Eighth Africa Regional Forum on Sustainable Development

Kigali, Rwanda, Tuesday, 1 March 2022

4:00 PM to 5:30 PM (local time)

9:00 AM to 10:30 AM (New York time)

Virtual experts panel discussion on:

Credit Rating Agencies, Fiscal Space and Fragility in Africa

Please note that registration is required prior to the event:
[Registration link]

"Credit Rating Agencies, Fiscal Space and Fragility in Africa"

I. Background and Thematic Focus

- As per the 2030 Agenda for Sustainable Development and its Addis Ababa Action Agenda, African Member States and the international community have made joint commitments to enhance domestic resource mobilization. This objective was also underpinned by the African Union's Agenda 2063's goals and aspirations, especially as articulated in its Goal 20 which envisages Africa taking full responsibility for financing its development goals.

- Whilst the financial commitments by Africa's development partners, including ODA and other forms of concessional finance, as well as long-term investment capital and short-term portfolio flows into the continent are critical elements for financing the continent's sustainable development, their relative weight in the mix of Africa's sources of finance are already on the decline. An analysis of the breakdown of the aforementioned sources of finance makes it absolutely clear that Africa is already financing its own development predominantly relying on its domestic resources.[1] To that effect, removing hurdles in front of mobilizing domestic resources is the key to unlocking Africa's development potential.

- Such efforts involve deepening of the domestic capital markets on the continent as well as ensuring access to finance at competitive and affordable market rates, in other words without having to pay punitive risk premia. These funds would underpin Africa's structural transformation with a potential comfortable return on investment if it was not for the overrated role of a handful of global Credit Ratings Agencies (CRAs) in determining the credit worthiness of sovereign debt and assessment of the default risk, de facto pre-determining almost singlehandedly investment decisions on the continent.

- A recent policy brief by the UN Office of the Special Adviser on Africa on "Eurobonds, Debt Sustainability and Credit Rating Agencies" puts this harsh reality under the spotlights, noting that there is an African global debt premium imposed on the borrowing originating from the continent which leads to further vulnerabilities in African countries. This "African premium" translates into borrowing money on the international market at a superior interest

[1] This point elaborated further in the forthcoming OSAA Policy Brief on ODA as well as the Secretary-General's 2022 Report on the New Partnership for Africa's Development. For more information, please consult https://www.un.org/osaa/content/reports-and-publications

rate, 2.9 percentage points higher than in comparable non-African countries, having led to an additional net loss of US$2.2 billion to African governments on their outstanding obligations for the Eurobonds issued between 2006 and 2014. In the last seven years, the size of the African Eurobond market has more than tripled, making it likely that the magnitude of the losses would have also increased exponentially. Considered in conjunction with the illicit financial flows from the continent ($88.6 billion per year according to the most recent estimates by UNCTAD[2]), this situation deprives the continent of vital resources it needs to achieve sustainable development. The same policy brief also shows that African Eurobond yields are very sensitive to CRA downgrades and highlights the need to reconsider the role and credibility of CRAs on the continent. Among the broad recommendations of the policy brief is to engage in a fundamental rethinking to bridge the gap between the modus operandi of CRAs and the reality on the ground of African financial markets, which could culminate in a more realistic evaluation of market risk in Africa and help with the broader debt sustainability issues.

- Meanwhile, the COVID-19 pandemic exacerbated fiscal vulnerabilities on the continent, adding to the government debt as African Governments had to spend between 1 and 7 percent of their GDPs on stimulus packages in 2020. This has put debt sustainability on the continent at risk and resulted in several sovereign credit rating downgrades since the onset of the pandemic, reopening the debate on the role of CRAs restricting countries' access to international capital markets, which could in turn dampens fiscal space, and consequently weighing down on provision of social services and fueling socio-economic fragilities within and among countries resulting in a vicious cycle going from debt distress to reduced fiscal space ending up in social and political instability and fragility on the continent.

II. Objective:

- Provide a timely opportunity and the right forum to raise awareness on credit ratings, fiscal space, and fragility in Africa.

III. Proposed guiding questions

1. What is the relationship between the so-called "Africa premium" and the fiscal space in the context of service delivery and socio-economic cohesion within the society? How does reduced fiscal space and service delivery foster fragility on the continent?

[2] UNCTAD Policy Brief 82, Curbing Illicit Financial Flows to Finance Sustainable Development in Africa, September 2020.

2. Looking beyond COVID-19 pandemic, what should African countries do in order to continue to have access to international capital markets and be ready to face the long-term uncertainties around energy transition, food and nutrition security, and rapidly changing financial system in an increasingly digital economy?

3. What are some of the concrete actions that African policymakers can take today to secure debt sustainability and Africa's access to finance on fair and equitable terms from international capital markets and to unlock African Member States' potential for domestic resource mobilization?

4. Given the disproportionate impact of a small number of CRAs on African Member States' access to international financial markets, how can African policy makers break their dependence on such a skewed business model? Can the existing business model of CRAs vis-à-vis Africa be improved, or is a comprehensive paradigm shift necessary?

IV. <u>Expected Outcomes</u>

- A substantive contribution to the efforts to enhance debt sustainability and credit worthiness of African Member States, including by rethinking the existing skewed and flawed modalities restricting their access to global financial markets in fair and equitable terms.

- The panel discussions will be addressing the nexus between development and peace & security in Africa from a developmental perspective.

- The ARFSD outcomes will feed into the debate at the High-level Political Forum (HLPF) due to take place in July 2022 as well as the preparatory process for the Africa Day at HLPF 2022, a side event jointly organized by OSAA, the UN Economic Commission for Africa (UNECA) and the African Union Commission (AUC). The Kigali Forum will serve as a crucial first step in promoting regional perspectives in the global debate on a vital issue for Africa as it touches on the continent's efforts to finance its own development, as recommended, and formulated in Agenda 2063 and the 2030 Agenda for Sustainable Development.

- To strengthen the dialogue and partnerships among African policymakers and other development stakeholders to help address the shortcomings of the international financial architecture and promote African generated solutions to develop its own financial markets

V. <u>Key Output</u>

- A web-based report of the event, including key actionable policy recommendations for keeping the issues related to CRAs, fiscal space and fragility in Africa at the fore of building forward better, will be produced and disseminated among participants, policy makers and stakeholders.

VI. Format, participation and registration

The event will last for an hour and a half and will be hosted virtually via the ZOOM platform and administered via the INDICO platform. It will be open to all participants, including high-level government officials from all UN Member States, as well as representatives from African regional institutions, the UN system, bilateral and multilateral partners, representatives from women and youth groups, civil society, the private sector, academia, and the media. There will be simultaneous English/French interpretation. Registration will be required at the following link: Registration link

VII. Co-organizers

The event is co-organized by the UN Office of the Special Adviser on Africa (OSAA) and the AU African Peer Review Mechanism (APRM).

Programme

Moderator:

- **Mr. Utku Teksoz** (OSAA)

Welcoming remarks on behalf of co-organizers

- Address by **Prof. Eddy Maloka** (Chair, APRM)

Setting the Stage:

- Presentation by **Mr. Liwaaddine Fliss** (OSAA)
  Power point presentation on the insights from the forthcoming OSAA policy brief on "Eurobonds, Debt Sustainability in Africa and Credit Rating Agencies"

Panel Discussion followed by an interactive session:

- **Ms. Ejigayhu Tefera**

African Peer Review Mechanism (APRM), African Union

- **Mr. Phakama Hadebe**

Businessman and Philanthropist, Director of Sustainable Debt Management Institute, South Africa

- **Ms. Sonia Essobmadje**

Chief of Section, Innovative Finance and Capital Markets, UN Economic Commission for Africa

- **Prof. Michael A. Olabisi**

Department of Agricultural, Food and Resource Economics, Michigan State University