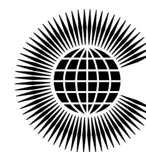

03 November 2014

MULTI-STAKEHOLDER CONSULTATION ON
"SOVEREIGN DEBT FOR SUSTAINED DEVELOPMENT:
ISSUES OF SPECIAL CONCERN TO LOW INCOME COUNTRIES"
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The Financing for Development Office of the United Nations Department of Economic and Social Affairs (DESA) and the Commonwealth Secretariat jointly organized a multi-stakeholder consultation on "Sovereign Debt for Sustained Development" in Maputo, Mozambique on 17 March 2005. Focused on issues of special concern to heavily indebted poor countries (HIPCs) and other low-income sovereign debtors, it was the fourth of a cluster of debt-related official meetings held in Maputo that week. It provided an opportunity for a free and informal exchange of views and indeed the discussions were rich and lively, reflecting on issues discussed by some of the participants in the earlier meetings as well as on the agenda for the consultation itself (see programme in English and French posted with this report). A number of proposals were brought to the table and are noted in this report.

The week had begun with a seminar on 14-15 March that the International Monetary Fund (IMF) organized for African senior officials about foreign aid and macroeconomic management (see http://www.imf.org/external/np/seminars/eng/2005/famm/index.htm). It was followed by a meeting of the Commonwealth HIPC Ministerial Forum on 15-16 March, to which a number of non-Commonwealth participants had been invited as guests, including a number of finance ministers from Francophone African countries and l'Agence Intergouvernementale de la Francophonie. Commonwealth Forum Members adopted a Ministerial Statement on implementation of the HIPC Initiative, deeper and wider debt relief, the IMF/World Bank framework for debt sustainability, domestic debt, and HIPCs in the global economy (see text posted on this web page). Non-Commonwealth African countries that participate in the HIPC Ministerial Network met during the afternoon of 16 March. Subsequently, the communiqué of the 11th HIPC Ministerial Meeting was issued. It pertained to improving debt-relief mechanisms, long-term debt sustainability, and financing the Millennium Development Goals (see texts in English and French posted on this web page). Finally, on 17 March, about 75 participants from African and other governments (from ministries and parliaments), donor and multilateral agencies, regional organizations, African and European private enterprises, and African and European civil society met for the multi-stakeholder consultation (see list of participants posted with this report).

formulate credible programmes and for the Fund staff to be more attentive to their particular problems.

One participant noted that in some countries the involvement of the legislature was very minimal and where lawmakers were involved, as in approving loans or debt ceilings, the information made available to them by the relevant ministries was sometimes minimal. It was asked whether in such situations parliament was a deliberative body or "rubber stamp?" A speaker asked why was it possible for a few people in the administration to mortgage the country?

Many participants agreed with the notion of involving legislators in debt issues, but cautioned that their involvem

of this process was acknowledged. Another necessary requirement was said to be the existence of an enabling institutional framework and a set of clear and fair rules, including property and individuals' rights.

Participants argued that in building up a country's institutional framework, governments must be aware of the private sector's

Participants stressed that many domestic small and medium enterprises (SMEs) were severely credit constrained and felt that governments should make available mechanisms that would facilitate their access to credit. In this regard, international financial institutions should allow greater flexibility in government expenditures so that insurance and other guarantees could be provided for SMEs. Moreover, participants noted that government arrears to the domestic private sector were frequent and debilitating and should be cleared and avoided.

[illegible]

Participants argued that the development of local capital markets could contribute to poverty eradication. They recognized that the shortage of long-term capital in many developing countries in general, and in Africa in particular, led to higher domestic interest rates, one of the factors impeding credit access by local entrepreneurs.

Experiences were noted in which the public sector “crowded out” the private sector through heavy government borrowing. Furthermore, participants argued that in several instances financial institutions, albeit liquid, were dissuaded from lending to the private sector owing to a weak institutional framework. Lack of contract enforcement was regarded as a major constraint to increased lending. It was also important to promote the mobilization of domestic savings in order to create a larger pool of resources for investment, which would have a potential beneficial impact in lowering interest rates and increasing credit access.

It was also noted that there were insufficient financial mechanisms for demand and intermediation of long-term credit in many countries and that such mechanisms needed to be developed before sovereign debt markets could be a reality in low-income countries. The private sector could develop long-term instruments (e.g., mortgage loans) for private investment portfolios. The potential contribution of private institutional investors, such as insurance companies and pension funds, for developing the long-term capital market was stressed.

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A number of participants in the group voiced concern about how effectively “public private partnerships” (PPPs) could 2(hol-1(”)4(z(ei)-2(t)-20(r)-1iho2 Tw [(t ma)-4(r)5(k)2(e)5t8(“0)4(Ml4(()3(

governments should be the ones to decide when PPPs were the right instrument. Accordingly, some participants recommended that governments should approach donors with alternative proposals for their consideration and that a passive role should be avoided.

Participants argued that governmental PPP strategies needed to be debated publicly. Civil society participants felt that often they had not been consulted and were left unaware of developments in this area. It was suggested that in several instances popular resistance originated in lack of information and miscommunication, which could compromise PPP success and that an open dialogue — albeit necessary — had been missing.

Some participants expressed concerns about the degree to which PPPs contributed to poverty eradication and access by the poor to public services when privatized. The group agreed that the political economy aspects of PPPs needed to be duly acknowledged. It was argued that governments should maintain regulatory powers over essential services so as to ensure access to all citizens, including the poorest. It was also recognized that neither PPPs nor privatization would solve all problems in providing essential public services. Some direct government involvement would continue to be needed.

The discussions commenced with concerns being raised about the exclusion of social development from the debt sustainability analyses (DSA) undertaken for developing countries by the Bretton Woods instituti

which would buy non-performing bonds or bank debt in the secondary market at substantial discount. They expected to profit from selling the restructured debt at a smaller discount from the initial face value after the country completed its negotiations (although others in this group might seek to collect the full face value through court proceedings). Retail bondholders had other objectives than institutional investors. Along with commercial banks, both groups occupied a middle position between the speculators and the official creditors in the Paris Club. The latter had a policy objective and the extent of relief they were willing to accord was said to depend on the lending governments' relationship with the debtor (e.g., Paris Club attitudes towards Iraq today and five years earlier were contrasted). Multilateral creditors only countenanced debt relief in the most extreme circumstances, which the financial markets have accepted as proper, especially for IMF, which lends for macroeconomic adjustment when no one else will.

Participants were told, however, not to be pessimistic as a result of the poor prospects for systemic reform. A speaker averred that a debtor government in a crisis situation could take the initiative and even shape the restructuring package if it had a clear strategy, which would be more convincing when it was presented in the context of a policy reform package to which the government was committed and had sold to the population. In this view, the reason debt workouts took so long was not the absence of a uniform and coherent negotiating structure, but the limited capacity and interest of particular debtor governments to negotiate with their creditors. Another participant picked up on this point and noted that there were two ultimate goals in debt workouts: development and capacity to service debt, with the creditors focused on the latter. Debtors should then work on achieving the former.

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The viewpoint that sovereign debtors were incipiently powerful was received sceptically. Participants from debtor country governments did not seem to feel at all powerful. They focused their comments on Paris Club experiences. One official saw his country's Paris Club negotiation as having been an internal discussion among the creditor members. Moreover, much of its debt was owed to one large creditor whose position changed during the time its debt crisis was before the Club. All of that was outside what his government could affect. They were essentially