rely on debt as an instrument for financing growth and development. Public borrowing is a means to undertake large and costly growth-accelerating investments, which would expectedly generate sufficient resources for future debt servicing. Yet, the impact of debt could be contrary to initial expectations, especially in a weak institutional framework, as a high debt burden and debt servicing obligations tend to impede investment, leading to great distortions in the business environment and the balance of payment account.

Many African countries borrowed for intended growth-enhancing investment, fiscal deficit financing, existing loan restructuring, paying off sovereign arrears, and for interest and outstanding debt servicing. The majority of the continents debt portfolio still consists of multilateral loans and bilateral loans. However, the proportion of international financing that is highly concessional has been steadily dropping over the past decade. This deficit has been addressed by a considerable increase in private sector finance, with large interest payments. The debt portfolio may expose a country's balance sheet to severe risk, consequently posing a threat to its core development objectives. This may lead to debt traps where countries find themselves with high-interest loans, barely able to repay interest, leaving them in almost perpetual debt. These challenges represent major obstacles to Africa's recovery; failing to address them would likely hamper poverty reduction, recovery from recent shocks and building resilience to future shocks, for sustainable development.

In times of economic crisis, continued borrowing has led to high debt accumulation, dwindling governments capacity to effectively manage public debt. Given the situation with concurrent shocks, the most pressing concerns will be how to "rebuild more effectively," as despite various debt alleviation measures implemented since the Covid-19 outbreak began, the reaction globally has been insufficient. Debt management therefore represents a challenge for African countries as debt becomes a significant source of funding for their economic growth and development, however this provides an opportunity to effectively enact budgetary protection for various events more apparent in the foreseeable in the future. Efficient and effective debt management will allow debtor countries may take action to avoid the legacy of *'too little, too late'* sovereign debt management and restructuring.

Objectives & Scope

The objective of this peer-learning workshop is to assist delegates from Sudan, Sierra Leone, Ethiopia, South Africa and Zambia to share information, experiences and best practices on debt management strategies, policies and operations to enable the implementation of viable debt management procedures and strategies in-country. During the study tour the delegates are are expected to:

- Share information by presenting the current state of debt in their countries and highlighting the key challenges hampering debt sustainability. A special focus should be provided on the types of loans (short- or long-term; domestic or foreign, private or public), borrowing requirements, interest and redemption payments on loans, overview of total government debt, composition of domestic debt by instrument and debt service costs
- Discuss Debt Sustainability Analysis procedures and Medium term management strategies;
- Enhancing the capacity of public debt managers to evaluate the structure, dynamics, and risks of sovereign debt portfolios;
- Share knowledge and build capacity on various debt management strategies (and policies) as well as operational procedures for debt management;
- Understand the process and procedures required to approach International Organizations and lenders, such as the International Monetary Fund (IMF) and Paris Club, to request loans/credit;
- Acquire knowledge, skills and networks necessary to recognize the factors influencing a country's sovereign bond rating and the steps required to improve that rating; and
- Share knowledge of UN-wide tools on debt management and sustainability.

Expected Deliverables

After the study tour, the government officials are expected to:

- Develop a roadmap on the implementation of the debt management approaches/ techniques and policies

Reporting

Participants will be required to draw up a roadmap of strategies to be used in debt management in their respective Ministries. Additionally, participants will be required to complete two follow-up surveys of the use of the information shared in the peer-learning exercise.

Number of study tour participants

The composition of the delegation will consist of 10 Senior Government officials with responsibilities pertaining to debt management and/or responsible with related tasks in the national bank, finance and economic development, National Planning and other. The delegation will be accompanied by officials from the ECA (MGD, SRO-SA and TCND) as well as joined by the United Nations Conference of Trade and Development (UNCTAD).

Duration: The study tour will be conducted four (4) over days, April 3-6, 2023