United Nations
Economic Commission for Africa

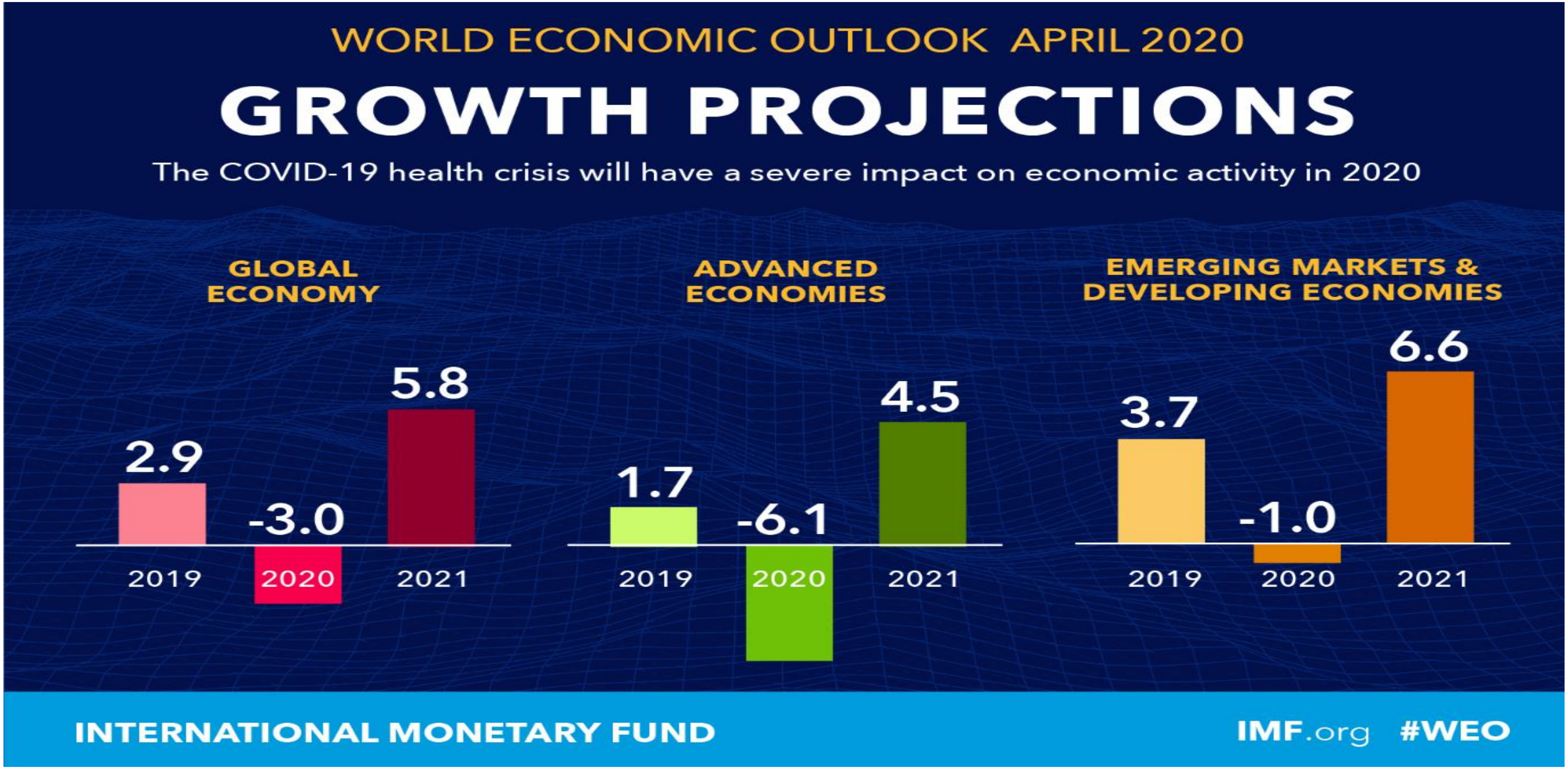
COVID19:
G20- Public Debt Service Support Initiative (DSSI)

Questions and Answers and How to Accelerate Access

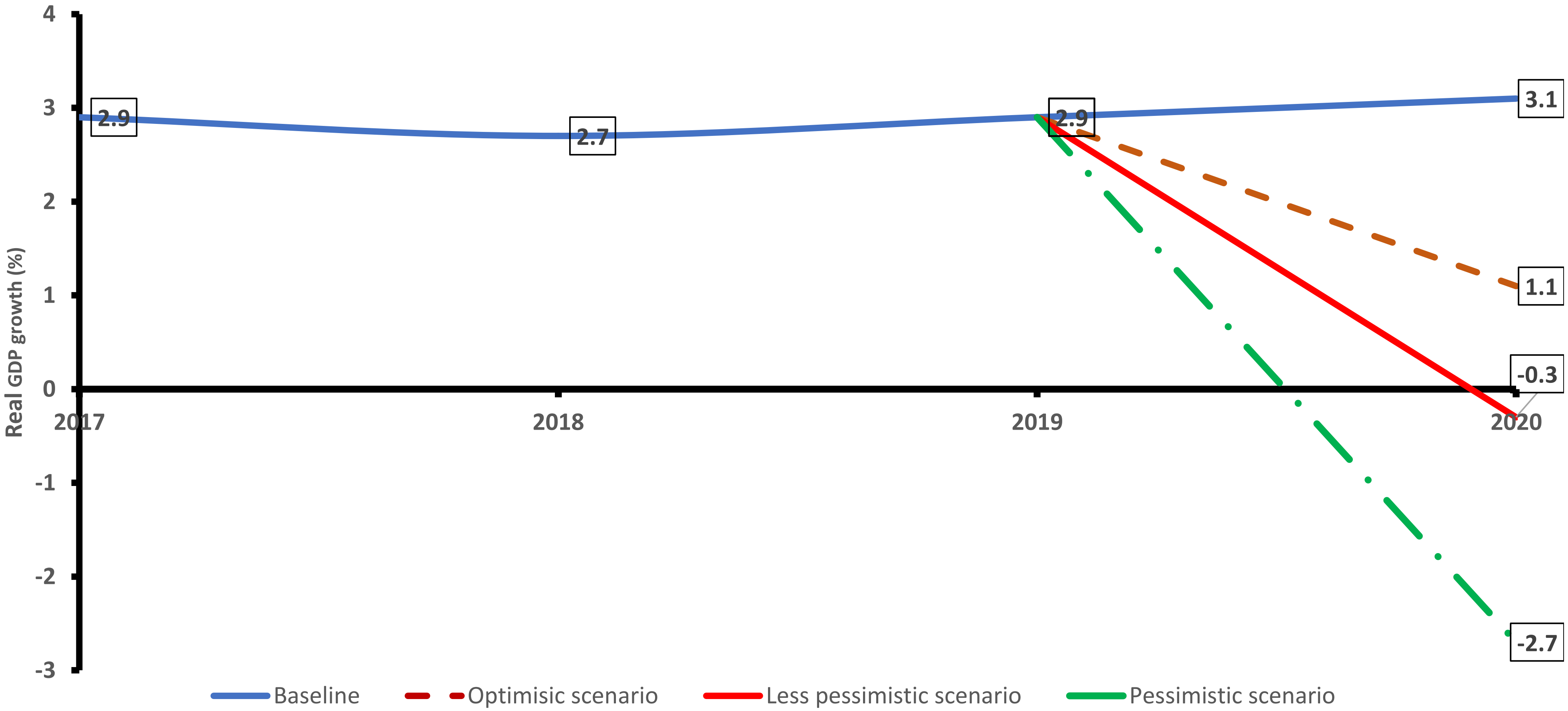
ECONOMIC COMMISSION FOR AFRICA - BRIEF

May, 2020
Addis Ababa, Ethiopia

COVID -19 severe impacts on economies

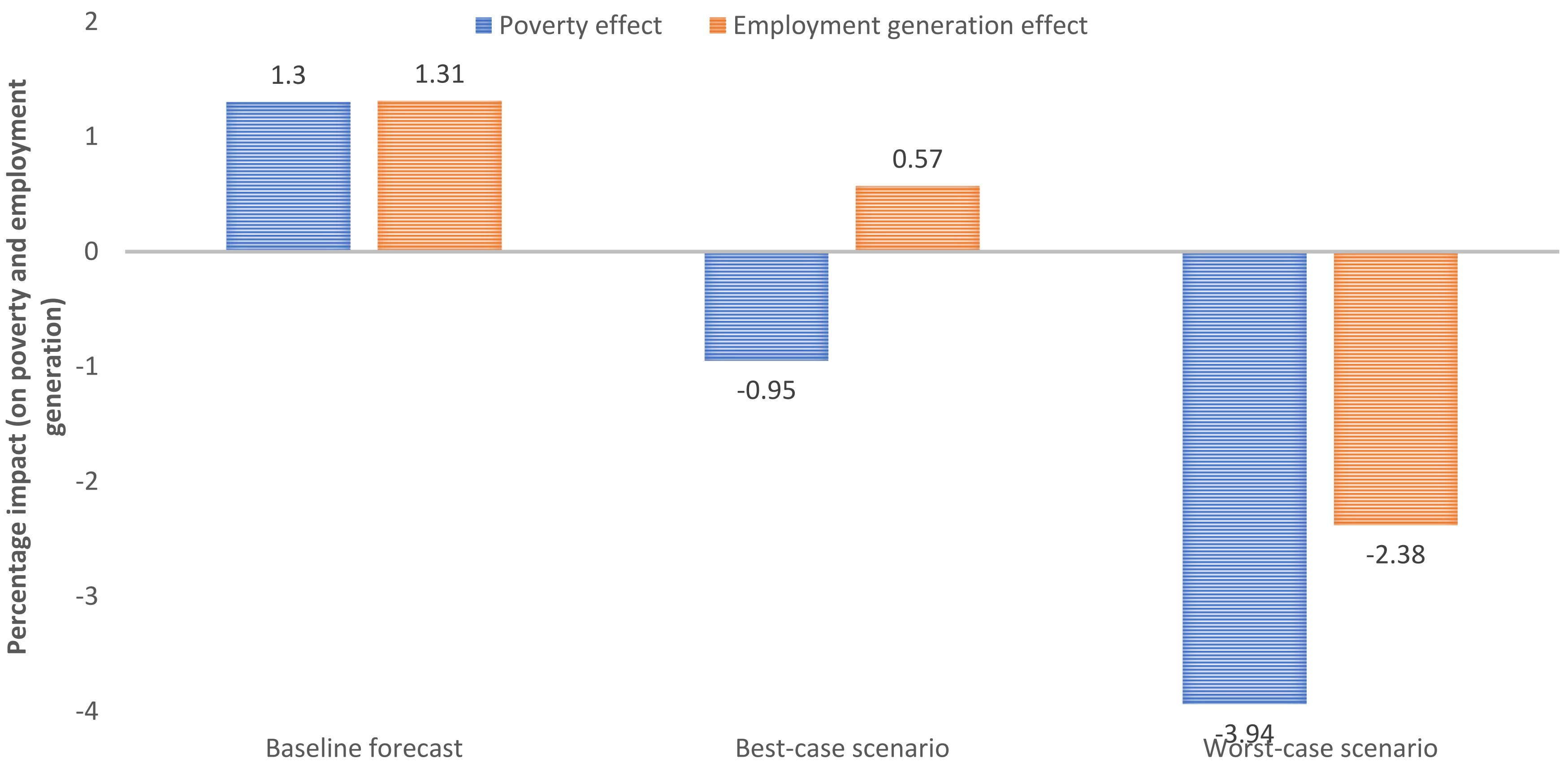


Africa: Corona Virus new blow to economic
Growth expected to drop from 3.1% to -2.7%



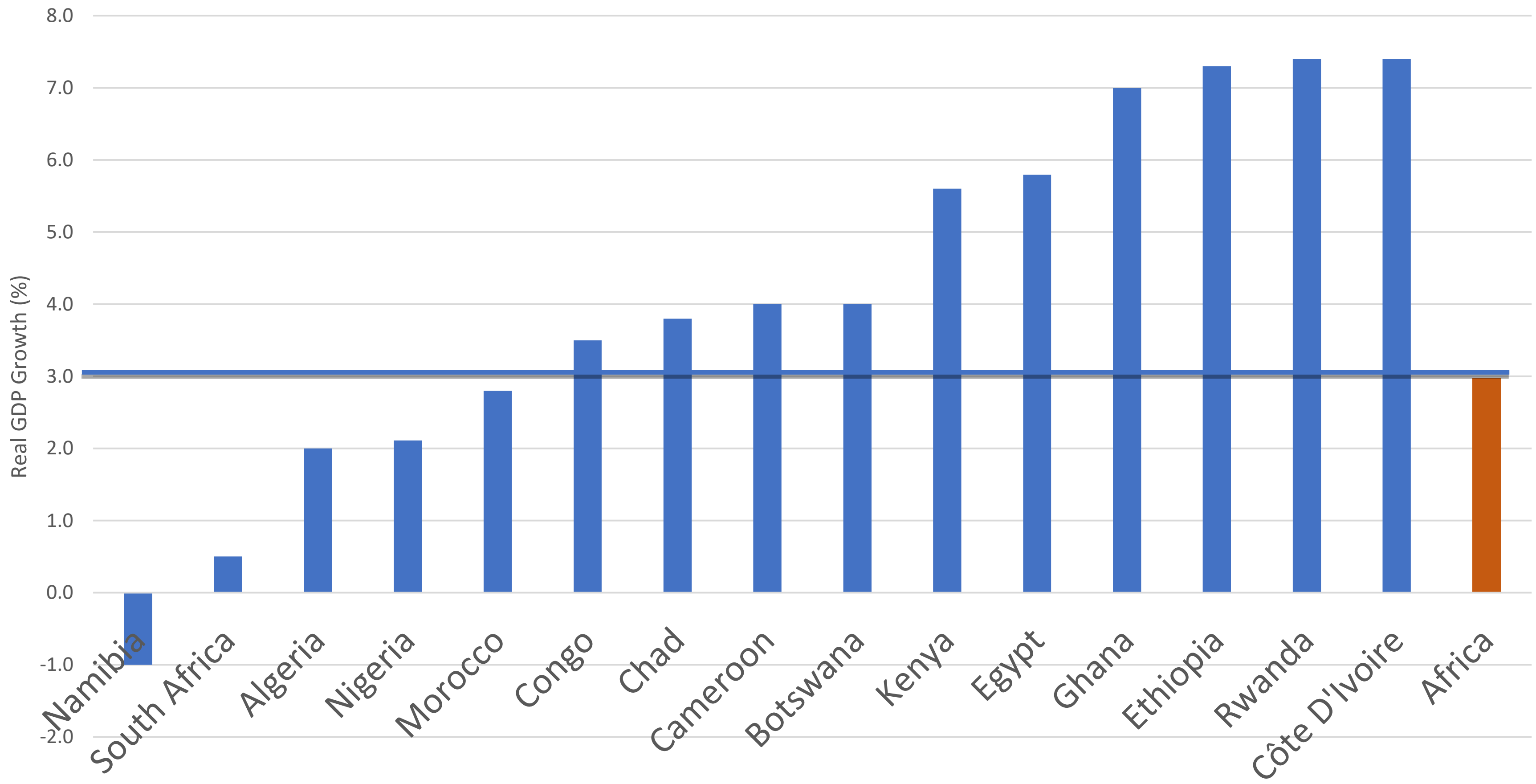
Source: ECA estimates

5m to 29 million will be impoverished and 19m will be jobless due growth decline



Source: ECA estimates

Economic growth: Nearly 67 per cent of the countries growth was higher than the Africa's average for 2019 – Countries were performing well before the crisis.



Setting the right incentives: Access to the initiative will be limited to countries that:

(i) have made a formal request for debt service suspension from creditors, and;
(ii) are benefiting from, or have made a request to IMF Management for IMF financing including emergency facilities (RFI/RCF).

Each beneficiary country will be required to commit:

- to use the created fiscal space to increase social, health or economic spending in response to the crisis. A monitoring system is expected to be put in place by the IFIs ;
- to disclose all public sector financial commitments (debt)1, respecting commercially sensitive information. Technical Assistance is expected to be provided by the IFIs as appropriate to achieve this;
- to contract no new non-concessional debt during the suspension period, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing. Through end 2020.

LEVELS of RELIEFS and FUNDING INITIATIATVES and results

National Response	▪ Countries moved quickly to respond from their national budgets providing over 0.5 percent of support. Offering safety net packages	Average of 0.5 percent of GDP
Multilateral Response	**WBG** **IMF (Rapid Credit Facility, Catastrophe Containment relif trust, RFI)** **European Union** **AfDB -US$10 billion** **ISDB – and Arab Funds**	IMF: 19 countries debt relief Total of over US$20 billion by multilaterals
Bilateral Response	▪ G20 DSSI initiative -- 5 African Countries signed to date all should.	G20 initiative responds to all LICs and LDCs –
Commercial Response	▪ Design an SPV - On going effort with about 15 market eligible African countries to see what tools are available to address this either on country by country basis or omni-bus ▪ 21 market access countries on the continent with another 10 working with commercial banks.	IDA Blend and MICs About 16 billion dollars

Sources: World Economic Forum. 2020. COVID-19 is exacerbating food shortages in Africa; Famine Early Warning System Network. 2020. East Africa Food Security Outlook.

WHAT IS THE DECISION TREE for the

Multilateral access

YES

IMF: (YES)
Debt relief, 19 countries
total 230 million

World Bank Group
Development Policy Lending

Other Multilatreals

BI– Lateral Public G20 Standstill

Need to get all Commercial Bank Waivers for all cross default clauses

YES

Yes YES
All IDA only and no market access

YES
IDA Blend with larger bi lateral debt service than commercial debt service

Yes
Large bi-lateral debt service with DSSI signatory

Sources: World Economic Forum. 2020. COVID-19 is exacerbating food shortages in Africa; Famine Early Warning System Network. 2020. East Africa Food Security Outlook.

Public Bi-Lateral support
G20- DSSI

Who are the participating Creditor Countries ?

Paris Club, China, Saudi Arabia, Turkey and all official bilateral creditors

Have Countries Applied ?

Yes – over 20 African Countries IDA only & IDA Blend indicate interest

Africa : Mali, Cameroon, Ethiopia, Burkina Faso, (*18 others working towards this. Benefit you may get two year extension !! So important*)

Other: Nepal, Grenada, Dominica

ALL Eligible Countries should move fast to benefit !!!!

Public Bi-Lateral support
G20- DSSI

What is the period of the Public Bi-lateral DSSI ? Why it is beneficial.

- ***The first phase ends in Starts May 1 - December 2020.***
- ***The suspension of payments will be NPV-neutral. The repayment period will be 3 years, with a one-year grace period (4 years total).***
- ***However upon advice from the IMF suspension period could be extended to 2021 as well.***
- ***So the benefit of this is countries get 18 months of a debt standstill. And a four year period to honour the obligations.***

Public Bi-Lateral support
G20- DSSI

If a standstill is requested under the DSSI what conditions are attached

1) Are there limits on future non-concessional borrowings and if so, for how long would these limits be in place?

- *Countries with market access can go to the markets to fulfill pre-agreed market borrowings if previously pre approved by the WB and IMF under the Debt and Macro Sustainability Framework.*
- *No new borrowings allowed for the duration IF they exceed pre-approved limits this is for the rest of the year 2020.*
- *Some IFIs have indicated that limits on non-concessional financing will apply – clarity on the details to be sought from the IMF and World Bank*

Public Bi-Lateral support
G20- DSSI

If a standstill is requested under the DSSI what conditions are attached

2) What restrictions will be applied to spending the saved resources and how will this be monitored?

The G-20 formulated the DSSI specifically to allow for scarce financial resources to be re-allocated to spending on the health and social consequences from the Covid-19 pandemic. ***Countries should commit to a clear monitoring and transparency framework re use of standstill resources.***

Public Bi-Lateral support
G20- DSSI

If a standstill is requested under the DSSI what conditions are attached

3) Am I required to seek a similar debt service suspension from my private sector creditors?

No but the official sector has called on private sector creditors to contribute to the initiative on broadly comparable terms.

- ***The official sector seems to understand some of the complexities with private sector participation and recognizes this should be on a voluntary basis though it is still seeking support from the private sector for the DSSI***
- ***The official sector (G20 and the IFIs) have essentially stated that they do not favor almost any structure – at least at this time -- that private sector entities have put together to achieve the concept of NPV neutrality and/or to boost the credit to try to avoid credit rating downgrades.***
- ***The Official sector is basically opposed to using public money to bail-out private creditors.***

Public Bi-Lateral support
G20- DSSI

What is the process for seeking a suspension of the relevant debt service payments from non-Paris Club members of the G-20?

Have G-20 countries which are non-Paris Club members agreed to abide by the MoU?

The Paris Club MoU is for Paris Club members to use, as well as to any non Paris Club creditor willing to join those MoUs (we have some creditors already willing to). But there is no obligation here, it is for each non Paris Club creditor to decide.

Have the G-20/Paris Club formulated any guidelines to standardize the bilateral implementation of the liabilities to be treated by the DSSI?

Yes : There is a standard request/application letter. All interested countries can sign this.

Public Bi-Lateral support
G20- DSSI

Will China treat my obligations as official bilateral or commercial (and therefore not part of the official sector DSSI) or what is the split between the two?

How will China consider the treatment of certain loans provided by state entities that had some of the operations commercialized, including for instance including the Bank of China the Agricultural Bank of China, the Development Bank and the Exim Bank?

Only China can provide clarity on these matters but there may be merit in African nations asking for such clarity as a group rather than individually, to ensure consistent treatment.

Public Bi-Lateral support
G20- DSSI

Are there legal consequences (e.g. cross-default provisions) in any of my outstanding obligations from triggering DSSI from official bilateral creditors?

Eligible countries should carefully review their loan documentation to understand whether such cross-defaults or other legal consequences exist.

Public Bi-Lateral support
G20- DSSI

What factors determine my international credit ratings ?

- ***Standard & Poor's:*** *credit ratings depend on the perceived ability and or willingness of the debtor to pay.*

- ***Moody's:*** *credit ratings are not based on default but on whether the actions of the debtor are likely to result in a loss to the investor (i.e., the principle of distressed exchange).*

- ***Moody's:*** *Countries that experience a rating downgrade due to distressed exchanges take at least 3 years to regain their initial rating*

Public Bi-Lateral support
G20- DSSI

What will the impact be on my international credit ratings from triggering the DSSI, both from official bilateral creditors only and from private creditors?

- *Fitch and Standard & Poor’s have indicated that there would be no impact from the official bi-lateral sector DSSI*
- *Per Moody’s the rating would be put on review and decisions will depend on whether private creditor participation in DSSI results in a loss to investors*
- *Standard & Poor’s is reviewing the credit ratings of Ethiopia, Cameroon and Pakistan based on the fundamentals and credit dynamics of the counties but not on their participations DSSI per se.*

Bi-Lateral support
G20- DSSI

What impact will there be on future market access from commercial sources from seeking the public sector bilateral DSSI - is there a negative impact on my creditworthiness?

- *There is no impact on credit rating and market access from seeking the official sector bi-lateral DSSI.*
- *Seeking private sector participation in the DSSI is likely to undermine commercial market access at least in the short term, in part due to the associated credit rating implications.*

Bi-Lateral support
G20- DSSI

What impact will the restructuring of commercial debt through the SPV have on my creditworthiness?

- *Moody's: it would depend on whether the SPV results in a loss to investors. To the extent that it does not generate a loss, SPVs will not trigger a credit downgrade.*

THANK YOU!