African Perspectives on Sovereign Debt Restructuring

CONFERENCE HELD AT LAKE VICTORIA SERENA RESORT, UGANDA, 6-8 AUGUST 2014

CONFERENCE REPORT

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EXECUTIVE SUMMARY

Background: The subject of Sovereign Debt has become a highly charged and politically important topic in the global economy in recent times, especially as countries faced economic and political turmoil during the financial crisis of 2008 and afterwards. For many African countries, their problems with high levels of indebtedness had started decades before as a result of political strife, economic mismanagement and market fluctuations that wiped out revenues from mainly primary commodity exports. Many countries had undergone debt relief and restructuring as a result of much lobbying from local and international civil society groups with freed up resources going towards poverty eradication. However, new emerging trends in the supply of credit and a shift away from poverty eradication to economic growth as the primary goal of development means that the paradigm of debt has changed. Countries now want to borrow funds to finance the pillars of economic growth, like infrastructure. Because of this, it is anticipated that many countries will require a new round of sovereign debt restructuring (SDR). Different approaches to SDR need to be examined and proposals developed for a mechanism that caters for the new global dynamics of credit and debt.

Rationale: It is with this background that the Centre for International Governance (CIGI) in collaboration with the Uganda Debt Network (UDN) organised a conference on African Perspectives on Sovereign Debt Restructuring. The main ideas for discussion in the conference were laid out in a high-level paper that positions African perspectives on sovereign debt restructuring within the global development agenda to inform existing international debates. This paper authored by CIGI's Skylar Brooks and Domenico Lombardi raised questions about the pain and costliness of SDR, and if it was possible to reform the international debt architecture in a way that makes sovereign defaults and debt restructurings less likely to occur. Could the debt architecture be reformed to ensure that when they do occur, SDRs are handled in a more timely, orderly and fair manner?

Participants: The conference, which was held at the Lake Victoria Serena Resort in Uganda from 6-8 August 2014 was attended by a high profile group of 58 delegates from Cameroon, Ghana, Liberia, Zambia, Zimbabwe and Uganda the host country as well as the CIGI team from Canada. Uganda's Vice President H.E. Edward Ssekandi officiated at the opening of the conference and gave a keynote address that encouraged participants to speak with one voice on what needs to be reformed in the international debt architecture.

Proceedings: The conference was divided into four sessions whose discussion topics were as follows:

1. Is the international debt architecture in need of fundamental change?
2. Sovereign Debt Restructuring: African perspectives on the debate.
3. Equity and the Ethics of Sovereign Debt and Sovereign Debt Restructuring.
4. Governing Sovereign Debt: What is at stake for Africa?

Conclusions: The following highlights from the presentations and discussions emerged from the conference:

1. The prudent management of borrowed funds is essential, both to preserve hard-won economic growth, as well as to prevent burdening future generations with painful debt defaults.

2. Countries should be careful to invest funds borrowed on commercial terms in projects that yield returns and can generate the income to repay the loans. Funding for social services can be obtained from bi-lateral or multi-lateral lenders who are more inclined towards funding earmarked to global development targets.

3. Countries should also find ways of generating domestic resources in order to finance projects that yield financial returns. Investment in value addition to commodity exports and maintaining healthy balance sheets is key.

4. Since the available mechanisms for SDR have inherent limitations, a hybrid combination of approaches needs to be developed so as to provide comprehensive coverage of all aspects of SDR and take into consideration the emerging trend towards non-institutional credit. Such a mechanism should be based on the principles of objectivity, impartiality, inclusivity, comprehensiveness and conclusiveness.

5. The participation of African countries in the international money markets should be treated with caution as there are many unforeseen pitfalls that countries are often unprepared for. Private lenders are not always the wise option for financing projects because while they require few conditions and earmarks, when circumstances force countries to default, the repercussions are far more serious and a coordinated approach to resolving the crises is impossible.

6. There is an urgent need for governments to enhance their technical capacity and develop the business acumen required to negotiate favourable terms with private lenders. Civil society and oversight bodies like Parliaments also need to keep up to speed with the dynamics of sovereign debt so that African countries are not constantly left holding the wrong end of the stick.

7. Provisions for debt restructuring should be included in the contract negotiations for sovereign debt so that the debtor is not always left to bear the brunt of a default.

8. Peer to peer review mechanisms that hold governments accountable should be revived because they provide corrective measures and improve performance. Regional blocs should also hold their constituent governments accountable and raise concerns about economic indicators and their technical capacity to negotiate loan agreements.

9. The importance of countries establishing a debt management strategy and having strong and independent oversight institutions cannot be overstated. Finance technocrats should be able to give the political class advice on debt management and macro-economic issues without any hindrance. Countries should avoid getting entangled in polarised politics that undermine the safeguards put in place to ensure prudent debt and fiscal management.

INTRODUCTION

This report on the Conference on African Perspectives on Sovereign Debt Restructuring includes summaries of remarks and presentations made at the conference – the full details/ complete presentations can be obtained from UDN/ CIGI/ where they are available as annexes. The report also summarises the discussions and debate from participants in response to the presentations.

Opening remarks

Mr. Patrick Tumwebaze, the Executive Director of Uganda Debt Network led the opening remarks with a warm welcome to the participants both from Uganda and abroad. He was especially grateful for the presence of the Guest of Honour, the ice President Edward Ssekandi. He thanked the Centre for International Governance Innovation (CIGI) for organising the conference in partnership with UDN. He also highlighted the role of the UDN in leading the campaign for debt relief for Uganda under the Highly Indebted Poor Countries (HIPC) initiative of the World Bank and International Monetary Fund. Mr. Tumwebaze elaborated on the purpose of the conference whose aim is to provide a platform for joint reflection and sharing on the subject of sovereign debt restructuring in Africa. The main thrust of the conference would be the discussion of a high level paper that positions African perspectives on sovereign debt restructuring within the global development agenda.

In his remarks, **Dr. Domenico Lombardi, the Director Global Economy Program, Centre for International Governance Innovation** provided a background to the events that had led up to the conference. Global consultations on debt restructuring were being started in Africa not just because many African countries had benefited from debt restructuring but mainly because it is important to have their perspectives as players in the global economy. There would be other regional conferences on debt restructuring and CIGI would organise outreach events to disseminate the outcome of these conferences as widely and effectively as possible.

On his part, **Prof. Ezra Suruma, the Senior Presidential Advisor Uganda and Chairman of the Board, Uganda Debt Network** expressed the hope that the conference would provide lessons from the restructuring of debt of African countries. He took the opportunity to applaud the exemplary leadership of the Vice President Edward Ssekandi, who he described as a shining example of simplicity, fairness and integrity.

Keynote address

His Excellency Edward Ssekandi, Vice President of the Republic of Uganda noted that Uganda was honoured to host such a high-profile international conference that would discuss African countries' interests with regards to debt restructuring and what it means for Africa in the context of the global political economy. He pointed out that Uganda had made great strides in eradicating poverty with debt relief freeing up more resources for provision of social services and investments in infrastructure. He warned that a number of developing countries have seen both domestic and external debt grow at a rate that is likely to lead to unsustainable debt burdens. He hoped the conference would underscore that is at stake for Africa as far as sovereign debt is concerned. He urged the conference participants to speak with one voice and send a clear message about what reforms need to be made to the international debt architecture.

SESSION I: IS THE INTERNATIONAL DEBT ARCHITECTURE IN NEED OF FUNDAMENTAL REFORM?

The objective of this session was to focus on the pros and cons of reforming the current approach to sovereign debt restructuring (SDR). The presenters shared experiences of how their countries had come to need restructuring and what benefits and costs resulted from this experience.

Introductory presentation

A Background paper on Sovereign Debt Restructuring by **Skylar Brooks and Domenico Lombardi (CIGI)** provided the introduction to this session. Participants were reminded that Africa has a stake in promoting better debt restructuring because its countries' economies are affected by the high levels of debt in other parts of the world. Different approaches to sovereign debt were looked at. One is the market based approach that pushes for contracts to be honoured at all costs and the view that SDR is a breach of contract, and sovereign debts should be made costly to discourage frequent occurrence. The counter argument is that even with reforms, SDR results in future higher borrowing costs, a bad credit reputation, legal harassment by vulture funds and the potential for premature ending of politicians' terms of office. Therefore even if it is made easier to restructure, the process will still be painful and countries will try hard to avoid it. The authors argue that the IMF should desist from bailing out creditors even when a restructuring is needed. Instead the IMF should establish a framework that allows creditors to lend only after restructuring is complete. With the emergence of non-institutional lenders, the lack of coordination leads to hold-out creditors – vulture funds – and causes efficiency losses and the postponement of a country's return to financial health. Another case for reform is the need to address the distributional issues that are at the heart of debt restructuring. Governments often do not invest borrowed funds in generating wealth for future generations and yet it is they who end up having to service the debt.

Presenters

Country experiences with SDR were presented by **Mr. Abubarker M.S. Kiawu the Deputy Director Debt Management Ministry of Finance, Liberia** and **Mr. Siewe Guillaume Thierry the Assistant Director of Debt Operations, Caisee Autonome d'Amortissement du Cameroun**. Participants learned that after 14 years of civil war, failed domestic policies, and external factors, the country had found debt payment quite painful. The HIPC initiative from 2007 – 2010 substantially reduced the country's debt burden, with 100% cancellation of Paris Club debts and a successful debt buyback operation at 3 cents on the dollar. A strategy was also adopted for its domestic debt resolution. However, while he was aware of the pitfalls with the current system of SDR, Mr. Kiawu deferred the stating of a position on the need for reform until more experiences had been shared in the conference.

The Cameroon experience was not much different from Liberia's although the cause of their debt crisis was fluctuations in oil prices and slowdown of FDI inflows. In sixteen years, Cameroon had ten reform programmes and debt restructuring. Debt restructuring allowed the country to substantially reduce its debt ratios and address liquidity and solvency problems. Cameroon went through debt refinancing, debt reduction and debt swaps but also encountered tenacious vulture funds. Mr. Siewe's opinion of the current SDR framework is that its informality and reliance on ad hoc voluntary solutions is a problem and there is need to bolster the framework. SDR also needs to be tailored to the different economic structures among countries to avoid the risk of exacerbating underlying inequalities and tightening of market financing conditions with private investors.

Respondent

In his response to the presentations from Liberia and Cameroon, **Dr. Lawrence Bategeka, a Ugandan Senior Independent Development Consultant from the Economic and Financial Management Consultancy** said that from an African perspective, there was definitely need for fundamental reform of the international debt infrastructure. From his analysis of the evolution of the debt burden borne by Cameroon and Liberia, it was clear that a lot of investments were made into providing basic social needs rather than economic development. This approach to achieving the Millennium Development Goals (MDGs) involved quick fix solutions and led to debt accumulation. In addition, although a lot has been said about export growth, not much is invested in it and thus countries keep falling back into debt crisis. In his opinion, lenders had been willing to extend credit because borrowing was being done in alignment with international development targets. This brings us to the question of whether in the current debate about the post-MDG agenda, debt accumulation will be driven by the same factors. Countries like Cameroon and Uganda are focusing on development and a national development plan like Uganda's causes a slight misalignment with the priorities of lending countries.

There will be continued demand for borrowed funds to finance economic infrastructure due to the move from poverty eradication strategies to national development plans. With multi-lateral lenders being slow to adjust to the economic priorities of developing countries, many African countries are turning to the emerging lenders in the BRICS and especially China, and the hedging of natural resources to obtain financing for their development needs. Mr. Bategeka advised that effective debt restructuring must include multi-lateral debt and proposed the establishment of better ways to finance the development process. There is need to tap into Africa's greatest resource – its people, to invest in export growth, as well as look at the role of households and the private sector in driving economic development. Accessing foreign aid should not be the only way to achieve development goals.

Discussion

The discussion that followed the presentations was characterised by diverse opinions on the moral question of debt, how countries should avoid getting into debt crisis, how to prevent reoccurrence of SDR, how to increase the benefits of SDR and minimise the costs, and how to effectively use the financing raised from foreign investment so that countries get on to a sound economic footing.

Costs of SDR versus benefits: It was pointed out that while the mechanisms for SDR are considered to be long and costly, a study carried out in East and Southern Africa (2010) had shown that these costs are still much lower in comparison to the benefits that countries get from SDR even when there are variations in how the officials handle the process. The benefits greatly outweigh the costs, which are on average about 2%. However, SDR has its drawbacks and policy makers were urged to put in place mechanisms to avoid a second round of SDR and its painful effects.

The ethics of debt: The moral aspect of debt was also discussed with some arguing that no debt should go unsettled. Examples of countries like South Korea that have emerged from indebtedness to become creditors were touted as models for African nations. It was argued that the entire SDR process is based on maintaining the status quo of the international financial system and if they are not careful, African countries may find themselves in a perpetual state of debt crisis. Countries were urged to borrow for growth and investment and establish policies that heavily punish those who steal borrowed funds.

It was pointed out that macro and micro economic considerations with regards to debt cannot be compared because whereas moral considerations with regards to debt could be applied at the household level, at the macro level, political issues are involved. Politicians can and do enter debt contracts that will enhance their hold on power even if there is a possibility of negative outcomes for the country. Decisions like taking on a debt on commercial terms to build a school cannot yield the returns necessary to repay the loan. Also, the reality is that savings are not possible without resources and countries will still need external financing. The key is to use the borrowed finances to stimulate growth.

How to spend borrowed funds: The point about prioritising expenditure to areas that generate returns was emphasised. It is also important to repay debt without compromising the growth of capital markets which are very important. There is need to balance consumption and savings with expenditure, investment, and exports. Assuming that what is committed is on the basis of rationality without leakages, there is still need to avoid non conventional debt factors like court awards for breach of contract and procurement delays that cause unnecessary costs to accumulate on the debt.

Will African countries always be indebted?: The belief that African countries will not be perpetually on the debt side of the equation was also tabled, with the point that the continued discovery of natural resources means that countries should plan for how to manage future debtors. However, while the prospect of resource rich African countries being on the surplus side of the balance sheet was a welcome one, it was argued that current indications point to the contrary. The situation of countries engaging in careless borrowing from willing lenders because they have discovered resources like oil was likened to man who falls into sudden wealth and takes on more wives, which takes him back to square one. A lot will depend on fiscal discipline and the quality of investments for which the funds are borrowed.

To questions about what lessons had been learned from their experience with SDR both Liberia and Cameroon reported that reforms and strategies had been put in place so that they do not have to go through restructuring again. Borrowing was being done for projects and not for consumption and feasibility studies on the viability of projects is a must.

Changing dynamics of international credit: A concern was raised about the likelihood of the London Club not being able to coordinate creditors as had been done before and how this may impact future potential restructuring. There is also need to examine how regional economic groupings will affect the management of sovereign debt.

SESSION II: SOVEREIGN DEBT RESTRUCTURING: AFRICAN PERSPECTIVES ON THE DEBATE

The objective of this session was to examine the implications of the current approaches to governing sovereign debt restructuring on African countries. The alternative approaches include the market-based contractual approach of collective actions clauses (CACs) versus the treaty-based statutory approach of an international bankruptcy regime – the Sovereign Debt Restructuring Mechanism (SDRM).

Presenters

Mr. Raphael Otieno, the **Director, Debt Management Programme Macroeconomic and Financial Management Institute of Eastern and Southern Africa, Zimbabwe** made a presentation on Africa's options for a debt restructuring mechanism. He noted that several African countries that had benefited from HPIC interventions are experiencing nearly the same levels of indebtedness as pre-HIPC and some are in danger of getting into debt distress. This calls for a new mechanism as they are no longer eligible for HIPC. He shared the proposal for a wider global framework that will take into consideration the number of developed countries that are in the "ring of fire" with high rates of new debt accumulation. Deficit levels have to remain manageable in order for African countries not to enter this ring of fire.

Mr. Otieno outlined the strengths and limitations of existing proposals – the CACs is useful, but not comprehensive enough; the SDRM is comprehensive but the concern is that it will encourage moral hazard as it will not be costly enough for countries to default on debts. Civil Society's proposal for a Fair and Transparent Arbitration Process (FTAP) is flexible and aligns the country's total debt to its capacity to pay but the idea of unilateral declaration of insolvency is unfeasible and the approach may also encourage moral hazard. He proposed that a hybrid mechanism that allows the use of CACs for instruments such as bonds complemented by a comprehensive statutory approach would serve Africa and the world better. This mechanism should be based on the five principles of objectivity, impartiality, inclusivity, comprehensiveness and conclusiveness.

In his presentation, **Dr. Paul A. Acquah the former Governor of the Bank of Ghana** noted that while some developed countries have also experienced debt crises with some applying for HPIC assistance, this has often been followed by growth. He urged African countries not to consider being in debt crisis as the status quo but to look at why other countries have never had to fall into a debt restructuring problem in the first place. He noted that this is a situation that affects vulnerable countries and they should examine the factors that make them vulnerable.

Dr. Acquah underscored the fundamental issue that the most secure way to secure debt relief is by putting the sovereign back on the path to meeting its debt obligations while catering for the well being of its citizens and stimulating economic growth. The question is how to design a system that achieves this and delivers debt relief and restructuring on an appropriate scale and in a timely manner. Among other things, such a system should rebuild the debt servicing capacity rather than compromise it. The system should be transparent with free sharing of information and provide the platform for effective debtor-creditor consultations and inter-creditor cooperation. His conclusion was that the fundamental objective of SDR should be to transform the economy and build its reliance to shocks. This requires a debt restructuring mechanism which is efficient, fair and acceptable to all the participants.

Respondents

Hon. Maria Kiwanuka, Uganda's former Minister of Finance, Planning and Development began her presentation by remarking on the pressure that Uganda had come under to issue a sovereign bond. She informed the conference that Uganda was the first country to qualify for HIPC and it underwent a series of debt restructuring mechanisms. She noted the challenges that Uganda had experienced throughout this process including the fact that being classified as HPIC was a drawback as credible creditors with concessionary terms found it challenging to work with Uganda. Hon. Kiwanuka's proposal was that the SDR approach will have to be customised for each country because different jurisdictions have had different experiences with debt. She noted that governments are not usually in the business of doing business and can easily be outsmarted by the commercial financiers. There is need for technical assistance in order to help them negotiate favourable terms from private providers of credit who often seem like the easier option as they have few conditions attached.

The former minister outlined Uganda's strategy for debt management and noted that Uganda is now one of the most attractive destinations for foreign direct investment. However, unlike many other countries that have collateralised their natural resources in order to get good rates of borrowing, the Ugandan President has directed against the mortgaging of oil resources. Concessional borrowing is only applied to infrastructure projects that have an income generating stream. Any project that is not commercially viable will not be financed with commercial funding. Kiwanuka urged countries to resist the pressure from private lenders and establish policies that enforce the safeguards against unwise borrowing. Regional groupings can bolster the establishment of thresholds that discourage debt default like it is being done in the road map for East African regional integration and monetary union.

On his part, **Prof. Emmanuel Tumusiime-Mutebile, the Governor of the Bank of Uganda** commended the proposals outlined by Mr. Otieno and agreed that sovereign borrowing has accelerated and now includes borrowing on semi-concessional and even fully commercial terms. Noting the factors that have led to an increase in external borrowing by African countries, Prof. Mutebile warned about the dangers of too large and too rapid build up of sovereign debt. Owing to the growing diversity in the creditor base of borrowers, coordinating debt relief among creditors and enforcing compliance will become increasingly difficult. He expressed the opinion that opponents of SDRM have overstated the risk of encouraging moral hazard – countries do not seek debt relief lightly because they understand the consequences for their reputation and the risk of being unable to access future finance at good rates. Also, any debt relief provided under the SDRM would be determined by a Sovereign Debt Dispute Forum to ensure that debt restructuring is fair to both creditors and debtors. However, because of opposition from major shareholders of the IMF like the USA, SDRM is unlikely to ever be implemented as it would require changes to the IMF's Articles of Agreement.

Prof. Mutebile was of the view that the CACs approach is more practical as it does not require political agreement at the international level for statutory level but agreed with Mr. Otieno that CACs cannot be a substitute for a coherent and comprehensive international debt framework. He also outlined the option of Contingent Convertible Debt which is sometimes called sovereign cocos but the limitation is that they only allow for rescheduling of debt payments rather than reduction in debt. The way forward will involve innovations at the global level for coordinating debt relief among multiple types of creditors which fall short of having full statutory authority throughout the world. This should be combined with the more widespread adoption of contractual mechanisms to provide contingent debt relief that is linked to the provision of official assistance.

Discussion

The discussion in this session responded to the issues brought up in the presentations on modalities for SDR but also brought out other implications that SDR has on African countries especially with the drive to exploit newly discovered natural resources. As was raised in the previous session, the calls for prudent management of borrowed funds were repeated by participants.

How to use borrowed funds: It was agreed by many that while it is a positive development that countries are now borrowing for infrastructure, there is still need for benchmarks like those that Uganda has developed so that borrowing does not become excessive. The importance of financial policy makers and practitioners having political support was emphasised so that there is steadfast approach to the management of borrowed funds despite the temporary painful shocks that may affect the economy.

It was further emphasised that countries need to do project preparation and costing and look at "Value for Money" rather than "Value of Money" spent. Like Hon. Kiwanuka noted, "sometimes money sits idle yet it has been borrowed on expensive terms". When designing projects with external financing in mind, there is need to accurately measure the cost of building infrastructure, estimate cash flow, net present value. Countries must also look at other financiers that can compete for the same sovereign bond on favourable terms.

Support for social services: But even when governments avoid financing projects that yield no returns, they should find ways to fulfil their obligations to their citizens, especially those that are not able to fend for themselves. Mobilising domestic resources will increase the support that governments can provide for its vulnerable populations - countries must not use a finite resource to supply generational needs because it soon runs out. Countries need to look at where they have comparative advantage; for example, Uganda has identified Agribusiness as the key to increasing domestic resources. It is for projects that provide social needs that governments should obtain bi-lateral soft loans.

Alternative financing: The question of whether bilateral debts are the best instruments for non-revenue generating activities and what alternative instruments are available was raised. One proposed solution to increase government revenue is for countries to add value to primary commodities in order to increase exports from earnings. Building roads will encourage access to facilities where communities can add value to their products.

Capacity of African countries: Some wondered whether countries that had been unable to manage debts owed to multilateral lenders were now in position to deal with private lenders. Furthermore, are countries able to manage their new found wealth from natural resources and manage the dynamics of private lenders interested to collateralising these resources? In the case of default, how much blame should be attributed to both lender and borrower?

Risks of PPPs: A concern was raised about the high appetite for Public-Private Partnerships (PPPs) which are seen as a solution to the financial constraints faced by developing countries and yet they could be a back-door return to the era of public enterprises and parastatals that were notorious for draining government resources. Countries were advised to consider the contingent liabilities that are associated with PPS and integrate them into a comprehensive analysis of all financing liabilities. Furthermore, the net benefit to the country must be more than the cost or net revenue foregone by the government. For PPPs to work governments and investors much stick to what they are good at – governments provide land and labour while investors provide money and skills.

SESSION III: EQUITY AND THE ETHICS OF SOVEREIGN DEBT AND SOVEREIGN DEBT RESTRUCTURING

The objective of this session was to discuss the fairness of sovereign debt and the distributional implications of sovereign debt restructuring. Some have found the current distribution of costs and benefits of sovereign debt and sovereign debt crises unfair and the SDR can be a very politically charged issue. The session would examine the concerns of African countries with regards to distributional issues and who should bear the burden for the build up of unsustainable debt.

Presenters

Mr. Tirivangani Mutazu the Senior Policy Officer, African Forum and Network on Debt and Development, Zimbabwe began his presentation by noting that civil society organisations have challenges with ensuring that their governments do not enter into unfavourable debt arrangements. Maintaining public debt sustainability is difficult for most countries that are financing development through debt. African countries are caught in a situation where overseas development assistance is no longer as forthcoming since many donor nations have their own economic woes. There are concerns about the level at which African governments are issuing bonds which seem attractive due to the fewer strings attached. The surge in bond issuances is likely to lead to a new debt crisis, especially as many of the countries still face various vulnerabilities that may leave them unable to service their loans. To illustrate his points, the presenter highlighted several recent sovereign defaults in sub-Saharan Africa. From a civil society perspective he advocated for a change in attitude that attributes sole blame for a debt crisis to the debtor. Creditors should share responsibility with debtors for preventing debt crises and for overcoming debt when prevention has failed. His policy options for how to deal with current debt problems included a reduction of the debt stock; reduction of the cost of debt service; and conducting of debt audits.

Mr. James S. Roberts, the Executive Director, Global Campaign Against Poverty and Hunger in Liberia presented yet another perspective from civil society. His emphasis was on the need for strong debt policies, strong institutional and legal frameworks and the practice of accountability, transparency and inclusiveness by African countries. He was concerned that when IMF and bilateral creditors bail out countries with sovereign debt problems, domestic populations are often left to bear the impact of the crisis while the country's international private creditors remain untouched. This is seen as a deeply unfair distribution of the costs and benefits of the sovereign debt and sovereign debt crises. The presenter pointed out that significantly lower debt countries have become attractive to lenders once again. In addition, the debt relief initiatives target external debt reduction but did not address the issue of domestic debt. He warned that while the Liberian government had been successful in addressing the country's debt crisis, these gains are at risk of being undermined by problems in governance and accountability. Mr. Roberts called on civil society actors to demand for the rights of citizens to hold their governments to account for the borrowed loans and to participate fully in the monitoring of the loan contraction process.

Mr. Tumwebaze Patrick, the Executive Director, Uganda Debt Network shared the details of Uganda's external and domestic debt as a prelude to his discussion of equity and ethical concerns for sovereign debt restructuring for Uganda. Concerns about technical and managerial competence, corruption and poor implementation of projects are among the challenges Uganda faces. He recommended that the Government of Uganda increases its capacity to raise domestic resources and apply restructuring polices to both the domestic and external debt. He also recommended that creditors should work with the Government to adhere to the prevailing legal and policy regimes, include debt repayment or even restructuring terms in the design of projects. Like the other civil society actors had presented, he proposed that citizen participation should be key in IMF-led policy support instrument processes. He argued that even with Uganda's oil resources, debt sustainability, meaningful gender responsiveness and equitable national development will largely depend on domestic resource mobilisation and prudent use of national resources.

Respondents

Mr. Isaac Ngoma, the President of Economics Association of Zambia, wondered if there is any African story that is different from that of mismanaged economies. The vicious cycle of debt means a lost opportunity for African countries to redeem themselves in the global economy. His perspective was that the way African countries behave on the global scale is a reflection of the attitude of ordinary Africans towards borrowed money, with people using bank loans to fund expensive lifestyles and having no intention to repay the money. He raised the concern that external debt should be incurred strictly for investment and not consumption otherwise the future generations will suffer an intolerable and unfair burden. Issues of fiscal discipline should be dealt with before entering into debt contracts.

Mr. Julius Mukunda, the Coordinator, Civil Society Budget Advocacy Group, Uganda reiterated the argument that borrowing should be for investment. His perspective was that there should be transparency in the loan acquisition process and the role of a strong citizenry plays in demanding for accountability is important. There should be a central office for debt management in the Government to reduce the risks of too many players in the debt arena. In addition, oversight from a truly independent Central Bank should be ensured as well as a Parliament that has access to loan agreements (and reads them!). Peer to peer review mechanisms that hold governments accountable should be revived because they provide corrective measures and improve performance. Regional blocs should also hold their constituent governments accountable and raise concerns about economic indicators and their technical capacity to negotiate loan agreements.

On her part, **Dr. Sarah Ssewanyana, the Executive Director, Economic Policy Research Centre, Uganda** pointed out that the presenters should have focused on intergenerational equity rather than just inter-credit equity. In her opinion, intergenerational equity is most important. She would have liked to see more objectivity from the presenters with consideration of what good innovations that governments and finance ministries have adopted and an analysis of whether such measures will result in business as usual of whether they will have the intended impact. A debate should have been had on whether African governments which are changing from a poverty focus to a development focus are following the right path. While the presenters had alluded to internal factors like corruption, implementation gaps and absorptive capacity as leading the countries back to debt crises, Dr. Ssewanyana's view was that technical capacity to understand the issues of debt and evaluation of risks involved needs to be strengthened at all levels, including government technocrats, members of Parliament, research institutions, civil society, etc. She cited an example of Kenya which usually manages to negotiate better terms because they have invested in building their technical capacity. Dr. Ssewanyana urged governments to consider regional disparities when selecting projects in order to boost regions that are lagging behind. She warned that while domestic resource mobilisation can increase the ability to pay debt, countries should pay attention to the quality and level of growth. She concluded by urging participants to be careful about the quality and genuineness of the statistics that they use to make their policy analysis and recommendations.

Discussion

Oversight: The response to the presentations on the ethics of sovereign debt was mainly in agreement with the recommendation for ensuring that oversight institutions are truly independent and powerful enough to reign in the politicians when they attempt to take on unsustainable and unfruitful debt. Some participants were concerned that extreme polarisation between political parties undermined attempts to conduct prudent debt management.

Ethics of debt: While some presenters and comments had alluded to the principles of personal debt being the same as that of public debt, it was argued that sovereign debt in the international systems is differentiated from personal debt by the interest rates. If all debts are to be repaid, interest rates should not be punitive. In addition, there is the issue of secondary creditors who buy the loans at low cost and the push the debtors to pay at higher rates. Also, when borrowing is done on behalf of an entire country, it raises a lot of ethical questions with regards to the burden of payment.

Role of civil society: It was also agreed that with regards to the equity and ethics of sovereign debt, the civil society has an important role to play. Countries need a civil society that has both the technical skill and organisational strength to influence the ways debt is managed. This will give them the credibility to advise governments during loan negotiations. The same capacity weaknesses faced by parliaments and governments also pertain to civil society actors.

SESSION IV: GOVERNING SOVEREIGN DEBT: WHAT'S AT STAKE FOR AFRICA?

The objective of this session was to focus on African's interests and concerns regarding the build up and resolution of sovereign debt in African and the global economy as a whole. The new trend towards private international capital markets rather than borrowing from other governments is a development that carries both opportunities and risks. African nations need to consider what will happen in the event of future sovereign debt crises.

Presenters

Prof. Ezra Suruma, former Minister of Finance, Planning and Economic Development (MOFPED), Uganda gave a presentation co-authored by **Mr. Lawrence Kiiza, Director of Economic Affairs, MOFPED, Uganda and Dr. Lawrence Bategeka a Senior Independent Development Consultant.** The major factor for Uganda's need for external financing was the dire economic situation after years of civil war in the 1980s. Institutional weaknesses in public finance management in general and debt management in particular caused the rapid accumulation of debt. Subsequently Uganda benefited from debt rescheduling, debt write-off, commercial debt buy back, and HIPC and multilateral debt relief. Uganda adopted a debt strategy in 2007, with all loans having a grant element of more than 35% but this was updated in 2013 to provide for a 25% grant element in line with the OECD. This approach towards debt management has enabled the country to achieve an upward path in successive Debt Sustainability Analysis (DSA). Even while there is a new array of financing options, Uganda is now focused on improved macroeconomic management, debt sustainability, and supporting infrastructure investments and human development; as well the development of the domestic debt market. The presenter went on to raise the concern that Africa may be building up dangerous levels of debt, and quoted warnings from the IMF not to endanger their improving debt ratios by issuing bonds too early and too often. Worryingly, Sub-Saharan international bonds that used to be priced relatively favourably are being affected by several negative factors and the terms of future bond issuance may be affected by high interest.

Hon. Yaw Osafo Maafo former Minister for Finance and Economic Planning in Ghana, began his presentation by emphasising that Africa's development is dependent upon investments in infrastructure. He especially highlighted the paradox of a growing budget deficit in Ghana despite inflows of oil revenue. He attributed this to several factors including corruption, badly negotiated loans, and departure from the safeguards that had been put in place in the Constitution and during the period of HIPC. Even more concerning, Ghana now experiences the lowest import cover for its net international reserves (NIR) since 2000. With these and other concerns, the presenter noted that he considered the current move to obtain a bail out from the IMF as a positive move which would introduce stricter conditions. In this presentation, it was clear that Hon. Maafo was of the view that the Ghana case should be a warning to other African countries. Ghana had moved from being a post-HIPC lower middle income economy to a highly indebted nation because of political factors, poor fiscal management, massive corruption and poor tax collection and avoidance. His recommendations for other countries included prudent expenditure, avoidance of inflated project costs and investment of loans in the production of processed goods rather than primary commodity exports. Furthermore, he recommended that IMF should have a continued role after debt restructuring in order to ensure prudent fiscal management.

Respondent

In his presentation, **Mr. Ng'andu Peter Magande, former Minister of Finance and National Planning, Zambia** expressed his disquiet at the growing prospect for Zambia returning to debt crisis. The Zambian government has repeatedly gone to the bond market and they may be unable to pay the money when it is due. Like Ghana, the election cycle in Zambia also has implications on debt repayment. He noted that a lot of what was pertaining in Ghana was the same in Zambia – a resource rich country that had failed to have economic growth. Paradoxically, Zambia has had peace since independence unlike many of the other African countries which were beset by civil strife or brutal regimes.

Another concern Mr. Magande had was about the source of the US$ 93 million that African countries need to invest in infrastructure – where would it come from? He urged countries to define what these infrastructure needs are. In addition, as we go through a cycle of renewing faith in development, there is need to redefine what is meant by poverty and the basis for some of the development statistics. The issue of governance and being accountable is key to ensuring fiscal health for countries. White elephant projects are a misuse of public funds as much as corruption. African countries should discourage impunity. He asked if the people who are looking after the resources of our countries are accountable and how keen countries are to ensure that the right people are in place. He also expressed his admiration of Uganda's plan to set up a team to deal with debt strategy.

Discussion

The discussion in this session centred around the way governments manage their debts and the technical capacity that is needed to negotiate debt contracts, as well as the will to ensure fiscal discipline.

The politics of debt: Participants were reminded to bear in mind that decisions made by politicians sometimes put their countries at risk - the finance technocrats should continuously engage with them for better informed decisions. Sometimes it is a deliberate policy for politicians to put in place people who will do their bidding.

Fiscal management: With regards to the debt sustainability index, countries were urged to think about what will generate the revenue that will be used to repay debts. The component of the GDP that will be used to pay the debt should not be too high. Zambia in particular was asked what kind of growth rate justifies the rate at which they are borrowing. It was emphasised that a country cannot run a large fiscal deficit and huge balance of payment deficit and expect low inflation and a low debt ratio. This principle needs to be instilled in governments (as well as households!). In the case of Uganda it was suggested that there is need to consider the implication of a growing level of domestic debt vis-à-vis a still underdeveloped financial sector.

Future of SDR: Going forward, countries need to make provision for a second round of SDR. Countries also have entered into commitments that have not been utilised – all this points to lack of capacity to effectively manage such funds, as such contingencies should have been anticipated during the project planning phase. Creditors will always go after African countries because they are in the business of making money, and countries should be prepared with appropriate policies and feasible projects.

Debt regulation and fiscal discipline: While the proposal that IMF should introduce a debt ceiling for countries is valid, there is still need for countries to develop and implement local legislation that imposes such debt ceilings and ensure that an effective Parliament is able to play its oversight role. In a functioning democracy the power of people through elections in addition to institutional oversight can go hand in hand with external constraints to ensure fiscal discipline.

Role of institutions and institutional memory: There is need to improve on how knowledge is shared so that current government officials can learn from past mistakes. Countries represented in the conference had different experiences with how they were able to share their expertise with the current portfolio holders. It was also wondered whether democracy has the potential to hurt development as shown by the experience of Ghana whose extremely polarised politics had caused the removal of fiscal safeguards and negated their previously impressive economic performance.

The hope was raised that future generations do not take debt restructuring lightly and avoid it as much as possible. The example of Germany establishing policies that are meant to avoid the potential of the re-occurrence of the traumatic run-away inflation they had experienced decades ago was suggested as a model for today's African policy makers. An independent central bank that is free from government interference is key to achieving the success of such safeguards.

The growing attraction of capital markets: The case of Zambia's foray into international money markets was shared as a warning to other countries, about bonds issuance not always being a success story. Despite the country's abundant mineral wealth, the copper mines are 80% owned by foreign companies and the prevailing liberal foreign exchange policy means that most of the profits earned from mining are repatriated. The implication of this is that Zambia may be unable to write cheques in dollars when the debt is due for repayment. It is likely that the future generations will bear the impact of debt defaults. The trend towards capital markets rather than institutional and bi-lateral lenders is likely to have unforeseen problems.

Financing infrastructure: It was agreed that there is need to redefine what governments mean when they talk about infrastructure. Projects have to be justified and should be prioritised within the available means.

SESSION V: SUMMARY AND CONCLUSIONS

The Conference on Sovereign Debt Restructuring was concluded with remarks from CIGI's Dr. Domenico Lombardi, Zambia's Mr. Ng'andu Peter Magande, and Uganda's Prof. Ezra Suruma. They were unanimous in expressing their satisfaction with the conference deliberations, which they felt had quite comprehensively covered the topic of SDR and its impact on African countries. It was clear from the discussions that there is need for a comprehensive mechanism for SDR especially as the creditor base has significantly changed. The increased discovery of natural resources and the attractiveness of capital markets and non-official creditors is driving many African countries into a worrisome trend of imprudent borrowing.

As to the next steps, participants were informed that the conference would be followed by similar forums. They were urged to join the global consultations and encouraged to be proactive and get their voices heard on the subject of sovereign debt restructuring. CIGI would inform the participants of the mechanism they would use to join the global consultations. A vote of thanks was given to the UDN and CIGI teams for their commendable efforts in working together across continents to organise such a high profile and well attended conference.

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