Sixty Second Sovereign Debt News Update: Chad becomes the first country to reach a Debt Treatment Agreement with official and private creditors under the G20 Common Framework

By:

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December 31, 2022

On 22 December 2022, the Executive Board of the International Monetary Fund (IMF) approved the completion of the first and second reviews under the Extended Credit Facility (ECF) for Chad. The completion of the two reviews enables the IMF to disburse to Chad SDR 112.16 million (about US$149.3 million), bringing total disbursements under the arrangement to SDR 168.24 million (about US$224 million). Chad's three-year ECF arrangement was approved on December 10, 2021, for SDR 392.56 million (about US$570.75 million at the time of program approval or 280 percent of quota) to help meet

Chad's large balance-of-payments and budgetary needs, including by catalysing financial support from official donors. Based on the policies and reforms to which the authorities committed, the planned corrective actions, and the regional policy assurances, the Board also approved waivers of non-observance of performance criteria on the non-oil primary balance and the stock of domestic arrears.

Following the disbursement, Chad becomes the first country to reach a debt treatment agreement with official and private creditors under the G20 Common Framework. The disbursement comes after Switzerland-based Glencore, China, and Chad's other creditors reached an agreement in principle in November 2022 on restructuring the African country's nearly $3 billion in external debt. Chad owes one third of its external debt to commercial creditors, and almost all of that to Glencore in oil-for-cash deals dating back to 2013 and 2014. Despite having struck an initial agreement with creditor nations in June 2021, Chad still struggled to finalize an agreement with Glencore and other private creditors. The debt treatment agreement calls for Chad's creditors to reprofile or reschedule Chad's debt in 2024, the last year of its current $572 million ECF with the IMF, to ensure that its debt level remains below the threshold of moderate risk of debt distress. The deal also incentivises the maximisation of oil revenues when the world should be transitioning away from carbon-intensive fuels and at a time when the world and countries in the Global South like Chad are especially vulnerable to the effects of and increasingly suffering from climate change.

The IMF welcomed the debt treatment agreement, noting that the debt treatment agreement reached with official and private creditors under the G20 Common Framework—the first of its kind— provides Chad with adequate protection against downside risks while bringing the risk of debt distress to moderate by the end of the program, as required under the IMF's exceptional access policies. According to the IMF, this agreement provides Chad with adequate protection against downside risks while bringing the risk of debt distress to moderate by the end of the IMF-supported program. The IMF's statement demonstrates yet again that it is more likely than not to support debt resolutions that support the interests of creditors.

By contrast, the World Bank criticised the deal. While acknowledging that Chad faced large development needs, mounting domestic debt, and exposure to frequent shocks, including volatility in oil prices, the World Bank's President David Malpass criticised the debt treatment deal, noting that he was deeply concerned about Chad's longer-term ability to pay its $3 billion in external debts since an agreement reached by the African country's creditors does not call for any actual debt reduction. According to Malpass, "the World Bank remains deeply concerned about debt sustainability in developing countries, including in Chad…The agreement reached by the creditors provides no immediate debt reduction. As a result, the debt service burden of Chad remains heavy and is crowding out priority expenditures on food, health, education and climate…For longer-term sustainability beyond the window of this agreement, there needs to be a mechanism to reduce the debt." Notably, the World Bank has neither supported the broader calls for a UN debt restructuring mechanism, nor offered to cancel any of the debts indebted countries owe to it.

The debt treatment agreement has also been criticised for failing to reduce the country's overall debt burden and increasing its dependence on oil revenues. Tim Jones of UK-based civil society organisation Debt Justice noted on Twitter, "Glencore has been rewarded for blocking debt relief for Chad over the last two years." Jones also noted how the terms of the deal have been kept secret, and all that is known is that debt payments in 2024 are being moved into the future, with claims that an automatic mechanism will reduce payments if oil prices fall. But there's no detail on how that will work. While calling for the cancellation of Chad's debt, Jones observed that this is the third time Chad's debt to Glencore has been restructured, and it probably won't be the last.

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