EMEA WEBINARS

EU-AFRICA PARTNERSHIP: WHAT NEXT? TOWARDS AN AFRICAN STABILITY MECHANISM

Thursday 16 June 2022 15:00 - 16:30 CET

Moderator:
Dr. Cinzia Alcidi,
Director of Research, Centre for European Policy Studies (CEPS) and Member of the Executive Board of EMEA

Repporteur:
Alanna Irving,
Assistant Project Officer, Euro-Mediterranean Economists Association (EMEA)

Speakers:
Prof. Rym Ayadi,
President, Euro-Mediterranean Economists Association (EMEA) and Professor The Bayes Business School (Former CASS)

Erica Gerrestsen,
Deputy to the Director of Sustainable Finance, European Commission

Kari Korhonen,
European Stability Mechanism, European Union

Emmanuel Moreira,
Director of the Country Economics Department, African Development Bank Group

Paolo Garonna,
Italian Banking, Insurance and Finance Federation (FeBAF)
Concept note

The most recent declaration published following the 6th African Union (AU) – European Union (EU) Summit in February 2022 fell short of proposing a decisive action plan, dedicated institutions or specific monitoring mechanisms to address the socio-economic challenges linked to the geopolitical, economic and financial risks in the region. The renewed partnership focused chiefly on the immediate challenge of ensuring fair and equitable access to vaccines by supporting local and regional mechanisms for procurement, but lacked a substantial effort to finance the health infrastructure and share technologies and know-how to enable the manufacture of medicines and vaccines in Africa.

Additionally, in view of the macro-economic difficulties experienced by several countries in Africa, the EU affirmed its support for the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, and called for ambitious voluntary contributions by channelling part of the recently allocated Special Drawing Rights, in order to achieve the total global ambition of at least USD 100 billion liquidity support to countries most in need, of which a major part should benefit Africa. However, the common framework is inoperative, not transparent, and has proven deficient, as acknowledged by the Managing Director of the IMF at the Spring IMF-WB meetings in 2022. The AU-EU declaration stated that USD 55 billion have already been pledged from the new allocation of SDRs, of which several EU Member States (Team Europe) have pledged USD 13 billion, and encouraged more EU member states to consider contributing to this global effort. African institutions, in consultation with national authorities, will be involved in the use of these SDRs to support the continent’s recovery. The spending will be increased through international programmes in the fields of health, climate, biodiversity, education and security to facilitate economic recovery. However, no specific proposal was put on the table as to how these proposals will be executed.
In 2021, the African Development Bank (ADB) called for a comprehensive plan for debt restructuring in Africa that takes a form of a stabilization mechanism, which would free up the fiscal space Africa needs to deal with its debt, which stands at 70% of GDP. The proposed idea is to set up a home-grown Financial Stability Mechanism (FSM) to mutualise the available funds to ensure that the spillover effect from external shocks is limited. The question is whether this call is realistic, without the prerequisites to engage in such a structure.

Other commitments were put forward such as the Africa-Europe Investment Package of at least EUR 150 billion, composed of Investment, Health and Education Packages, which will support the common ambition for 2030 and the AU Agenda 2063. As was stated in the declaration, the Package will boost large-scale sustainable investments, supported by Team Europe Initiatives, with due consideration to the priorities and needs of African countries, including: i) investment in energy, transport and digital infrastructure; ii) energy transition that is fair, just and equitable, taking into account specificities and diversities in African countries’ access to electricity; iii) green transition including supporting the implementation of the Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) of African Countries under the Paris Agreement to enhance mitigation and adaptation; iv) digital transformation that supports trusted connectivity through investments in infrastructures and affordable and enhanced access to the digital and data economy while boosting digital entrepreneurship and skills; v) sustainable growth and decent job creation, including by investing in the establishment of youth-owned businesses in Africa; vi) transport facilitation and efficiency of connected transport networks; vii) human development, notably through scaling up mobility and employability of students, young graduates and skilled workers. It will support industrialisation and the development of sustainable and resilient value and supply chains, as well as continued cooperation in terms of peace and security, migration and mobility.

This webinar is co-organised by EMEA and CEPS with the aim of discussing: 1) the future of the EU-AU Partnership following the February 2022 declaration; 2) the feasibility of a home-grown FSM and the role of the EU in contributing to the financial stabilisation of Africa and 3) an innovative private–public financing proposal by EMEA to free up fiscal space for financially distressed African countries.
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Summary of the session

The webinar was opened by moderator Cinzia Alcidi, Director of Research at the Centre for European Policy Studies (CEPS). To set the context of the discussion, she noted that in February 2022 a summit was held between the Heads of State of the European Union (EU) and African Union (AU), after two years of delay due to COVID-19. The meeting was fruitful and claimed a renewed EU-AU partnership, but there was disparity and disagreement on how to address the short-term challenges in the region, and a lack of concrete measures. The pandemic was a major shock to both advanced and developing economies, and the fragilities caused have been further reinforced and amplified by the global economic context triggered by the war in Ukraine, including rising prices, inflation, and the risk of stagnation and low growth. Economic stability is therefore an important topic for discussion in order to look to the future in a constructive way.

Erica Gerrestsen, Deputy to the Director of Sustainable Finance at the European Commission, spoke of the EU-AU summit as a strong moment in the partnership and a signal of a renewed relationship between the continents. The goal is to create sustainable links between the two continents, which is even more urgent now in the context of Russian aggression in Ukraine, which is having important consequences both for Europe and Africa. There is greater need to build resilient food systems, cut dependence on fossil fuels, invest in renewable energy, and bring peace and development to all, which must be done through multilateral solutions.

The challenge now faced is the delivery of the commitments set forth in the declaration. Agreements have been reached to monitor the progress of the summit commitments, and work is currently ongoing at political and technical levels with specific technical groups meeting to follow up on different topics.
One key area of concern is debt: debt levels in Africa were already very high before the pandemic, and the outbreak of COVID-19 only put more pressure on the fiscal space in African countries. Some countries were able to put forward impressive packages of support to their populations and the vulnerable, but this has come at a heavy cost, coupled with the need to finance infrastructure and investment, which means a debt crisis is now looming ever closer. The summit’s declaration states that the EU and the AU support the common framework for debt treatment beyond the DSSI, though currently only three countries in Africa have applied the common framework, which means we need to question the capacity of this instrument to attract more countries to join this framework for debt restructuring. There is a need for greater clarity on timelines and procedures related to this process; there needs to be greater outreach from the International Monetary Fund (IMF) and World Bank (WB) towards low-income countries on the features of the common framework.

As well as this ongoing debt crisis, there is also a need to finance infrastructure, renewable energy, health and education, in order to be on track to achieve the Sustainable Development Goals (SDGs). An Africa-Europe investment package was agreed at the summit, with a unique offer rooted in the principles of sustainability and a human-centred approach. The EU is strongly engaged in the agenda of collecting more and spending better in terms of public money, with strong public finance management governance, and in combatting illicit financial flows.

Emmanuel Moreira, from the African Development Bank Group, commented that Africa is in a second wave of indebtedness, with a debt/GDP ratio of around 70%, and suffering from the worst recession in four decades. Today, the debt is commercial and owed through financial credit, which complicates the issue. The common framework is not working, and action needs to be taken, although many African countries are reluctant. An African Financial Stability Mechanism would not only to provide liquidity to countries in difficult conditions, but also prevent the debt occurring in the first place. Implementing such a mechanism could prevent crises from occurring, give a platform to African countries to negotiate their debt, and foster the implementation of convergence criteria.
Kari Korhonen, offered insights from the European Stability Mechanism (ESM). There are other similar arrangements in other regions, such as ASEAN+3, the Arab Monetary Fund, and the Latin American Reserve Fund. These, together with the IMF and central banks, form a layered arrangement of global financial safety nets. The ESM was established in the middle of a crisis, running initially as a temporary arrangement, and then developed into a permanent international organisation. It provides very fast, hands-on raising of financing from the markets to the members in need of financing. The ESM is ingrained in EU cooperation and programmes designed by the European Commission together with IMF contributions and European central banks. He mentioned three main factors behind the strength of the ESM as an institution.

Firstly, it is based on a standing treaty that gives clear accountability to member states and monitoring for the benefit of the institution that extends long-term financing to members. The second factor is its financial structure, with very high shareholder support which is reflected in the sizeable capital core arrangement for increase of capital in case of need and increases the credibility of the organisation. Financial management based on strong liquidity management means assistance can be provided very quickly, and buffer funds have allowed the ESM to be reserved for the most crucial events. The final factor is international cooperation: the ESM has built a network of international financing arrangements beyond the EU, which allows for mutual learning and comparison.

The larger number of countries in Africa than in Europe, and the larger diversity between countries, creates a different dynamic when considering this type of mechanism in the African context, which is further complicated by conflict and social unrest, and the need to strengthen institutions. Any such mechanism would require careful consideration of its mandate and priorities, how it would leverage market financing, and how the secure and consistent treatment of members would be ensured. Technical support from outside the region would be very important.
Rym Ayadi, Founder and President of the Euro-Mediterranean Economists Association (EMEA), offered some innovative proposals on the issue of indebtedness. COVID-19 exacerbated problems of indebtedness, and the war in Ukraine has pushed global debt levels even higher. Some economies have had the capacity to borrow as there have been very low interest rates and risk premiums, and they have had a much higher capacity to service their debt, particularly external debt. However, emerging economies, and low- and middle-income economies are facing much tighter limits, which in turn limits their ability to carry additional debt. Many are at risk of default or have defaulted or restructured their debt. The war in Ukraine, sluggish growth, and too-rapid inflation (the so-called “stagflation” scenario) are becoming serious threats to the global economy and financial systems, and there is a need for innovative instruments to buy debt to address this potentially extreme market turmoil.

The composition of the debt of low-income countries has changed dramatically over the years; external debt positions are held by private sector players. In 2021, the IMF called for urgent reforms in the international debt architecture, including debt relief and enhanced debt transparency to facilitate restructuring. Debt transparency is paramount for assessing the magnitude of the problem, and a prerequisite to allow the private sector to move forward in the debate or contribute to debt relief. Paolo Garonna, of the Italian Banking, Insurance and Finance Federation (FeBAF), noted that the situation requires not simply stop-gap measures, emergency relief and crisis response, but a major effort in terms of investment and visi

The DSSI has addressed some of the problems of debt relief for many low-income countries, but the framework expired last December, and the common framework which has practically replaced it does not seem to work. It must be improved in terms of transparency and clarity for countries to engage in negotiations, and this will take time when action is needed fast.

One possibility would be to extend the timeline of the DSSI, and enlarge the eligibility criteria to middle-income countries. Countries that accessed an extended DSSI would have to credibly commit to register all forms of debt and new debt issuance on OECD debt repository.
Another proposal would be to complement the DSSI with a public-private, SDG-compliant financial plan as part of the post-COVID-19 recovery and the transition towards a net-zero scenario. The mechanism of this fund would be as partial or total guarantees, issued by the resilience and sustainability trust, which would help needy countries to issue long-term maturity debt for recovery. There would have to be very careful monitoring on the use of funds.

These proposals are currently theoretical, as the DSSI has expired, and the resilience and sustainability trust recently set up by the IMF is not designed to do this. A private-public partnership collective approach could avoid massive defaults of countries that are pushed outside the market and growth path. This could bring Africa and the Mediterranean onto a path for growth, prosperity and resilience, in collaboration with Europe and other international organisations and schemes.

On a framework of infrastructure for Africa for energy and energy security, food security, a green transition, the protection of nature and biodiversity, and the transfer of know-how and human capital. There are savings, liquidity and investors in the private sector: private capital must be mobilised. In order to do this, several conditions must be met, including favourable domestic conditions, Europe-Africa integration, and integration with the private sector. There is a need for innovation, creation, and pragmatism in the design of public-private partnerships.

The debt and currency composition in Africa has changed a lot due to the private sector. With the environment and risk perception changing, the private sector may withdraw from these countries at the very moment when there is a need for more support and financing. It is important to consider how to stop this withdrawal and a resulting cascade of defaults.

Promising signs from recent geopolitical developments include the unblocking and the EU enlargement process and a revival of the Euro-Mediterranean perspective. Market players can incorporate security and values into their investment decisions without weaponizing or politicising those decisions.

**Concluding remarks**

Rym Ayadi closed with some reflections that many countries are going through difficult times, and many have not been able to manage external shocks, internal idiosyncratic risks, or macroeconomic conditions. But these crises can be an opportunity to learn, and partnerships and solidarity can be used to reduce costs and stabilise the situation. She stressed the need to act fast, build on what has worked, and improve transparency of use of funds and debt management. She said that crisis can be turned into an opportunity to learn, to change, and to rebuild better, by enhancing collective action towards resilience, prosperity and peace.
Moderator:

Cinzia Alcidi
Director of Research, Head of Economic Policy Unit
Centre for European Policy Studies (CEPS), Brussels

Dr. Cinzia Alcidi is Director of Research, Head of the Economic Policy Unit at the Centre for European Policy Studies (CEPS) in Brussels and LUISS- School of European Political Economy- research fellow. Since November 2019 she is also the acting Head of the Jobs and Skills unit. Prior to joining CEPS, she worked at International Labour Office in Geneva and she taught International Economics at University of Perugia (Italy). Her research activity includes international economics, macroeconomics, central banking and EU governance. Since 2015 she is the coordinator of CEPS Academy Activities. She has experience in coordinating research projects and networks. She has published extensively on the economics and governance of the Euro area crisis and participates regularly in international conferences. She holds a Ph.D. degree in International Economics from the Graduate Institute of International and Development Studies, Geneva (Switzerland).

Speakers:

Prof. Rym Ayadi
President, Euro-Mediterranean Economists Association (EMEA) and Professor The Bayes Business School (Former CASS)

Professor Rym Ayadi is the Founder and President of the Euro – Mediterranean Economists Association (EMEA). She is the Director of the CREAT4MED project and Director of the EU-Mediterranean and African Network for Economic Studies (EMANES). Prof. Ayadi is Senior Advisor at the Centre for European Policy Studies (CEPS); Professor at the Bayes Business School, City University of London and Member of the Centre for Banking Research (CBR); Academic member and Chair of the European Banking Authority – Banking Stakeholders Group (EBA- BSG). She is also Associated Scholar at the Centre for Relationship Banking and Economics (CERBE) at LUMSA University in Rome.

Erica Gerrestsen
Head of Unit in DG INTPA E1

Erica Gerrestsen holds a Master in Business Administration from Université Paris Dauphine and a Master in Urban planning and local administration of Sciences Po in Paris. She has been working for the European Commission since 1995, in external relations. She has been posted in EU Delegations in Slovenia prior to accession and in Benin as Economic advisor. She has been working in the European Commission Directorate General in charge of International development cooperation (DG DEVCO) since 2003, mostly on Africa. She has been deputy Head of Unit for West Africa in 2012 and then became Head of Unit of the Central Africa region in 2013. She shortly led the Unit in charge of financing for development and development effectiveness in 2016. In 2016, she was appointed Head of Unit in DEVCO A4 "Budget Support, Public Finance Management and Domestic Revenue Mobilisation". In 2021, she was the Acting Director for the newly established Directorate in charge of "Sustainable Finance, Jobs and Growth, an Economy that works for the People" of DG INTPA for International Partnerships. She is currently Head of Unit in DG INTPA E1 “Macro-economic Analysis, Fiscal Policies and Budget Support.”
Emmanuel Pinto Moreira  
Senior Fellow, Policy Centre for the New South; Director, Economic Department of the African Development Bank

Dr. Emmanuel Pinto Moreira is in charge of establishing a strong department and conducting policy dialogue with policymakers of the region, focusing on new growth strategies, challenges facing middle income countries, fiscal policies and debt reduction strategies. He previously served as regional lead economist for the MENA region at the World Bank, conducting policy dialogue with Maghreb authorities, helping them design their vision papers, and providing strategic advice on major economic challenges. He was also in charge of preparing country reports on the macroeconomic perspectives of 18 countries, and reviewing reports on Economics and Finance of the MENA region; he managed the knowledge program for the MENA region. As a team leader of the Global Practice in charge of Macroeconomics, Trade and Investment (MTI), he was in charge of the working agenda for economists and guaranteeing deliverables that are insightful and have sound impact on countries’ development. He has published numerous research papers in the areas of growth policies, trade and competitiveness, public financial management, fiscal and exchange rate policies. Before joining the World Bank, Dr. Pinto Moreira worked at the International Monetary Fund as a senior economist within the Middle East and Central Asia with a focus on fiscal policies. He was also a senior advisor to the executive director of the 24 French-speaking African countries. Dr. Pinto Moreira holds a Master degree and received his PhD in Macroeconomics from University of Lorraine in France.

Kari Korhonen  
Senior Advisor to the Secretary General, European Stability Mechanism

Kari Korhonen is the Senior Advisor to the Secretary General at the ESM and has led a number of institutional and policy initiatives since joining in 2013. Since 2016, he has led dedicated ESM evaluation teams to support two strategic evaluation exercises led by the independent evaluators, Ms. Gertrude Tumpel-Gugerell and, later, Mr. Joaquin Almunia, in their evaluation of ESM assistance programmes. He continues to develop the ESM’s evaluation capabilities. Kari’s research centres on efficiency, stability and sustainability aspects of financial and economic areas. Before joining the ESM, Kari served as Senior Advisor to the Executive Director for the Nordic-Baltic constituency at the International Monetary Fund from 2010 to 2013, during the height of the global financial and euro debt crises. In addition, he gained experience in policy analysis and policy making, including in the area of crisis preparation and financial stability, while managing the Bank of Finland’s division of financial market infrastructure oversight for several years. Prior to that, he acted as head of unit in UNESCO. Kari holds a master’s degree from Turku School of Economics.

Paolo Garonna  
Secretary General of the Italian Banking, Insurance and Finance Federation

Paolo Garonna has been the Secretary General of the Italian Banking, Insurance and Finance Federation (FeBAF) since October 2012 and Professor of Political Economy at the LUISS Guido Carli University of Rome. He was previously Director General of the Association of Italian Insurers (ANIA) and Chief Economist of Confindustria, the General Confederation of Italian Industry.

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Alanna Irving  
Assistant Project Officer, Euro-Mediterranean Economists Association (EMEA)

Alanna Irving holds a Bachelors degree in Classics from the University of Cambridge, and a Masters in International Relations from the Institut Barcelona d’Estudis Internacionals. Her professional experience ranges from local government and the public housing sector in the UK to international governmental organisations. She joins the EMEA team to support the implementation of projects and communication and dissemination activities.