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AT A

UN SPECIAL EVENT ON

SOVEREIGN DEBT CRISIS AND RESTRUCTURING: LESSONS LEARNED AND PROPOSALS FOR DEBT RESOLUTION MECHANISMS

Topic: Are there Missing Links in International Financial Architecture for Debt Restructuring?

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New York

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Mr. Chairman,
Excellencies,
Ladies and Gentlemen,

Let me begin by commending you, Mr. Chairman, on your leadership of this Committee. I wish to thank the President of the General Assembly, the Secretary-General of UNCTAD, the Keynote Speaker, and the State Secretary for International Development of Norway for their insightful remarks. I am pleased to share Uganda's perspective on this important issue which sits in the intersection where sovereign debt comes together with increasing private sector non-concessional credit.

Mr. Chairman,

1. An effective International Financial Architecture should reflect a united and coherent system of financial management arising from a set of deliberate and collective decisions by all countries involved. In today's globalized and interdependent economy, every state should have a vested interest in addressing the challenge of sovereign debt restructuring. However, current practice indicates that there is proliferation of individual country decisions and less of the desired unity and coherence.

2. We are going through times when both the demand and the supply for loans to sovereign countries are at very high levels. On the demand side, countries are faced with financial pressures to meet various socio-economic policy obligations such as MDGs, increasing infrastructure investment, and coping with challenges arising from the lingering global financial and economic crises. Africa, for

instance, needs to invest about USD 93 billion per annum for over a decade to resolve her infrastructure deficit.

3. On the supply side, governments are under pressure to increase spending in the wake of the global private sector slow down.

This pressure is accentuated by a proliferation of lenders of non-concessional who now prefer to deal with sovereign countries which have perceived high returns and less risk. This is especially true in the case of developing countries with natural resources.

4. The current pressure to incur sovereign debt is similar to the housing market debt pressures that contributed to the on-going financial crisis. Private sector finance and financial procedures are moving into the sovereign debt market with echoes of "you have been pre-approved".

5. Resolving cases of sovereign debt is more problematic unlike in the banking sector which has established procedures that address problems of troubled banks. Moreover, increased supply of non-concessional debt from a variety of sources makes any future negotiations for debt restructuring a very complex issue. The examples from Euro zone have highlighted the need for further reflection on the need for sovereign debt restructuring mechanisms.

Mr. Chairman,

6. Going forward, any debt restructuring efforts will need a coherent and consistent framework of policies and regulations to govern the behavior of sovereign countries and their lenders.

Missing Links/Challenges

7. In view of the above background, I wish to point out the following two aspects that represent missing links in the existing international financial architecture.

8. First, there is need for effective standard procedures for regulating or guiding decisions of various disparate sovereign countries in debt acquisition and management. These standardized procedures would address three existing challenges:

a) Increased systemic risk: in a globalized world individual country decisions have wider consequences;

b) Debt restructuring difficulties. An individual country may have borrowed from multiple lenders with different attitudes towards debt restructuring;

c) Prioritization of social obligations in the short-term: governments have to balance between provision of social services and financing for productive investments.

Recommendation:

9. The UN should facilitate intergovernmental discussions so as to evolve standard criteria for guiding and regulating sovereign debt decisions within the global inter-linkages.

10. Second, countries and their lenders should agree on a framework within which to appraise sovereign projects and related risk assessments, which would address two existing problems:

a) Lenders charging higher debt costs because of inadequate information leading to high risk perceptions and resultant high interest charges;

b) Low absorption capacities at country level leading to timing mismatch between financing and project implementation. This raises the cost of debt to the borrowing country. Many non-concessional lenders do not currently address project issues beyond providing resources against agreed collateral.

Recommendations:

11. The global financial architecture needs to review ways of assessing sovereign risk and yield rates to apply to individual countries.

12. The UN should step up its support towards capacity building efforts of individual countries in areas of assessing and analyzing debt sustainability conditions as well as increasing effective absorption of credit.

Uganda's Experience

Mr. Chairman,

13. In illustration, from Uganda's experience, there is an urgent need for member states to consider a harmonization framework in the current environment of debt proliferation. Usage of such a framework with three of Uganda's biggest creditors enabled us to negotiate debt relief packages under the Highly Indebted Poor Countries (HIPC) and the Multi-lateral Debt Relief Initiative (MDRI) which resulted in reduction of Uganda's total debt by almost 50%. And now in the wake of the global crisis, we have built upon the benefits of our debt relief to improve our capacity for debt absorption and sustainability.

14. The strategy of the Government of Uganda is to ask the following key benchmark questions when making any investment decisions and prioritizing support and financing activities:

a) Does the investment increase infrastructure stock?

b) Does the investment add value to the product or process?

c) Does the investment lower the cost of doing business for the private sector? And if so by how much?

We therefore seek more technical support in project focus, appraisal, and implementation.

15. I must reiterate that this focus on areas of Government comparative advantage emphasizes selectivity and not neglect of other sectors that provide "the greatest sustainable good for the greatest inclusive number". It is worth noting that such technical support relating to project design, appraisal and implementation is a critical missing link in the current mechanisms of using sovereign bond financing.

16. In conclusion, from our perspective we are in a new era where because of their socio-economic needs, sovereign nations are increasingly active in the private sector financial debt industry. Therefore there is a need for a sovereign debt restructuring mechanism that will not only address existing troubled debt, but also ensure that individual sovereign debt stays restructured and that future debt incurred does not need to be restructured.

Thank you for your attention.