3 Debt service suspension in Southern African Development Community countries

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3.1 Introduction

In 2020, as the COVID-19 pandemic was spreading from China to the developed world, its impacts on health were compounded by a global financial and economic shock. Even in developing countries that were relatively less affected by the pandemic, the external shock was spreading through lower exports and falling financial flows. Indeed, for a few weeks in March 2020 financial systems froze, before central banks stepped in and provided ample liquidity to markets. Globally, private external financial flows to emerging markets declined by 13 per cent in 2020, especially through lower amounts of loans and portfolio flows.[1] Sovereign borrowers in 'frontier markets' (which are often relatively rare and recent emitters of Eurobonds) were not able to access markets for several months. In the Southern Africa Development Community (SADC), countries with outstanding Eurobonds such as Tanzania, Zambia and Seychelles have experienced increases in interest rates by 4 to 10 percentage points. In sub-Saharan Africa, Eurobond issuance declined to about US $5 billion in 2020 compared to US $14 billion in 2018.[2]

In addition to the financial shock, exports plunged and economic activity collapsed that lead to a decline in government revenues. Sub-Saharan Africa experienced a negative gross domestic product (GDP) growth rate for the first time in decades, with 40 million people falling in poverty in 2020. As advanced economies mobilised trillions of dollars in their domestic response to the crisis, low and middle-income countries had limited fiscal space to provide the necessary support to firms and households. Low revenues, high spending needs, and the limited ability to borrow abroad constrained the ability to take health measures strictly. The burden of high debt service due made this constraint even tighter.

* This chapter represents only the views of the author and does not represent the views of OECD members nor those of its Secretariat.

1 IMF 'Macro-economic developments and prospects in low-income countries – 2021' (2021), https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/30/Macroeconomic-Developments-and-Prospects-In-Low-Income-Countries-2021-50312 (accessed 16 November 2021)

2 World Bank 'Africa's Pulse 23 – April 2021. Sub-Saharan Africa' (2021).

Therefore, as the economic forecasts worsened, finance ministers and Central Bank governors from countries in the Group of 20 agreed to a 'time-bound suspension of debt service' for 73 vulnerable countries.[3] Depending on whom you ask, this Debt Service Suspension Initiative, or DSSI, was a major success of global cooperation in the midst of the worst economic crisis since World War II, or a drop in the bucket of the needs of developing countries. Paradoxically, both those apparently contradictory positions have truth to them: The amounts involved were indeed small in most cases, but were significant in others. This heterogeneity is apparent in the context of the SADC, where the sums deferred varied between 0,1 per cent of GDP (in Comoros) and 3 per cent of GDP (in Mozambique). This chapter aims at putting those numbers in the broader context of the challenges faced in those countries and the external environment. It illustrates how the DSSI can work in some cases and much less in others, depending on debt stock and creditor composition. With some countries already in a status of default or at high-risk of debt distress and others with sustainable debt positions, a case-by-case approach is necessary. The challenge for the donor community will be to meet the increased financing needs of SADC countries after years of decline.

An important element for this evaluation is the fact that depressed economic activity in 2020 will have lingering impacts: The COVID-19 crisis reduced ability to repay debt over time. In other words, it not only affected the liquidity of countries' sovereign debt, but also its sustainability. The DSSI only supports the former, but not the latter, as it only allows countries to defer payments to later years. However, the agreement laid the foundations for another step forward, the 'Common Framework for debt treatment beyond the DSSI' (Common Framework), adopted by the G20 on 13 November 2020. The Common Framework recognises the need for coordinated debt relief in cases where sovereign debt is clearly unsustainable. Its implementation started in 2021, is likely to be challenging, and to take longer than the DSSI. It would allow countries to reduce the stock of their debt and treat private sector debt with equivalent terms.

3 This includes Least Developed Countries (LDCs) as well as countries eligible for loans from the International Development Association (IDA), the concessional window of the World Bank, except four countries not current on their terms with the IMF or the World Bank.

3.2 The build-up in debt vulnerabilities pre-dated the COVID-19 crisis

The first part illustrates the pre-existing challenges arising from debt evolutions prior to the COVID-19 crisis. One country was already in debt distress (Mozambique) while others were close to a default situation (Angola, Zambia). Another group of countries has maintained relatively low debt, but their equilibrium was derailed by the COVID-19 crisis.

As a way of context, it is important to recall that SADC countries are remarkably heterogeneous. It includes high-income countries (Seychelles and Mauritius) which are about 25 times more affluent than the low-income countries of the community. Medium and high-income countries can also be confronted with tensions on public debt sustainability (most notably, Mauritius and South Africa have been downgraded during the current crisis) but the nature of the challenges and solutions is different. This chapter focuses on developing economies, and in particular on those eligible for the DSSI (Table 1). The remarkable diversity of economic structure among the 16 SADC members, both in terms of income level and dynamics and in terms of public debt, is analysed in this first part.

Table 1: SADC countries: country classifications, income and debt

Country	DSSI-eligibility	GNI per capita	Population (million)	Public debt (% of GDP)	Income group	LDC	IDA-eligibility
Malawi	**Yes**	1080	18.6	59	LIC	Yes	Yes
Democratic Republic of the Congo	**Yes**	1110	86.8	16	LIC	Yes	Yes
Mozambique	**Yes**	1310	30.4	103	LIC	Yes	Yes
Madagascar	**Yes**	1660	27.0	38	LIC	Yes	Yes
Tanzania	**Yes**	2700	58.0	38	LMIC	Yes	Yes
Zimbabwe	**Yes**	2740	14.6	112	LMIC	No	Inactive
Comoros	**Yes**	3210	0.9	25	LMIC	Yes	Small economy terms
Lesotho	**Yes**	3330	2.1	49	LMIC	Yes	Blend terms
Zambia	**Yes**	3560	17.9	94	LMIC	Yes	Blend terms
Angola	**Yes**	6380	31.8	107	LMIC	Yes	No
Eswatini	**No**	8090	1.1	40	LMIC	No	No
Namibia	**No**	9780	2.5	60	UMIC	No	No
South Africa	**No**	12670	58.6	62	UMIC	No	No
Botswana	**No**	17140	2.3	15	UMIC	No	No
Mauritius	**No**	26840	1.3	83	HIC	No	No
Seychelles	**No**	29470	0.1	58	HIC	No	No

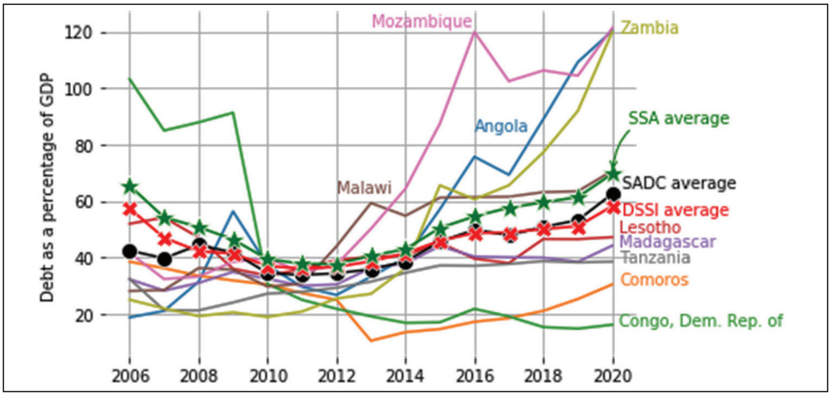
Source: World Bank, World Development Indicators, IMF World Economic Outlook

Note: Data for 2019. GNI per capita is on Purchasing Power Parity terms. Zimbabwe accumulated arrears to IDA and is thus considered inactive

3.2.1 The rising tide of public debt

The broader context of rising indebtedness for developing countries and in sub-Saharan Africa in particular is well known. After a decade of decline linked to Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) initiatives, public debt levels rose from about 38 per cent of GDP in 2011 to 60 per cent in 2019 on average (Figure 1). SADC countries followed a similar trend: from 35 per cent to about 50 per cent of GDP in 2019, with a sharp rise of about 10 percentage points is expected by the International Monetary Fund (IMF).[4] Even among the nine SADC countries eligible to the DSSI (SADC-DSSI countries), debt dynamics have diverged. Three countries have debt-to-GDP ratios OF over 100 per cent, of which two countries are in the situation of outright default: Mozambique has restructured its Eurobonds in 2016 and again at the end of 2019; Zambia missed a payment on its Eurobonds on 13 November 2020. Angola's public debt stock was projected to be over 90 per cent of GDP already before the crisis. Others were much more prudent, both as a matter of fiscal strategy and according to IMF or World Bank Debt Limit Policies, which limit countries' access to non-concessional finance. The Democratic Republic of the Congo (DRC), Comoros, Tanzania, Madagascar and Lesotho are all projected to maintain indebtedness of below 50 per cent of their GDP.

Figure 1: ***Gross public debt to GDP ratios for SADC countries eligible to DSSI***



Source: IMF, World Economic Outlook (October 2020)

4 In most cases the data used in this chapter dates from end-2020. Most numbers for 2020 thus are projections.

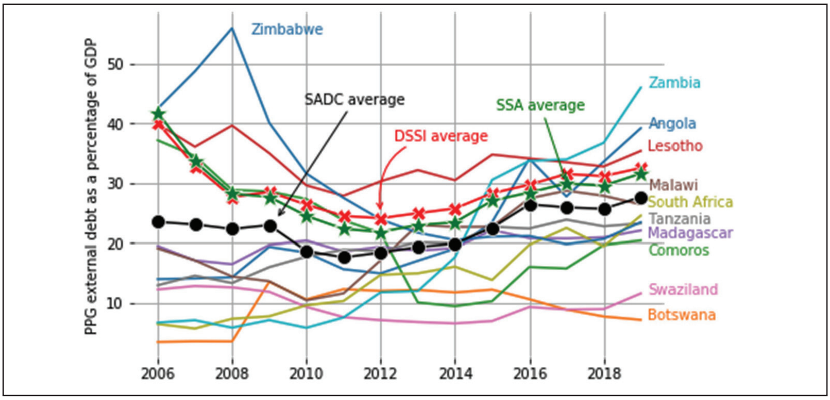
Box 1: Definitions

Gross public debt is defined by the IMF as the General Government debt, including domestic and external. Public and Publically Guaranteed (PPG) debt comprises long-term external obligations of public debtors, including the national government, public corporations, state-owned enterprises, development banks and guaranteed private debt. External public debt is PPG debt owed to non-residents.

Source: IMF (2020)

In general, both domestic and external debt[5] contributed to this increase. For SADC as a whole, public and publically guaranteed (PPG) external debt represented about 25 per cent of GDP in 2019, or half of the total public debt stock, up from 18 per cent in 2010. SADC-DSSI countries, which on average are poorer and have less developed domestic debt markets, are more dependent on external financing: In their case, external PPG debt was 32 per cent of GDP in 2019 (Figure 2). Higher income countries in SADC have a different debt structure, relying less on official borrowing and more on private markets, including domestically (in particular South Africa).

Figure 2: External public and publicly guaranteed (PPG) debt of select SADC-DSSI countries



Source: World Bank, IDS

Note: This excludes Mozambique and DRC to improve visualisation.

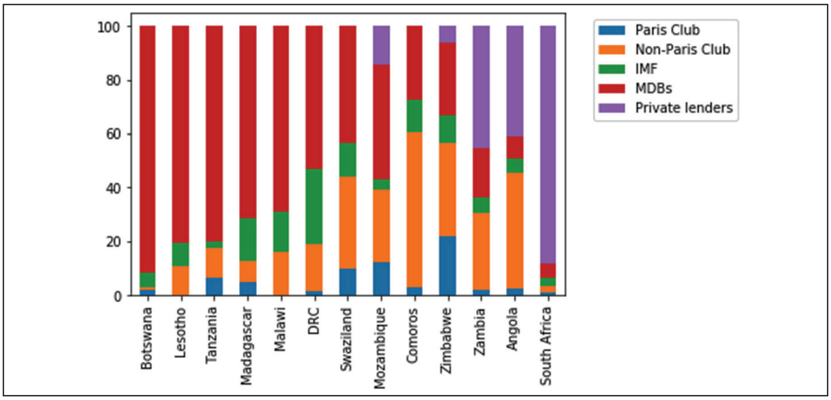
5 See Box 1 for definitions.

In addition, debt stock measures do not tell the whole story: Debt composition has changed away from multilateral and Paris Club official donors towards non-Paris Club bilateral creditors and private markets. In sub-Saharan Africa this diversification in the sources of finance came with risks: Cost of debt tends to be higher and maturities lower.[6]

3.2.2 Change in composition of borrowing made debt more expensive

Divergence across SADC countries did not occur only on the level of debt stock, but also on its composition (Figure 3). Multilateral lenders, and in particular the World Bank, tend to play a pre-eminent role for SADC-DSSI countries. Indeed, all DSSI-eligible countries except Angola have by definition access to concessional IDA loans. As a result, the share of multilateral debt in the composition was relatively high in 2019 ranging from 19 per cent (Zambia) to 90 per cent (Botswana). In general, there is a stark difference between countries with access to markets, which have Eurobonds or international loans outstanding, and others.

Figure 3: Composition of debt stock by creditor type



Source: World Bank, International Debt Statistics 2021

Bilateral lenders make between a small percentage of external government debt (Botswana) and close to half (Comoros and Zimbabwe). The World Bank recently published external debt data with detailed information by creditors, allowing a description of these evolutions with a finer grain.[7]

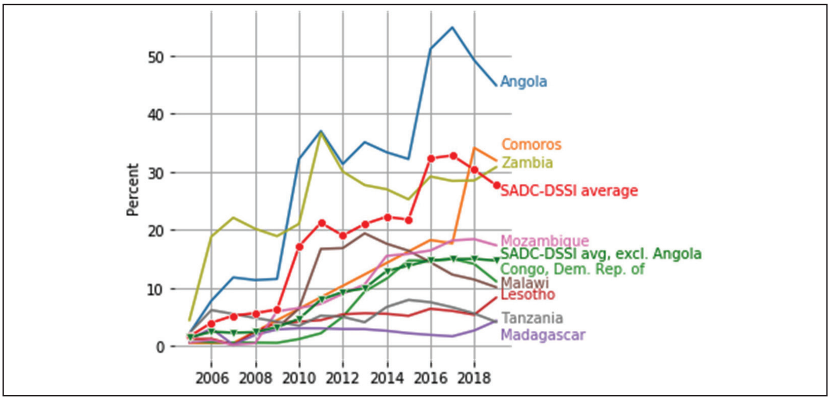
6 C Calderon & AG Zeufack 'Borrow with sorrow? The changing risk profile of sub-Saharan Africa's debt' Policy Research Working Paper 9137 (2020).

7 World Bank (2020), International Debt Statistics 2021.

Paris Club members have played a declining role within this group: They now represent less than a third of bilateral external loans in each country except Zimbabwe. The main non-Paris Club lenders in SADC-DSSI countries are China, with India also playing a significant role in Malawi (70 per cent of official bilateral debt), while Saudi Arabia is a major official lender to Lesotho.

Focusing on China specifically, its role as an official bilateral creditor has grown significantly in the SADC region, including DSSI countries. Overall, the debt stock recorded by World Bank data represented US $16 billion in 2019 for SADC-DSSI countries as a whole, of which US $10 billion was lent to Angola. As a share of total external public borrowing, this represents an increase from 5 per cent to 15 per cent in the last ten years (Figure 4). In countries such as Comoros, Zambia, Mozambique and Malawi, China has become the main official bilateral creditor, sometimes by far, with an acceleration concentrated around 2010-2015, and stabilisation since then. Its share among bilateral lenders between 20 per cent (Tanzania and DRC) and 90 per cent (Angola), with an average for SADC-DSSI countries close to 50 per cent, even after excluding Angola.

Figure 4: Share of China in external lending



Source: World Bank, International Debt Statistics: DSSI

There are, however, major doubts on data accuracy and suspicion that those figures are under-estimated. This would undermine any debt relief initiatives, the DSSI included. Opacity of sovereign loans is often linked with lack of capacity, such as for direct loans to State Owned Enterprises without overview from the Ministry of Finance, or within complex public-private partnerships where some government guarantees can be hard to estimate.[8] The complexity of the ecosystem, between official and private institutions, is well described in the case of Zambia by Brautigam.[9] Loans originating from Chinese institutions often include strict confidentiality terms[10] which reinforce opacity. Recent research on Chinese 'hidden loans'[11] would indicate that for 12 SADC countries, about $45 billion was owed to China in 2017, against $28 billion for the World Bank database. This difference of $17 billion represents about 2,5 per cent of GDP on aggregate, spread between South Africa ($5,5 billion, but only 1,6 per cent of GDP), Zambia ($3,5 billion, 13,7 per cent of GDP, the most significant), Tanzania ($3 billion) and a few others to a lesser extent.[12]

While the opacity implies uncertainty on the true level of external debt, another source of concern is the degree of seniority and the riskiness of new sources of debt. Resource-backed loans, often under the form of guaranteed payments from specific revenue sources, are also complex and need to be taken into account.[13] There is little direct evidence on interest rates owed on loans from China, but they are more likely to be on a commercial basis. This is implied, for example, by the correlation between the share of China in total official borrowing and the share of concessional loans or the interest bill. China's policy framework for concessional development finance revolves around zero-interest loans from the Ministry of Commerce, concessional loans and preferential export credits from the Chinese ExIm Bank.[14] On the other hand, a large share of the portfolio stems from non-concessional loans from state-owned banks, in particular

8 Debt reporting in LIDCs; IMF 'The evolution of debt vulnerabilities in lower income economies' (2020), https://www.imf.org/~/media/Files/Publications/PP/2020/English/PPEA2020003.ashx (accessed 16 November 2021)

9 D Brautigam 'Zambia's Chinese tragedy of the commons', presentation at the 2021 SAIS-CARI conference 'China's Overseas Lending in Comparative Perspective' (2021), http://www.sais-cari.org/event-details/2021/4/6/cari2021conference (accessed 16 November 2021)

10 A Gelpern et al 'How China lends: A rare look into 100 debt contracts with foreign governments' Peterson Institute for International Economics, Kiel Institute for the World Economy, Centre for Global Development, and Aid (2021), Data at William & Mary.

11 S Horn, C Reinhart & C Trebesch 'China's overseas lending' April 2020, NBER Working Paper 26050 (2020).

12 Those of Brautigam et al differ slightly, and would point to reduce the estimates of hidden debt for South Africa and Tanzania (by US $4 billion and $1 billion respectively). D Brautigam, Y Huang & K Acker 'Risky business: New data on Chinese loans and Africa's debt problem' CARI Briefing Paper 3 (2020).

13 Brautigam et al (n 12).

14 S Morris, B Parks & A Gardner 'Chinese and World Bank lending terms: A systematic comparison across 157 countries and 15 years' (2020), https://www.cgdev.org/publication/chinese-and-world-bank-lending-terms-systematic-comparison (accessed 16 November 2021)

China Development Bank, which represents about 28 per cent of lending to developing countries, and which lends on commercial terms. Indirect evidence indicates that borrowing has become more expensive.

3.2.3 Debt sustainability has also deteriorated in some cases

Low-income developing countries' debt risk overall has deteriorated in the past decade, but the situation is more nuanced for SADC countries, with a few notable exceptions. Out of 73 countries with a debt sustainability analysis (DSA), the number of sovereigns with 'low' or 'moderate' risk has decreased from 80 per cent in 2014 to less than half in 2019. In contrast, for SADC, ratings have remained broadly stable (Table 2): Out of 8 SADC-DSSI countries with DSA ratings,[15] two have a low risk of external distress (Madagascar and Tanzania[16]) and four had moderate risks (Comoros, DRC, Lesotho, Malawi). Mozambique and Zambia, as noted above, have moved towards debt distress.

Table 2: Risk rating in the IMF/WB Low-income Country Debt Sustainability Analysis (LIC-DSA) for SADC-DSSI countries

Country	Risk of external debt	Risk of overall debt	Date of DSA
Comoros	Moderate	Moderate	August 2019
Congo, Dem. Rep.	Moderate	Moderate	December 2019
Lesotho	Moderate	Moderate	July 2020
Madagascar	Low	Moderate	April 2020
Malawi	Moderate	High	December 2019
Mozambique	In distress	In distress	May 2019
Tanzania	Low	…	January 2018
Zambia	High	High	August 2019

Source: World Bank, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

Countries with market access have experienced a decline in their ratings. Economies with market access are subject to a different debt sustainability framework called Market Access-DSF, or MAC-DSF, which is not always

15 Angola is considered a 'market access country', and does not use the same DSA template.

16 The latest published DSA for Tanzania dates back to 2018 due to a lack of consensus between the IMF and government authorities about economic data. Debt sustainability analyses performed by other organisations using government sources show that prospects have not changed much in the recent path. They underline growing risk of currency mismatches, however. M Were & L Mollel 'Public debt sustainability and debt dynamics: The case of Tanzania' WIDER Working Paper (2020).

published and does not have a directly comparable risk assessment. Recent debt analyses in this framework show a deterioration of prospects: For South Africa, it reveals increasing vulnerabilities, in particular due to high external and fiscal financing needs, low growth and contingent liabilities. They tend to have credit ratings from agencies, which have shown a steady deterioration in the past years: South Africa has been subjected to two downgrades by credit rating agencies. Botswana was also downgraded in mid-2020 by S&P and Moody's, while Mauritius was placed under negative outlook watch for the first time in eight years by Moody's, as was the case for Namibia by Moody's and Fitch.

This first part illustrated that while some countries in SADC have followed trends from the developing world, the picture is nuanced: Several lacked access to borrowing sources, whether due to prudent management or to a lack of access to non-concessional funding sources. The next part focuses on the COVID-19 recession and its impact on those precarious balances.

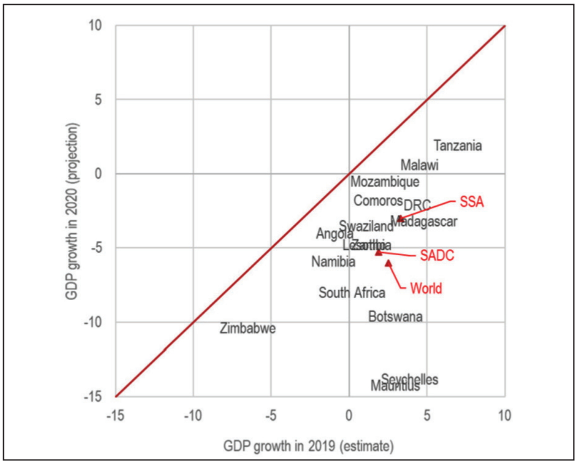
3.3 Economic shock and policy response

3.3.1 The COVID-19 shock and its impact

Beyond the obvious major impact on health, COVID-19 of course is a major economic shock for the world, and for sub-Saharan Africa in particular. SADC countries shifted from a modest average growth performance of 2 per cent in 2019 to a -5 per cent recession in 2020,[17] below that of sub-Saharan Africa (Figure 5). Some countries, such as Tanzania and Malawi, would still have GDP growth in 2020 (though with a reduction of 4 to 6 percentage points since 2019) whereas countries dependent on tourism, commodities and/or remittances suffer from among the worst downturns globally (in SADC, Mauritius and Seychelles).

17 Those numbers are based on the WEO October 2020 database.

Figure 5: The magnitude of the 2020 recession compared to growth in 2019



Source: IMF, World Economic Outlook (October 2020)

In relative terms, the economic crisis in low-income countries was less dramatic but their economy is also less resilient.[18] Low-income countries were less directly affected by the virus, social distancing restrictions were less tight, and their smaller integration to the global economy slowed the spread of the virus and its economic repercussions. On the other hand, they had major weaknesses, such as large informal sectors with less buffers. Their fiscal policy responses, with stimulus policies of 2,5 per cent on average, were well below that of high-income economies, which injected 16,1 per cent of their GDP into the economy. For SADC economies, the averages are 4,4 per cent for non-DSSI countries and 2,5 per cent for DSSI countries (Figure 6). While desirable stimulus sizes do not need to be equal, they are expected to be in line with the economic downturn, but this was not the case: The Organisation for Economic Cooperation and Development (OECD) estimates that the size of the gap was of $700 billion to $1 trillion in 2020 for developing economies, including about $100 billion for low-income economies.[19] The reason for these differentials are due to the access to markets in advanced economies and large emerging markets, which had the ability to finance their fiscal deficits by emitting bonds to investors (who were happy to buy safe bonds in a

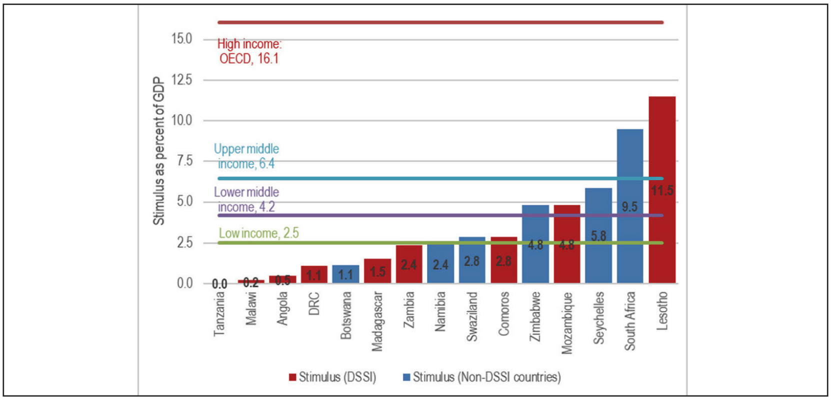
18 IMF WEO (October 2020) ch 1.

19 OECD 'The impact of the coronavirus (COVID-19) crisis on development finance' OECD Policy Responses to Coronavirus (COVID-19) (24 June 2020), http://www.oecd.org/coronavirus/policy-responses/the-impact-of-the-coronavirus-covid-19-crisis-on-development-finance-9de00b3b/ (accessed 16 November 2021).

time of uncertainty) as well as through central banks' purchases. Frontier markets, on the other hand, were much less able to access liquidity.

Despite this, some countries were able to provide a larger stimulus package, either by raising public spending or by reducing or waving taxes. Lesotho, for example, suspended a corporate income tax and Mozambique lowered its VAT, financed by external development partners. On the other hand, Tanzania, which is projected to have one of the smallest declines in growth in 2020, implemented no stimulus measure, according to the IMF.[20] Tanzania is the only low-income SADC country without an IMF programme, which it could have requested to finance further fiscal measures: Given the downside risks on medium-term growth,[21] fiscal measures would have been important.

Figure 6: Magnitude of the stimulus for SADC countries compared with income groups



Source: IMF, Fiscal Monitor database (October 2020)

Note: This chart excludes Mauritius, which had among the highest fiscal stimulus of SADC countries, with 35 per cent of GDP according to the IMF.

20 See also V Masubo 'COVID-19 in Tanzania: Is business as usual response enough?' International Growth Centre blogpost (July 2020), https://www.theigc.org/blog/covid-19-in-tanzania-is-business-as-usual-response-enough/ (accessed 16 November 2021).

21 World Bank 'Protecting the poorest countries: Role of the multilateral development banks in times of crisis, exploratory note' (2020), http://documents1.worldbank.org/curated/en/601251595023594564/pdf/Protecting-the-Poorest-Countries-Role-of-the-Multilateral-Development-Banks-in-Times-of-Crisis-Explanatory-Note.pdf (accessed 16 November 2021)

These large differences will affect the recovery in the long run. Between April 2020 and October 2020, the IMF revised its forecast positively for advanced economies but negatively for low-income developing countries (LIDCs) economies, reflecting the differences in stimulus as well as in access to vaccination. The economic impact of the current shock will linger in the long run without sufficient fiscal support to the recovery, as employment and long-term investment fell while access to education and health were disrupted.[22]

3.3.2 The DSSI is not at scale: Too small for low-debt countries, too narrow for high-debt countries

In this context, the DSSI has come as an important scheme to alleviate immediate liquidity pressure. Importantly, as stated in the 15 April 2020 Communiqué, it has three key conditions. First, it requires that countries apply for the DSSI and to all their creditors equally, and that they receive approval or formally request emergency financing from the IMF.[23] A second set of conditions is linked to transparency: Countries commit to use fiscal space for social, health and economic support, as monitored by International Financial Institutions (IFIs). They also have to disclose all public sector financial commitments, with technical assistance from IFIs. Third, they accept to limit new non-concessional debt during the suspension period, as defined by the limitations set by the World Bank and the IMF.

Those conditions were designed to elicit borrower's participation and creditor coordination, as well as to use DSSI as an opportunity to improve debt management more broadly. Voluntary participation ensured that it did not disrupt financing conditions for countries that thought it could disrupt their access to markets. However, the equality of treatment implied that once a country participates, it requires similar conditions from all its official bilateral creditors. Transparency was meant to ensure the legitimate use of proceeds of the DSSI, in the framework of emergency IMF programmes. Finally, limits on non-concessional loans, meant to avoid piling new debt on old debt, were circumscribed in the end and did not go beyond existing IMF and World Bank policies.

22 IMF 'Macro-economic developments and prospects in low-income countries – 2021' (2021), https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/30/Macroeconomic-Developments-and-Prospects-In-Low-Income-Countries-2021-50312 (accessed 16 November 2021)

23 Either through Rapid Financing Instrument (RFI), which is an IMF lending mechanism without a fully-fledged programme, and thus with minimal conditionality, or the Rapid Credit Facility (RCF), its equivalent for countries eligible for the Poverty Reduction and Growth Trust (PRGT), on which the interest rate is zero.

As a result, sums mobilised for 2020 are relatively small compared to the needs. In total for 2020, DSSI brought an estimated $5,7 billion of debt service deferral, over a total potential amount of $8,6 billion.[24] The limitations are now well known. The agreement was only constraining for official bilateral creditors, and even among them, it was imperfectly implemented: Some creditor institutions that were expected to be considered as 'official' did not participate in some cases. The most prominent example is that of China Development Bank (CDB), which considers itself commercial in nature and thus as not part of the perimeter. However, CDB has stated that it has voluntarily deferred $748 million,[25] although without providing a breakdown by country.

On aggregate, the DSSI seems to have allowed countries to maintain their public expenditures in a time of major crisis. According to the IMF and the World Bank,[26] countries that applied to obtain the DSSI have increased their spending towards health, economic and social support by 2 per cent of GDP on average while government revenues were decreasing. Overall current expenditure remained constant, but countries had to cut in their investment spending, resulting in stable or slightly declining public expenditure.

Among SADC countries, Angola would be by far the main beneficiary. Data on actual debt deferred has not been published: This analysis on debt service as recorded by the World Bank, as if DSSI had been perfectly applied for all bilateral creditors. Considering only debt service to official bilateral creditors, Angola owed about $1,8 billion in debt service in the initial suspension period (May-December 2020, Figure 7). According to press reports, and given the fact that a large share of these flows are owed to CDB, it is unlikely that amounts deferred were as high. Mozambique and Zambia follow, with about $294 million and $165 million respectively, owed to Brazil and China mainly for Mozambique, and at 80 per cent to China for Zambia. Brazil, as a G20 member country, participated in the DSSI as creditor. DRC and Tanzania also had significant bilateral debt service (about $160 million). As a percentage of 2019 GNI, Mozambique actually seems to benefit as much as Angola relative to its size, with about 2 per cent of GNI. Even with imperfect implementation, the DSSI thus

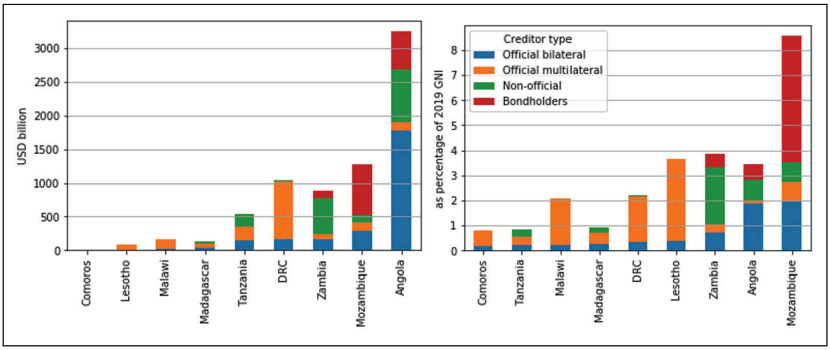
24 IMF and World Bank 'Joint IMF-WBG staff note: Implementation and extension of the debt service suspension initiative' Joint note for the Development Committee (2020).

25 http://www.cdb.com.cn/English/xwzx_715/khdt/202011/t20201104_7894.html (accessed 16 November 2021)

26 IMF and World Bank (n 24).

provides sizeable liquidity for some countries in SADC, but much less to others.

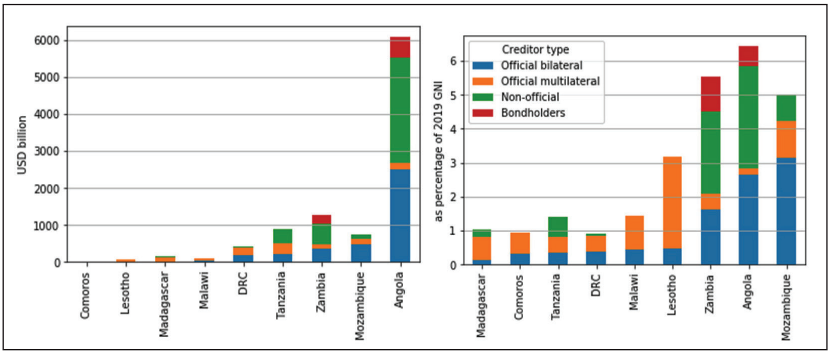
Figure 7: ***Debt service for May-December 2020 by country***



Source: World Bank, IDS:DSSI

In November 2020 the DSSI was extended until June 2021, and later until the end of 2021. This entire period would allow DSSI-eligible countries to postpone about $15 billion in debt service payments. Indeed, as a group, they owe $43 billion in debt service on their external debt, or 2,5 per cent of GDP, with around one-third for each of the creditor group (official bilateral, private, and multilateral). For SADC countries, the total potential amount for the nine countries is about $3,7 billion, of which two-thirds stem from Angola only. For Comoros, Tanzania, DRC, Malawi and Lesotho, amounts deferred from the DSSI (between 0,3 per cent and 0,5 per cent of GNI) remain small (Figure 8).

Figure 8: ***Debt service for all 2021 by country***



Source: World Bank, IDS:DSSI

The DSSI also called upon private creditors to offer similar conditions to countries that would request it. This aspect, however, has not been successful. In 2020, 46 countries out of 73 had requested DSSI to their official creditors but none had done so to private creditors. Some countries with market access feared to send a signal to private creditors and rating agencies, although perceived stigma diminished with time. For example, Kenya applied to the DSSI only in late 2020. Other countries had little to no debt service due to bilateral borrowers, and thus little to gain. In the case of SADC countries, all eligible countries applied to their official creditors, often quite early in the process, but did not reach out to their private creditors.

Debt service owed to the private sector is significant for three high-debt countries. According to the data from the World Bank, Mozambique had a large bond payment in end-2020, but almost none in 2021. Applying it to private creditors of Angola and Zambia, which are both in a status of debt distress, could have reduced immediate outflows, and helped in the restructuring process. Outside those countries, Tanzania is the main case where participation of private creditors could have brought significant liquidity. In all other cases, debt service to private creditors was limited, as few had engaged in borrowing from the private sector. Is official creditor money leaking to private lenders? If countries do not restructure debt eventually, this would not be the case: Official creditors would recoup deferred debt service. If they do restructure, however, it could imply that private creditors were paid on their loans at the expense of official creditors. In those cases, a faster resolution would have helped avoid this outcome.

3.3.3 Multilateral lending in response to COVID-19 crisis

A more complete assessment of the DSSI leads to consider the broader context of the global financial safety net (GFSN) and its role in supporting countries in times of crises. The DSSI is a blunt instrument in the sense that it only supplied liquidity for countries that had borrowed massively, from a narrow group of official creditors. Participation of private creditors would have made it more significant and fairer. However, the role of multilateral development banks (MDBs) and the IMF was also important in providing liquidity, in a more targeted manner.

A first debate has focused on whether MDBs should have participated in the DSSI as well. While debt service to MDBs was high in 2020 and 2021 for SADC countries, the case for their participation is limited. The G20 initially called on MDBs to explore the possibility to participate in the DSSI, which they have resisted, as it could reduce their credit rating and, hence, their ability to lend. Humphrey and Mustapha[27] argue that for low-income countries as a whole, the application of DSSI to MDBs would lower their ability to provide net resources in 2020. This was controversial: Several non-governmental organisations (NGOs) have called for debt service suspension from the MDBs,[28] arguing that debt service was a large drain of resources of developing countries and that MDBs could withstand a temporary shortfall in revenues and retain access to low interest rates. Within the G20, some member countries would have favoured their participation.

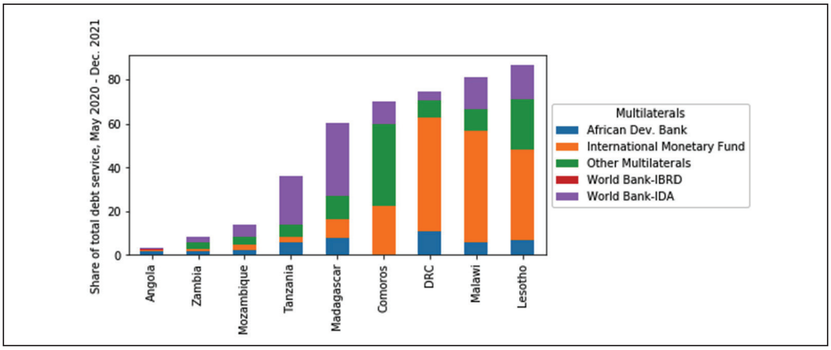
The World Bank and African Development Bank (AfDB) were net providers of finance in 2020 for almost all SADC-DSSI countries. Multilateral debt service represents the largest share of external debt service for six out of nine countries, so would SADC countries have benefited from extending DSSI participation to MDBs? Probably not, as the net flows were clearly positive for most institutions individually. First, for several countries (DRC, Lesotho, Malawi and Comoros to a lesser extent) a large share of this debt service is owed to the IMF (Figure 9). Second, the World Bank represents a large share of total debt service in two cases only (Madagascar and Tanzania), and is significant for Lesotho and Malawi. Despite slow disbursements of funds in some cases,[29] gross disbursements of loans in 2020 were about 10 times larger than debt service. For other countries this ratio varies, but is generally above 5. Third, the AfDB committed more than its debt service owed in 2020 for DRC and Madagascar, the two countries where it makes more than 5 per cent of debt service.

27 C Humphrey & S Mustapha 'Lend or suspend? Maximising the impact of multilateral bank financing in the Covid-19 crisis' ODI Working Paper (July 2020).

28 See eg the call for the cancellation of all debt payments by the Jubilee Debt Campaign, https://jubileedebt.org.uk/a-debt-jubilee-to-tackle-the-covid-19-health-and-economic-crisis-2 (accessed 16 November 2021).

29 S Morris, J Sandefur & G Yang 'Tracking the Scale and Speed of the World Bank's COVID Response: April 2021 Update'.

Figure 9: Debt service owed to multilateral creditors during DSSI period (May 2020-December 2021)



Source: World Bank, IDS:DSSI

The IMF was already delivering two large programmes prior to the crisis: an extended fund facility (EFF) with Angola, signed in December 2018 for $3 billion until 2021 and an extended credit facility (ECF), the concessional equivalent, with Malawi, signed in mid-2018 for about $150 million. Both were extended, prior to the onset of the COVID-19 crisis for Malawi and in September 2020, due to immediate liquidity needs for Angola.[30]

In addition, the IMF deployed two instruments to meet the needs with light conditionality, the rapid financing instrument (RFI) and rapid credit facility (RCF). Both instruments aim at providing low-access, rapid, and financial assistance to countries facing an urgent balance of payments need, without *ex post* conditionality. The RCF is concessional, with a zero-interest rate. The RFI is similar but targets countries not eligible to the concessional window of the IMF, the Poverty Reduction and Growth Trust (PRGT). The total capacity of both was raised to expand it further.

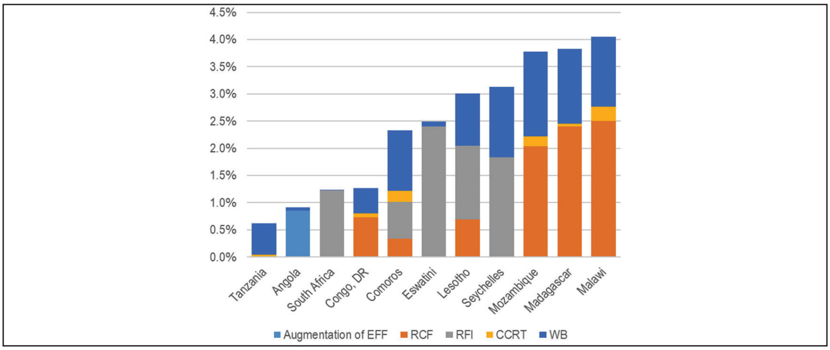
In 2020 eight SADC countries borrowed $1,2 billion under the RCF and $4,5 billion under the RFI. This infusion of liquidity thus is significant: It represents 1 to 2 per cent of GDP for countries with access to those programmes. The bulk of resources allocated to the RFI went to South Africa, which borrowed $4,3 billion. In total, DSSI-eligible countries received about $1,3 billion, an amount similar to the sum freed by the

30 https://www.imf.org/en/Publications/CR/Issues/2021/01/19/Angola-Fourth-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-and-50024 (accessed 16 November 2021).

DSSI. It was also better targeted: Whereas most of the deferred amounts under the DSSI went to Angola, loans under the RFI were allocated by quota, representing about 2 per cent of GDP in Mozambique, Madagascar and Malawi. When adding support from the World Bank, support from IFIs is 2 to 10 times larger than what was implied by the DSSI (Figure 10). Tanzania is the only DSSI-eligible country with no programme in place (which is surprising since it is a requirement in the DSSI term sheet).

With support from donors, the IMF also forgave debt payments for 29 low-income countries, including six SADC countries. Under the Catastrophe Containment and Relief Trust (CCRT) the IMF can provide debt service relief financed by grants from donors. With relatively restrictive eligibility criteria (a low income per capita) this programme is targeted towards a small set of countries, including six SADC countries. This reduces the interest bill due to the IMF, which is a substantial share of multilateral – and total – debt service in some cases. It could be possible for donors, in select cases, to extend such an initiative to other MDBs.

Figure 10: IMF lending in SADC countries in 2020



Source: IMF

Finally, the G20 has called on the IMF to prepare a new allocation of SDRs, for about USD 650 billion, which was approved by the IMF Board in August 2021. The allocation key is the proportion of IMF quotas, so the share of this total will be relatively small for SADC countries, and even smaller for SADC-DSSI countries. However, proposals for advanced countries to give or lend part of their SDR allocation to developing countries or to the IMF itself through the Poverty Reduction and Growth Trust could increase liquidity for those countries.[31]

This part has shown that the DSSI is a limited tool, but can be significant in providing liquidity for a subset of countries. One of the limitations to the initial design of the initiative is that the DSSI is not debt relief, but debt respite**.** This limited scope was essential for reaching the necessary consensus at the G20 but, as a result, the programme provides immediate breathing space by pushing immediate debt payments outflows to later years. Might it create larger 'walls of debt' in the years after 2024? The next part turns to the consequences in the longer run.

3.4 Debt on the brink: Financing the recovery after COVID-19

3.4.1 Persistent high financing needs

Existing forecasts point to a persistent need for liquidity for at least two years. The IMF conducts regular debt sustainability analyses (DSAs) for low-income countries, updating them for several countries as the COVID-19 crisis unfolded. This provides a credible lens on the possible fiscal paths in the medium run. This analysis relies on DSAs of six countries, highlighting future financing needs for low-income countries.[32] They show that gross financing needs for public sector debt (the sum of fiscal deficits and maturing debt to refinance) increased sharply in 2020 for five out of six countries at a similar pace, jumping from about 5 per cent of GDP in 2018 to 13 per cent GDP in 2020.

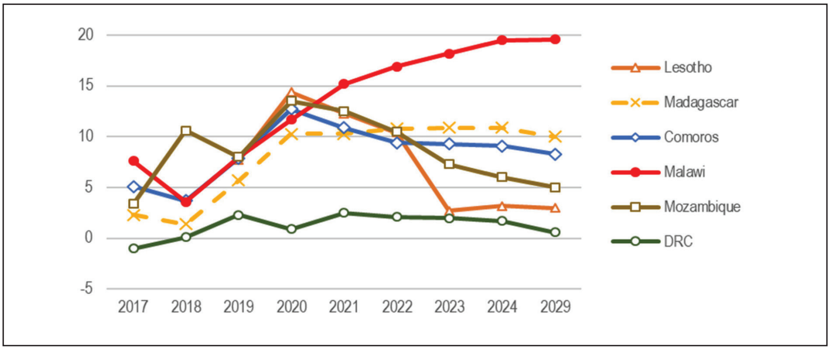
After 2022 the IMF expects a divergence even though GDP growth is expected to recover in those six countries. The opposite is the case for Malawi, which relies largely on domestic markets, at higher interest rates than from international sources. As a result, there is a clear risk of permanently high needs, which could lead to a fiscal crisis. Lesotho, and Mozambique to a lesser extent, represent the opposite evolution: After two years of high liquidity needs it is expected to manage to reduce its debt service (for Mozambique, thanks to treatment of existing debt). Madagascar and Comoros trace an intermediate path, where financing needs fall below their emergency level of 2020, but remain elevated,

31 M Plant & D Andrews 'What is the best way to allocate new SDRs?' Centre for Global Development, Commentary and Analysis (2021), https://www.cgdev.org/blog/what-best-way-allocate-new-sdrs (accessed 16 November 2021)

32 Among SADC-DSSI countries, only Tanzania and Zambia did not have DSAs in 2020. For both, this delay is due to discrepancies in the underlying debt and macro-economic data.

close to 10 per cent of GDP. Finally, DRC presents an exception due to optimistic projections in terms of GDP growth and government revenues, as well as expected growth in aid flows.

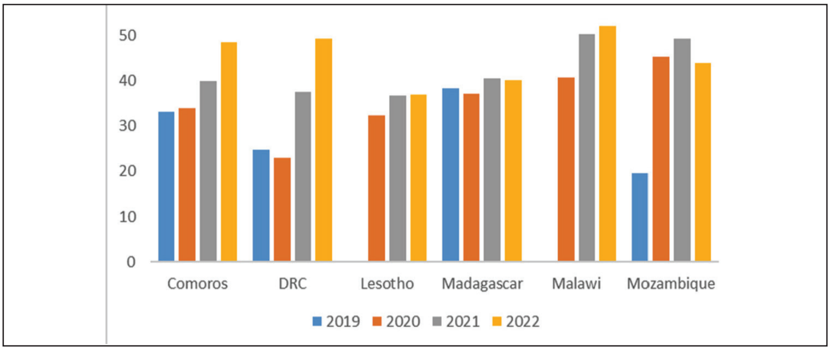
Figure 11: Future Gross Financing Needs for selected countries as a percentage of GDP



Source: World Bank/IMF Debt Sustainability Analyses

For those low-income countries, aid flows will be the major resource to tap in future years. Again, using countries for which recent (post-COVID-19) DSA projections are available, concessional finance will be a major source of financing for those needs. Indeed, it is expected that the grant element of the public sector, that is, the relative concessionality of aid flows, would rise for all countries in the sample financing (Figure 12), to close to 50 per cent for the poorest ones (Comoros, DRC and Malawi).

Figure 12: Grant element of new public sector borrowing (in percent)



Source: World Bank/IMF Debt Sustainability Analyses

This sustained increased in aid flows comes in contradiction with recent trends. Official development assistance (ODA) from bilateral donors to the SADC region declined in recent years, from 5,5 per cent of GNI to 3 per cent, and 9 per cent from 7 per cent when including multilateral donors. Another notable trend is the increase in the share of loans since 2010. The medium term will thus be risky, with countries vulnerable to a drop in growth. In other words, either ODA decline should be reversed, or countries will need to reduce sharply the deficit during a fragile recovery phase at the risk of derailing it. Another option, however, is to restructure debt and reduce financing needs in the future.

3.4.2 Is it necessary to restructure debt?

The previous parts have shown that immediate debt restructuring is necessary for only a few SADC countries. For others, the main constraint is not due to the current outflows linked to debt service, but the ability to finance current expenditure to meet the needs of the crisis, and thus the lack of adequate concessional resources. The medium-term financing needs will also require a strong growth rebound, but indicated high vulnerability: A tepid recovery, for example, which would stem from a failure to end the health crisis; or the lack of exchange rate pressure, could trigger a debt crisis.

This makes the establishment of a coherent debt resolution framework an important task. The Common Framework for Debt Treatments beyond the DSSI, adopted on 13 November 2020 by finance ministers of the G20, will be tested over 2021. Designed as a coordination platform for official creditors, it is close in spirit to the Paris Club, with an extended membership. If a debtor country's debt is determined to be unsustainable, creditors will agree to share the reduction in debt stock in a comparable manner. In this case, and unlike the DSSI, the country will then be required with its private creditors with terms as least equivalent. As a result, the creditor base will be broader.

As of early 2021, the framework has started to be tested. Three countries have applied to the Common Framework: Ethiopia, Chad, and Zambia. Given the difficulties in coordinating the DSSI, there is no doubt that the Common Framework will require G20 lenders to go beyond sharp disagreements on the way to restructure official debt. Given the importance of China as a bilateral creditor, it is likely to crystallise disagreements: on the status of CDB, for instance, and on transparency. Recent experience has shown that China agrees to restructure its loans relatively frequently, but on an *ad hoc* and uncoordinated basis.[33] With no direct mechanisms constraining private sector actors, negotiations with banks and bondholders will also be difficult, but the Common Framework will help as a backstop. A key lesson from the Brady plan in the 1980s in Latin America is that building consensus is difficult[34] and that deep restructuring will take time.

3.5 Conclusion

Given the scale of the crisis for developing economies, the role of official finance is thus bound to become more prominent. In times of disasters or major crises, as markets retreat, official finance tends to take over as the main engine of development finance. Horn et al[35] have illustrated this fact across history and shown the ebbs and flows of official finance. Their evidence points to three reasons to expect a resurgence of official finance in the next years, which could thus meet the financing needs of developing countries. First, official finance surges in times of crises and thus is highly countercyclical. Second, it tends to be more important when the world is more integrated. Third, the current trend has been one of increasing importance of official finance, whether through the emergence of new actors (China and other emerging markets, Gulf countries) or through new instruments such as central bank swaps.

SADC countries would benefit from such inflows of official finance, reversing several years of decline in aid flows. This is especially the case for countries that entered the COVID-19 crisis with a debt situation already in distress or very close thereto. For others, which have managed to keep a relatively low risk on their debt, a strong economic growth would allow limiting the consequences of COVID-19, but risks of lingering high debt are notable.

Multilateral institutions are best placed to disburse rapidly. In this sense, the DSSI places the right balance in the comparative advantage of each. The rapid finance from the World Bank and IMF, to the tune of 3 to 4 per cent of GDP, was the general background for the DSSI, which constituted a complementary effort from bilateral lenders, although in a less well-targeted manner. In aggregate, the sums were significant, but

33 A Kratz, M Mingey & D d'Alelio 'Seeking relief: China's overseas debt after COVID-19' (2020).

34 T Truman 'Sovereign debt relief in the global pandemic: Lessons from the 1980s' Peterson Institute for International Economics, Policy Brief, PB20-13 (2020).

35 Horn et al (n 11).

tend to be by definition directed towards countries with higher official bilateral debt and less concessional terms.

Perhaps most importantly, the DSSI also paved the way to deeper debt restructuring. In a sense, its success is more political than its impact on actual debt service: It provided a possible framework for collaboration at the G20 level that was not realistic before. In countries where debt relief will materialise, this political buy-in comes at a cost: transferring money from official to private creditors during the suspension period. This is the case for all emergency financing, including IMF programmes. However, the lesson that defaults need to be recognised early is difficult to apply in the midst of a global recession. In many cases, the DSSI was an important complement to other financing measures from the multilateral system. Eligible SADC countries have well understood the possible benefits, as all of them participated in the initiative. Extending to other vulnerable countries, in particular small island developing states, could be a way to complement the approach.

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