**Key Takeaways**

- Reflecting on CABRI set of the scene presentation - the Q&A session highlighted that:
    - African countries are experiencing challenges in managing rising debt levels in the face of exogenous shocks, weak fiscal management, rising debt costs and depleted foreign exchange reserves.
    - There are challenges as well of managing the composition of debt such as the right proportion of variable versus fixed rate debt, domestic versus foreign currency denominated debt and short-term versus long-term debt.
    - There is a need to deepen understanding of various sources of financing.
    - The appetite for local currency debt is no longer a given and there are limits to extending the yield curve (or more issuance into longer dated bonds subject to demand).
    - Debt exchanges (or switches) have become useful debt management tools to restructure the debt portfolio.
    - These exchanges are transactions in which 2 to 3 year bonds about to redeem (source bonds) are exchanged for longer-dated bonds (destination bonds).
    - Care should be taken not to use debt exchanges as a device to hide the prospects of debt default or inability of government to meet payment obligations.
    - Moody's hinted Eurobond redemptions will hit high levels particularly in 2024 and 2025, ease thereafter but remain elevated until 2030 to 2032.
    - African Development Bank has indicated that most African debt mature in 10 years and this incurs interest rates of between 5 and 16 percent.
    - While indicators of debt refinancing risk are important, it is important to have proper procedures in place.
    - For Credit Rating Agencies not to classify debt exchanges as events of default – there needs to be constant communication between debt managers and investors/market participants on what these debt transactions intend to achieve.
    - More emphasis should be on the voluntary component as this often ties in with the objective(s) to institute local debt capital market reforms.
    - African countries need to do first things first: keep pushing the debt capital market reforms, build benchmark bonds and extend the domestic yield curve beyond 10 year maturities.
- Benin's overall risk mitigation strategy involving innovative liability management operations was underpinned by: (i) effective public finance management, (ii) improvement of Benin's creditworthiness and, (iii) proactive public debt management.
    - Few years before COVID-19 pandemic hit, Benin started building resilience and preparing the economy to withstand exogenous shocks.
    - They achieved fiscal consolidation and reduced budget deficit from 5.9% in 2015 to 0.5% in 2019, while diversifying their funding sources into international financial market and international commercial banks.
    - During the COVID-19 pandemic era (2020-2022), Benin took advantage of the fiscal space arising from fiscal consolidation to deal with shocks and to meet urgent expenditure caused by COVID-19 pandemic and the global inflationary pressures.
    - Even the COVID-19 spawned innovation of some new financial instruments, which saw the introduction of COVID-19 bonds as well as Recovery bonds.
    - The two-tranche Eurobond issue of 1 billion euro with 11 and 31 year maturities at interest rates of 4.875% and 6.875%, respectively was combined with a liability

  management operation that enabled early repayment of 65% of the first Eurobond issued by Benin in 2019. This enabled Benin to smooth the public debt amortization profile while reducing the repayment of principal redemptions over the period 2024-2026.
  - In 2021, a total amount of 217.9 billion CFA francs of Treasury bonds issued in the WAEMU regional bond market was successfully repaid and this operation followed the SDG Eurobond issue aimed at financing projects with high impact towards achieving UN Sustainable Development Goals (SDGs).
  - The gain in interest not yet accrued was reinvested in projects with government social impact especially in sectors related to the SDGs.
  - The domestic debt reprofiling operation resulted in an increase in the average term to maturity (reduction in refinancing risk) from 3.3 years to 7.8 years and another success indicator is that interest rate reduced from 7.2% to less than 4%.
  - Some of the suggested solutions to reduce refinancing risk include: diversify funding sources but don't overly depend on the international financial markets; proceeds or any cash savings from debt reprofiling should be used to reduce the debt burden; work on improving the state's creditworthiness and use it to negotiate new loans on better terms; extend the loan amortisation profile and establish escrow accounts for the release of funds to repay Eurobonds and commercial debt.
  - To add to the advocacy in improving Africa's public debt and risk management - Benin suggests encouraging initiatives aimed at changing the perception of sovereign debt of African countries such as the **Sustainable Debt Coalition Initiative** (led by Egypt) and the **New Round-Table on African Debt** (a think tank with contributions from Ministers of Economy and Finance of Benin and some peers of the African and global finance sector).
- Sierra Leone conducted 3 debt buy-backs: (i) external commercial debt buy-back (1996, 2009); (ii) domestic debt buy-back (1996, 2002), and (iii) domestic debt buy-back (2017).
  - While the first external debt buy-back reached an all-time high of US$29.431 million, the second external debt buy-back initiated in 2009 under the Debt Relief Facility was for a small amount US$ 950 000.
  - The domestic debt buy-back of 1996 was successfully subscribed by domestic creditors.
  - This buy back was categorised into three: Tender; Local Purchase Order (LPO) and Sole Sourcing discounted at 45%, 35% and 15% respectively.
  - 2017 domestic debt buy-back was a domestic arrears clearance strategy and although it replicated the previous domestic hair cut strategy – it did not receive 100 percent acceptance.
  - In Net Present Value (NPV) terms the stock of debt domestic debt was reduced from US$1,197.6 million at the end of 2005 to US$483.0 million at the end of 2006 post HIPC relief and to US$110.0 million after the Multilateral Debt Relief Initiative (MDRI)
  - This saw Sierra Leone's external debt burden indicators falling to levels significantly lower than the average of low-income countries.
  - External debt to GDP dropped from 220% of GDP in 2003 to about 43% of GDP in 2007.
  - The proportion of external debt is decreasing while that of domestic debt is increasing.
  - Government has not yet issued any international or Eurobonds like other HIPCs did

- No new commercial debt was contracted – only bilateral and multilateral debt which offer concessional credits was taken up.
- Sierra Leone has stipulated medium-term targets for various risk indicators, especially refinancing risk with average term to maturity targeted to exceed 10 years from the baseline of 9.3 years, while debt maturing within one year being targeted to be less than 12.3% from the baseline of 14%.
- Some of the key recommendations shared by Sierra Leone include: continue to mobilise grant over loans; pursue diversification of the export base to avoid overreliance on mineral earnings; step up revenue mobilisation to cushion the risk of debt distress in the medium to long-term; to carefully implement domestic arrears clearance strategy and use securitization as a last option; explore and use non-debt creating financing such as PPPs to finance huge infrastructure projects; widen the donor base to include non-traditional creditors; deepen progress on debt transparency and accountability; improve innovative financing to support green economy without compromising debt sustainability; negotiate a package for relief or cancellation of debt servicing costs while fiscal consolidation should be continued.