**International debt architecture reform and human rights**

**Case study: Djibouti**

1. **Measures and steps already taken or planned regarding increasing liquidity provisions for countries to respond to the pandemic and address debt service burden.**

To increase the liquidity needs for Djibouti, the Government of Djibouti put in requests for support under the Rapid Credit Facility’s (RCF) exogenous shock window in the amount of 100 percent of quota (SDR 31.8 million), to be channeled to the budget to help finance pandemic-related health and other priority expenditure. The Government also requested for debt relief under the Catastrophe Containment and Relief Trust (CCRT) for amounts falling due to the Fund in the 24-month period through April 13, 2022 (SDR 6.03 million), subject to resource availability. In addition to this additional financing was also sought from other organizations. Some of the rapid responses received include the Debt Service Suspension Initiative (DSSI) by the G20, which is providing support for countries to focus their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people including Djibouti which has a huge number of floating populations (Refugees, Homeless and displaced persons). Furthermore, multilateral institutions such as the African Development Bank, the Africa Export - Import Bank and the World Bank have also provided additional financial support to African countries in the nature of well needed financial aid, humanitarian aid, debt relief and vaccines.

1. **Measures and steps already taken or planned to address the high foreign and public debt because of the pandemic at national and subnational level.**

A combination of policies that reduce the pace of borrowing, prioritizing concessional financing and foreign direct investment (FDI) for projects, reforms to develop a medium-term fiscal framework and strengthen public investment management, and debt management are important in managing the high foreign and public debts. In this regard, the Government of Djibouti has since reaffirmed its commitment to policies aimed at strengthening debt sustainability through the following:

1. the creation of a Sovereign Wealth Fund to manage the government assets, including SOEs.
2. the design of a strategy to increase domestic revenue mobilization and create space for poverty-reducing outlays, notably by the reduction of tax exemptions and streamlining special regimes.
3. the re-prioritization of spending from non-COVID essentials to alleviate the impact of the pandemic shock both at National and subnational level.
4. Ramping up the operations of several key projects to generate the revenues necessary for debt service by addressing the bottlenecks that have prevented the realization of returns on some key projects, including for instance by operationalizing rail connections to the various ports and securing the railway and electricity supply to limit interruptions, finalizing commercial agreements with large water customers to increase the pipeline project returns, and strengthening cooperation with other partners given the regional dimension of some projects.
5. The development of a medium-term fiscal framework and to strengthen public investment management, and debt management capacity to reduce the pace of borrowing, the prioritize concessional financing and foster foreign direct investment (FDI) for projects.
6. drawing on among other things, IMF technical assistance, to design and

implement strategies to increase domestic revenue mobilization, notably by reducing tax exemptions and streamlining special regimes.

1. prompt resolve of outstanding external arrears by continuous engagement with relevant creditors with a view to finalize ongoing discussions on conversions and cancellation agreements expeditiously and to clear all other arrears, including to multilateral creditors.
2. Maintaining financial stability through the Central Bank of Djibouti. The CBD will monitor banks’ liquidity risks and encourage banks to strengthen their liquidity risk controls and management practices; as well as take steps to strengthen banks’ balance sheets as the pandemic abates. In collaboration with the government, will design and implement a strategic plan and associated resource mapping exercise to set a longer-term financial sector reform vision (including to bolster the central bank governance and supervisory capacity) along the lines recommended by the recent Financial Sector Stability Review.
3. **What measures and mechanisms have been adopted to protect the fiscal space required to respond to the exceptional needs of the population during the pandemic, in areas such as health, food, education and social security?**
4. The Government of Djibouti is committed to continuing its efforts to address the health and economic damage caused by the COVID-19 outbreak through the creation of budgetary space for health sector outlays and other emergency spending such as support families and firms affected by the outbreak that is critical to sustain activity and prevent a disastrous social outcome, broadly expected to cost some 2.4 percent of GDP.
5. The Global Partnership for Education accelerated grant to the Djibouti Ministry of Education and National training (MENFOP) in the tune of $3.5 Million, approved on June 26, 2020 and titled “Education Emergency Response to COVID-19”. The grant supports the MENFOP and its partners including the world bank to implement the government plan to respond to the COVID-19 crisis on the education sector. It supports capacity building for teachers, pedagogical advisors and inspectors and provides children access to quality remote learning.
6. **How could assessments of a debtor’s capacity to repay its creditors incorporate the safeguarding of maximum available resources for human rights?**
7. It is important that debtor capacity assessment to repay creditors is based on the principle of shared interests and responsibilities between the debtor countries and the creditors. This will allow country driven economic reform programmes which will ensure the effective participation of all components of society, (including vulnerable or disadvantaged populations), in the design, application and evaluation of strategies, policies and programmes. It will also ensure allocation of resources in a manner that balances development which will be conducive to the overall realization of human rights.
8. It is also important that both international financial institutions and debtors consider the preparation of human rights impact assessments with regard to development projects, loan agreements or poverty reduction strategy papers so that any economic reform programmes arising from these agreements takes into account the views of relevant stakeholders in manners that ensures balanced development conducive to the overall realization of all human rights.
9. **With regard to the G-20 Debt Service Suspension Initiative (DSSI), adopted in April 2020 and valid until June 2021: What have been the benefits and what have been the drawbacks of this initiative? If available, what is your Government’s position/ Institution’s position regarding how the DSSI could be improved, and why would this initiative need extension and improvement?**
10. The benefits of the DSSI for the Government of the Republic of Djibouti is the ability to devote the resources freed by this initiative to increased spending in a manner to mitigate the health, economic and social impact of the COVID19p pandemic. Another important benefit is also its contribution towards improved debt transparency and debt management committed to by the Government of Djibouti.
11. However, a major drawback of the DSSI is the fact that the Federal Republic of Djibouti already had significant debt service coming due over the medium-term period before any participation in DSSI. The country could therefore see potential increases in debt service of over 1% of GDP on average per annum over 2022-24, raising debt service to 6.6% of GDP per year on average over 2022-24. The postponement of debt service to a medium-term horizon places Djibouti at elevated risk of future severe debt distress.
12. As such, while the DSSI might be a way forward for certain countries, for a country like Djibouti, participation in the DSSI under the existing terms may have negative impacts on the long term.
13. **One of the alternatives to supply needed emergency liquidity is through a new issuance of special drawing rights (SDR): How could a new issuance of SDRs be beneficial for your State in the short and mid-term?**
14. The SDRs provisions for countries in Africa provide a helping hand to the continent for rapid, equitable, and sustainable economic development. The expanded reserves will provide much-needed fiscal allowance; as well as enable the governments to devote more attention to essential social investments in health, education, resilient livelihoods, job creation and value chain reengineering that would afford millions of Africans the opportunity to earn their way out of poverty through self-owned businesses and the adoption of transformative technology.
15. For Djibouti, the SDR together with other debt relief mechanisms will free up budgetary resources to address public health needs and support economic activity in key sectors; it will also help contain the exceptional balance of payments need resulting from the pandemic.