THE BROOKINGS INSTITUTION
FALK AUDITORIUM

IS SUB-SAHARAN AFRICA FACING ANOTHER SYSTEMIC SOVEREIGN DEBT CRISIS?

Washington, D.C.
Friday, April 12, 2019

Moderator:

BRAHIMA S. COULIBALY
Senior Fellow and Director, Africa Growth Initiative
The Brookings Institution

Panelists:

MTHULI NCUBE,
Minister of Finance and Economic Development
Republic of Zimbabwe

TRANG NGUYEN
Executive Director, Emerging Market Sovereign
Credit Strategy, J.P. Morgan

SEAN NOLAN
Deputy Director, Strategy, Policy and Review Department
International Monetary Fund

VERA SONGWE
Executive Secretary, UNECA
Nonresident Senior Fellow, Africa Grown Initiative, The Brookings Institution

* * * * *

P R O C E E D I N G S

MR. COULIBALY: Okay; we can get started while he's setting up the mic for the rest of the panelist. Good afternoon, everyone; and thank you for joining us. It's good to know that the unexpected rain didn't deter you from showing up. We have coffees and cookies; so, if you haven't gotten some, help yourself; and get comfortable.

I'm Brahima Coulibaly, Senior Fellow in the Global Economy and Development Program here, and the Director of the Africa Program. We're here today around this event because some of you, depending on where you fall on the age spectrum, may recall -- it wasn't long ago, just a decade-and-a-half, when Africa, among many other countries, benefited from the debt relief initiative. But the continent is in the news again about another, possibly, systemic debt crisis similar to the one that necessitated the debt forgiveness; and if that does materialize then, obviously, it's going to be a blow to economic development agendas; especially now that it's really hard to mobilize enough financing to meet sustainable developmental goals.

But the issue is far from settled; and there is not really consensus around the issue. In particular, some point to the fact that the increasing debt -- Africa is not unique -- it's a global phenomenon; and we've sent that a lot, especially after the global financial crisis; and some of it reflects contra-cyclical response to be able to stabilize the economies in the face of the shocks the countries may have experienced.

So, the question really is, is Africa facing another sovereign debt crisis. So, we are very fortunate to have a really diverse panel of experts that will help us shed some light on the issue.

So, beginning with Trang Nguyen -- she's Executive Director in Emerging Markets, Sovereign Credit Strategy at J.P. Morgan in New York. She accumulates over 10 years of experience in emerging market fixed income, with a portfolio covering 70 countries. Her team has been recognized among the top three by institution and investor ranking for emerging markets sovereign debt for the past three years.

And by way of disclosure -- because I was informed J.P. Morgan funds Brookings -- I haven't seen that money -- I see a need to share with you that she's speaking in her own capacity and not that of the institution.

And then next to her is Vera Songwe. She is Executive Secretary of the United Nation's Economic Commission for Africa, and a non-resident senior fellow of our Africa Program here at Brookings. Previously, Vera was IFC regional director covering west and central Africa, and also served as country director for several African countries at the World Bank. She is a member of the Africa Leadership Network, and also a member of the African Union Reform Advisory Committee, led by President Kagame.

And next to Vera, is the honorable professor Mthuli Ncube who is Minister of Finance and Economic Development in Zimbabwe since September of last year. I think that is important because Zimbabwe is one of the countries classified as being in debt distress; and I just want to point out that this preceded his arrival. (Laughter)

MR. NCUBE: Indeed.

MR. COULIBALY: And, in fact, since he came here, he has been quite proactive in trying to address the situation; and as of this morning, we heard from Christine LeGarde that they have just reached a staff-monitored program with the IMF. So, congratulations.

MR. NCUBE: Thank you.

MR. COULIBALY: So, before he became a minister, he also served as chief economist and vice president of the African Development Bank; and in an even earlier life, he was a dean and professor of finance at the Witwatersrand Business

School; and then dean of the faculty of commerce, law and management at the University of Witwatersrand, as well as a lecturer in finance at the London School of Economics. He is chairman of the board of the Africa Economic Research Consortium.

MR. NCUBE: Former.

MR. COULIBALY: Former chair of the Africa Economic Research Consortium; and he's also a chairman of the Global Agenda Council on Poverty, Economic Development, at the World Economic Forum. But that's not former -- that is current.

MR. NCUBE: No; that's former as well.

MR. COULIBALY: Also it's a former, right; very good. So then you're free to --

MS. SONGWE: Finance ministers are busy.

MR. COULIBALY: Yeah, there you go. Now, you're free to really focus on Zimbabwe.

MR. COULIBALY: And then, last, but certainly not least, really, is Sean Nolan. He is deputy director of the Strategy Policy and Review Department of the IMF where he leads the department's work on low-income countries and on wider development issues, including the 2030 development agenda.

In relevance to today's discussion, Sean has been leading the IMF's work on debt sustainability frameworks, along with the colleagues at the World Bank. In his prior roles at the IMF, he worked in various departments, including the Africa department, where he served as resident representative in South Africa, and as deputy director. And before the IMF, he was assistant professor of economics at the Boston University.

Okay, so, the format, basically, is that each panelist gets three to five minutes to provide an opening statement on the question of the agenda -- Is Africa Facing Another Systemic Debt Crisis. You may very well be aware that as economists, we're often accused of never giving a yes or no answer. It's always on the one hand this; and on the other hand that. So, let's see if part of the opening statement and the answer, we can change that perception.

So, why don't we start with you, Sean?

MR. NOLAN: Is Africa facing a systemic debt crisis? I'm going to avoid the yes/no, by changing the question, but within a genuine sense. I think the first thing we have to remember is Africa is a continent and not as sort of a group of homogenous countries equally close to sub-Saharan Africa; and so, we're actually not -- it's nearly dangerous. If we'd sat here in 2011 and talked about the Euro Zone debt crisis, we would have become very excited about it; but it turned out to be concentrated in a small subset of countries. So, we have to keep that in mind constantly rather than just stick with the broad-brush description.

And I think the second thought that we need to do in talking about debt is, remember, debt -- the liability side of the national balance sheet that we have to remember what's being done with the debt is a key issue -- looking on the asset side and on the investment for development purposes. This is not to say that labelling something investment means that it's got a high rate of return, but it means we're constantly continuing the balancing act between the two.

What I'd like to do briefly is comment on -- just give you the quick messages from a paper produced a year ago which covered all of the low-income development countries -- which is, basically, are they eligible countries -- and what have we learned from that. We've learned a few things. One was debt had risen from about 33 percent median to about 48 percent over four years, which is quite a rising, quite a short period of time. And the cause of the factor is civil conflict was one; commodity price stories were another; fiscal expansion was a third; and then governance issues. And this was equally true in sub-Saharan Africa; perhaps more so than in the low-income countries elsewhere.

A seconding was a number of countries, not really a debt risen, but more were drifting into high risks of debt distress or drifting into actual debt distress. The number of sub-Saharan countries in debt distress rose from two in 2013 to seven in 2018.

The third thing we learned which was a bit troubling for both the bank and ourselves is that there's an inherent bias in our debt sustainability assessment. There's an optimistic bias. So, actually, taking the status quo on the current descriptions as given is an embedded optimism bias. Some of it's for good reasons -- the optimism bias -- because you're kind of assuming the programs you've agreed with governments will be implemented; but sometimes the reasons are not quite as good. They're often of the version that if they do not implement a major fiscal adjustment, they will have a financing crisis rather than saying they are not going to implement a fiscal adjustment and there will be a financing crisis, which is the probably the Ghana 2013-2015 story.

The fourth big point that came out of it was the shifting creditor base -- one that you've heard an awful lot of -- and that was important not because of the different flags and different currencies in which debt was being denominated, but a realization that debt workouts and debt resolution will be much, much more difficult in an environment where we no longer had the Paris Club as the umbrella operation, to produce that restructuring. And we will talk about that, briefly, a number of difficult cases in that regard.

And, I think, the last point to mention was the issue of weak databases, which was true not just in low-income countries, but higher up the spectrum as well where you had a lot of problems with hidden features to debt -- collaterization being a particular one -- perimeter issues. You thought you were talking about the general government, but actually no you were talking about the central government. There were a lot of guarantees and the state enterprises and off-budget operations that were missing from your data. And lastly, it was the contingent liabilities issue -- the stuff that came out of unknown, unknowns -- to use a famous Washington expression. What's happened since that report is probably the debt levels, and those meeting debt levels, continue to drift upwards; particularly, if you take into account the optimistic bias.

And a few more countries in sub-Saharan Africa have drifted into debt distress -- The Gambia is one; Sao Tome is another.

And lastly, since I don't want to be accused of focusing on only one block, we also have issues of debt in emerging market economies in sub-Saharan Africa, which South Africa's long-going, trend growth in debt is an example of clearing out a crisis, but an ongoing problem -- really a problem of slow growth; and then the dramatic acceleration of debt in Angola which has resulted in an extensive IMF program. So, that's I think what's happened since then.

What are the lessons to be drawn -- I'm going to actually use a couple of country examples. The lesson we learned from Mozambique is the absolute imperative of having strong governance arrangements governing the contracting of debt -- and this is an imperative. If you do not have that in place then you're vulnerable to all sorts of things, including $2 billion in bad loans.

We look at the experience of Zambia and of Ghana. It's the classic narrative. It's called spending a lot more money than you're taking in in tax; doing it for quite a period of time -- often linked to the electoral cycle -- and rapid and steadily but in an ongoing way accumulating debt and then ending up as Ghana did in 2015 in a significant financing crisis.

Then there's the lesson of the Republic of Congo and Chad; and it sounds initially like a bad luck story of declining oil prices but, of course, it's not. The real problem is mismanaging oil price volatility. That's -- anyone who knows Nigerian history, for the late twentieth century should have learned this lesson, but we've seen a repeat in both those countries. Spending, basically, the boom-bust cyclist would say it was the oil prices.

And one last lesson, I'd say, we've seen particularly with the Republic of Congo and The Gambia is debt restructuring in a number of cases has been extremely difficult. In the case of Chad, it was not so difficult because there was only one major creditor who you needed to deal with. In the case of Republic of Congo, there's an IMF arrangement with the Congo on hold pending a resolution -- a restructuring one particular debt with one particular Chinese bank. But restructuring debts for banks major entities in China is a new experience. It doesn't happen quickly.

And The Gambia is the other example I'd cite where you've a remarkable diverse set of creditors; various plurilaterals -- India, China, the Gulf, etc. -- and bringing this group of creditors -- none of whom has a business model that involves default; bringing them into a room and seeking to negotiate a debt restructuring -- which Gambia undoubtedly needs -- is truly an enormous effort, even for a very, very small country. Let me stop there, actually.

MR. COULIBALY: Okay; thank you. Honorable Ncube, what is your take on the issue?

MR. NCUBE: Why? Is Africa facing a debt crisis right now? I would say not yet -- but I would qualify Zimbabwe's, rather, I'll get to it -- but it could face a debt crisis. Now, at this time it's different. Why is it different? Because for most countries, the issue is external debt; but it's actually a commercial external debt raised from the capital markets mostly; but also commercial debt, which is bilateral commercial debt.

So, you know after the financial crisis, Africa risks become very interesting -- it's still very interesting, by the way. So, most countries then decided to go into the market to borrow through the Euro bond market issuing the debt on Euro bond market. It's been fantastic, but therein lies a risk in terms of repayment; especially, the process where used for consumption rather than a current expenditure; rather than an investment such as infrastructure, and so forth.

But I think we need to understand what's going on as well. We need to look at the whole mechanics of the debt accumulation process. There are three things to focus on. One is the interest rate that these countries are paying, including their risk premium; and then, two, the rate of growth in terms of the growth profile; but particularly the gap between the interest rate and the growth projections; and then, number three is the primary surplus.

So, in a situation where there's always a risk of interest rates rising for the risk premium of the country going up relative to the rate of growth for that country, you are at risk of accumulating debt beyond sustainable levels. So, that gap between the interest rate and growth is very, very critical. So, basically, the fear then is after the commodity price boom went south -- oil prices went south from $100 per barrel -- then Africa is at risk of excessive debt accumulation and, therefore, unsustainable debt.

So that's where this narrative is coming from. But as Sean said, not all countries are the same; they are different. There are few countries -- a lot of countries are tied in the six percent cap that are growing at more than six percent of GDP per annum -- five percent at least, you know. So to that, most of those countries are borrowing at probably 7 percent – between 5-1/2 and 7 percent -- (inaudible) from the market. So, the gap between growth and the interest rate is not so bad, is not so bad at all.

Now, but the issue as well as I said is this issue of fiscal discipline. So, the one thing that slows down the process of debt accumulation is the primary surplus. So, as long as a country is running a primary surplus, that acts as a brake on the speed of accumulation. So, the issue is fiscal discipline. So, what has happened to fiscal management in Africa is key. So, really that's how you tell whether we're in danger zone or not if, you know, budgets deficits are beginning to grow; fiscal discipline is no longer the order of the day for ministers of finance; and I get a sense that we are still concerned about fiscal discipline.

So, then I am -- I'm riding a primary surplus, right, for the last four months; so I'm concerned about that; and we are paying -- at least our domestic debt -- in the last two months we've paid $195 million. Last year we paid $1.6 billion; and we're running a primary surplus. So, it's going the right way in terms of stopping the debt accumulation process output. So, just those three points are key.

I said at the beginning that this time is different because the last time once just before the HIPC exercise, countries in Africa were growing at an average rate of three percent per annum. They couldn't service concessional loans, not given commercial, concessional loans. This time they can service concessional loans only that they just have too much commercial loans for which they're paying average interest rates of seven percent; and for those going below the seven percent, then they're in trouble. So, that's really my take on that.

And then 30 seconds on Zimbabwe -- Zimbabwe's issue has been -- I'll say a balance of payments crisis in demand in the main. But we don't have excessive debt accumulation. We fed our debt equity ratio, old finance guide. So debt to GDP ratio is 53 percent, which is manageable -- absolutely manageable by any standards. The issue is that, you know, with a balance of payment and challenges but with a roadmap to clear our arrears, you right that this staff monitor program is the first step -- for it's the only door through arrears clearance, frankly; and then we have to clear the AFDB and then the World Bank in terms of what we owe them. They're preferred creditors so we have to clear them first. Once we do that then that opens credit lines. We lost about 80 different credit lines into a banking sector just because we're in arrears with the AFDB and the World Bank.

Once we're done that, we then move on to phase two which is really the Paris Club partners with whom we have to negotiate and see what deal we can get to restructure that kind of debt. So, we have a roadmap; we have a clear path; but we are acutely aware that fiscal discipline at the end of the day is the key to managing our debt accumulation process. Thank you.

MR. COULIBALY: That's actually an important point; and I think if you look at that primary balance data for Africa, at least, looks like there was -- this for the median country -- they were in surpluses until at least around 2008, 9.

MR. NCUBE: Exactly.

MR. COULIBALY: And then it flipped into deficit.

MR. NCUBE: Exactly.

MR. COULIBALY: And after the 2014 returns of trade shock --

MR. NCUBE: Yes.

MR. COULIBALY: -- that deficit widened even further --

MR. NCUBE: Exactly.

MR. COULIBALY: -- mirroring a bit the trajectory of the run of (inaudible).

MR. NCUBE: You're exactly right. So, that is the issue.

MR. COULIBALY: Okay. Vera?

MS. SONGWE: Yes.

MR. COULIBALY: Maybe we'll get you to give us the yes or no answer.

MS. SONGWE: I think the answer is no. Let me put my head out there and say that. The answer is no for a couple of reasons; but why are we having this debt conversation. We're having the debt conversation for three reasons. One, a lot of the countries that are in high risk of debt distress -- and the IMF numbers now show us that there are nine countries that are already in high risk of debt -- no, it's seven already in debt distress; and nine are about in high -- so, all together 16 countries. The 7 countries are fragile states. So, again, in a fragile state, you don't really have any economic activity; you have, you know, most of the investments have sort of frozen; so, is it a question of debt, or is it just a question of sort of, you know, political conflict; and, therefore, a lack of better fiscal management. And, I think, then the problem is not the debt; the problem is political stability, economic recovery; and so, it's not so much a question of debt distress.

The countries now that are not in debt distress but are in moderate are a lot of the resource-rich countries. And when you look at the resource-rich countries, we have two problems going on there -- again it's fiscal. Half of them, if not all of them, are countries where they give abundant tax holidays. So, as you said, if we decide that we wanted to monetize, you know, the tax holidays that are being given to every, you know, gold company that goes into Burkina Faso; and gold prices continue to increase; so, for god sakes why are we giving them so many tax holidays. You know, why would Mali continue to give tax holidays when it needs the resources. And, I think, it's this question of the race to the bottom in our resource-rich countries.

So, you have two problems happening in resource-rich countries. It's one -- the tax holidays which are particularly excessive and, I think, that something that the IMF could start doing for us is beginning to monetize the cost of tax holidays in those countries and actually put it as a clear budget line. I think that if you begin to bring this kind of transparency to this process, we may not get the problems that we have today.

And this is the conundrum. Yes, oil prices have, you know, crashed. But we went from 20, to 40, to 80, to 100; and they're back at 60. So, are you at 60 from 100, or are you at 60 from 20. And if you look at it and say that you're at 60 from 20, we should be doing better. And so, then the question is there is a governance issue in there; and if we can maybe unpack and unwind that governance issue, we may not be in the problem. And, hence -- I'm now giving the reasons for why I think that we're not in a debt crisis as we were before but maybe more in a governance crisis.

When you look at Nigeria -- Nigeria is collecting seven percent of non-oil revenue as taxes. It is just not conceivable that's what's happening; and you look at -- I mean Nigeria, essentially, collects less revenue than Rwanda. So, when you look at it in that scale, you'll see this is not about -- you know, it's again, it's governance issue; it's not a debt distress country. And we know with new technology -- with digital technology -- that you can actually do a lot better; you can do a lot more. Countries -- and you mentioned, I think, Sean mentioned South Africa -- just in terms of improvements in using technology, South Africa has been able to improve its revenue collection by 22 percent; and that 22 percent has, essentially, gone to abate the debt structuring problem. So, I think that's the first point.

The second one is we are actually seeing investments in infrastructure, and it's paying off. And you take a country like Senegal -- Senegal before used to have access to energy -- 30 percent of the population have access to energy. Yes, they borrowed; but they actually then increased access to energy from 20, 25 percent to 72 percent. They were growing at 2.3; they're growing at 7 -- debt distress is a denominator problem. When you grow at 7 percent, your debt to GDP ratios drop. So, the investments -- and, I think, we can say that in particularly, the non-resource intensive countries investments have been interestingly slightly more productive, and growth -- those are the countries that are growing at our seven, eight percent, and we see in those countries no problems with debt distress. So, again, and that's why I think I can comfortably say I don't think that we really are sort of at risk of a new debt crisis. Because what is beginning to happen is those that are getting closer to the edge are beginning to say, you know, what can we do.

And Ghana -- Ghana could have been, again, a very sort of easy case of a country that would have fallen into a debt distress crisis. But two things are happening. Yes, we have a lot of market debt; but the market is saving us from debt distress because what the market is doing is penalizing us for bad macro but is giving us the resources anyway.

So, while we are waiting to restructure, Ghana can continue going to the market even if it's not growing at 425, it's growing at 7; it's growing at 8; so, it's paying higher for, you know, management issues, but it's getting some resources that are allowing it to continue to restructure; and you can continue doing this, over and over -- it's restructuring; and so, we may not have the problem.

The reason that we face that in the Gambias is they don't yet have market access; and so they are stuck with coming back to our traditional. But as soon as the markets open up, we will have less and less.

Whereas, in the first time around, we all had to go to Paris Club because no -- I think today 21 countries -- African countries -- have access to the markets. So, somebody out there will be willing to give you. They will penalize you for your bad macro, but they will give you some resources to allow you to live another day; whereas in the past, we didn't have that.

I think the other issue is -- and we talked a little bit about it -- is the composition of the debt. And when we talk about the question of debt distress, of course, talk immediately about extending it -- and I'm glad you talked a little bit about domestic debt. Because part of the problem with the whole debt structure is that if you're stifling your local investors, then it's very difficult to create jobs; it's very difficult to grow; and hence, you're shrinking the denominator again -- the GDP continues to reduce.

And a lot of times when we have the conversations on debt, we always focus on external debt; but it is the private domestic investors that are suffering because their arrears are not being sort of considered; and when we go to countries, that's the first thing we hear -- the domestic private sector is telling us, I haven't been paid; the government's in arrears for five months; my business is about to close.

And so, we have this conversation where we sort of focus on the external debt; but we lose focus on the people who are creating the jobs; the people who are generating the growth; and I think it is important, again, that we start having that conversation on what is happening with the domestic sector. For two reasons -- one as the public sector gets more debt, they start doing more local borrowing; they crowd out private sector debt; they increase the costs -- so it's not a systemic debt crisis. But it's a private sector employment crisis that we are creating when we do that. And so, even though Ghana can continue to go to the market -- and Ghana is borrowing internally as well -- the private sector in Ghana is shrinking. And that's why we keep asking why aren't they able to get out.

And you go to Ghana, the private sector is shrinking -- the domestic private sector in particular -- is getting smaller and jobs are not being created. And, I think, that is where we are facing the problem. We're not facing a debt crisis problem; we're facing a problem of depressed private investment on the domestic market front where we need to do something.

So, I think, overall we don't have a surrendered crisis. What we should and we need to continue to watch is, of course, this diverse source of new debt. We don't know how to deal with Chinese debt yet; we don't know how to deal in The Gambia with GCC Gulf country debt; and the Gulf countries don't know how to restructure debt. It's not even debt forgiveness. It's just -- you know, they haven't in their equations -- sort of factored in Mauritania is suffering from a debt restructuring problem from the GCC countries. So, we have, I think, this new pockets that we need to restructure. The good thing is we have new pockets that are allowing us to continue borrowing -- which is the markets -- while we understand how we need to restructure; but, I think, at some point we need to come back.

And the final point on all of that is really about leadership; and transparency; and efficiency in the investment. Debt is good if out of Senegal you're taking debt to build a better road; build a toll road that is going to pay you back; and get more energy that is going to make you more competitive. So, debt in itself is a good idea. Nobody can grow without debt. The issue is what is the efficiency of that debt; and what is the use for that debt.

MR. COULIBALY: Yeah, I know the point particularly about the domestic debt -- you're right it stems at least from my advantage point to get a bit lost in the discussion; and there's been a lot of focus on external debt. But if you look at the run up in debt, it looks as if both domestic and external equally contributed to the run up for the median African country.

So, you've touched earlier on the markets; so we segue as well to Trang. So, you come in this from the private markets perspective; and where there's little discussion about perhaps impending debt crisis, yet countries are able to issue and it gets oversubscribed. We saw Ghana come onto market, the issue was oversubscribed; we saw Benin come in and do it. So, is the market really dismissing this concern, or are they being complacent?

MS. NGUYEN: So, I would certainly say that markets are not dismissing your concerns. Let me take a step back and talk about emerging markets as a whole and how investors are seeing the buildup of risks. So, after the financial crisis, there has been a buildup of debt levels; and this applies to government debt and private-sector debt as well. And I would say we're at a crossroads where there is a potential collision course between rising debt levels; higher debt burden; and tightening financial conditions. And this is extremely applicable to sub-Saharan Africa as a region because over the past 10 years we've seen a proliferation of debut issuers from the region; and many of them have never faced a bond maturity before.

So, there's certainly a degree of nervousness among investors; and when I look at the term debt crisis as it pertains to what I do in my job, and as I talk to my investors, it's about repayment capacity. So, should we be concerned. Let me give you a few factors to kind of consider here. So, we've had 10 debut issuers since the financial crisis. The debt stock of Euro bonds of the region now stands at around 50 billion; and sub-Saharan belongs in bond indices. So, at J.P. Morgan, we manage the EMB suite of indices. EMB stands for emerging market bond index; and there're roughly $370 billion benchmarked to the EMB family of indices.

So, given that sub-Saharan Africa is in the benchmark, it's certainly a region that is not ignored by emerging market investors; and if you look at the profile of maturities over the next few years, it's only going to keep rising. With that said, I'd say that the inclusion of sub-Saharan Africa in bond indices has been a move that is welcomed by investors. If you look at the yield profile, sub-Saharan Africa, on average, offers a pickup of over 200 basis points versus the average EM bond.

So, certainly, the appetite for carry, appetite for yield has driven investor's motivation to buy bonds issued by the region. So, you know, like you said, the bond issues have been oversubscribed, and Ghana was able to do that as well even though, you know, a few months before that comments about the desire to issue a $50 billion century bond really did spook the market. But, are we looking at a crisis? I'd say it really depends on the profile of liabilities coming due.

Now, if you look at the coupons and maturities coming due for the region, the years where it really starts to pick up is going to be 2022, and beyond. So, for the next few years, --

MR. COULIBALY: In three years.

MS. NGUYEN: In three years; correct. In the next few years, it's mainly going to be coupons -- which, I think, are more manageable -- but investors are closely monitoring governance, fiscal responsibility -- things which, you know, my fellow panelist have all discussed here. So, are we looking at an eminent crisis, I would say not; but, certainly, the risks are building up. And I think it's also important for the issuers -- the authorities -- to be very mindful of the role of benchmark investing, as well because sub-Saharan Africa is going to be quite vulnerable to any bouts of risk aversion to the extent that we have tighter financial conditions that demand for higher yielding debt for riskier assets does decline, there's a good chance that we may see capital being pulled out of emerging markets, and that will affect the region as a whole, and the selling could occur at a very indiscriminate manner. So, let me stop there.

MR. COULIBALY: That's actually interesting. So, I think, it gets a bit of the changes may be in the new structure of the debt now to have in it more higher share of the markets, market level debt -- and the question might then be whether -- I'd say, the, you know, African countries as they take advantage of these new sources of financing are also prepared to deal with the risks that those new instruments kind of bring. So, perhaps, then -- if I can ask Sean -- in terms of the debt management frameworks that the low-income countries, including in Africa, are using have they adjusted now to reflect the new structure of the debt now, particularly, the higher private sector debt?

MR. NOLAN: Obviously, it varies with sort of the level of skill and capacity -- institutional capacities of governments; and that varies widely; obviously, if only for the differences in income levels within the region. A lesson, I think, we have learned -- just the extent to which the quality of debt monitoring is actually quite poor. We have for about four or five years, we had a debt policy where we discriminate between countries that have a strong capacity to monitor and those that don't. And despite an awful lot of technical assistance, the number of those that don't have strong monitoring capacity hasn't changed.

So, there's something going wrong. Often it's, you know, you build up a capacity and then you ask what's happened and you're told she moved to another department -- I exaggerate; but it's often highly personalized. But the importance of actually tracking debt -- monitoring it -- it's not rocket science in a technical sense, obviously; it's not necessarily politically easy to cover a range of enterprises. But I would think that still remains a big challenge for a lot of countries.

MR. COULIBALY: Okay. And then I think -- speaking of that as a source of financing, so some may actually push back a bit. There on your point earlier, that perhaps in terms of infrastructure financing whether these types of new debt that's being issued -- I think we've seen a lot of 5, 10 year bonds -- it's a good thing now we're beginning to see 30 year bonds -- and whether these are really the right kind of instruments to finance the kind of infrastructure that may have a much longer return-type profile.

So, at what point do we begin to say it's being overdone; at what point do we begin to encourage them to even do more? And also -- as part of this I know you and I have discussed in the past -- we've mentioned the importance of the domestic resource mobilization which I know is part of your agenda -- and then to what extent the debt situation perhaps could also be a reflection of deficiencies in that space.

MS. SONGWE: No; I think two questions. Is good investment being overdone; it never will be. Is the way we are financing it being overdone? I think there clearly is a mismatch between sort of project duration and availability of capital; and what we have seen is, you know, in many of our African countries when you build an energy plant, essentially, in any normal market, it's a 30-year financing investment but we get it at 10 because of -- yes, we are in the EMB index but we are not yet, sufficiently, we're not triple-A yet. So as long as you're not triple-A yet, you're not getting the loan maturity that you need, which is the 30 years. And I think that one of the things that -- and remember we came from 5, which is one of the reasons we never had enough energy was no private investor wanted to come in and invest in the country where sort of the cycles were three years, the coupons were too expensive. We've gone to 10 and now, you know, Côte d'Ivoire and the rest are getting are getting at 15 and 30. And so, definitely, we need that.

But, I think, one way of demonstrating that, and it's something that we're doing at the Economic Commission for Africa, is we're working now with local pension funds because it's essentially the conversation has brought in investments and savings; and where can we garner more savings that is -- you know, we're getting savings from the rest of the world into Africa -- we're not looking at African savings. And when you look at African savings -- we're just doing some work now with Kenya, and trying to pull together what we're calling a pension consortium. We we're able to put together $20 billion worth of pension funds. This is dormant capital that immediately gives you 30-year money. And so what we're doing is now working with U.S. Pension Funds of Philadelphia; New York Teacher's Association and saying come in and pay yourselves with this, you know, local long-term capital and take joint risk; and investors are, actually, much more happy to come in when they see that, you know, the country has skin in the game. So, we're beginning to do that and we're hoping that we can expand this program across the continent; and there -- you know, there's this conversation about Africa doesn't have enough savings. We have quite an amount of savings, but we just don't have it in an organized cultured vehicles.

Another thing that we're looking at is securitization of a couple of assets around the country. You know, we're beginning to do an experiment with gas bottles. If you just think about it -- you know, in most of our African countries, when you go to buy gas bottles, you put down a security deposit. Nobody every thinks about what you do with that security deposit. In one of the countries that we are working in, that security deposit is a billion dollars. So, if you just imagine what you can now do with the securitized lending; how you can then translate that into investment and use that to do a lot more things, we will not have to have, you know, lending for sort of risk (inaudible) rate of return positive assets put on government books that are causing the question of debt crisis.

So, I think, there's a huge range of innovative financing that we are now looking at and that when we start bringing those onboard on the continent will totally change the discussion about, you know, is there a high risk of debt dispersion. That is why I think, actually, that as we do that and as we do more innovative financing, we will probably be able to move backwards, at least a bit.

MR. COULIBALY: But just a hot pursuit to what Vera is saying the earlier point about infrastructure bonds and the (inaudible) matching in terms of the projects, most of this doesn't have to sit on government books at all.

MS. SONGWE: Exactly.

MR. COULIBALY: It could just be a BOT project for a road or power station, whatever; and then it's a 30-year concession and tied to match that with a 30-year infrastructure bond sitting on the balance sheet of the SPV, not in the government. Government could maybe offer a guarantee or something, but they shouldn't.

MS. SONGWE: They shouldn't. Within the IMF, it's 100 percent.

MR. COULIBALY: As does the initially BOT. So, I don't think that the idea of infrastructure bond should necessarily damage the government, it could just be a BOT and just completely off the balance sheet.

MR. NCUBE: No, naturally, I was looking at some numbers in the report of the African Development Bank. It actually showed that a worth between 2012 and 2016 -- you look at infrastructure financing, 40 percent of it came from the government. You look at a multilateral development bank, it was 3 percent; and you look at the private sector, so they've got 6 percent; and, I think, China was at 15 percent. So, there's clearly a scope there for, say, MDBs to come in, as well as private sector, to help alleviate the pressure on the government balance sheets.

MS. SONGWE: Public sectors continue to finance infrastructure projects because of the governance issue on land because a lot of public sector interests in real projects need land rights; and the private sector does not want to deal with the land rights. I think that if the public sector were able to take off the land issues on roads, on trains, even on energy, you need to secure the land before you do the investment. And so, you do need some public investment; and, I think, even in the United States, public investment remains a big part of infrastructure investing because we want to make sure that -- as speaking as a UN woman with my UN hat -- that we leave no one forgotten and no one behind; so, there's always the last mile; and that last mile needs some public resources to blend, but we don't need as much on the public books.

MR. NCUBE: Now, she mentioned an interesting point about the risk of capital relieving in major markets. So, I'm going to pick up on that. I didn't want to forget that. So, I would prefer that this risk would only exist if you think the interest cycle is now heading upward; but I think it's still headed sideways or downwards. So should we be worrying too much? I think we're still safe.

MS. NGUYEN: I would say I'm less worried than I was three months ago before the Fed --

MR. NCUBE: You're less worried; okay.

MS. NGUYEN: I'm less worried.

MR. NCUBE: Me too.

MS. NGUYEN: Because the Federal Reserve has adopted a more dovish stance now. However, what hasn't changed is the fact that quantitative easing is also now declining. So, there is less liquidity, less dollar liquidity, out there for investors to be buying emerging market bonds.

MR. COULIBALY: And I think in this discussion, obviously, there will be a lot of focus on the level of that, but one thing that seems different -- this time versus last time -- is now, even relative to the debt forgiveness episode, the level of debt one has seen on average or median is still lower; but the cost of debt is higher. So, that may be a loading, indeed here, to do a more debt contracted on commercial terms.

And I looked at Ghana's issuance, it's 10 year.

MR. NCUBE: But that's the cost of debt. And see it's that gap between the cost of debt and growth -- it's about the gap -- that's the issue. What we should do is compare the gap just before HPIC, and the gap now. That's the issue. And sitting here, to me, it looks like, actually, the gap this time around is narrower than before; but you're right -- in absolute terms it's costlier debt, but the gap is narrower.

MS. SONGWE: There's also exchange with movements, right.

MR. COULIBALY: Right.

MS. SONGWE: Ghana goes to the market and borrows 750; the city collapses under 750 because of one, two, and three billion.

MR. COULIBALY: Yeah; macro-management.

MS. SONGWE: And, again, this is the question of saying can we begin to move to more local currency debt. The reason we don't talk about -- Sean talks about it, and we should all talk about it a little bit more -- the South African economy. South Africa -- 80 percent of South Africa's debt is in local currency. So, in some sense, they can absorb those shocks much faster than Ghana. We all talk about Ghana because Ghana is denominated in foreign currency, and every time there is some movement, you know, the Ghanaians should be looking more at Fed movements than anything else because it directly impacts the debt carried.

MR. COULIBALY: Exactly, which gets at the point to whether the management framework have really incorporated those kind of new market risks, roll over risk, exchange rate risk, and the interest rate risk. But when you speak of gap earlier, in the 90s, etc., there were not really many African countries, in fact, on the market. So we didn't have that rate that can allow you to make comparisons, right -- between the gap then versus the gap now; or you're thinking of the rates based on the amount of concessional debt they had at the time.

MR. NCUBE: I just mean the gap between the GDP growth, export growth, and the cost of debt in the first place. And my argument that I think the gap is narrower now than before --

MR. COULIBALY: Okay.

MR. NCUBE: -- regardless of the effect that it's now more commercial debt, before it was concessional. So, yeah; so, that's (inaudible).

MR. COULIBALY: But even seeing like in this low interest rate environment -- maybe Trang you can help us better understand -- so, the 10-year treasuries may be around 2-1/2 percent. Ghana issuing a 10-year, you're looking at 8 or more percent -- isn't that a huge gap? I mean is the market really pricing well the risks in Africa; and to what extent is that really contributing to the debt service burden; you touched earlier about the repayment capacity.

So sometimes you looked at the credit ratings given to African countries and it looks like they're kind of clustered as if it's not doing enough differentiation among the countries and, perhaps, alluding to some possible risk mispricing.

MS. NGUYEN: So, I'd say at the high level, I don't think there is enough differentiation among the countries.

MR. COULIBALY: In their ratings or in the fundamentals?

MS. NGUYEN: In the way that markets price the bonds.

MR. COULIBALY: Okay.

MS. NGUYEN: I won't speak to ratings agencies and how they perform their rating evaluations; but, I think, from a market standpoint, if you look at the way sub-Saharan Africa bonds trade, it's usually just a beta-function of the market. If the market sells off 10 basis points, sub-Saharan Africa will sell off about 20. And, conversely, if markets are rallying 10 basis points, the region will rally 20 basis points. And there is very little differentiation at the country level.

And so, I think there is -- it's reasonable to expect that the market does a bit more homework in differentiating among the countries; but, I think, the way that emerging market investors and how their mandates are designed is usually very much flow-based. So if they get inflows, they're going to go out there and find all the bonds they can buy. And so, that usually results in a bit of a lack of differentiation of what you will in terms of a pricing.

But in terms of the absolute level of pricing as it stands now versus history -- well, you would argue, yes, 8 percent yield -- that sounds like a major pickup -- but if you compare where we are now versus the widest level that we saw back in early 2016, we're actually, you know, I'd say, we've rallied probably 5 percent already -- that's 500 basis points in spread. So, it does seem like a rather large pickup versus U.S. treasuries, but we're coming off from double-digit yields already.

MR. COULIBALY: So, it's getting better in a sense?

MS. SONGWE: Exactly.

MR. COULIBALY: Sean, I don't know if you have any reactions. In your comment, particularly, you touched on the issue of the more diffused creditor base, and you touched on how, in the case of Chad, it was easy to do that resolution because there was major creditor; but in Congo's case, it's kind of a bit messy. Is the average median African country looking now more like Congo in terms of debt resolution restructuring, or is it looking more like Chad?

MR. NOLAN: In the case of Congo, it's actually one major creditor again; but in contrast to Chad where the creditor is a commercial company and where restructuring debts with high-skilled lawyers is part of the business model. In the case of the Congo, the counterpart has not really internalized doing debt restructuring; would rather muddle through and, you know, don't worry about it; don't pay us; we'll let the arrears accumulate; which, unfortunately, is not the way you can engage with the IMF or the World Bank. You can't sort of have these kinds of casual understandings.

So, I won't hazard to guess -- I think that issue of a rich-creditor base, a complex one, is a difficult one; but let's think of one positive feature. What was so unique to HPIC was not that it was lots of official credits that you had to get restructured; HPIC was all about restructuring multilateral debt.

MR. COULIBALY: Okay.

MR. NOLAN: Because -- as Ncube would agree with -- in good times money from the IFIs is great, it's cheap. Once you're into solvency problems, it's an absolute milestone around your neck because you can't restructure it. So, to the extent to which the MDB, IFI, IMF debt has shrunk significantly, there's an awful lot of debt that can be restructured.

Just a thought on Vera's comments about the importance of the domestic market, which has grown substantially, you can't so easily -- as we know from European examples -- restructuring domestic market debt is a lot more complicated. If it's your domestic banking system that's holding the debt, you're actually also behind the banking system. So, a lot of that debt isn't restructurable.

Maybe I'm being very cynical; but if you look right through the debt structure, what can I restructure if I'm in trouble -- is a very important question to ask.

MR. COULIBALY: And then, I think, that's probably been recognized and I suspect there are efforts to kind of put in place some debt restructuring mechanism that could reflect this new landscape. What is the state of affairs or progress on that? Or there is none?

MR. NOLAN: I don't want to comment on individual countries, but, as I said, if you think of Paris Club members, the Paris Club is a set of rules built over whatever, 20 years, 25 years; secondly, and perhaps equally important, within each Paris Club member there's a range of institutions that have extended debt. But after much institutional fighting -- I'm certain in the 70s and 80s -- there's a mechanism whereby the U.S. Government approaches the Paris Club; or there's a mechanism whereby the German Government approaches the Paris Club. There's not a mechanism whereby some major emerging market creditors have a uniformed way of forming a position across major institutions in the economy. And that isn't something you can talk about how important it is, but you don't move large country institutions quickly.

MR. COULIBALY: Okay. So, one subject we touched on -- but only briefly -- was China; and it's hard to talk about debt in Africa without China coming out. So, how big a deal is really China as a source of Africa's debt and Africa's debt problems? Is it a myth; or is it really an area for concern? And this is for anyone on the panel.

MR. NCUBE: Well, I think that in contracting Chinese debt you just have to subject to the normal debt rigorous analysis that you do. It can be outside the normal sovereign debt management process -- so you've just objected to that. So, it really comes back to the capacity to manage debt in the first place -- the strength of the debt management offices or units within their treasuries, wherever they sit. So, it shouldn't be outside that; you should just subject it to that.

So, if I look at Zimbabwe right now -- we don't have an issue with

Chinese debt. On the contrary, it's a non-Chinese debt which is the issue. So, that's not our problem. But I think that at the end of the day it's about the quality of debt management. That's how countries are, you know, subjected to that. Some of the debt has been contracted for infrastructure and development, which is a good thing because you need deep pockets to develop some of the infrastructure. But things to watch out for, obviously, is when there is a pronouncement -- this have come across -- that a specific project is a PPP; is a BOT; and then a treasury department is then asked to extend a guarantee, which I mentioned earlier. Then you must know it's not a BOT -- extending a guarantee you're still exposed -- so that continued liability you must always watch out for. But I wouldn't single out China's debt as an issue, but rather all debt should be subjected to the normal debt management process and shouldn't be outside that.

MS. SONGWE: Chinese debt is 20 percent of sub-Saharan Africa's total extended debt -- so 20 percent. So, in some sense it's not the sort of big elephant in the room. I think that because -- and in a very sort of roundabout way -- there is a little bit of a negative on Chinese debt because the Chinese are not transparent about the numbers. And I think that the more we begin to get a sense -- and China came into the OECD and just sort of did the kind of debt reporting that everybody else did then you would get, I think, some better information around Chinese debt.

But, I think, there are just like we saw in Mozambique where, you know, nice reputable banks out of London and Paris, you know, do $2 billion worth of, you know, essentially very interesting structuring. There are, of course, you know, occasional Chinese debt that are equivalent to the, you know, fashionable London banks debt deals. But that is where transparency becomes important.

MR. COULIBALY: Right; exactly.

MS. SONGWE: Because once you have the right governance structures and the right transparency processes, then whether it's commercial debt, or it's Chinese debt -- or even concessional debt -- because part of the big HPIC process was a lot of white elephants that were not giving the development outcomes that you needed.

So, the quick answer is no. Chinese debt is not any different from the Euro bond debt or some of the bilateral debt that we're contracting from other sources. I think the question is, again, pubic investment management is that debt contracted for the right kind of investment. If you contract debt to build boxing stadiums, the probability that you're going to be able to pay back is much less than if you contracted debt to build an energy plant, or a water system, or something that had a rate of return that was higher.

MR. COULIBALY: I think the emphasis is really the question of the governance around it.

MS. SONGWE: Both sides.

MR. COULIBALY: Yeah; both sides.

MS. SONGWE: (inaudible).

MR. COULIBALY: And then coming against this thing with the Chinese debt -- and even mentioned earlier some innovative financing mechanism -- so, we're also seeing some commodity-linked debt that is coming onboard -- you know, China being a major counterparty to that but, obviously, I think, also private, multinational like Glencorp, etc.

Is this your sense that governance wise, these deals are structured in the best way possible, that best serves Africa's interests and the creditors interest -- or balances well those two interests?

MR. NCUBE: Well, our experiences in Zimbabwe and what I've seen of other country is that some of the debt is commodity-linked, and it's not necessarily all Chinese debt. In fact, we have more non-Chinese debt that is commodity linked in

Zimbabwe than Chinese debt -- linked to gold output; to platinum output; to diamond output -- because also in infrastructure -- in fact, it feels like trade finance at the end of the day. You need to do that so to assure you can service, you can escrow the process from the experts to service the debt; so, that's okay. But those commodities don't necessarily have to be delivered to China or to the country where the monies are being sourced. It's just to be sure that the debt can be serviced in the first place.

For instance, Zimbabwe, we don't have actually a specific structure that says you will sell a specific commodity to China or to a specific country -- we don't. To us it's just a way to escrow and to ensure that we can service the debt.

My last conversation with the key institutions that get involved with this debt structure from China, which is a China Exim Bank, and Sinosure is that, you know, when we think we should be worrying about being exposed to Chinese debt, they too are worried about their exposure to Africa, (laughter), you know. And they're saying we also are watching our exposure to African countries to make sure we're not overly exposed. So, they too are worried about that; and that's good. That if they worry about it, then Africa knows that it won't be over borrowed from China. So, you need both sides to think like that -- and that's a good thing. I think we are moving to healthier and healthier, you know, positions every time with China.

MS. SONGWE: And commodity-linked debt is not an African invention. A lot of Latin America grew -- and I'm sure Nguyen can tell us about that. On commodity, actually, part of, I think, the problem in some of our resource-rich countries is that we have not structured well our commodity linked there. We should probably do more. It will take off the debt from the balance sheets of the state because you just do it with the investors.

MR. COULIBALY: Exactly.

MS. SONGWE: And you can sort out the debt. So, there is actually -- I think sometimes when we say it like that, it looks like it's a bad thing -- but it's a bad thing because it's done in a bad governance environment.

MR. COULIBALY: Right; exactly.

MS. SONGWE: If you do it and structure it well, it actually takes away from the fiscal space on the government side and it creates a much smoother financing environment for both the investor and the investee.

MR. COULIBALY: Absolutely. So before I turn to the audience -- I think they'll eagerly jump in the conversation -- perhaps one question to Mthuli. So, you've been on the side of those giving advice to government. Now, you've crossed over. You are now really like a policy maker -- as implementing policy -- as opposed to dispensing policy advice, like perhaps the rest of us.

What have you learned in terms of some of the recommendation where even giving policy making as you do, is it sufficiently taken into account some other political economy dimensions of following up on some of these recommendations we know to be good, but may not be practical; or you haven't been there long enough to run into that issue?

MR. NCUBE: The days are a long time in Zimbabwe, since I have run into that (inaudible). No; you are quite right that every reform agenda, every policy has some political economy issue to deal with, without question. There are winners and losers. You have those who have something gain, as well as something to lose. So, it's like that. I think the most difficult issue has been -- I think to be fair -- currency reform; I think has been the most difficult of issues to deal with because you're trying to reform a currency system in a situation where you don't have enough balance of payments support; you don't have a funded program out of the IMF, or indeed, you can access capital markets as easily as you could before. So, there's always a challenge in that sense.

On the fiscal front, I think it's not been easy, but it's just less difficult, I think. Also it's because we took the kind of easier route first which was to expand the tech space through our electronic transactions tax. So, that give us a bit of breathing space to allow us then to look more seriously at the cost containment, the cost-cutting aspect of it.

I think an area that will always be not easy because there's also history is around how to support the agricultural sector. We're doing it during a moment when we've got El Niño on one hand; so, you have a genuine contraction in the sector. And then you have a cyclone after that. It's a very tough spot to be at if you're trying to support agriculture. But we're trying to improve our productivity outputs. We even have to pay some debt to the farmers who were displaced in the year 2000, 2001 -- we're going to do it. We're going to conclude that this year. So, it's a cycle that is already have a lot of liquid political economy -- and points around it; and it's understood. It's always an emotive sector.

Around the mining sector -- there are big issues around the mining sector -- one of the biggest beneficiaries, and industry as well.

But the other politics is really geo-politics that you do find yourself exposed to geo-politics as well. I won't mention -- as the government says don't mention countries; but I thought a way of some, you know, countries where we don't have as easy in conversation; and for some countries, we have an easier conversation. You know, never an easy conversation, but it's so all their money as well. So, how do you get that conversation going? So, there is that geo-politics internal political economy; and as a minister of finance, you have to appreciate how complex it is. In fact, you would need to appreciate complexity for you to understand the job. If you get it around your head that this is a complex job, then you will sleep well at night. (Laughter) Put all the pieces together; be able to act -- that's what I try to do.

MR. COULIBALY: And we do hope you get some good night sleep, sir. So, now we can turn over to the audience and we'll take three questions at a time; and please raise your hand; mics are going to come around. State your name as well as your affiliation; and I'd like to ask for you to please keep your questions, or comments, really brief so we can get in as many as possible in the remaining time.

MR. WOOD: Thank you; Barry Wood from Money Web and Biz News in South Africa. For Minister Ncube -- your situation in debt seems unique because you're in arrears to the bank, and as you say, you can't access markets. How are you going to pay off the World Bank and the other creditors when you're not able to get IMF money because of U.S. sanctions, etc. Seems like this is -- you speak of a roadmap -- but what's the roadmap given what I just said?

MR. NCUBE: Thank you very much for that question. For us, that is the issue that we need to deal with in terms of dealing with our arrears. So, it's a three-step procedure -- one process, rather. One, we had to produce a credible economic and political reform agenda -- we've done that. It's called the Transitional Stabilization Program. It runs from October 2018 -- I launched it on the 4th of October; and then also in Bali at the annual meeting -- the World Bank and IMF in Bali, Indonesia on the, I think, the 7th of October, or something. That's the first step. So, that was accepted.

Then the second step now is to get on to the staff-monitored program with the IMF; and we have done that. So, that's what the IMF announced a few days ago. So, we tick that box; that's the second step. The only door through arrears clearance for Zimbabwe is through the SMP Club. There's no other door; there's just one door; that is the only door.

And number three is then to see how we can work with the G7 countries for a bridge loan because we are short of about a billion dollars in terms of combining the World Bank and the AFDB because they link poly posture (inaudible). If one you clear one, you have to clear the other is, yeah; the poly posture rule is hard; it's not a soft one. So, that's what we're looking at now is concessionary funding to be able to close that gap; short bridge loan which will then allow us to access whatever soft resources there are in those two institutions; and then we're able to clear the arrears and open up the gates to more capital for our banking sector.

Then we move on to stage four which is, basically, the bilateral -- now the Paris Club. So, it turns out that those who control the World Bank and the AFDB is the same bilateral credit partners who sit on the Paris Club roundtable -- so, we're talking to the same people -- but we are acutely aware that at that stage, we also need one or two champions who can champion for our case. I think we have found 2-1/2 so far, but I can't name them -- I'm not allowed to name them. We're looking good in terms of champions; so I hope we get there. But we have just to walk the talk on delivering on the target for the SMP; and then we start the serious negotiations for the IFIs; and then, eventually, the Paris Club partners. So, we can see a clear path for arrears clearance agenda.

MR. COULIBALY: Okay; so, we'll take three questions at a time before we turn it over to the panelist. Yes, ma'am.

Ms. BRÄUTIGAM: Hello. I'm Deborah Bräutigam, the Director of the China-Africa Research Initiative at Johns Hopkins University School of Advanced International Studies (SAIS), next door. Thank you all. This is a really great presentation; full of wonderful information. I often tell the anecdote about commodity-linked lending; about Japan providing a $10 billion line of credit to China in 1978, that China repaid or if it had all been carried out by coal and oil. So, this is certainly for China been going on for a long time in a model that they learned long ago.

My question is mainly for Sean, but also for Minister Ncube. The commodity-linked debt has always been a problem for the World Bank and the IMF because they're preferred creditors. So, if you have commodity-linked debt then that's basically going out and repaying a different lender before you; and so, I wonder how you guys are dealing with that now. And the second question is related to that. Ten years ago -- actually, it's more than 10 years ago now -- when the Chinese first kind of started to hit the headlines as big actors in Africa -- there was a lot of concern on the Chinese side with the debt sustainability analysis that you guys had. And Li Ruogu, who was at that time the head of the China Exim Bank, argued for a development sustainability analysis instead of your DSA. And I wonder what your thinking is now; and now Minister Ncube, I'm curious what you think about that as well; and Ms. Songwe, as well, because you were also stating how Chinese lending is basically building development and infrastructure. Thank you.

MR. COULIBALY: Okay. We'll take one more question. -- the lady in the back.

MS. BADIU-FORSON: Hello, My name is Ama Badiu-Forson, I'm a senior Africa economist at HIS Market; and I had two questions, but I will just ask one. We've talked a lot about the need as part of improving debt sustainability for governments to consider ways to take debt off their balance sheets; and I wanted to ask your views on how best to improve investor perceptions as they go into do investments in particular projects, especially since with a number of investors, they're typically looking for government guarantees for certain projects as a way to mitigate the risk -- that's been, at least, my experience with certain clients. So, just your views on ways to help in that regard; helping investors to have a more confident understanding, or a more comprehensive understanding of risk such that they are willing to consider going into projects and having partners, and not necessarily looking for those government guarantees that would impact the debt profile of governments. Thank you.

MR. COULIBALY: Okay; thank you. So, on the investment risk participation, you want to go ahead first? How do you improve that perception?

MS. NGUYEN: So, I'd say the hurdle's quite high for a traditional EM investor to go into a deal without understanding -- without a high confidence of a government guarantee. I think we're probably -- the asset class is still -- especially for the region, sub-Saharan Africa as a region -- is still fairly new compared to some of the more mature emerging markets. So, I think, to say issue a bond through an SPV, it's probably the equivalent of the government issuing a bond. So, at the moment, it's hard for me to really make that distinction, speaking from an investor's standpoint; and in our EMB index we include all bonds issued by quasi-sovereigns or entities that are 100 percent owned by their government; so, they're one in the same in the eyes of the investor.

MR. COULIBALY: And for the earlier couple of questions on China, any of the panelist want to go?

MR. NOLAN: I'll answer Deborah's questions by reference to Angola to make it concrete. In a sense, post-2000 -- which is after the civil war -- Angola could only really access any external capital through collateralized lending in the sense of being collateralized with the oil receipts that were going into the escrow accounts offshore; and this poses a big problem, or did, for the World Bank because of the negative catch clause. It doesn't quite cause as big a problem for the Fund which doesn't quite have a very clear view on collateralization; but if I were to take it forward to today where there is an IMF lending program with Angola, one of the features of the -- Angola is now a much richer creditor base then it had then. One of the features of the program is actually the gradual scaling back and scaling down of no new, basically, no new collateralized lending.

In a sense, it made sense in 2002 when you couldn't get money from anybody; but it's far more problematic in an environment where you have a range of creditors. Because, of course, you start benefiting one creditor at the expense of the others; and if you do it covertly, and then it becomes known, then you're in deep trouble. Ncube?

MR. NCUBE: Debt sustainability versus development sustainability. Yes, it's a very interesting question. But really the way forward is you can reconcile those two through PPPs -- that's our view. So, I'll give an example. So, we've got this big project that we're doing with Zambia on the Zambezi River, which is about (inaudible) Gorge, $5.2 billion that will require; and we're going to concession it out -- if I can say this because this is not public information -- that the preferred bidders -- one is an American company, and the other is a Chinese company; and that's good in terms of the way it looks as well.

So, because it's a PPP, we are going to get some development out of it but also it's debt sustainable because it's not sitting on the balance sheets of either the Zambian or the Zimbabwe government. So, it is possible to achieve both if it's structured properly; and, in fact, that's a project that initially before we come in was going to be sitting on the government balance sheet and we changed everything on the 7th of December last year.

So, I think PPPs are the way to go -- BOT, specifically -- to dealing with this balance (inaudible) debt sustainability and development sustainability regardless of whose financing, the Chinese or whoever -- regardless. That's really the way we think we should go.

The question, perhaps, about improving the investor perception which was asked by someone right in the back, we've a specific transaction right now where we are looking at extending a government guarantee to improve the credit standing of the project; but also government is going to sink a counter-guarantee from an international bank against our guarantee and the rating of this bank is higher than that of the Zimbabwe government. So, that's how we've been dealing with it. So, counter-guarantees from an international bank to supplant the guarantee that we're offering and move up the credit standing to a higher level. Thank you.

MS. SONGWE: I think on that question, as well, we can do the instruments, but the bottom line is African countries just have to start getting better at improving the business environment; and as long as you do not improve the business environment, I think, yes, there is maybe some pricing in that it's, you know, the risk perception of the continent is not so good; but as long as two-thirds of the continent is on the bottom third of the, you know, doing business index, it's not going to work.

So, I think, there is a policy decision that needs to be made; and where you have the combination of the good policy decision, any repeater of private investment -- and we have, I think, now a litany of countries that have done IPPs in the energy sector. So much so that, you know, the energy companies no longer are looking for a guarantee. They're just willing to go and do the third project because they know that those are bankable and that the government contracts are secure and they can go on with business. But in those first countries where it's taking, you know, eight years to get to closure and you have to negotiate every -- then they will persist on needing a guarantee.

So there's these countries now on the continent where guarantees for the energy sector are no longer required.

And in Nigeria, we are no longer talking about guarantees for many of the investments that are going in. So, I think, as we do that in Senegal -- I think Zambia now is going on its second one and is doing well on the PPP side -- so, I think, we need countries to start closing those deals, closing them in a timeframe that is acceptable; and then, particularly for the infrastructure deals, you need the SOAs that are bankable; and that is a governance issue again. It's, you know, do we have the right regulatory environment for the energy sectors so that the government doesn't wake up in the morning and decide what the price is. That's why we're taking -- because I think we need to ask the country why do people need the guarantee. You need the guarantee for political risk; you need the guarantee for policy risk. And so, as you take away those things, then the sort of decision for a guarantee begins to drop. And, I think, the fixation in all there is a guarantee is maybe it is sort of a copout for our governments because then it doesn't say we're doing it because policy's no good; and so, it's not just a guarantee -- it's a policy guarantee. It's a guarantee because policy may change; it's a guarantee because the political situation may change; and if we take away those things then we don't need the guarantee.

MR. COULIBALY: Ncube?

MR. NCUBE: But also you could go to the markets. Before I became minister, I worked on a transaction two years ago where we managed to suss out how to help this company -- which will remain unmentioned -- no (inaudible) guarantee, basically, from the Lloyd's insurance market. So, just simple insurance from the Lloyd's insurance market was enough to improve the credit standing of this transaction so much so that it was so much easier to raise capital; but you have to pay for the premium;

there's no free lunch here.

MR. COULIBALY: Yes, Sean?

MR. NOLAN: Just maybe the sound as sort of a dissenting note, but a cautionary note -- I mean the issue in say PPPs, for example, is the devil's in the details; and the issue is usually are your lawyers smarter and better paid than theirs. And the answer often is no; in which case, the devil is really in the details -- it's truly the devil that's in the details, I should be saying, actually, rather than the generic statement.

And so, I think -- Vera gives an excellent example. In the energy sector once things get standardized and PPPs get standardized, the government can see exactly what kind of risk it is incurring and what it's not incurring. But the starting point has to be one of really teasing out exactly what -- as Ncube says, it's off your balance sheet to an extent, but there's guarantees floating around, and you really need to know exactly which ones they are -- how they kick in. So, in a sense, as I said, it's important we look at them; particularly, in the early stages of developing PPP structures.

MR. COULIBALY: Okay. On that note, we're at the end of the event; but I'd like to give the opportunity to the panelists to give, perhaps, a one-minute closing remark and in that process try to tell us what is really the one thing African countries can do, and the one thing Africa's partners can do to make sure that Africa avoid another systemic debt crisis.

MS. NGUYEN: All right. So, I'd say there is a general desire to see better data so the investor community can just do their homework on the region. And I'm going to cheat a little bit. I'm going to give a second piece of advice also to the countries. And I alluded to this earlier, but I think it's critically important to understand your investor base; and so understanding the rule of benchmark investing and having an active dialogue with the south side banks who own the indices -- in this case the emerging market bond indices are largely owned by J.P. Morgan. So, having that active dialogue between the finance ministries and with J.P. Morgan, understanding the rules around indexing -- you know, when a bond goes in and out -- and understanding investor behavior; I think is critically important.

MR. COULIBALY: Okay; thank you. Vera?

MS. SONGWE: I think two things. One, on the country side, the cost of the debt is really a reflection of your policy environment. So, good policies mean cheaper debt, so the message to countries is please, you know -- we know how to do it now. We have demonstrated, I think from 2000 to 2012 -- that, you know, most of our finance ministers, our government understand what good macro sustainability looks like and how it can be done. We have new tools and techniques that can improve revenue collection. I think that many more of our countries have good public investment management agencies. So, really, you know, let's focus on the policy side and fix that.

I think what to tell our other partners -- it's really a message to our colleagues -- it's on sort of how we account for the debt and the SOEs -- and, I think, Sean absolutely alluded to the things that are outside that come inside when we start looking at these numbers. I think there is, maybe, a conversation that we need to re-have on SOEs; and that, you know, I think, in 2000 when Africa rising happened, we forgot a little bit the SOEs of sector of the economy, and we didn't look at it enough. And some countries are waking up and finding that they are in debt crisis because the SOEs are coming back in and the IMF is bringing them back in; and didn't used to bring them back in. So, there has been a little bit of a shift in sort of what is the universe that we're putting in.

I think it's a good shift because we've brought it back in so we can push to discipline; but, I think, then if we bring it back in, we should stay in and then make sure that we begin to account for it. I still think that, you know, the sort of guarantee -- 100 percent transfer into the debt numbers -- maybe, and it's a bit too much -- and that we may want to start looking at, you know, is that really penalizing countries when you go out there to get a guarantee because you're already being penalized by the private sector when they ask for a guarantee. Now, if the IMF penalizes you even more by computing that at 100 percent debt-winning, in actuality, it's not.

MR. COULIBALY: There is a balance sheet.

MS. SONGWE: Then there is, I think, a little bit of a sort of closing-in of the space for countries, and maybe there is a conversation that we can have.

MR. COULIBALY: Very good.

MR. NCUBE: For me it's perhaps two things. One is just to make sure that we can in countries we strengthen debt management capacity. The quality of the data for the sovereign, as well as the sub-sovereign, which is the (inaudible), making sure we understand the data; we understand the debt profile with the right skills for managing this debt; and also understanding that debt management is also a dynamic process. You cannot say we have a rule that public debt should be more than 7 percent of GDP, but rather it's a dynamic process driven by different variables in the market, and also both globally and locally. So, that is very critical.

The other thing I think that we need to move more and more towards a government balance sheet approach to managing the fiscals, which is we always talk about government having debt, but who talks about government assets. The asset we talk about is SOE ownership; but government has buildings; it has other things. So, just thinking through this idea of a kind of sovereign wealth fund -- if I can use that -- but a balance sheet approach to fiscal management is key. So for some of these countries that are so-called indebted, you may actually find that if they thought carefully about the value of their assets -- land, including government offices; you know, government (inaudible), whatever -- you find that the assets outstrip in value the debt that they owe -- at least domestic debt for a start. So, that kind of thinking is critical. And, I think, our partners must help us along to think that way. I know that there's movement in Ghana for really pushing this. I hear less noise now, maybe any help we can get. So, then there's Zimbabwe -- that's what we're looking at. We're actually looking at that to try to understand the value of all our assets, vis-à-vis, our liabilities because that's the key to -- and when you do that, by the way, then you have a kind of sovereign world frame type structure. You can then even improve your credit standing because suddenly you've got a portfolio that is worth something, you know.

MS. SONGWE: If you can make it liquid soon enough.

MR. NCUBE: That's the thing -- once you do that -- think of literally of a thermoset, you know -- use that as an example -- you have to actively manage it. You have to put it in the hands of professionals. That's how you get the liquidity going when a professional's managing this thing.

MR. NOLAN: Actually, as an aside there, we have, I think, in the last year, the IMF fiscal monitors looked at the whole issue of how effectively public assets are used rather than preoccupation with the liability side because, of course, it's huge --

MR. NCUBE: Right.

MR. COULIBALY: That's right.

MR. NOLAN: -- the scope for raising returns on that effective manager are also really high. But to answer your two questions, I think -- I mean they echo, I think, what others have said. From the point of view of countries, I think the most important thing is unified transparent control of the contracting of debt. It has to be signed off on, ideally, by Parliament, definitely by the finance minister -- nothing else should be contracted without that framework; otherwise you're lost almost to governance problems.

MR. COULIBALY: And there are guidelines for that provided by the IMF, World Bank.

MR. NOLAN: There are a range of guidelines, but that's the idea of really of centralized control and Parliamentary oversight is crucial. And, I think, from the partner's perspective, I think, actually it is incumbent upon the IMF and the World Bank to -- not in a hysterical fashion -- but to engage actively in conversations with government on debt levels. And, I think, the other (inaudible) that's really important is the prioritization and choice of public investments. And that's, I think, an area where development partners can actually contribute in terms of technical assistance and competence. To choose a slightly facetious example, I think if you use the location of the African cup of nations as a predictor of significant jump in debt, it's really good; and that's -- the Russians can afford to build a zillion stadiums that don't generate revenue at all; but when you're a poor country, it's not necessarily an efficient use of funds. So that hard-headed approach to choosing investments based on the development potential, I think, is really important.

MR. COULIBALY: Okay; excellent. So, on this note please really join me in thanking the panel for this excellent discussion. (Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020