UDN hosts High level Conference on African perspectives on Sovereign Debt Restructuring

Indebted African countries lobby for fair debt repayment terms

L-R: Mr. Domenico Lombardi (Director, Global Economy Programme - Centre for International Governance Innovation), Rt. Hon. Prof. Edward Ssekandi, The Vice President of Uganda and Prof. Ezra Suruma (UDN Board Chairman), pose for a photo with other conference participants after the Vice President officially opened the 2-day meeting at L. Victoria Serena Hotel, Entebbe, August 7th 2014.

Introduction

Between August 7th and 8th 2014, Uganda Debt Network with support from the Canadian think tank, Centre for International Governance Innovation (CIGI) hosted a high level consultative meeting which comprised of former ministers of finance, central bank governors and debt management experts from seven African countries. The countries are: Cameroon, Liberia, Ghana, Nigeria, Zambia, Zimbabwe and Uganda. These countries and many others were beneficiaries of the 1999 restructuring under the Heavily Indebted Poor Counties (HIPC) initiative. Some of them however have since accumulated debt above the pre-HIPC levels.

Background

New data shows that since 1950, there have been over 600 individual cases of sovereign debt restructuring worldwide. Sovereign debt restructuring is an exchange of outstanding government debt such as bonds, or loans for new products or cash through a legal process.

In the past, sovereign debts were restructured either through the Paris Club (an informal group of creditor governments), the London Club, (Private creditor commodity) and exchange offers (in the case of dispersed bondholders). Most recently, the credit boom of the 2000s gave way to an epic bust which began in the US with the onset of the 2008 global financial crisis and quickly spread to Europe in the form of a banking and sovereign debt crisis.

The legal saga involving Argentina's debt obligations and small groups of holdout creditors led by New York based hedge fund - Elliot Management however, has sparked a debate on how best to prevent and manage large scale sovereign debt crises, including defaults and restructuring. Argentina's experience is sending chills to African governments some of whom are choking in debts to join the debate.

African perspectives on the debate

The meeting, held at the Lake Victoria Serena Hotel in Entebbe-Uganda, discussed sovereign debt restructuring and its implications to the African states. It was not in contest that sovereign debts default and debt restructuring is often a chaotic process.

It emerged during the meeting that lack of coordination among creditors and debtors can delay necessary restructuring and a return to a country's economic health. It was also agreed that the lack of credible commitment during stable times to restructure unsustainable debt can encourage over-lending and over-borrowing that leads to sovereign debt crisis.

Uganda's Minister of Finance, Economic Planning and Development, Hon. Maria Kiwanuka addresses Conference participants.

The various presentations and subsequent discussions revealed that African states prefer a debt restructuring framework that will improve the efficiency of debt restructuring through an orderly, predictable and rapid restructuring of unsustainable sovereign debt. This would preserve the economic value of assets and facilitate a return to medium term viability.

***UDN Executive Director, Patrick Tumwebaze makes a presentation on the Ethics of Sovereign Debt and Debt Restructuring in Uganda during the meeting*.**

Conference participants unanimously proposed the need for:

• A Statutory Approach which will ensure setting up a Sovereign Debt Dispute Resolution Forum. This will be the ultimate decision maker in relation to any debt settlement. The forum would be established out of a pool of arbiters, identified by the IMF board.

• A contractual approach where there will be collective action clauses. This allows majority bondholders to vote to bind all bondholders to a change in the terms of the bond contract.

• A fair and transparent arbitration process; this is designed for countries that are considering options for resolving their debt crisis.

Recommendations

As the meeting wound up, the participants agreed that:

i) African states should watch out on borrowing to curb high levels of debts.

ii) African states should ensure proper macro-economic stability and should avoid inflated project costs especially those financed with borrowed money.

iii) IMF bail-out package for crisis stricken European countries should be improved and extended to Sub-Saharan African countries.

iv) IMF and African Development Bank should set up a fund for Sub-Sahara countries which should be flexible to aid countries that need bridge financing over a certain period of time to get out of their short-term financial woes.

The two-day meeting was attended by former finance ministers, central bank governors and experts in Economics from the academia and civil society from 7 African countries.

Pictorial

Hon. Osafo Maafo, Ex-Finance Minister, Ghana (left) also highlighted the effect of the HIPC debt relief on Ghana's Economy. Right is a representative from Liberia

Former Finance Ministers of Uganda, Hon. Mayanja Nkangi (left) and Prof. Ezra Suruma (right) shared Uganda's experience in matters of Debt Restructuring.