16 November 2020

Africa's solvency crisis: China's participation in G20 debt relief a sign of multilateralism, but a "DSSI+" framework is required

China's historic 2020 participation in the G20's Debt Service Suspension Initiative (DSSI) marks an important moment in China's increasing multilateralism. However, while the DSSI gives African governments short-run fiscal space, it also accentuates medium-term debt distress. An ambitious DSSI+ architecture that enhances the transparency and consistency of China's participation, ensures equal treatment across creditor types, and brings to the fore debt forgiveness is needed to address solvency crises in addition to liquidity ones. Such a DSSI+ framework of sovereign debt measures could raise the creditworthiness of borrowers post-restructuring.

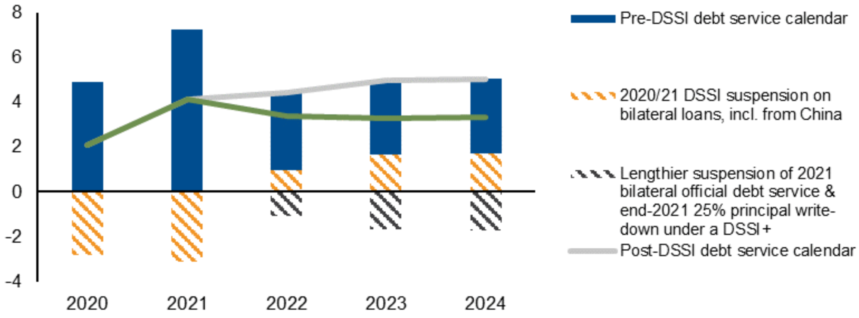
China (A+/Negative) has significantly expanded its economic and financial ties with African governments, swiftly becoming the region's single most important creditor. With almost a third of African sovereigns' external debt service over 2020-24 due to be paid to China, its involvement in the G20's DSSI has been crucial. With the extension of DSSI beyond 2020, Angola and Djibouti could see total DSSI savings on bilateral loans from China alone of above 4.5% of 2019 GDP on 2020-21 debt service.

However, while suspension of debt service on bilateral loans is credit positive near term, it could raise debt-servicing distress later: Angola, Djibouti and Mozambique could each see *increases* in their debt servicing requirements over 2022-24 of over 1% of GDP on average per year *due to* DSSI participation, from the shifting of payments to later years on NPV-neutral bases (see **Annex I** for DSSI's term sheets). With half of all sub-Saharan African sovereigns being at risk of or in debt distress entering 2020, this transfer of debt distress from near- to medium-term could be credit negative should a more systemic sovereign debt crisis develop.

A formal mechanism has been required to determine whether crises relate to liquidity alone or to solvency. In the case of the former, debt service suspension is the right remedy – for countries such as Burkina Faso, Central African Republic and D.R. Congo with low debt and interest payments. However, for countries such as Angola, Burundi or Ghana, a participation on DSSI terms could compound medium-run distress. **Figure 2 (next page)** summarises implications for the creditworthiness of African borrowers of DSSI participation.

While the "Common Framework for Debt Treatments beyond the DSSI" endorsed on Friday by the G20 and Paris Club represents a positive step, the Framework's emphasis on short-run debt service savings and NPV reductions in debt risks not going far enough. An ambitious framework, which we refer to as "DSSI+", which ensures equitable treatment across creditor types, mandates rather than seeks involvement of private-sector creditors, and strengthens availability of outright principal write-down if needed could support stronger credit profiles of African issuers after a restructuring. In **Figure 1**, we illustrate how such a DSSI+ framework with a debt forgiveness element could stabilise Angola's medium-run debt servicing requirements. A hypothetical 25% principal write-down for distressed African borrowers could bring savings of nearly USD 29bn with the largest savings on loans from China (USD 11bn).

Figure 1. Effect of DSSI+ debt forgiveness on Angola's debt service, % of 2019 GDP



Full assumptions on page 12 (Figure 14 footnotes). Source: World Bank, Scope Ratings GmbH.

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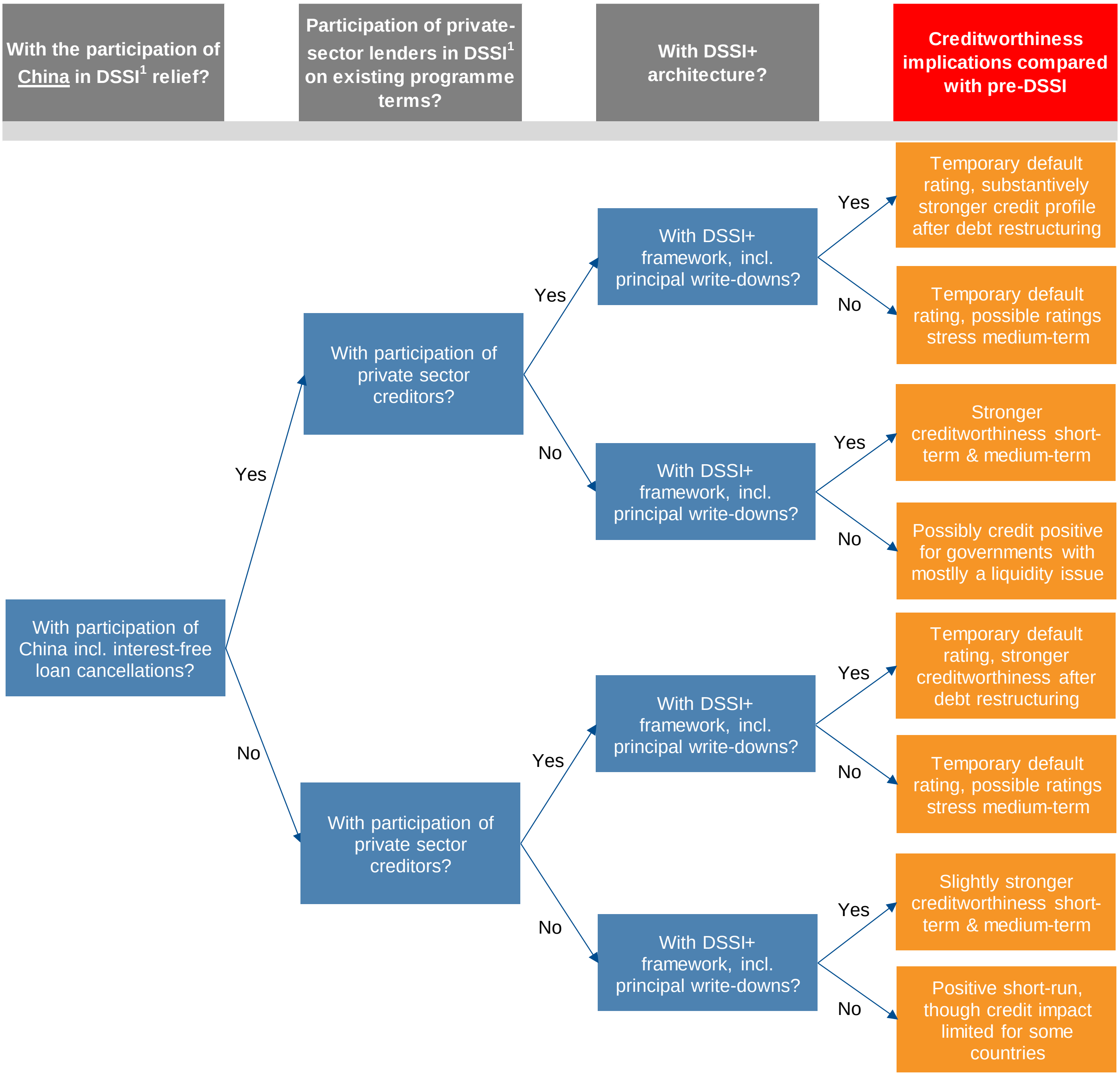
Figure 2. DSSI[1] versus "DSSI+" implications for the creditworthiness of participating African borrowers



[1]DSSI in this diagram assumes the availability of debt measures under the G20 and Paris Club's Common Framework for Debt Treatments beyond the DSSI endorsed on 13 November 2020. Assumes such debt treatments will generally not be conducted in the form of debt write-offs or cancellations.
N.B. Refers to implications for long-term issuer ratings in each hypothetical scenario.
Source: Scope Ratings GmbH.

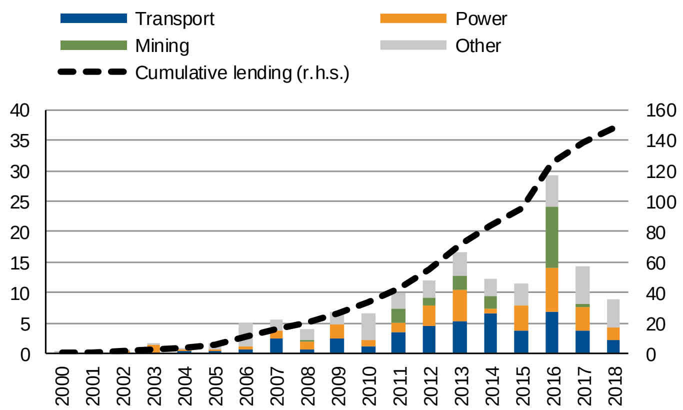
China has become Africa’s largest single creditor

Africa’s rapid economic development of recent decades has been significantly supported by a growing economic, financial and political relationship with China. As the Chinese economy has expanded and its desire to secure access to commodities rose, so too did trade and financial linkages with Africa, with China becoming the continent’s single most important economic and trading partner.

Large-scale loan support for African governments

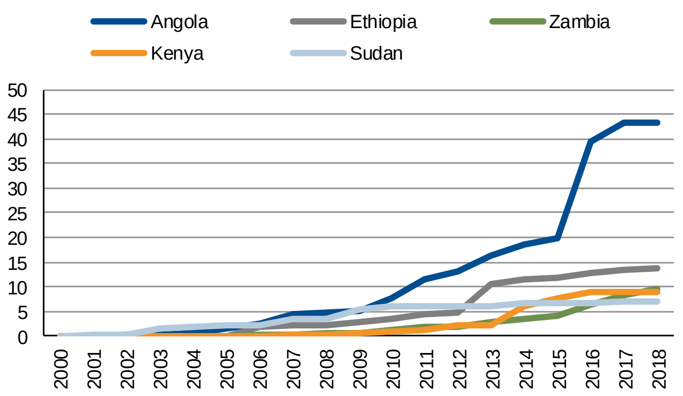
An important avenue of China’s engagement in Africa has been its lending to governments of the region to finance infrastructure development. According to the China Africa Research Initiative (CARI) of Johns Hopkins University, between 2000 and 2018, China loaned an aggregate USD 148bn to 50 African countries (**Figure 3**). Among these 50 economies, cumulative borrowing by country ranged widely from USD 43bn by Angola (**Figure 4**) to only USD 9m by Algeria.

Figure 3. China’s loan commitments to Africa
USD bn, by sector



Source: John Hopkins University School of Advanced International Studies (SAIS), Scope Ratings GmbH

Figure 4. Cumulative borrowing from China since 2000, top five borrowers
USD bn, by country

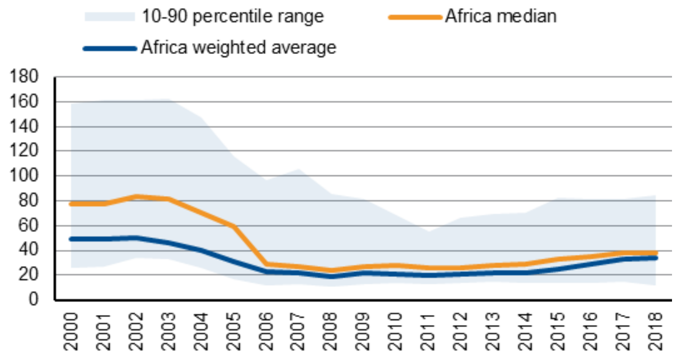


N.B. These figures reflect cumulative amounts borrowed and not amounts of debt outstanding since substantial payments have been made by many countries.
Source: John Hopkins University SAIS, Scope Ratings GmbH

Chinese loans have contributed to the region’s growing debt stock

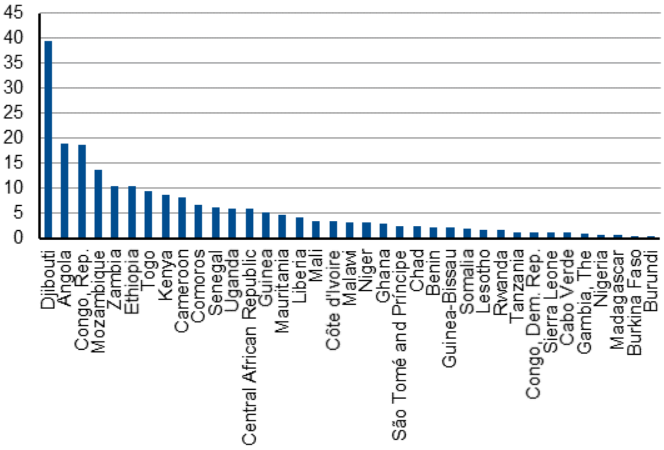
However, loans from China have contributed to the region’s debt stock. African external debt nearly doubled from 19% in 2008 to about 34% of GDP by 2018 (**Figure 5, next page**). This includes significant bilateral debt due back to China by countries such as Djibouti (which totals 39.4% of GDP), Angola (19.0%) and the Republic of the Congo (18.8%) (**Figure 6, next page**). Among 37 African governments eligible for the G20’s DSSI and with debt data available per a new World Bank dataset, USD 62bn of debt was owed to China as of 2018 (22% of African governments’ total debt and 52% of governments’ debt from official and non-official bilateral sources outstanding as of 2018).

Figure 5. External debt of Africa
% of GDP



N.B. Based on a sample of 46 countries for which external debt data are available.
Source: World Bank, Scope Ratings GmbH

Figure 6. Total debt owed to official and non-official Chinese lenders
% of GDP



N.B. Data are shown for 37 African countries that report external debt to the World Bank's Debtor Reporting System (DRS).
Source: World Bank, Scope Ratings GmbH

Substantive debt service scheduled to be paid to China over 2020-2021

As such, China has transitioned to becoming the single most important creditor to low-income African governments (**Figure 7**) – surpassing in this respect the World Bank. The peak year for Chinese lending activities was 2013 (excluding for Angola) and given grace periods of around five to seven years for loans, countries are now seeing significant jumps in principal payments amid the 2020 crisis[1].

Countries such as Djibouti and Angola are scheduled to pay significant interest and principal payments to China in 2020 and 2021, totalling 6.3% of GDP and 5.6% of GDP respectively (**Figure 8**). Cumulatively, total debt service due to paid to China by the 37 African DSSI-eligible countries with available external debt data amounts to USD 14bn over 2020 and 2021 (29% of the governments' total debt service over the two years and 49% of governments' debt service owed on official and non-official bilateral loans).

Figure 7. Aggregate external debt in Africa, by creditor
USD bn

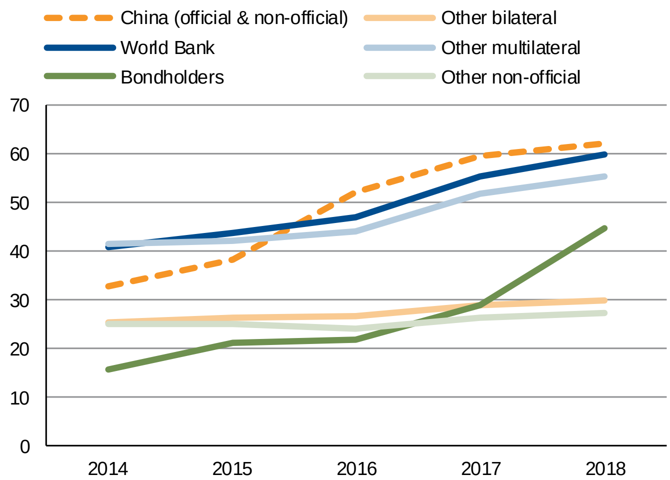
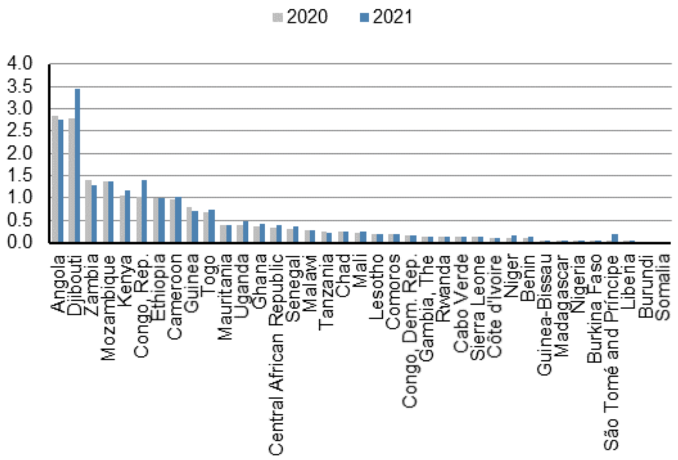


Figure 8. Annual debt service on loans from China
% of 2019 GDP, official and non-official loans from China



N.B. Data are shown for 37 African countries that report external debt data to the World Bank's DRS. Source: World Bank, Scope Ratings GmbH.

[1] Huang, Y. and D. Brautigam. (2020), "Putting a Dollar Amount on China's Loans to the Developing World", The Diplomat.

DSSI and China's engagement in 2020 multilateral debt initiatives

Covid-19 crisis has elevated debt repayment distress

In 2020, the socio-economic repercussions of the Covid-19 crisis have been severe. The IMF's latest forecasts project the sub-Saharan African economy to contract by 3% in 2020, compared with 2.8% average growth over a pre-crisis period (2015-19).

Increased pressure to forgive or present relief on loans

The international community has mobilised extensive emergency funds to African governments alongside debt relief under the Debt Service Suspension Initiative to support vulnerable governments (see previous Scope research published: 3 September). China has faced calls to restructure or forgive tens of billions of dollars in loans.

Even prior to 2020, China held a custom of extending debt relief to African governments via maturity extensions, lower interest rates and debt-service payment re-profiling, for example for the Republic of the Congo (2018-2019), Cameroon (2019), Ethiopia (2018) and Mozambique (2017). In some such cases, including those of the Republic of the Congo and Ethiopia, China's debt initiatives facilitated disbursement of IMF funding.

China has committed to participating in DSSI – …

As a component of China's commitment to participation under DSSI, Chinese President Xi Jinping, in a speech to the Forum on China-Africa Cooperation (FOCAC) on 17 June, suggested domestic financial institutions should consult with African countries to work out arrangements for commercial loans with sovereign guarantees. To date, China has arrived at arrangements with at least half of a group of 20 global low-income nations that have requested loan restructurings under the DSSI architecture[2].

… its first time participating under a coordinated, multilateral debt relief programme.

China's participation in the DSSI in 2020 marks an important moment: its first involvement in a coordinated, global debt relief initiative of this kind – an indication of China's increasing multilateralism. China's participation has signalled, in addition, that additional Chinese debt relief could be available in future years for borrowing countries that come under debt distress. Central governments that are eligible for DSSI and that could benefit from relief on 2020 and 2021 debt service on loans from China include most significantly Djibouti and Angola, but also Mozambique, Zambia, the Republic of the Congo, and Kenya. However, while China has committed to working under DSSI, it has preferred negotiating bilaterally with borrowers rather than coordinating uniformly with G20 partners and the Paris Club.

The G20 has extended DSSI by six months to June 2021

Due to financing pressures that DSSI-eligible countries are expected to continue facing in 2021, the Paris Club and G20 agreed on 14 October on an extension of DSSI by six months, and, in addition, to examine by the time of the 2021 IMF/World Bank Group Spring Meetings in April of next year whether an additional extension of six months (to cover 2H-2021 debt service) may be needed. The Paris Club underlined that <u>all</u> official bilateral creditors need to implement the initiative fully and transparently – a comment directed at China – and called upon private creditors to participate on comparable terms.

The DSSI extension will raise the programme's overall impact for distressed borrowers

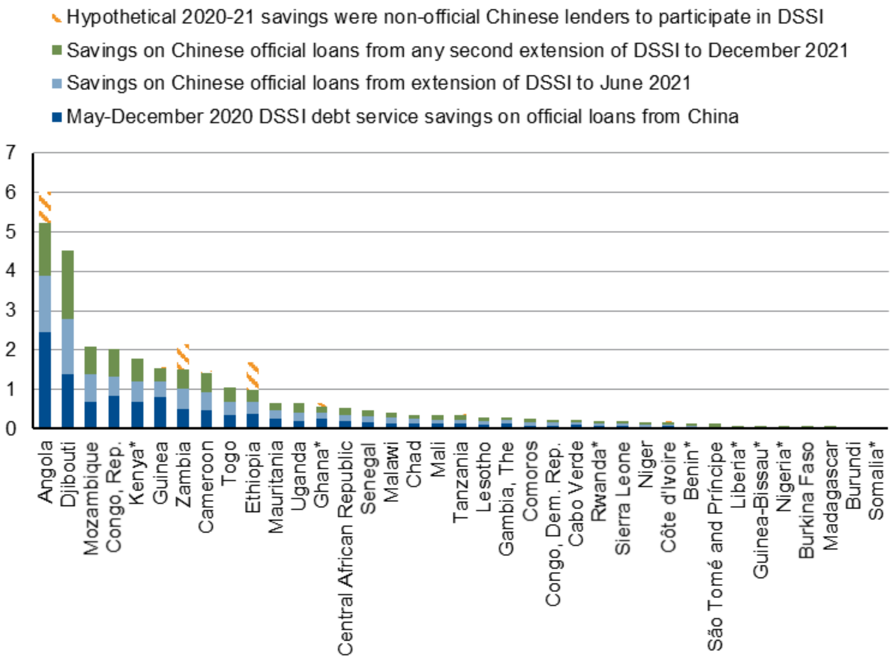
The six-month extension of DSSI will raise the programme's impact for distressed borrowers. **Figure 9 (next page)** displays possible savings for African governments on Chinese bilateral loans contingent on the duration of the suspension extension. On aggregate, savings on Chinese bilateral loans, if the DSSI were further extended to end-2021, for Angola and Djibouti could total above 4.5% of 2019 GDP, followed by Mozambique, Congo, Kenya, Guinea and Zambia with possible savings of over 1.5% of 2019 GDP if a government is participating in DSSI[3].

Among Chinese lenders, it is only the Exim Bank of China – as the official export credit agency – that is a confirmed DSSI participating institution. Debt service suspension support that could be presented by China's "commercial" creditors could be meaningful only for

[2] Hodgson, C. (2020), "China strikes deal with poor nations under G20 scheme", Financial Times.
[3] As suspension of debt service applies from the date an eligible beneficiary country passes a formal request to creditor(s) indicating interest in programme participation, actual savings will be below figures presented in **Figure 9** depending on when/if a borrowing government opts in.

three African governments – Angola, Ethiopia and Zambia – with each seeing additional savings over 2020-21 of 0.6-0.8% of 2019 GDP over 2020-21 under a scenario of Chinese state-owned commercial banks' participation (illustrated in striped bars in **Figure 9**).

Figure 9. Aggregate savings on debt service on loans from China, 2020-21
% of 2019 GDP



Data are shown for 37 African countries eligible for the DSSI that, moreover, report external debt to the World Bank DRS. Underlying data for this diagram by country available in **Annex II**. *Not participating in DSSI. Source: World Bank, Scope Ratings GmbH.

China to write off interest-free loans due in 2020

President Xi also announced that the Chinese government will cancel interest-free government loans due to mature by end-2020 for relevant African countries under FOCAC. This is significant in making available (again) limited principal cancellations – going beyond China's commitments under DSSI – even if interest-free loans represent only a small share of bilateral lending from China[4].

CARI estimates that similar pledges such as this one have supported average cancellations of around USD 96m per year over 2016-2019. However, an evaluation of China's track record on debt assistance concludes China has favoured debt restructuring or refinancing[5] (USD 15bn over 2000-19) over forgiveness (USD 3.4bn on debts of Africa over 2000-19)[6].

Impact of debt-service suspension on African governments' creditworthiness

China's participation in multilateral debt relief supports especially the creditworthiness of governments undergoing liquidity crises

DSSI participation of African governments can be supportive of sovereign creditworthiness, especially in the case of governments contending with liquidity bottlenecks. The savings cushion reserves, avert sovereign default on repayments due in 2020 and 2021, and allow African governments to invest resulting fiscal space during a pandemic in areas that address public health, stimulate recovery and raise economic potential longer term.

[4] Under 5% of Chinese loans to Africa are interest free under Johns Hopkins estimates. China provided cancellations of interest-free government loans for the first time on interest-free loans maturing in 2005.
[5] Providing additional loans to help borrowers repay debts in times of distress.
[6] Acker, K., D. Brautigam and Y. Huang. (2020), "Debt Relief with Chinese Characteristics", China Africa Research Initiative, Johns Hopkins School of Advanced International Studies.

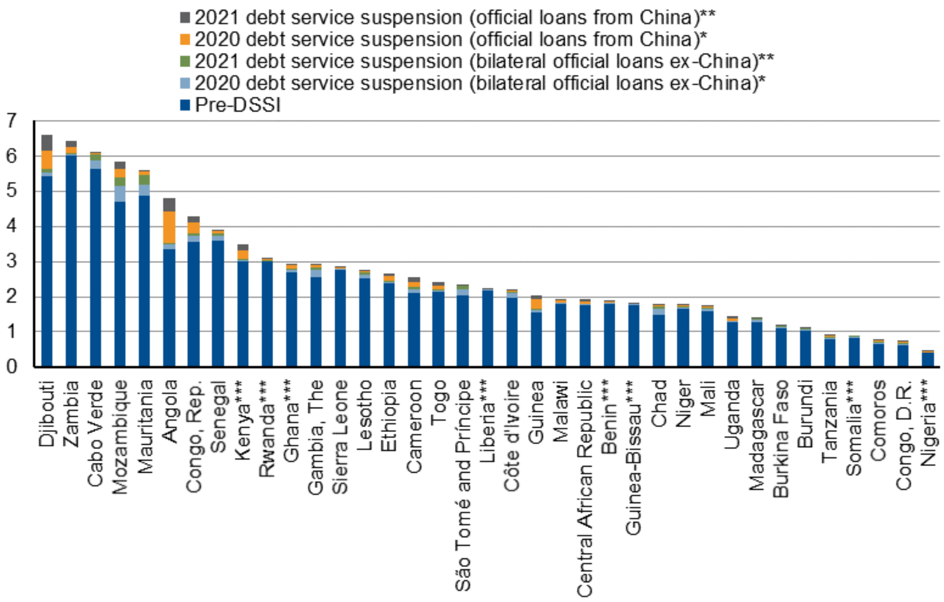
In addition, as potential savings for governments from the DSSI do not come on condition of private-sector involvement in debt restructuring (despite G20 calls for bondholders and commercial creditors to step up), savings on debt service on official loans are distributed largely absent risk of a near-term credit event and any associated short-term impairment in governments’ market access. In addition, China’s willingness to engage in multilateral debt service suspension in 2020 represents an important sea change and is credit positive for borrowers that are as well dependent on China for future financial assistance.

However, suspension of 2020-21 debt service compounds future debt distress

While the suspension of debt service is credit positive short term, the three-year repayment structure plus one-year grace period on DSSI suspensions in 2020 mean, however, near-term savings for governments increase debt payment requirements and potential debt distress over the medium run (2022-24). Furthermore, total amounts due over 2022-24 will be greater than originally-suspended debt service due to net present value (NPV) neutrality.

Under the enhanced Term Sheet for the DSSI extension period beyond 2020, suspensions of debt service during January to June 2021 will also need to be repaid in full on NPV-neutral terms but under a more-accommodative five-year repayment period with, similarly, a one-year grace period (a six-year structure in total). As such, suspended debt service from January to June of 2021 results hypothetically in more significant debt servicing requirements in 2023-2027.

Figure 10. Impact of DSSI participation on average annual debt service, 2022-24
% of 2019 GDP



*May-December 2020 debt service assumed to be suspended under the three-year repayment structure plus one-year grace period; assumes 1/3 of suspended amounts repaid each year between 2022-24; NPV-neutral suspension assuming a 2.5% discount rate.

**Displays a scenario under which DSSI is extended a second time to suspend all 2021 debt service on bilateral official loans. Assumes 2021 debt service is suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended amounts repaid each year between 2023-27; NPV-neutral suspension assuming a 2.5% discount rate.

Data are shown for 37 African countries eligible for DSSI that, moreover, report external debt to the World Bank DRS. Underlying data for this diagram by country available in **Annex II**.

***Not participating in DSSI.

Source: World Bank, Scope Ratings GmbH.

Governments with the most significant increases in medium-run debt service had the most significant debt service requirements to begin with

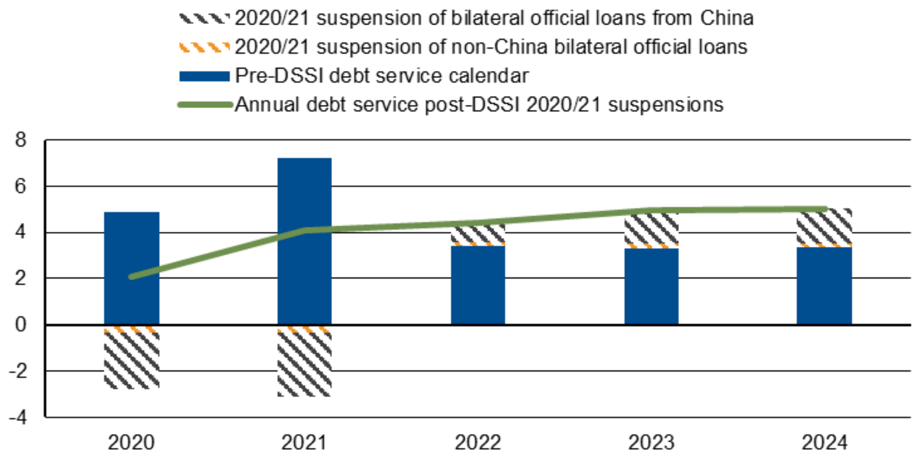
The trouble is that many African governments already had significant debt service coming due over the medium-term period before any participation in DSSI. Moreover, the countries that could see the most significant additions in debt service demands in those years due to delayed debt service from 2020 and 2021 are frequently those that had the most significant medium-run debt servicing requirements to begin with (**Figure 10, previous page**): Angola, Djibouti and Mozambique could see potential increases in debt service of over 1% of GDP on average per annum over 2022-24, raising debt service to 4.8% of GDP per year on average over 2022-24 for Angola, 5.8% for Mozambique and 6.6% of GDP with Djibouti. Especially for Angola and Djibouti, the majority of additional medium-run debt service added in the years are due to deferments on loan payments to China.

Angola, Djibouti and Mozambique are in weaker positions to face increased debt service during future years

Many sovereigns of the African region are in a weak position to deal with increased medium-run debt servicing requirements, given half of all sub-Saharan African sovereigns that were at risk of or in debt distress entering 2020[7] – among them Mozambique and Djibouti, with Angola in 2020 entering debt renegotiations with creditors. In the cases of Angola, Burundi, Egypt, Ghana and Zambia, interest payments as a share of government revenues had increased by over 20pps over 2011-19 – questioning debt sustainability.

The postponement of debt service to a medium-term horizon places such vulnerable borrowers at elevated risk of future severe debt distress. **Figure 11** illustrates this transfer of debt distress from near- to medium-term under DSSI in the example of Angola. Debt service in 2020 and 2021 is reduced – attenuating short-run liquidity risk. However, medium-run payment requirements increase and stay elevated at roughly 5% of 2019 GDP per year over 2023-24. Risks surrounding medium-run debt sustainability are compounded, in addition, by weak public financial management in many economies of the region.

Figure 11. Effect of debt service suspension on Angola's debt service calendar
% of 2019 GDP



N.B. May-December 2020 debt service assumed to be suspended under the three-year repayment structure plus one-year grace period; assumes 1/3 of suspended 2020 amounts repaid each year between 2022-24; NPV-neutral suspension of 2020 debt service assuming a 2.5% discount rate. Above illustration assumes all 2021 debt service on bilateral official loans is suspended. Assumes 2021 debt service were suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended 2021 amounts repaid each year between 2023-27; NPV-neutral suspension of 2021 debt service assuming a 2.5% discount rate.

Source: World Bank, Scope Ratings GmbH

DSSI raises medium-run credit risk

So, while debt service suspensions on bilateral official loans are credit positive near term, their ultimate hypothetical impact on a sovereign issuer's creditworthiness longer term is more problematic. Medium-run debt distress is increased, causing, under certain scenarios, the potential requirement for additional emergency concessional credit or

[7] Griffiths, J. (2019), "Low-income country debt: three key trends", Overseas Development Institute.

grants, debt suspension and/or debt forgiveness over future periods. Moreover, such debt distress in future periods might occur amid less convenient years during which international goodwill in regard to multilateral debt measures may not be as strong as it is in 2020 amid a unifying crisis – increasing risk of a disorderly credit event.

As such, the right diagnostic in regard to whether a specific country's lack of external market access (**Annex IV** includes dollar bond yields) is due only to a short-run liquidity crisis or instead reflects an underlying solvency issue becomes critical.

Distinguishing between short-run liquidity stress and long-run solvency issues is key

Debt-service suspension might be exactly the right remedy for issuers with liquidity shortages – for countries such as Burkina Faso, Central African Republic and the Democratic Republic of the Congo with low debt and low interest expenditures. However, for countries that face greater solvency questions – such as Angola, Burundi or Ghana, a participation in DSSI under existing terms[8] might have a negative impact long term on creditworthiness should solvency weaknesses be compounded.

DSSI's impact on creditworthiness hinges upon individual debt profiles, creditors' participation, whether there are haircuts, and the relevant time horizon

Figure 2 (page two) summarises the implications for the creditworthiness of an African sovereign borrower from DSSI eligibility and participation. If a borrowing government opts into the programme and receives suspensions of debt service on loans from Paris Club creditors (in addition to possible additional debt treatments under the Common Framework beyond the DSSI agreed Friday[9] – discussed in the report's next section) but China were to opt out of reciprocal suspensions of debt service due to be paid to China (the bottom scenario in the diagram), the effectiveness of DSSI for the borrower's creditworthiness could be restricted[10]. As the region's largest creditor, the participation of China under transparent and equal terms is critical for the programme's overall effectiveness for many borrowers (illustrated in the fourth from the top scenario in **Figure 2**).

Next, if private-sector creditors joined debt service suspension under DSSI on existing programme terms alongside the Paris Club and China, this would bring a temporary default credit rating upon maturity extensions with international bondholders[11] (the second from the top scenario in **Figure 2**). Medium-run credit implications under this scenario vary. The scenario could result nonetheless in a lower credit rating after restructurings of debt for borrowers whose underlying solvency issues have not been properly addressed.

Alternatively, a restructuring under ambitious terms that involves a broad group of creditors including bilateral official lenders and the private sector each accepting losses on equitable terms on interest and/or principal (including via outright principal write-down) would result in a temporary default credit rating but could be succeeded with a substantively enhanced credit profile for the issuer after the restructuring (the top-most scenario). We refer to such an ambitious debt restructuring as "DSSI+".

Transitioning from DSSI to DSSI+

While DSSI can alleviate short-run liquidity problems for participating issuers and represents an appropriate early response by multilateral institutions and the G20 to the crisis, efforts to design debt relief that goes beyond the DSSI (to avoid "kicking the can down the road") have become essential to avoid future crises. The scope of such debt measures could represent the difference between achieving a sustainable recovery for borrowing nations or a lost decade.

[8] Ghana is currently among nine DSSI-eligible African countries that are non-participants: Benin, Ghana, Guinea-Bissau, Kenya, Liberia, Nigeria, Rwanda, Somalia, South Sudan

[9] Assuming such debt treatments will not generally be conducted in the form of debt write-off or cancellation.

[10] However, all participating sovereigns would observe some credit-positive elements from participation in DSSI even under this scenario such as improvements in the quality of debt data as a condition of programme participation, enhanced IMF and World Bank oversight upon participation, as well as adoption of mandated non-concessional borrowing ceilings for participating countries. See **Annex I** for details on requirements after participation.

[11] Under Scope's sovereign rating methodology – default events include "*any debt exchange or distressed-debt restructuring that leads to less-favourable terms of a debt obligation than those of the original contractual terms*".

A Common Framework for debt relief beyond DSSI

In October, recognising that the emphasis to date on suspension but not outright debt forgiveness does not go far enough to address sustainability, the 22 member states[12] of the Paris Club endorsed a multilateral approach committing to provision of appropriate debt treatment beyond DSSI on a case-by-case basis. Here, Paris Club creditors agreed on the "Common Framework for Debt Treatments beyond the DSSI" (the terms of the Framework are summarised in **Annex I**). The G20 discussed and approved the principles of the Framework during an extraordinary G20 Finance Ministers and Central Bank Governors meeting on Friday, 13 November, ahead of a G20 Summit of 21-22 November – representing a positive step in the direction of a more robust orderly sovereign debt restructuring mechanism – one which considers the concerns of creditors and debtors alike, the latter group which under the agreed Framework initiates the process of further debt treatment.[13]

The Framework for additional debt treatments is a positive step but risks not going far enough

However, the debt treatments presented under the Framework concentrate upon: (i) changes in nominal debt service over an IMF programme period; (ii) where applicable, debt reduction on NPV terms; and (iii) the extension of the duration of treated claims. The emphasis of the Framework's added debt measures on reductions in near-term debt service and maturity extension, sharing in this respect core tenets of the DSSI, and, only where applicable, the reduction of debt on a NPV basis – in other words, via maturity extensions and, potentially, interest haircuts – risks not going far enough. The Framework expects debt treatments will generally not be conducted in the form of debt write-off or cancellation and holds debt write-offs or cancellations for *specific consideration* only in the most difficult cases. As such, while the Framework represents a positive extension of debt reprofiling under the DSSI with piecemeal progression from NPV-neutrality under existing DSSI terms in the direction of NPV haircuts for certain country cases with solvency issues, the preference even in such cases against outright principal losses might not offer debt relief significant enough to ensure fiscal sustainability for many vulnerable borrowers.

In addition, while official and commercial creditors are expected under the Framework to negotiate additional debt measures on equal terms, the Framework lacks a specified mechanism to compel DSSI participation or the provision of such additional debt measures by the private sector on terms at least as favourable as ones agreed by G20 and Paris Club creditors. The multilateral development banks (MDBs) also maintained their rights to refuse participation in debt measures. As such, a similar problem of collective action could undermine the effectiveness of the Framework as the unwillingness of private sector creditors or MDBs to participate in debt relief impedes the degree of ambition of G20 official creditors to go much further. In addition, a bottleneck remains China's willingness in the G20 to implement debt measures on identical terms agreed by creditor countries given a Memorandum of Understanding (MoU) signed by participating creditor nations with a borrower is legally non-binding, presenting China its desired flexibility to implement the MoU via a bilateral agreement on China's terms.

The Framework positively leverages debt sustainability analyses to determine solvency risks and structures measures under an IMF programme

Positively, the Common Framework shares elements of the Paris Club's Evian approach of 2003, used in the past to address debt sustainability problems of middle-income countries.[14] Debt sustainability analyses are expected to be conducted by official creditors in close coordination with the IMF and World Bank on debtor countries to assess whether, as an example, DSSI terms are adequate to bridge an economy to a sustainable economic and fiscal trajectory or, alternatively, whether additional debt measures might be required.

[12] Paris Club member countries: Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, the Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.
[13] Such a common debt restructuring framework would be consistent with the Chinese state's approach in presenting some debtors more extensive relief than envisaged under the DSSI. Angola, for example, has confirmed that it is renegotiating its financing facilities with China. In the past, China has provided debt write-offs even for countries that have not qualified for the HIPC ("heavily indebted poor countries") initiative.
[14] Munevar, D. (2020), "The G20 "Common Framework for Debt Treatments beyond the DSSI": Is it bound to fail? Part 1", European Network on Debt and Development Blog.

Any such additional debt measures will be structured under an IMF-supported financial programme with the provision of debt treatment conditioned upon fulfilment of reforms.

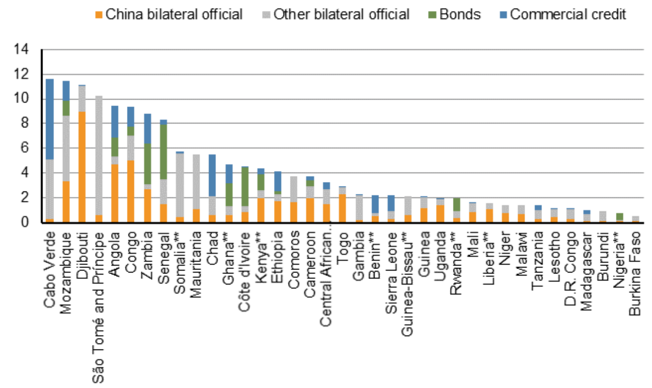
The Framework represents only a transitional solution

The Common Framework for Debt Treatments beyond the DSSI represents a step in the right direction – making available NPV debt reductions and clarifying a programme of solvency analyses to decide between DSSI and additional debt measures; however, the Framework nonetheless represents only a transitional solution, coming up short in addressing more significant cases of insolvency by protecting creditors' interests to sidestep principal haircuts and risking the same problem that has weakened DSSI of a potentially inequitable participation and implementation across diverse creditor groups.

A more ambitious DSSI+ architecture is required

Here, transitioning to a more ambitious DSSI+ architecture remains needed to address violations of the 'equal treatment of creditors' principle, ensuring creditors do not buy time with debt service suspension or outright lack of participation to await the transfer of losses to others[15]. To ensure comparability of treatment, the G20 and Paris Club creditors, including China, alongside other willing official bilateral creditors, could be required under a future DSSI+ architecture to coordinate with the participating borrower on legally-binding parameters of debt treatments in an open and transparent manner. A formal sovereign debt restructuring mechanism could be imagined that, depending on a borrowing nation's debt profile and who its debt is owed to, *could* require rather than seek comparable debt treatment from commercial and/or non-G20 bilateral official lenders on terms similar to those presented by the G20. The enhanced participation of MDBs in debt renegotiation could be sought. Only via solving a problem of inequity of treatment across creditors could any such DSSI+ architecture hope to succeed in facilitating substantive principal write-downs as an option in addressing solvency crises. Support for broader adoption of enhanced collective-action clauses in securitised bonds and similar provisions for commercial loans are other hypothetical elements for contemplation. As such a framework of enhanced private-sector involvement would likely restrict countries' international market access short term as debt renegotiations launch, multilateral and bilateral official creditors should be ready to step into the funding void pre-restructuring.

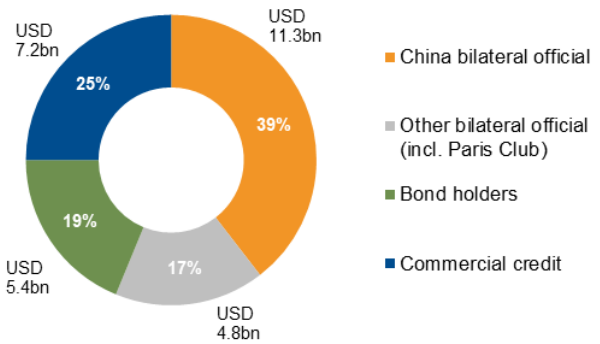
Figure 12. Potential savings from an illustrative write-down of 25% of the outstanding debt stock*, by country
% of 2019 GDP



N.B. Data are shown for 37 African countries that report external debt to the World Bank's DRS, based on 2018 outstanding debt stocks.
*Excluding multilateral development bank loans; **Not participating in DSSI.

Source: World Bank, Scope Ratings GmbH

Figure 13. Aggregate savings from debt write-down* on 25% of principal for 18 distressed African borrowers**
USD bn and % of total



*Excluding loans from multilateral development banks; **DSSI-eligible countries designated as "High" risk or "In distress" for their risk level of external debt distress under the September 2020 World Bank DSA ratings plus Angola.

Source: World Bank, Scope Ratings GmbH

[15] As an example, China's approach to debt negotiations thus far has made Western creditors reluctant to give concessions based upon concerns that any resources released will be handed by the borrower to China. Such issues of collective action have restricted negotiations over the debt restructuring of Zambia, for example, which entered selective default after missing a bond payment in October 2020.

A proposed DSSI+ framework tackles the root problems

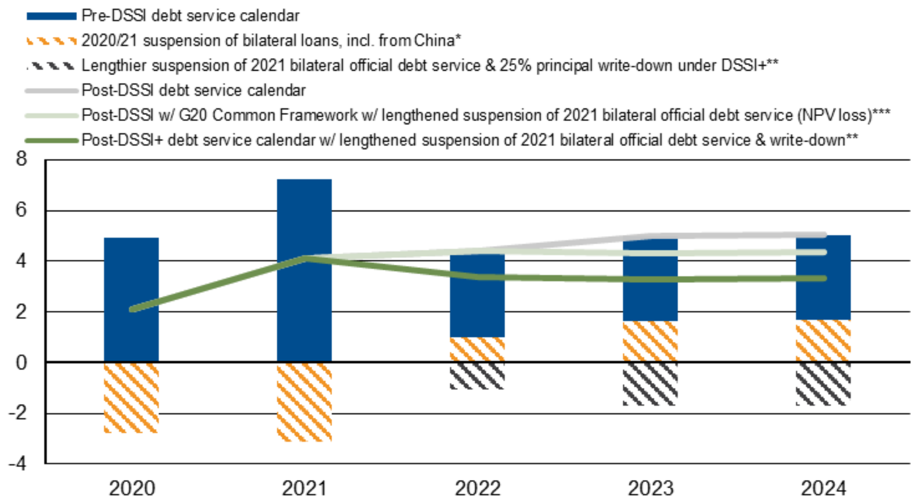
Transitioning from DSSI and the G20's Common Framework beyond the DSSI to a DSSI+ could better tackle the root problems of borrowers – more emphatically differentiating between liquidity and solvency crises. Only through a credible, significant debt restructuring can a sovereign with an unsustainable debt burden avoid a cycle of serial restructurings that restrict private sector financing and debilitate recovery prospects.

Figure 12 (previous page) displays potential savings from an illustrative 25% harmonised principal write-off on the bilateral-official and privately-held debt of DSSI-eligible countries. Governments such as those of Cabo Verde, Mozambique and Djibouti see the largest savings of 11%-12% of 2019 GDP while savings across DSSI-eligible African countries reporting external debt data average 4.2% of 2019 GDP.

However, not all DSSI eligible countries would or should qualify for any DSSI+ option of debt forgiveness. As an example, were only countries designated by the World Bank as at high risk of or in external debt distress based on end-September 2020 debt sustainability ratings (see **Annex III** for the full list of countries' World Bank external debt risk categorisations) alongside Angola (for which this rating is not available) to see a 25% principal write-down, cumulative savings for this group alone of distressed African borrowers would total nearly USD 29bn with the largest relief coming on Chinese bilateral loans, amounting to 39% of aggregate savings (or USD 11.3bn), followed by commercial creditors accepting losses of USD 7.2bn (**Figure 13, previous page**).

An illustrative 25% principal haircut across all bilateral (including from China) loans, bonds and commercial credit would stabilise Angola's debt servicing demands at under 3.5% of 2019 GDP per year over 2022-24 (**Figure 14**) – compared with the forecast of higher debt servicing needs and related distress under projections for Angola under existing DSSI programme terms, with NPV haircuts under a Common Framework beyond the DSSI reprofiling only partially addressing such risks as an interim stage (**Figure 14**).

Figure 14. Effect of DSSI+ debt forgiveness on Angola's debt service calendar
% of 2019 GDP



*Under DSSI, May-December 2020 debt service assumed to be suspended under the three-year repayment structure plus one-year grace period; assumes 1/3 of suspended amounts repaid each year between 2022-24; NPV-neutral suspension assuming a 2.5% discount rate. Assumes all 2021 debt service on bilateral loans is suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended 2021 debt service repaid each year between 2023-27; NPV-neutral suspension of 2021 debt service assuming a 2.5% discount rate. **For DSSI+, assumes instead a theoretical suspension of 2021 debt service under a 10-year repayment window including a five-year grace period and repayment in full on a neutral nominal basis – i.e. repayment of the same total nominal amount as the amount originally suspended from 2021 (NPV losses) and assumes an end-2021 DSSI+ model 25% write-down of the principal across all bilateral loans, bonds and commercial loans. ***In addition to suspension of 2020 debt service under DSSI terms, assumes a Common Framework for Debt Treatments beyond the DSSI suspension of 2021 debt service under an extended 10-year repayment window including a five-year grace period and repayment on a neutral nominal basis – i.e. repayment of the same nominal amount as the amount originally suspended from 2021 in full (resulting in NPV losses). Source: World Bank, Scope Ratings GmbH.

Annex I. Term sheets for the Debt Service Suspension Initiative

The key features of the initial DSSI for 2020 is outlined in the April 2020 Term Sheet while the terms of an extension beyond 2020 is presented in the Addendum to the April 2020 Term Sheet. The terms of the Common Framework for Debt Treatments beyond the DSSI are included in the G20's Statement of 13 November. The summarised modalities are as follows:

- **Beneficiary countries include:**
  - All International Development Association (IDA) countries, which remain current on any debt service to the IMF and the World Bank.
  - All least developed countries as defined by the UN, which are current on any debt service to the IMF and World Bank.
- **Access to DSSI is limited to countries that:**
  - Have made a formal request for debt service suspension from creditors.
  - Are benefitting from or have made a request to IMF Management for IMF financing including emergency facilities.
- **Beneficiary countries must:**
  - Use created fiscal space to increase social, health or economic spending in response to the Covid-19 crisis (subject to monitoring).
  - Disclose all public sector financial commitments (debt data).
  - Contract no new non-concessional debt during the debt service suspension period other than agreements under the initiative or in compliance with limits under the IMF Debt Limit Policy or World Bank non-concessional borrowing policy.
- **Scope of creditors:** all official bilateral creditors will participate in the initiative; private creditors will be called upon publicly to participate on comparable terms; and MDBs will be asked to further explore options for meeting the long-term financing needs of developing countries, including by drawing on past experiences to deal with debt vulnerabilities such as domestic adjustment, net-positive financial flows and debt relief while protecting their ratings and low cost of funding.
- **Modalities for the debt service suspension:**
  - Both principal repayments and interest payments are suspended.
  - The suspension of payments will be on an NPV-neutral basis.
  - There will be a one-year grace period, followed by a repayment period of three years (for maturities originally falling due during May to December 2020) or five years (for maturities falling due during the extension period in 1H-2021).
- **Duration of the DSSI:** The initiative is to be extended to 30 June 2021 for eligible countries. It could be extended by another six months by the time of the 2021 IMF/World Bank Spring Meetings if the economic and financial situation requires it.
- **Key parameters for debt treatments beyond the DSSI:**
  - Changes in nominal debt service over the IMF program period.
  - Where applicable, the debt reduction in NPV terms.
  - The extension of the duration of the treated claims.
  - Debt treatments will not be conducted via debt write-off or cancellation (considered only in the most difficult cases).
- **Terms of debt treatment beyond DSSI:**
  - The need for debt treatment will be based on an IMF-World Bank Debt Sustainability Analysis and official creditors' collective assessment and be consistent with the parameters of an upper credit tranche IMF-supported programme.
  - Key parameters will be recorded in a legally non-binding Memorandum of Understanding. Creditors will implement the MoU through bilateral agreements signed with the debtor country.
  - A debtor country that signs an MoU with participating bilateral creditors will be required to seek from all its other official bilateral creditors and private creditors a treatment at least as favourable as the one agreed in the MoU.

Annex II. Underlying data for 2020-21 debt service savings on loans from China and impact of DSSI on increases in annual debt service over 2022-24

We provide an overview of data underlying **Figures 9** and **10**. **Figure 9** presents the aggregate savings on debt service on loans from China over 2020-21 under i) the suspension of 2020 debt service; ii) suspension of 1H-2021 debt service under an agreed six-month DSSI programme extension; and iii) the possibility of a further six-month programme extension to end-2021. In addition, hypothetical 2020-21 savings were non-official Chinese lenders to participate in DSSI are displayed. **Figure 10** summarises the impact of DSSI participation on increasing average annual debt service over 2022-24 based on suspensions of 2020 and 2021 debt service on bilateral official loans.

	Aggregate savings on debt service on Chinese loans, 2020-21					Impact of DSSI participation on average annual debt service, 2022-24					
	% of 2019 GDP					% of 2019 GDP					
	May-Dec. 2020 DSSI debt service savings on official loans from China	Savings on Chinese official loans from extension of DSSI to June 2021	Savings on Chinese official loans from any second extension of DSSI to December 2021	Total savings on Chinese official loans (2020-21 DSSI)	Hypothetical 2020-21 savings were non-official Chinese lenders to participate in DSSI	Pre-DSSI	2020 debt service suspension (bilateral official loans ex-China)*	2021 debt service suspension (bilateral official loans ex-China)**	2020 debt service suspension (official loans from China)*	2021 debt service suspension (official loans from China)**	Post-DSSI
Angola	2.5	1.4	1.4	5.2	0.8	3.4	0.1	0.1	0.9	0.4	4.8
Benin	0.0	0.0	0.1	0.2	0.0	1.8	0.0	0.0	0.0	0.0	1.9
Burkina Faso	0.0	0.0	0.0	0.1	0.0	1.1	0.0	0.0	0.0	0.0	1.2
Burundi	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	1.1
Cabo Verde	0.1	0.1	0.1	0.2	0.0	5.6	0.2	0.2	0.0	0.0	6.1
Cameroon	0.5	0.5	0.5	1.4	0.1	2.1	0.1	0.1	0.2	0.1	2.6
Cent. Afr. Rep.	0.2	0.2	0.2	0.5	0.0	1.7	0.0	0.0	0.1	0.1	1.9
Chad	0.1	0.1	0.1	0.4	0.0	1.5	0.1	0.1	0.0	0.0	1.8
Comoros	0.1	0.1	0.1	0.3	0.0	0.7	0.0	0.0	0.0	0.0	0.8
Congo, Dem. Rep.	0.1	0.1	0.1	0.2	0.0	0.6	0.1	0.0	0.0	0.0	0.7
Congo, Rep.	0.8	0.5	0.7	2.0	0.0	3.5	0.2	0.1	0.3	0.2	4.3
Côte d'Ivoire	0.1	0.1	0.1	0.2	0.0	2.0	0.1	0.1	0.0	0.0	2.2
Djibouti	1.4	1.4	1.7	4.5	0.0	5.4	0.1	0.1	0.5	0.4	6.6
Ethiopia	0.4	0.3	0.3	1.0	0.7	2.4	0.1	0.0	0.1	0.1	2.7
Gambia, The	0.1	0.1	0.1	0.3	0.0	2.6	0.2	0.1	0.0	0.0	2.9
Ghana	0.3	0.2	0.2	0.6	0.1	2.7	0.1	0.0	0.1	0.0	2.9
Guinea	0.8	0.4	0.3	1.5	0.0	1.6	0.1	0.0	0.3	0.1	2.0
Guinea-Bissau	0.0	0.0	0.0	0.1	0.0	1.8	0.0	0.0	0.0	0.0	1.8
Kenya	0.7	0.5	0.6	1.8	0.0	3.0	0.1	0.0	0.2	0.2	3.5
Lesotho	0.1	0.1	0.1	0.3	0.0	2.5	0.1	0.0	0.0	0.0	2.7
Liberia	0.0	0.0	0.0	0.1	0.0	2.2	0.0	0.0	0.0	0.0	2.2
Madagascar	0.0	0.0	0.0	0.1	0.0	1.3	0.1	0.0	0.0	0.0	1.4
Malawi	0.1	0.1	0.1	0.4	0.0	1.8	0.0	0.0	0.1	0.0	1.9
Mali	0.1	0.1	0.1	0.4	0.0	1.6	0.1	0.0	0.0	0.0	1.8
Mauritania	0.3	0.2	0.2	0.7	0.0	4.9	0.3	0.3	0.1	0.1	5.6
Mozambique	0.7	0.7	0.7	2.1	0.0	4.7	0.5	0.3	0.2	0.2	5.8
Niger	0.1	0.0	0.1	0.2	0.0	1.7	0.1	0.0	0.0	0.0	1.8
Nigeria	0.0	0.0	0.0	0.1	0.0	0.4	0.0	0.0	0.0	0.0	0.4
Rwanda	0.1	0.1	0.1	0.2	0.0	3.0	0.0	0.0	0.0	0.0	3.1
São Tomé and Príncipe	0.0	0.0	0.1	0.1	0.0	2.0	0.2	0.1	0.0	0.0	2.3
Senegal	0.2	0.2	0.2	0.5	0.0	3.6	0.1	0.1	0.1	0.0	3.9
Sierra Leone	0.1	0.1	0.1	0.2	0.0	2.8	0.0	0.0	0.0	0.0	2.9
Somalia	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.9
Tanzania	0.1	0.1	0.1	0.3	0.0	0.8	0.0	0.0	0.0	0.0	0.9
Togo	0.3	0.3	0.4	1.1	0.0	2.1	0.0	0.0	0.1	0.1	2.4
Uganda	0.2	0.2	0.2	0.6	0.0	1.3	0.0	0.0	0.1	0.1	1.4
Zambia	0.5	0.5	0.5	1.5	0.6	6.0	0.0	0.0	0.2	0.1	6.4

* May-December 2020 debt service assumed to be suspended under the stated three-year repayment structure plus one-year grace period; assumes 1/3 of suspended amounts repaid each year between 2022-24; NPV-neutral suspension assuming a 2.5% discount rate.

** Represents a scenario in which DSSI is extended a second time to suspend all 2021 debt service. Assumes 2021 debt service is suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended 2021 debt service repaid each year between 2023-27; NPV-neutral suspension of 2021 debt service assuming a 2.5% discount rate.

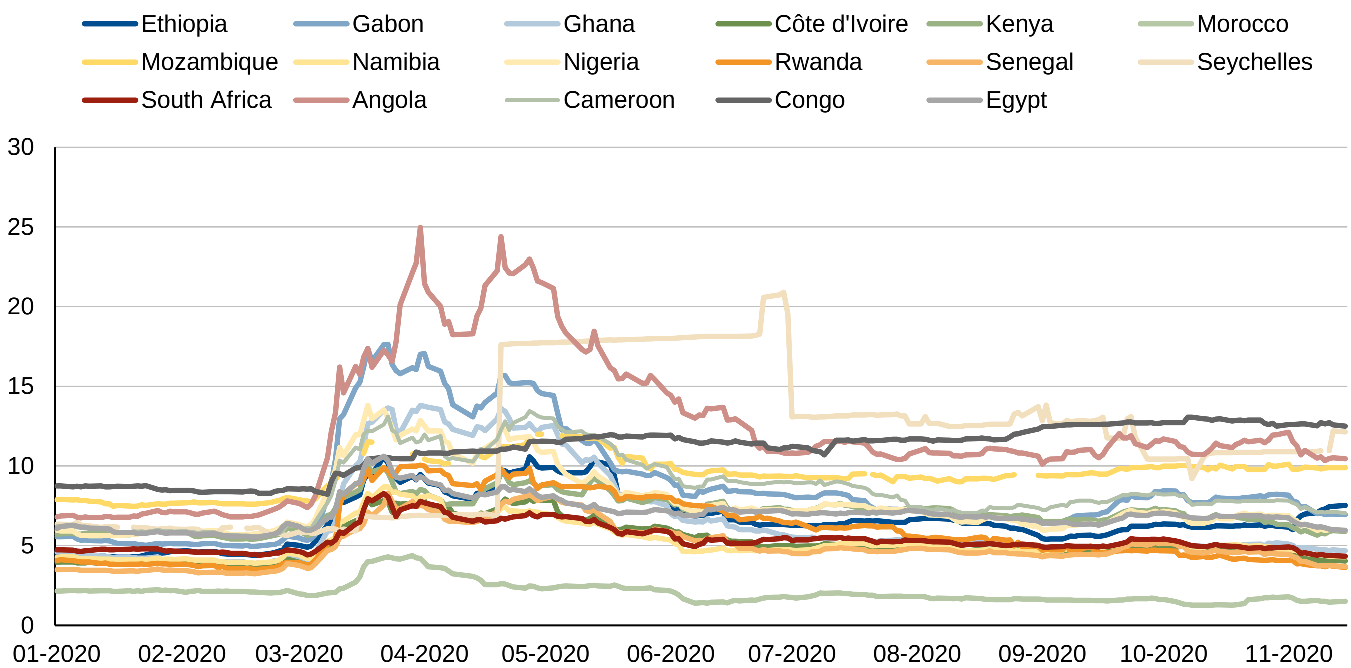
Data are displayed for 37 African countries eligible for DSSI that, moreover, report external debt data to the World Bank DRS. Source: World Bank, Scope Ratings GmbH.

Annex III. Risk of external debt distress

In distress	High	Moderate	Low	n/a
Republic of Congo	Burundi	Benin*	Madagascar	Angola
Mozambique	Cabo Verde	Burkina Faso	Tanzania	Nigeria*
São Tomé and Príncipe	Cameroon	Comoros	Uganda	
Somalia*	Central African Republic	D.R. Congo		
South Sudan*	Chad	Côte d'Ivoire		
	Djibouti	Guinea		
	Ethiopia	Guinea-Bissau*		
	The Gambia	Lesotho		
	Ghana*	Liberia*		
	Kenya*	Malawi		
	Mauritania	Mali		
	Sierra Leone	Niger		
	Zambia	Rwanda*		
		Senegal		
		Togo		

Data are shown for 38 eligible African countries for the 2020 DSSI. *Not participating in DSSI. Reflects published DSA ratings as of end-September 2020.
Source: World Bank, Scope Ratings GmbH

Annex IV. Dollar bond yields, %



Data are shown for a benchmark dollar-denominated Eurobond for each country, daily data, last updated 16 November 2020.
Source: Bloomberg

Africa's solvency crisis: China's participation in G20 debt relief a sign of multilateralism, but a "DSSI+" framework is required

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