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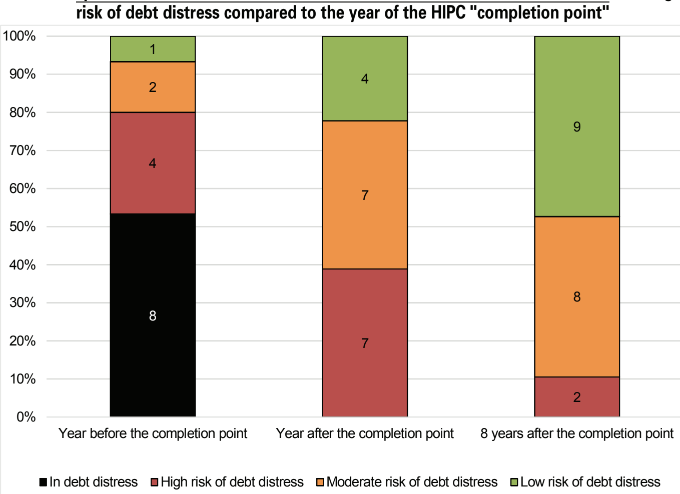
Will Africa need a new "Heavily Indebted Poor Countries" Initiative?

- The IMF and the World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC) in 1996, and supplemented it in 2005 with the Multilateral Debt Relief Initiative (MDRI). The purpose of the HIPC Initiative was to organise massive relief of external public debt owed to the international financial community as a whole (international financial institutions, official bilateral creditors and private creditors) by countries deemed to be poor and heavily indebted. It was designed to be a permanent solution to the repeated debt crises affecting these countries.
- The Initiative is now winding down: only 3 of the 39 eligible countries can still benefit from the Initiative, which makes an assessment both possible and necessary. This issue of Trésor Economics focuses on the 30 African countries that benefited from the Initiative. It aims to describe the impact that the Initiative had on the sustainability of their debt at the time relief was granted, as well as determining the longer-term effects.
- Even though the goal of the Initiative of freeing up fiscal resources in order to start a cycle of inclusive growth (meaning growth that benefits the entire labour force) seems to have been reached, the long-term sustainability of these countries' debt has not been fully assured. Although there is no short-term threat of a fresh debt crisis for the vast majority of the post-HIPC African countries, a few of them have seen a return to burgeoning new debt growth following the Initiative. These countries could soon find themselves with nearly the same levels of indebtedness as before the Initiative. With the end, in 2013, of a period of very favourable exogenous factors (with high commodity prices, demand-driven growth in emerging countries, low global interest rates and a weak US dollar), the sustainability of these countries' debt could deteriorate more rapidly.
- Financing sources for the countries under review have also undergone major changes in recent years, both in the case of official sources, with the emergence of new official creditors, and in the case of private sources, with the growing number of sovereign bond issued on international capital markets. The specific structures that most of these countries have used for their sovereign bond issues call for tighter vigilance in particular, since these structures create greater exposure to refinancing risks for the issuing countries.
- In the event of a fresh debt crisis, long-standing and more recent creditors' perception of the de facto failure of the previous strategy of massive debt cancellation could make it especially hard to achieve rapid and orderly restructuring of these countries' debt.

Number of post-HIPC African countries deemed to be in debt distress or at low, moderate, high risk of debt distress compared to the year of the HIPC "completion point"



Source: Debt Sustainability Analyses (DSA) by the IMF and World Bank up to 31 December 2015, DG Trésor calculations.

Key: 8 countries were deemed to be at moderate risk of debt distress 8 years after reaching the completion point.

MINISTÈRE DES FINANCES ET DES COMPTES PUBLICS

MINISTÈRE DE L'ÉCONOMIE DE L'INDUSTRIE ET DU NUMÉRIQUE

1. The international financial community cancelled USD 126bn in debt under the HIPC Initiative

The Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) (see Box 1) were designed to be permanent solutions to the developing countries' debt crisis in the 1980s. Under these initiatives, the international financial community as a whole cancelled debts with a total face value of USD 126bn[1] between 2000 and 2014. Debt cancellations were made by international financial institutions, official bilateral creditors and private creditors all cancelled debts. Paris Club creditors accounted for approximately a quarter of the total financial effort. France was the leading contributor among Paris Club members, since it had especially large exposures to the African countries that were the main beneficiaries of the Initiative[2]. France committed itself to cancelling debt totalling €18bn owed by all of the African countries eligible for the HIPC Initiative, €15bn of which has already been cancelled since 2000.

Today, of the 39 countries originally eligible, only Somalia, Sudan and Eritrea have not yet fulfilled the conditions for the HIPC Initiative decision point (see Box 1).

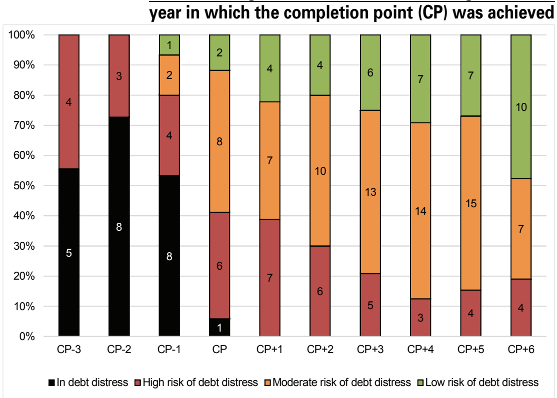
2. On average, the HIPC Initiative seems to have a lasting effect on indebtedness

2.1 The impact at the completion point was very clear: external public debt was cut on average from 119% to 33% of GDP

The goal of substituting investment in inclusive growthfor spending on debt service seems to have been achieved. All of the countries[3] benefiting from the HIPC Initiative saw their debt service reduced by an average of 2 points of GDP after reaching the decision point, while spending on poverty reduction increased by nearly 3 points of GDP. However, HIPC beneficiaries are still lagging with regard to the Millennium Development Goals, especially those concerning education and health[4].

On average, the HIPC Initiative enabled beneficiary countries in Africa[5] to reduce their external public debt from 119% of GDP in the year prior to the decision point to approximately 33% two years after the completion point[6]. Nevertheless, the debt-to-GDP ratio provides only a partial indication of the sustainability of a country's debt. The IMF and the World Bank developed a more refined joint analytical framework, which is specially adapted for the situation of low-income countries[7]. The joint framework is used to assess the probability of debt distress occurring (low risk (L), moderate risk (M), high risk (H) or if the country is already in debt distress (D)). When the analyses are centred in relation to the year in which each country achieved the HIPC completion point, the rapid improvement in the sustainability of African countries' debt is even clearer, when debt relief is implemented by multilateral institutions, the Paris Club, other official creditors and private creditors[8].

Chart 1: The number of post-HIPC African countries deemed to be in debt distress or at low, moderate, high risk of debt distress: change since the year in which the completion point (CP) was achieved



Source: Debt Sustainability Analyses (DSA) by the IMF and World Bank up to 31 December 2015, DG Trésor calculations.

Key: 14 countries were deemed to be at moderate risk of debt distress 4 years after reaching the completion point (CP+4).

NB: The first DSAs started to be published in 2005 and have generally been published annually since then. When a DSA is not conducted in a given year, the assessment from the prior year is used. If several DSAs are carried out in a single year, the most recent one is used. Since several countries reached the completion point before 2005, and several others only reached it very recently, there is no point on the chart that covers a DSA for all 30 countries under analysis. This explains the variable total number of points observed each year. This also means that structure effects are possible.

(1) See IMF (2014), "Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative - Statistical Update".
(2) Of the USD 126bn cancelled, USD 99bn benefited African countries.
(3) Including non-African countries.
(4) See IMF and World Bank (2015).
(5) The African countries that have already benefited from the HIPC Initiative, which are the focus of this article, are: Benin, Burkina-Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Republic of the Congo, , Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zambia. The other HIPC countries, which are not covered by our analysis, are: Afghanistan, Guyana, Haiti, Honduras and Nicaragua.
(6) Source: World Economic Outlook, IMF, April 2015.
(7) A "*Debt Sustainability Analysis*" (DSA) focuses on (i) the country's solvency, by comparing the net present value of its external or public debt to GDP, along with fiscal and export revenue; (ii) the country's liquidity, by comparing debt service to fiscal and export revenue. See International Monetary Fund and World Bank (2013), "*Staff Guidance note on the application of the joint Bank-Fund debt sustainability framework for low-income countries*".
(8) Debt flow relief granted between the decision point and the completion point means that substantial debt reduction may be achieved before reaching the completion point.

Box 1: **The HIPC Initiative**

Official creditors first started granting debt service relief at the end of the 1970s, with the first onset of repeated debt crises in low-income countries[a]. However, the restructuring took the form of rescheduling on non-concessional terms[b], combined with measures to safeguard the new financing (enhanced seniority) in order to encourage further official financing flows to the countries in distress. These terms made major support possible to cover cash needs, but the emphasis on this approach led to massive accumulation of debt[c]. The official creditors, through the Paris Club, dealt with the situation by adopting increasingly concessional treatments, resulting in the first partial cancellation of sovereign debt in favour of Mali in 1988.

The international financial community gradually realised that even full utilisation of all of the existing rescheduling and cancellation instruments, combined with concessional financing and the continuation of sound economic policies, might not be sufficient to enable a number of very poor countries to achieve a sustainable level of debt within a reasonable period. In September 1996, the World Bank Development Committee and the IMF Interim Committee responded to this situation by adopting the **"Heavily Indebted Poor Countries" Initiative (HIPC Initiative)**, which was enhanced in September 1999 to provide more rapid and more substantial relief to more countries and to strengthen links between debt relief, poverty reduction and social policies.

The Initiative was designed to provide exceptional assistance to eligible countries. **It was aimed at a closed group of 39 countries** that were deemed to be particularly poor and indebted at the time the Initiative was launched. The group was closed to prevent the moral hazard whereby countries on the cusp of the eligibility thresholds would be tempted to allow their public finances deteriorate to the point that they would become eligible for the Initiative.

The Initiative provides for a two-step process:

First step: "decision point". To receive HIPC Initiative assistance, a country must fulfil the following four criteria:

1) A poverty criterion, assessed on the eligibility for concessional financing windows only, which are the IMF's PRGT (Poverty Reduction and Growth Trust) and the World Bank's IDA (International Development Association).

2) An unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms.

3) Implementation of reforms and economic policies through IMF- and World Bank-supported programmes.

4) Production of a Poverty Reduction Strategy Paper (PRSP) following a broad-based participatory process in the country.

Once the Executive Boards of the IMF and the World Bank determine that a country has reached the decision point, it may start receiving interim relief on its debt service.

Second step: "completion point". In order to receive full and irrevocable debt reduction under the HIPC Initiative, a country must:

1) Continue to establish a track record of good performance under programmes supported by the loans from the IMF and the World Bank.

2) Satisfactorily implement key reforms agreed to at the decision point.

3) Adopt and implement its PRSP for at least one year.

Once a country has met these criteria, it can reach the completion point, which allows it to receive the full debt relief committed at the decision point. More specifically, the IMF and World Bank compute a "common reduction factor" stipulating the minimum effort that each creditor needs to make to achieve overall debt sustainability. The HIPC Initiative requires the **participation of all multilateral creditors**, in addition to the traditional debt relief granted by **official bilateral creditors** and **private creditors**. Immediately after reaching the completion point, external public debt is not generally null. The remaining debt can stem from 4 possible sources: (1) creditors that did not go beyond the common reduction factor; (2) multilateral creditors that granted loans after 2004 (see below); (3) other creditors that granted loans between the decision point and the completion point; (4) creditors that have refused to take part in the Initiative (e.g. some private creditors).

Most Paris Club creditors have committed themselves to going beyond the financial efforts required under the Initiative, sometimes cancelling all of their claims. This is the case for France, in particular, and all of the other G7 countries, which made this commitment at the Okinawa G7 Summit in 2000. In the same vein, following the 2005 G8 meeting, the **Multilateral Debt Reduction Initiative (MDRI)** led the IMF, the International Development Association (IDA) of the World Bank and the African Development Fund (ADF) to commit to **cancelling all of their claims** on prior loans to countries that had reached or were going to reach the completion point. In contrast to the HIPC Initiative, the MDRI did not require comparable action from other multilateral, bilateral or private creditors.

a. See Boote, A. R. and K. Thugge (1997), "Debt relief for low-income countries and the HIPC Initiative", *IMF Working Papers* 97/24, International Monetary Fund.

b. Concessionality is the measure of the "generosity" of the financing provided. For example, the more favourable the financial terms (interest rate, maturity, grace period) of a loan, the greater its concessionality. It should be noted that different institutions may use different methods to calculate concessionality (see Puppetto, L. (2016), "Les nouvelles règles pour les prêts d'aide publique au développement : quels enjeux ?", *Lettre Trésor-éco* No. 161 for an analysis of the rules applied by the OECD Development Assistance Committee). This means that non-concessional restructuring of a loan consists of changing the original repayment schedule without reducing the net present value of the claim, which is maintained by charging interest. As such, non-concessional restructuring is only good for addressing a liquidity crisis, and not a solvency crisis.

c. See Daseking, C. and R. Powell (1999), "From Toronto terms to the HIPC Initiative: A brief history of debt relief for low-income countries", IMF Working Paper WP/99/142, International Monetary Fund.

2.2 On average, beneficiary countries' external public debt-to-GDP ratio has remained stable since the completion point

The main issue today is the permanence of the initial benefits of the HIPC Initiative and the MDRI.

A moderate accumulation of new public debt was desirable after the massive debt cancellations under the HIPC Initiative. Public debt fuels economic growth, as long as it is used for capital formation rather than consumption, and provided the financing terms are affordable, the projects are carefully streamlined, and the pace of overall debt growth remains moderate. The main purpose of "wiping the slate clean" was to ensure a sustainable debt path for the beneficiary countries in the long term. By reducing the risk of default, the Initiative renewed the lenders' confidence, starting a virtuous cycle of affordable financing, investment and growth.

The average external public debt-to-GDP ratio of the countries under review continued to decline steadily between 2007, when nearly two thirds of these countries had reached the completion point, and 2012. Their debt fell from 58% to 26% of GDP over that period, **however the average debt-to-GDP ratio has risen steadily but moderately since 2012**, to stand at 32% at the end of 2015[9] .

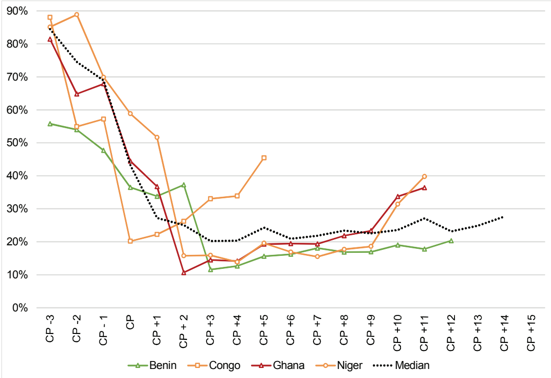
3. An alarming resurgence of the debt of certain beneficiary countries in the recent period

A finer-grained analysis shows that average results are reassuring, but the actual situation is one of greater contrasts (see Chart 2 for some outliers). The general level of indebtedness is still much lower than before the Initiative, but several countries are accumulating new debt at a rapid pace: for example, 13 countries have seen their external public debt rise by more than 10 points of GDP in the last five years[10].

Furthermore, domestic borrowing, which is often very costly, generally carries shorter maturities and is penalised by the lack of a liquid market, has also been a factor for vulnerability. Total average public debt is expected to stand at 50% of GDP at the end of 2015. The domestic component of public debt is particularly large in Gambia (44 points of GDP[11]), Malawi (41 points of GDP), Togo (34 points of GDP) and Chad (34 points of GDP). Nevertheless, there are two advantages to domestic borrowing: (i) such debt is denominated in local currency, which eliminates exchange rate risk, and (ii) it is provided by a more captive investor base, making it less sensitive to market volatility.

More generally speaking, the finer-grained analysis of the DSA shows that the actual situation is globally more alarming for the countries under analysis than the average debt-to-GDP ratios would seem to indicate (see Chart 3). **For example, only 5 of the 30 post-HIPC countries in Africa still posted a "low" risk of debt distress at the end of 2015;** and 7 of these countries currently post a "high" risk of debt distress. This shift has been even more marked since it occurred despite a methodological change[12] in 2013, which accounted for several of the upgraded assessments of the risk of debt distress.

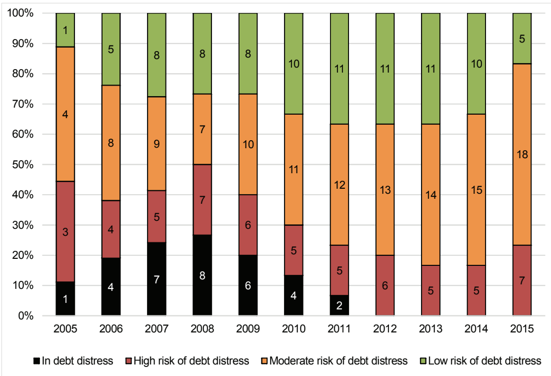
Chart 2: Contrasting dynamics of new debt growth in recent years



NB: change in the external public debt-to-GDP ratio compared to the completion point date (CP) for a selection of countries. The red lines correspond to "high" risk of debt distress, orange lines to "moderate" risk and green lines to "low" risk. The median is that of the 30 countries under review.

Source: WEO April 2015, DSAs by the IMF and the World Bank available as of December 2015.

Chart 3: Annual change in the number of post-HIPC African countries deemed to be at risk of debt distress or in debt distress



Sources: IMF and World Bank.

(9) Source: WEO April 2015.

(10) Congo (+25 points), Niger (+23), Malawi (+19), Liberia and Ghana (+17), Cameroon and Mozambique (+14), Gambia (+13), Central African Republic and Zambia (+12), Senegal, Mali and Rwanda (+10).

(11) The changes shown are from the latest available DSA as of 31 December 2015, which means that they do not necessarily correspond to the changes that can be deduced from Table 1.

(12) The discount rate used, which was previously calibrated on the commercial interest reference rate (CIRR) for the US dollar, (3% at the time of the methodological change at the end of 2013), was replaced by a fixed rate of 5%. Prevailing interest rates in the advanced economies had fallen so low that they were no longer deemed appropriate for discounting financial flows in developing economies. However, the change in methodology created a break in the series that automatically reduced the net present value of outstanding debt. See IMF (2013), "Unification of discount rates used in external debt analysis for low-income countries".

Tableau 1 : situation of the countries under review

	HIPC decision point date	HIPC completion point date	Risk of debt distress[a]	External public debt-to-GDPB[b] ratio at the end of 2015	Total public debt-to- GDP ratio at the end of 2015[c]
Benin	2000	2003	Low	20%	37%
Burkina-Faso	2000	2002	Moderate	22%	34%
Burundi	2005	2009	High[d]	14%	30%
Cameroon	2000	2006	High	20%	33%
Comoros	2010	2012	Moderate	18%	18%
Congo	2006	2010	Moderate	45%	65%
Ivory Coast	2009	2012	Moderate	29%	46%
Ethiopia	2001	2004	Moderate	25%	50%
Gambia	2000	2007	Moderate	52%	102%
Ghana	2002	2004	High	36%	75%
Guinea	2000	2012	Moderate	32%	46%
Guinea Bissau	2000	2010	Moderate	31%	51%
Liberia	2008	2010	Moderate	26%	24%
Madagascar	2000	2004	Moderate	27%	41%
Malawi	2000	2006	Moderate	35%	76%
Mali	2000	2003	Moderate	34%	37%
Mauritania	2000	2002	High	62%	66%
Mozambique	2000	2001	Moderate	51%	73%
Niger	2000	2004	Moderate	40%	43%
Uganda	2000	2000	Low	21%	31%
Central African Republic	2007	2009	High	32%	43%
Democratic Republic of the Congo	2003	2010	Moderate	14%[e]	18%
Rwanda	2000	2005	Low	24%	34%
Sao Tome and Principe	2000	2007	High	73%	80%
Senegal	2000	2004	Low	37%	54%
Sierra Leone	2002	2006	Moderate	34%	45%
Tanzania	2000	2001	Low	28%	41%
Chad	2001	2015	High	47%[f]	60%
Togo	2008	2010	Moderate	24%	63%
Zambia	2000	2005	Moderate	19%	40%

a. Latest Debt Sustainability Analysis available at the end of 2015.
b. Projection. Source: WEO April 2015.
c. Latest Debt Sustainability Analysis available at the end of 2015. The scope generally includes non-sovereign public debt. Discrepancies with the previous column, other than those stemming from differences in scope, may be related to the dates on which the projections were produced.
d. The case of Burundi illustrates the necessity of analysing more than just the debt-to-GDP ratio. The country's management capacities are weak, and the small volume and lack of diversification of its exports are a source of vulnerability in terms of debt sustainability. Therefore, the risk of debt distress is rated as high, despite the low external public debt-to-GDP ratio.
e. Figure published in the latest Debt Sustainability Analysis..
f. Since the completion point was reached after the WEO 2015 was published, the figure is taken from the latest DSA published after the completion point was reached.

4. The financing landscape for post-HIPC African countries is changing and throwing up several challenges

4.1 The favourable terms offered in recent years are starting to become less so

The pace of new debt growth for HIPC beneficiaries in Africa quickened under the very favourable circumstances of the period from 2009 to 2013[13]. On the whole, low-income countries started out showing greater resilience than the advanced economies in the period following the 2008 crisis, buoyed in part by **strong demand from emerging countries**. In addition, historically low interest rates continued in the advanced economies, increasing investors' appetite for developing economies and making borrowing in strong currencies more affordable. Finally, **commodity prices, after dipping in the wake of the 2008 crisis, hit historic highs up until the middle of 2014**. And, 29 of the 30 countries discussed in this paper just happen to be on the list of 94 commodity-dependent developing countries drawn up by UNCTAD[14].

However, this window of opportunity is closing. Emerging countries' economic growth is slowing down. Slower growth is starting to penalise certain

(13) See International Monetary Fund and World Bank (2015), "*Public Debt Vulnerabilities in Low-Income Countries: The Evolving Landscape*".
(14) See United Nations Conference on Trade and Development (2014), "*State of Commodity Dependence*".

African countries that have developed strong trade links (see below). Furthermore, the end of accommodative monetary policies is expected to lead to **rising interest rates in the advanced economies**, a reversal of capital flows from developing economies back to the advanced economies, and a stronger US dollar. Finally, **many commodity prices, especially oil prices, fell suddenly** after mid 2014. The IMF and the World Bank do not foresee any return to higher prices in the short term[15]. This situation has hit net commodity exporters hard and produced only moderate gains for net importers.

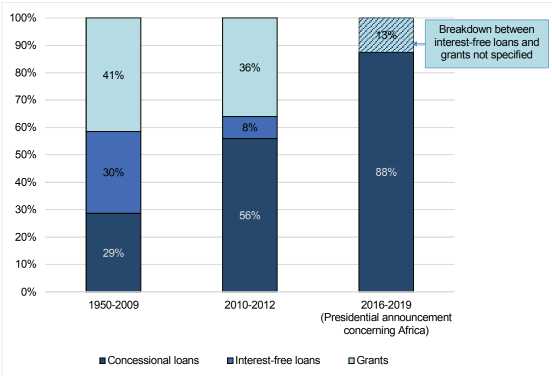
4.2 New official creditors are playing a increasingly important role

The increase in lending from emerging countries has played a key role in the new debt growth. These new lenders' development assistance policy strategies may be different from those of traditional lenders[16] . First of all, the traditional bilateral creditors are usually members of the OECD Development Assistance Committee (DAC). They are more attentive to the long-term sustainability of their debtors' borrowing. They make extensive use of IMF and World Bank macroeconomic analysis, whereas most emerging countries focus more on the microeconomic viability of the projects being financed. However, the strong growth of financing from emerging countries means that their lending now has a macroeconomic impact. Mwase and Yang (2012) state that traditional lenders think that the effectiveness of development assistance relies in part on the strength of institutions and governance. In contrast, some emerging countries cite a non-interference principle to explain why their financing is not subject to policy conditions. Members of the OECD DAC are also bound by common rules: specific requirements for calculating the concessionality of lending, a minimum concessionality threshold for deeming a loan to be Official Development Assistance, regular peer-review scrutiny of their development policies, detailed disclosure of the financing terms, incentives to untie assistance, etc.When a country does not comply with the DAC rules, it is very difficult to form a clear idea of the nature of the financial flows it provides to promote development.

Despite the lack of official data, China seems to be playing a major role in development financing throughout Africa, which is the leading destination for Chinese assistance, accounting for 46% of the funds[17]. China is estimated to have provided some USD 2bn in "foreign aid[18]" throughout the world in 2009. Between 2010 and 2012, this amount is estimated to have risen to USD 5bn per year[19]. At the summit of the Forum on China-Africa Cooperation in Johannesburg in December 2015, the Chinese President announced that China would provide USD 5bn in grants or interest-free loans and USD 35bn in concessional loans, which correspond to an increase of more than USD 13bn per year in Chinese foreign aid to Africa alone.

Furthermore, the concessionality of this Chinese aid seems to be winding down:

Chart 4: Changes in the concessionality of Chinese development assistance



Source:White Papers on China's Foreign Aid, Information Office of the State Council, Published in April 2011 (1950-2009) and July 2014 (2010-2012); Statements by the Chinese President at the Forum on China-Africa Cooperation in December 2015.

Key: The data for the periods 1950-2009 and 2010-2012 concern the whole world. The data for the period 2016-2019 concern Africa only.

4.3 Countries are issuing bonds on international capital markets

Post-HIPC countries in Africa now have access to international capital markets, which is also driving new debt growth. After reaching the completion point, 6 of the 30 countries[20] under review issued sovereign bonds on international markets for the first time in their history.

(15) See International Monetary Fund (2015), "Macroeconomic Developments and Prospects in Low-Income Developing Countries", and World Bank (2015), "*Commodity Markets Outlook*".

(16) See Nkunde Mwase, N. and Yongzheng Yang (2012), "BRICs' Philosophies for Development Financing and Their Implications for LICs", *Working Paper*, IMF.

(17) White Paper on China's Foreign Aid (2011), Information Office of the State Council, estimate for 2009.

(18) World Bank estimate, "*Financing for Development Post-2015*", September 2013. None of the Chinese aid figures given here was provided by the DAC. This means that the figures do not comply with the international ODA standards.

(19) *White Paper on China's Foreign Aid* (2014), Information Office of the State Council.

(20) Ethiopia, Ghana, Rwanda, Senegal, Tanzania and Zambia. See Anastasia Guscina, Guilherme Pedras and Gabriel Presciuttini (2014), "*First-Time International Bond Issuance - New Opportunities and Emerging Risks*".

Tableau 2 : Sovereign Eurobond issued by post-HIPC countries in Africa[a]

	Date	Yield at issue (%)	Maturity (years)	Amount (USD millions)	Currency	Governing law	Percentage of GDP at the time of issue
Ghana	27/09/2007	8.5	10	750	USD	England	3%
Congo	06/12/2007	8.77[b]	22	480	USD	Luxembourg	6%
Senegal	15/12/2009	9.473	5	200	USD	England	2%
Ivory Coast	15/03/2010	17.354[c]	22	2 330	USD	France	9%
Senegal	06/05/2011	9.123	10	500	USD	Luxembourg	3%
Zambia	13/09/2012	5.625	10	750	USD	England	3%
Tanzania	27/02/2013	6.284	7	600	USD	England	1%
Rwanda	16/04/2013	6.746	10	400	USD	England	5%
Ghana	01/08/2013	7.8	10	750	USD	England	2%
Ghana	12/09/2014	8.25	12	1 000	USD	England	3%
Senegal	30/07/2014	6.25	10	500	USD	England	3%
Zambia	14/04/2014	8,63	10	1 000	USD	England	4%
Ethiopia	12/2014	6.625	10	1 000	USD	England	2 %
Ivory Coast	07/2014	5.625	10	750	USD	England	2%
Zambia	24/07/2015	9.375	12	1 250	USD	England	4%
Ivory Coast	24/02/2015	6.625	12	1 000	USD	England	3%
Ghana	13/10/2015	10.75[d]	15	1 000	USD	England	3%
Cameroon	13/11/2015	9.75[e]	10	750	USD	England	3%

a. Les émissions de la Côte d'Ivoire en 2010 et du Congo en 2007 ont été réalisées dans le cadre de restructuration de dette. *Cf.* Fonds Monétaire International, 2014, "*Issuing International sovereign bonds, opportunities and challenges for sub-Saharan Africa*".
b. L'émission congolaise a été effectuée dans le cadre d'une restructuration visant à l'application des efforts PPTE aux créanciers commerciaux. Le rendement à l'émission ne correspond ainsi pas au taux d'intérêt proposé dans le titre. *Cf.* Mark B. Richards (2010), "*The Republic of Congo's debt restructuring: are sovereign creditors getting their voice back?*" pour plus de détails.
c. L'émission ivoirienne était là encore une opération d'échange des "*Brady bonds*", dans le cadre de l'application des efforts PPTE aux créanciers commerciaux ; le haircut correspondant a été estimé à 55% (*cf.* Juan Cruces et Christoph Trebesch, 2011, "*Sovereign defaults: the price of haircut*"). Le rendement à l'émission ne correspond ainsi pas au taux d'intérêt proposé dans le titre.
d. Malgré une garantie de la Banque mondiale pour un montant allant jusqu'à 400 M USD.
e. La Banque Africaine de Développement a approuvé l'octroi d'une garantie de 500 M USD pour couvrir le risque de change sur cette émission obligataire.

Source : FMI (2014), "Issuing International sovereign bonds, opportunities and challenges for sub-Saharan Africa" pour les émissions réalisées jusqu'à avril 2013, et Reuters ensuite. À noter qu'une entreprise d'État mozambicaine a également réalisé en septembre 2013 une émission obligataire pour un montant de 850 M USD, soit l'équivalent de 5 % du PIB au moment de l'émission.

The amounts issued may represent a substantial percentage of these countries' GDP. The expected rise in interest rates and the exchange-rate risk incurred by issuing bonds in foreign currencies give rise to **major refinancing risks**, especially since the bulk of the bonds are "bullet bonds", which means the entire principal amount is repaid at once on a single date[21].

The compliance of these bonds with the latest standards promoted by the IMF and the International Capital Market Association (ICMA), **to counter vulture funds' strategies in particular, is very recent and sometimes incomplete**. Vulture funds have used a singular interpretation of a boilerplate clause in sovereign bond contracts (*pari passu* clause), for example, to halt Argentina's payments to all of its other private creditors that had accepted a restructuring deal some years previously[22]. The IMF and the ICMA proposed new standards to overcome this problem and make the language of the clause more robust. They also strongly urged borrowers to include collective action clauses with aggregated voting procedure[23] in bond contracts. In the case of the countries under review, none of the *pari passu* clauses for bonds issued before November 2014 complied with the new standards, which leaves all of these sovereign bonds vulnerable to vulture funds. Furthermore, even the recent sovereign bond issued by Côte d'Ivoire in February 2015, despite including a revised pari passu clause, does not include a collective action clause with aggregated voting procedure[24]. Any attempt to restructure the debt, should it become necessary, could be stymied by vulture funds, thus prolonging the cessation of the country's payments to all holders of its sovereign bonds[25].

(21) See IMF 2014, "*Issuing International Sovereign Bonds, Opportunities and Challenges for Sub-Saharan Africa*".
(22) See Cailloux, G. (2014), "Argentina, the vultures and the debt", *Trésor-Economics* No. 136.
(23) Such clauses make a restructuring binding on all bondholders if the vast majority find the terms of the restructuring acceptable.
(24) See IMF (2015), "Progress report on inclusion of enhanced contractual provisions in international sovereign bond contracts".
(25) See Gulati, M. and K. Klee (2001), "*Sovereign Piracy*", for an analysis of the interpretation of the *pari passu* clause given by a Belgian court (before laws were passed to prevent such rulings) and the harmful effects of the vulture funds' actions.

4.4 How will the creditors of a post-HIPC country react if it defaults again?

This new paradigm could give rise to some specific problems in the event of a new debt crisis in Africa. New sovereign creditors, with few links to the Paris Club and its coordination process, along with individual holders of sovereign bonds, who are isolated and more diverse than the major banks behind the syndicated loans prior to the 1980s crisis, are all playing a growing role. The result could be a less orderly restructuring process that would carry a heavier cost for all involved, and, particularly, for the main creditors. Furthermore, lenders who contributed to the previous HIPC Initiative efforts could be reluctant to provide further debt relief, given their perception of a de facto failure of the previous process. Finally, another debt relief deal could give rise to moral hazard in the case of other post-HIPC countries that have hitherto been prudent borrowers.

4.5 Conclusion

In view of emerging concerns about an eventual debt crisis in certain post-HIPC countries, several remedies are starting to be explored, in keeping with the concept of "sustainable financing". The Addis Ababa Action Agenda adopted by the UN in July 2015 stresses the need to mobilise domestic resources, which is the key to financing for development, when external borrowing must be comprehensive and viable. The agenda also acknowledges the responsibility of creditors with regard to the sustainability of the borrowers' debt. These points were also included in the G20 Leaders' Communiqué from the Antalya Summit of November 2015. For the purpose of raising new creditors' awareness of these issues, the Paris Club, in its role as a body for coordination of sovereign debt restructuring, is attempting to involve greater numbers of sovereign players through the inclusion of new members, the creation of an ad-hoc membership status for emerging creditors and the holding of the annual Paris Forum[26]. With regard to sovereign bonds, the struggle against vulture funds, powered by the discussions of the UN General Assembly regarding the establishment of a supranational sovereign debt restructuring mechanism can continue, by making the new issuers aware of the new standards for bond contracts and by having the jurisdictions hosting the main financial centres adopt legislation in a similar spirit to the law passed by the Belgian Parliament in September 2015[27].

As Dr Akinwumi A. Adesina, President of the African Development Bank said to the Paris Forum in November 2015, "*developing countries cannot afford to go back to the days of HIPC, where the Paris Club had to underwrite the cancellation of debts. This can be achieved through stronger macroeconomic, debt and public financial management. (...) (W)e certainly should not come back to Paris to speak of another HIPC. One HIPC is more than enough!*"

Anaïs LE GOUGUEC

(26) The Paris Forum is an annual event that has been organised jointly with the rotating presidency of the G20 since 2013. The event brings together sovereign creditors and debtors to discuss changes in sovereign financing and the prevention and resolution of debt crisis.

(27) The purpose of the law is to halt the harmful action of vulture funds in Belgium, while protecting the rights of those who invest in developing countries.

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