AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

Terms of References

Analysis on Debt Restructuring Under the G20 Common Framework and Alternative Policy Solutions

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A. Overall Context

Over the last three decades, developing economies including Africa have had increased debt. Thus, even before Covid-19 and Ukraine-Russia war, debt was already an increasing problem across Africa countries, with the pandemic only exacerbating the problem. Increased debt has had a negative effect on the continent's financial security with most countries channeling extra amount of money to repay debt and interest instead of expanding service deliveries including health, education, and clean energy. Sub-Sahara Africa's total external debt stock was estimated at $702.4 billion, compared to $380.9 billion in 2012, which is nearly a two-fold increase by the year 2022.

The creation of a global mechanism for debt restructuring is long overdue. Global debt civil society networks have for decades called for the reform of the global debt architecture. The United Nations General Assembly passed the Resolution 'Towards the Establishment of a Multilateral Legal Framework for Sovereign Debt Restructuring Processes' in 2014.[1] This is the closest the international community has come to the establishment of a global framework. Since 2014, not much has been done; in a 2017 paper, AFRODAD noted the challenge of Africa's mounting debt levels and highlighted the challenges of the creditor landscape - newcomers and private creditors which poses problems of creditor coordination unlike with the debt held to Paris Club Member countries.[2] The purpose of initiating the G20 Common Framework was to target debt restructurings on a case-by-case basis, should they be requested by any of the 73 countries eligible for Debt Service Suspension Initiative (DSSI). Unfortunately, this approach excludes many MICs who were severely impacted by the Covid-19 pandemic and the Ukraine-Russia war. Chad was the first country to seek debt restructuring under the Common Framework in April 2021. Ethiopia, Zambia and Ghana have since followed suit though the framework implementation has been slow.

Half of Africa's countries are currently facing difficulties in fulfilling their debt repayments with eight (8) of these countries regarded to be in debt distress i.e., not able to fulfill their financial obligations. For instance, in December 2022, Ghana launched a domestic debt exchange and pronounced that it anticipates defaulting nearly half of its $28.4 billion of external debt, becoming the second African country to default since Zambia defaulted in the year 2020.

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1 UNGA Resolution 68/304 (2015), adopted by the United Nations General Assembly on 9 September 2014.
2 M Masamba and F D. Bonis (AFRODAD), *ibid* 3 – 4.

The inception of the G20 Common Framework was to ideally look on to the problem of unsustainable debt levels, insolvency and protracted liquidity problems in the DSSI-eligible countries by providing debt relief consistent with the debtor's capacity to pay and maintain essential spending needs.

The economic impacts of Covid-19 pandemic, the rising debt levels, debt-related risks and vulnerabilities in African countries calls for a global promotional of fair, efficiency and a human rights-based approach to resolving debt issues. African countries have borrowed heavily as they deal with the short term and long-term healthcare, economic and social impacts of COVID-19. Pre-Covid-19 pandemic, African countries debt levels have reverted to their pre-Heavily Indebted Poor Country program (HIPC). Sub-Saharan Africa's total external public and publicly guaranteed debt stock stood at 60% of GDP by end of 2022. In contrast, the G-20 Common Framework is only available to the same set of countries that are eligible for the DSSI and involves the same group of 39 official bilateral creditors from the G20 and the Paris Club. But while the DSSI aimed to provide fast relief to the pandemic shock for a broad range of low-income countries, the Common Framework focuses on cases involving a challenging debt burden and the priority is on maturity extensions.

Even though Africa's bilateral creditor base has been changing over time, the African Borrowing Charter, AFRODAD aims to promote sustainably balancing public debt levels with the necessity to accelerate inclusive development and enhance public service delivery in Africa. Under the G20 common framework, debt restructuring can be initiated upon a country's request, and debt treatment addressed on a case-by-case basis, accompanied by reforms aimed at restoring the participating country's debt sustainability. However, new creditors, such as China, India, Gulf Oil Rich States are lending heavily to African countries. The African Development Bank has noted that most of the countries that are either in high risk of debt distress or that are already in distress have a substantial percentage of Chinese debt — Angola (49%), Cameroon (32%), Djibouti (57%), Ethiopia (32%), Kenya (27%), Republic of Congo (45%), and Zambia (26%).[34] The three main concerns arise in respect of Chinese lending, firstly is the issue of the limited disclosure of loan contracts, lack of transparency on Chinese-funded infrastructure projects, and finally, the difficulties in restructuring as a rest of challenges of creditor coordination. Even though debt restructuring is a sovereign decision, choices and approaches regarding public debt restructuring are mainly influenced by country-specific factors, including the national debt profile and prevailing macroeconomic indicators. For a large number of African countries, the scope of the debt treatments agreed by the G20 represent the difference between achieving a sustainable post Covid-19 recovery or a lost decade for development. It is against these that analysis on debt restructuring under the G-20 Common Framework will be undertaken and by extension, the analysis will expound on alternative policy solutions to the G-20 Common Framework that are of significant importance to Africa debt restructuring.

[3] *United Nations. Economic Commission for Africa; United Nations. Economic Commission for Africa (2022). Towards sovereign debt restructuring in Africa: comments and recommendations.* ECA Policy Brief. No.ECA/22/026, 7 p.. Addis Ababa:. © UN. ECA,. https://hdl.handle.net/10855/49310"

[4] African Development Bank '*African Economic Outlook 2021 - From Debt Resolution to Growth: The Road Ahead for Africa*' (2021) *64 - 65* African Economic Outlook 2021 | African Development Bank - Building today, a better Africa tomorrow (afdb.org) (15 June 2021).

B. Background and Problem Analysis

Post-HIPC/MDRI has sufficiently demonstrated that African countries have outlived the debt sustainability benefits under these initiatives. Under Covid-19, measures such as the G20 Debt Service Suspension Initiative (DSSI) which suspended 12.9 billion USD in debt-service payments before elapsing in December 2021, has not resolved Africa's debt problems in the face of financing pressures to cope with Covid-19 pandemic but only postponed them. Its sister initiative, the G20 Framework for Debt Treatment Beyond DSSI is fraught with structural weaknesses including non-specification on mechanisms for a universal creditor committee spanning from both private and official lender. To an extent, the Framework has not demonstrated any prospects to comprehensively address Africa's mounting debt and pressing development financing needs under the Covid-19 context and beyond and towards the realisation of the 2030 Agenda that covers the SDGs. This makes the Common Framework almost a failed initiative before it has been implemented.

The IMF Special Drawing Rights (SDRs) albeit providing fiscal space for African countries to move towards post covid-19 recovery, remain grossly inadequate irrespective of additional resources to be provided through the Resilience and Sustainability Trust (RST). These initiatives do not resolve the structural and institutional problems faced by African countries to mobilise resources to finance their development. Aid is dwindling and blended finance is being touted as the solution to dwindling aid as it is being used to leverage private finance for provision of additional financing, and the challenges remain as stated.

The interim debt relief initiatives, such as G20's Debt Service Suspension Initiative (DSSI) and G20 Common Framework exposed further the gaps in the international financial architecture. While many debtor countries had participated in the DSSI before it expired in December 2021, few countries have taken part in the G20 Common Framework for Debt Treatment beyond DSSI. To better operationalize the Common Framework, the G20 should incentivise private and public creditor participation including those of Non-Paris Club members. G20 members should encourage the application of the comparability of treatment clause and urge private creditors to participate in the debt restructuring process. Moreover, the G20 should encourage full disclosure of debt among creditors and the absence of private creditors participation in debt rescheduling initiatives is a major concern. The initiatives discourage debtor countries to participate for fear of downgrades in credit ratings or access to the international capital markets. The initiatives do not provide a broad array of countries with much needed deeper debt restructuring. In addition, the Common Framework is intended to tackle debt burdens that have become unmanageable from a liquidity or solvency perspective, with treatment determined on a country's case-by-case basis. Unfortunately, there is no specific thresholds that have been set for its implementation and success.

While Common Framework for Debt Treatments beyond the DSSI is an agreement of the G20 and Paris Club countries, it still has many similarities with restructuring frameworks agreed in the past in the context of G7/G8 summits and administered by the Paris Club. For instance, in the early 2000s, the Paris Club agreed a large number of restructurings, often in the context of the HIPC initiative with large nominal debt reductions. The framework also stipulates that private creditors would have to provide comparable relief on the debt owed to them but without clarity on how this was to be enforced. As such, AFRODAD seeks to undertake analysis on debt restructuring under G20 Common Framework and provide an alternative policy solution to the gaps in the framework in relation to its debt restructuring landscape in Africa.

The paper will expound policy proposals on key issues pertaining to the framework thus reigniting the debate on the need for broader reform of the sovereign debt restructuring landscape by revisiting the main concerns and possible solutions.

C. Objective of the Assignment

The overall aim of the research is to analyse debt structuring under G20 Common Framework with a scope of providing an alternative policy solution to the gaps in the framework in relation to its debt restructuring landscape in Africa. The research is expected to reignite the debate on the need for broader reform of the sovereign debt restructuring landscape by revisiting the main concerns and possible solutions in the G20 Common Framework.

The specific objectives of the study are to:

i. Examine the scope of the G20 Common Framework recent debt restructuring architecture implementation in Africa and comparing it with other debt restructuring initiatives such as HIPC/MDRI, G7/8 and SDRs
ii. Identify contemporary gaps or weaknesses in the G20 Common Framework relative to debt restructuring initiatives in Africa.
iii. Assess whether G20 Common Framework will be impactful in resolving structural and institutional problems faced by African countries to mobilise resources to finance their development.

D. Scope of Work

i. Give the current debt landscape of the continent and reasons why it's a worrying trend
ii. Assess the G20 Common Framework recent debt restructuring architecture and provide ideas on charting new paths for debt restructuring.
iii. Examine past initiatives including HIPC/MDRI, G7/8 and SDRs that have been implemented in response to the continent's debt woes, their correlation to the G20 Common Framework, and what lessons were learnt?
iv. Propose alternative Policy Recommendations on the G20 Common Framework relative to debt restructuring initiatives in Africa.

E. Key Outputs

- ❖ A research paper of 20 pages (excluding references, table of content, cover page, and annexes)

F. Analysis Approach

The research paper must be well articulated with structural flow as proposed below thus allowing flow of both analytical and policy argument:

1. Introductory or background section

- Presents and overview of the subject.
- Expresses a clear research problem with related research questions.
- Provide aim and objectives of the study with a justification of why study is needed.
- Summary and justification of the methodology used in the study.

2. Literature Review

- Presents clear conceptual clarifications.
- Looks at related literature and identifies gaps.
- Looks at issues related to the problem and questions raised.

3. Findings and Discussions

- Tackles the questions raised.
- Determines whether the main problem is being solved.

4. Conclusions and Policy Recommendations

- Determines whether the research aim, and objectives were met.
- Engages in policy discussions and advances recommendations.

The policy brief MUST:

- ❖ Be well written and articulated with up-to-date references and acknowledgment of sources of materials used put in the text, provided in end notes, and included in the bibliography.
- ❖ Have table of contents, list of tables, and list of acronyms.
- ❖ Have executive summary section, key findings, conclusion and recommendations.
- ❖ Alternative policy recommendations on the gaps in the G20 Common Framework relative to its initiative on debt restructuring in Africa.

G. **Timing**

The Research Study should be completed within 30 working days from the time the contract is signed between the selected consultant and AFRODAD.

	Wk1	Wk2	Wk3	Wk4	Wk5	Wk6
Inception meeting with consultant	■					
First draft and review	■	■				
Second Draft and Validation			■	■		
Final Draft that takes in to considerations the commends from validation				■	■	
Approval and launch						■

H. **Reporting**

The consultant will report to the Sovereign Debt Management Portfolio Policy Analyst, Research and Advocacy Officer shem@afrodad.org

I. **Competences**

The consultant (s) should be knowledgeable, skilled and experienced in the following areas:

- Must possess at least a University graduate degree in Economics or Social Sciences
- At least 7 years of experienced in Public debt management work with broader Policy framework knowledge on debt restructuring and cancellation initiatives in Africa
- Policy aptitude and experience on mechanisms for financing for development and excellent writing and oral communication skills in English language.

Expressions of interest should be sent to the recruitment@afrodad.org and copied to shem@afrodad.org with the subject line; **SDM- Debt Restructuring Under the G20 Common Framework** by 24th April 2023