Multilateral Policy Responses I: Long-term Debt Traps and the Renewed Relevance of Debt and Disaster Relief Initiatives

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Multilateral debt relief: the long road to where?

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Presentation for the Debt Management Conference
12th Session
UNCTAD
Geneva, Switzerland
18-20th November 2019
AN EXCURSION IN
THE PELOPONNESUS
IN THE YEAR 1862.

THE ENGLISH AND FRENCH CAMPS IN THE PILIUS—SKETCHED FROM THE GULF OF EGINA.
Three main points

1. Multilateral initiatives while achieving important gains contained certain limitations
2. Inter-creditor conflicts persist to the detriment of debtors
3. Better solutions have been consistently blocked
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Multilateral debt relief initiatives

• Two main initiatives: Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

• HIPC was launched in 1996 by the IMF and the World Bank. Its aim was to reduce external debt burdens of the most heavily indebted poor countries to a level deemed “sustainable”.

• In 1999, it was comprehensively reviewed, criteria were changed, and debt relief was linked to poverty reduction.

• In 2005, the Enhanced HIPC Initiative was supplemented by MDRI aiming to reduce HIPC countries debt and link debt relief to the attainment of Millennium Development Goals.

• With MDRI, multilateral institutions provided 100% debt relief on eligible debts.
Stated objectives

• Permanent exit from debt problems
• Increase long term economic growth
• Reduce poverty

Achieved important gains at least on aggregate ➔

However: 1) Debt relief came with conditions

• Limiting public spending and prioritizing debt service over fulfilment of basic needs
• This exacerbates poverty, and negatively impacts on access to education and health care.
• Conditionality curtails public expenditure undermining development prospects.
2) Relief was not sufficient

• Over 40 percent of HIPC countries are currently in debt distress or at high risk of debt distress. Only 17 percent are at a low risk of debt distress (as of Sept 2019)

• Countries with certain debt ratios higher at completion point than the onset (13 countries)

• The effect on “fiscal space” and the ability of countries to scale up public investment and spending is limited because of the tight conditionality
Three main points

1. Multilateral initiatives while achieving important gains came with conditions and were not deep enough

2. Inter-creditor conflicts persist to detriment of debtors

3. Better solutions have been consistently blocked
3) Not everyone wants comparable treatment

- Debt relief from commercial creditors amounts to less than 4 per cent of total HIPC initiative debt relief (IMF 2019).
- Many commercial creditors did not commit, and several put great pressure on the HIPC countries to settle claims by resorting to litigation and other unilateral actions.
- In several cases (16), creditors awarded more than double amount of initial claim.
While most cases lasted between 0 and 4 years, the average duration per case was over five years, with several cases lasting a decade or two.

Source: Author’s calculation from Schumacher, Trebesch and Enderlein (2018)
What future given changing global conditions?

- Recent deterioration in debt indicators in Sub Saharan Africa and LICs more broadly can be better understood by examining their dependence on the global cycle that determines the liquidity of international financial markets.

- Global liquidity → ‘ease of international financing in the international financial system’ (BIS, 2013), resulting from actions of both private and public actors (Eickmeier et al., 2013; Landau, 2013)

- Abundant global liquidity in the post-financial crisis years has enabled sub-Saharan African countries to borrow easily and refinance their debts, while exposing them to the vulnerabilities of liquidity shrinkages and shifts in the risk appetite of global lenders

- While low income developing countries have little control over these processes, their debt sustainability relies on it. Should conditions change problems treated as domestic with a uniform solution.

Three main points

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| 2012 | HRC         | To link the effect of foreign debt to the full enjoyment of all human rights, particularly economic, social and cultural rights             | A/HRC/RES/20/10  | Against: 11  
Of which OECD: 82% |
| 2014 | GA          | To move towards establishing a multilateral legal framework for sovereign debt restructuring                                               | A/RES/68/304     | Against: 11  
Of which OECD: 100% |
| 2014 | GA          | To investigate the means with which to implement resolution 68/304, and establish a multilateral legal framework for sovereign debt restructuring process | A/RES/69/247     | Against: 14  
Of which OECD: 93% |
| 2015 | GA          | To establish basic principles that should govern sovereign debt restructuring processes                                                        | A/RES/69/319     | Against: 6  
Of which OECD: 100% |
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| UNCTAD 2 (1968) | 29 (II) | Proposal to address:  
❖ mounting burden of external indebtedness  
❖ worsening of terms and conditions of international financial assistance  
❖ remedial measures: rescheduling of accumulated debt, and the untying of loans | 7 abstentions |
| UNCTAD 3 (1972) | 59 (III) | Proposal to address:  
❖ increasing burden of debt-servicing in developing countries given serious concern about the heavy and growing indebtedness of developing countries  
❖ Including the creation of “a special body within the machinery of UNCTAD in order to find practical solutions to the debt-servicing problems of developing countries” | Adopted by 74 votes to 14, with 17 abstentions  
Against: USA, UK, Germany |
| UNCTAD 4 (1976) | 94 (IV) | Several proposals to address:  
❖ Debt problems of developing countries | Discussion deferred |
| UNCTAD 5 (1979) | 12 (d) | Proposal to address:  
❖ Multilateral framework for future debt operations  
❖ International guidelines for future debt operations of interested developing countries  
❖ Introduce an International Debt Commission | Discussion deferred |
| UNCTAD 6 (1983) | 161 (VI) | Proposal to address:  
❖ requests from individual least developed countries alleviation of debt  
❖ measures of immediate effect to alleviate the debt service of developing countries resulting from official and officially-guaranteed loans, on the basis of specific analyses of the difficulties being faced by debtor countries  
❖ debt-restructuring operations aiming at contributing to debtor countries' efforts to re-establish their creditworthiness and therefore regain access to financial resources on appropriate terms and conditions, thereby restoring their development momentum and establishing a sound basis for long-term economic development | Reject expansion of mandate of UNCTAD in the field of multilateral debt rescheduling |
Conclusion

• Achieving development goals including fulfillment of human rights is curtailed as countries continue to face heavy debt burdens which exacerbate conditions of poverty

• Developed countries have persistently blocked proposals to address debt crises in more efficient, effective and equitable ways

• With the next debt crisis here / round the corner: countries can’t wait for the international framework that has been resisted for decades

• No shortage of good ideas: moratoriums and debt relief permanency; strengthen debtor’s rights; call out abusive creditor behaviour; question the legitimacy and legality of debt accumulation processes and engage citizens