6 September 2005

MULTI-STAKEHOLDER CONSULTATIONS ON "SOVEREIGN DEBT FOR SUSTAINED DEVELOPMENT"

Concluding Session, Held in Conjunction with
The Fifth UNCTAD Debt Management Conference
Geneva, 20-22 June 2005

Secretariat Report of the Consultation

The Geneva multi-stakeholder consultation on sovereign debt for sustained development — the final meeting in a set of three — was organized within the context of the Fifth UNCTAD Inter-regional Debt Management Conference, which itself comprised the first three days of a week of meetings organized by UNCTAD on debt management (see agenda posted with this report at www.un.org/esa/ffd/09multi-stake-consul-flyer-debt.htm).

As in the earlier consultations, the Geneva meeting began and ended with plenary presentations, in this case taking place over three days and before an audience of over 250 participants from Governments of over 80 Member States of the United Nations and other stakeholders. These presentations took the form of keynote addresses and panel presentations by experts drawn from governments, international organizations, the private financial and legal sector, academia, and civil society advocacy networks and organizations (see list of participants posted with this report). The report on the plenary sessions was prepared by the UNCTAD Secretariat and is to be posted along with available papers on the DMFAS website (www.unctad.org/dmfas). The present report will thus focus on the other aspect of the Geneva

Rule." That is, while participants may use the discussions as background, none of them are to publicly identify the views expressed by any of the participants, all of whom in any case speak in their personal capacity. Participants were free to raise any issue of concern to them. However, the Financing for Development Office tried to help focus the discussion and avoid duplicating what had been said in earlier roundtables, which had been rich but did not warrant repeating, by offering a set of questions about possible next steps after the consultations, based on the

middle-income countries being subject to analyses undertaken by IMF under its Debt Sustainability Framework (DSF) as part of the annual IMF "Article IV" consultations with member countries. Several speakers in the group highlighted the importance that all relevant parties participate in the evolution of the DSF, in particular, developing countries, and in its implementation at country level. This pointed to a general imperative for capacity building in these countries so that they could locally prepare their own scenarios of alternative futures and their implications for debt burdens under the DSF as a basis for discussion with the multilateral institutions, let alone for domestic policy making. There was broad support for enhancing the capacity of countries to conduct their own analysis, as evidence was cited that the quality of the DSA is better in countries that are able to prepare their own economic and financial simulations.

In addition to the need for capacity building, some participants saw a lack of clarity in what approach to take in assessing debt sustainability. This concern had been underlined by the G8 proposal to deepen relief for countries that were supposed to have been placed in a "sustainable" situation at the completion point of their HIPC programme and yet needed additional relief so they might have a better chance to reach the MDGs. The word "sustainable" was evidently being reinterpreted by the G8.

Regarding the determinants of debt sustainability, studies were cited that showed that had the HIPCs been able to achieve GDP growth equivalent to the average growth of low-income countries, their debt burdens would not have become unsustainable (no judgement was offered as to why economic growth of these countries was relatively low). A related point was raised concerning the relation between government expenditure and growth, which has gathered increased importance now that additional public resources are to be freed by the G8 proposal for the HIPCs. It was stressed that the allocation of public resources should be more carefully examined, and that a thorough analysis is needed for selection of publicly financed projects, which should be undertaken in an efficient and transparent decision making process so the best projects would be selected and financed.

In response to the Secretariat's first question addressed to this roundtable (see annex), some participants advocated research-oriented seminars at this point rather than additional multi-stakeholder consultations on debt sustainability. Indeed, both UNCTAD and the United Nations Development Programme had recently embarked on organizing such activities, including multi-stakeholder consultations at national level. However, a participant from a developing country government called for continuing to bring together governments, civil society, multilateral institutions and donor governments to work on these issues. Her concern that there was too much confusion regarding debt relief and sustainability was echoed by another developing country government participant, who avowed that each stakeholder has his own concept of sustainability, and it was necessary to get more clarity. Another official participant emphasized that the Bretton Woods institutions hold many seminars and that something deeper than a seminar was needed. It was further argued that when civil society "pushes back" with their analyses of country situations and critiques of proposed principles for the international community to apply, as on debt sustainability, the international financial institutions become more careful in their own analytical work.

Paris Club and debt workout mechanisms

On the question of the functioning of the Paris Club, it was pointed out that the Club

Some participants claimed that debtor country governments have not exhibited a similar level of collaboration so far. Nevertheless, cross-

reserves versus investing in development projects was also mentioned as among elements worth working on in a proposed international discussion. Countries focusing on sustaining investor confidence through high levels of reserves may leave essential services unfunded, raising questions in the minds of investors

new financial instruments to market to share sovereign credit risk, such as internationally marketed local currency bonds, GDP bonds, commodity bonds, or catastrophe bonds. A few participants felt that that the topic was not a high priority issue: markets will tend to offer any kind of financial instrument if there is a demand, and in the absence of demand such instruments

II. Issues of primary concern to countries accessing financial markets

1. **Should there be an international discussion of the impact on policy making of the focus on debt sustainability?**