



*UNDP
&
Debt* **4**

UNDP takes the position that the amounts of debt relief provided by existing mechanisms to the poorest, most heavily indebted countries fall far short of what is needed—if economic growth and investment are to be pursued in a full range of social and environmental programmes. What is required: additional debt relief, for more countries, sooner rather than later. More significant, there is a need for a profound change in the goal of debt relief itself: it is not enough to end unsustainable debt; the goal should be to contribute to ending poverty.

UNDP has adopted a comprehensive policy on debt with three elements:

- Advocating for additional debt relief.
- Promoting a facility, the National Partnership Facility, to direct fiscal resources made available, in part, from additional debt relief for human development programmes.
- Supporting capacity-building for effective debt management.

Advocating Additional Debt Relief

UNDP concurs with and endorses the position adopted by both Northern and Southern governments and non-governmental organizations: the debt sustainability thresholds now in place should be modified so that additional debt relief can be made available. Specifically, the debt sustainability thresholds under the HIPC Initiative should be lowered; the six-year period of adjustment conditionality should be shortened; and a more flexible formula for cost-sharing should be found. In addition, UNDP advocates supporting alternative efforts that attempt to revise the debt sustainability thresholds from a human development perspective (annex 1).

UNDP advocates the need for additional debt relief primarily because existing debt relief mechanisms are not designed to generate the fiscal resources necessary to launch a large-scale attack on poverty. Additional debt relief should thus be seen as instrumental in achieving the global targets for social and human development and in making inroads to achieving the DAC agenda. The DAC agenda has received the support of all OECD members, who are also the main creditors of the Paris Club. It has also been given a central place in the British government's White Paper on Development. Moreover, the World Bank has endorsed the 20/20 Initiative and the DAC targets, which it is integrating into its country assistance strategies.

Securing Additional Debt Relief

Additional debt relief could come from five sets of measures:

Changing Paris Club rules. Paris Club rules determine the amount of available stock of debt to be reduced, limited in two ways. First, Paris Club-eligible debt includes only commercial debt assumed by governments (through guarantees offered by public export insurance agencies) and non-concessional government loans. It thus excludes ODA-concessional loans by governments. Including all debt held by Paris Club members would increase the pool of debt eligible for rescheduling even though the pool may now be relatively small, because a number of donors have forgiven ODA debts. Second, rules for cut-off dates also limit the debt stock eligible for reduction, because they have been set at dates

of the first Paris Club rescheduling for each country. Revising rules for cut-off dates would expand the pool of debt eligible for relief.

Voluntary debt relief by Paris Club creditors. Bilateral creditors could voluntarily cancel ODA loans, as the Swedish and Norwegian governments have done. This would reduce some of the debt obligations of heavily indebted poor countries.

Revising the debt sustainability benchmarks of the HIPC Initiative. Because the current debt sustainability benchmarks are too high, they limit the amount of debt relief a country receives. If lowered, countries could receive deeper debt relief.¹⁸

Using the IDA-only Debt Reduction Facility to reduce commercial debts.

Through the IDA Debt Reduction Facility, the World Bank has expanded the menu of debt reduction options to include provision for debt-for-development swaps. Under this provision, commercial banks can choose to donate or tender debt to be repurchased by non-governmental organizations (at the same price as the debt buy-back option). Non-governmental organizations can then convert the debt into local currency to finance development projects. Two countries—Bolivia (1993) and Zambia (1994)—have implemented such options (IMF 1998).

Countries could explore the possibility of using the IDA-only Debt Reduction Facility to further reduce commercial debts through debt-for-development swaps. Here, it would be important to identify creditors most likely to sell or donate debt at a discount from face value. Generally, official bilateral debt is the most promising source for debt-for-human development swaps because multilateral debt is not currently eligible for debt conversions.

Paris Club creditors such as Belgium, France, Germany, the Netherlands and Switzerland currently permit conversion of both ODA and Export Credit Agency debt. Non-Paris Club creditors, such as Argentina and the Czech Republic may be interested in debt sales for conversion purposes. The difference between concessional and non-concessional debt is important in considering different types of debt conversions. Most bilateral creditor-sponsored conversion programmes have involved cancellations of ODA debt. In contrast, export credit agencies in Europe have sold publicly guaranteed export credits (non-concessional debt) for debt conversions (UNSO 1997).

Increasing the contribution of multilateral creditors. The principal international financial institutions could look for ways to increase their contribution to finance debt relief, in addition to their contribution to the HIPC Initiative. The sale of part of the IMF's gold holdings is one such possible source.

¹⁸ Target ranges for debt levels are currently set in terms of net present value, a concept that is perhaps not the accurate measure of the debt overhang and the debt-servicing capacity of debtor country's. As a general consideration, criteria and target ranges should be flexible enough to take into account different debt situations: there could be merit in adopting common thresholds for the debt overhang, as well as for foreign exchange and fiscal constraints, instead of ranges of threshold values (see UNCTAD 1977).



The National Partnership Facility

From the perspective of sustainable human development, the goal of debt relief efforts should be to ensure that the benefits of debt relief be directed to the poor. In order to direct a portion of the debt relief dividend for human development programmes, countries could consider establishing a financial and catalytic mechanism, such as the National Partnership Facility.

As a financial mechanism, the Facility could direct a portion of the debt relief dividend (along with other sources of development finance, such as ODA, counterpart funds and private sector contributions) to local communities, civil society organizations and non-governmental organizations for their execution of human development projects. As a catalytic mechanism, the Facility could provide a forum where structured dialogue can take place between national and local government agencies, their partners from civil society and the private sector, and donors and creditors regarding human development issues and country priorities in this regard (see annex 2).

The main functions of the Facility could be:

Advisory. The Facility could play an advisory role to a national government, as the government designs its sectoral programmes for human development. The government might have to prepare sectoral programmes to show the Paris Club and other creditors how, where and how much of debt relief would be allocated among the various sectors and associated programmes. In this context, the Facility could prepare reviews and strategic orientations for the government, donors and various donor consultation mechanisms, such as round-table meetings and consultative groups. It could also ensure that the voices of local communities, non-governmental organizations, civil society organizations and representatives of the donor and creditor communities are heard and taken into account as the government designs its sectoral programmes.

Channeling resources. The Facility could channel resources to local communities and non-governmental organizations executing projects congruent with the national programmes for human development. It could thus empower local communities and also their local government partners by involving them in decision-making processes and supporting activities not funded through traditional government budget allocations—and by matching fiscal resources with the social capital existing at the grass-roots level and in civil society.

Consultative. The Facility could convene forums for public discussions on issues related to human development to develop a national agenda (including targets and programmes) for human and social development. In addition, it could provide a forum for consultation and reviews on the design, implementation and execution of human development projects.

What would be the benefits?

- Enhanced coordination of support for human and social development through forging partnerships and building coalitions among the different stakeholders.
- Increased resources for human development by matching financial resources

with the existing social capital and catalyzing the widespread adoption of successful models for human development at the local and national levels.

- Assurance to creditors and donors that funds, including those from debt relief and development assistance, would be used to build social infrastructure for human development.

Other positive spin-offs: The strengthening of pro-poor programmes could help reduce social tensions. And deeper and faster debt relief could enable countries to restore eligibility for access to commercial credits more quickly and ultimately create favorable conditions for foreign and domestic private investment.

UNDP proposes to assist two countries to pilot-test the process of establishing a National Partnership Facility. The experiences would be documented and evaluated, and the lessons globally disseminated. The following aspects would be tested:

The institutional setup for the facility. This would involve identifying the relevant partners (the board of directors) and holding a national consultation to identify a human development agenda.

The methods for formulating detailed programmes and associated targets for key human development sectors. These targets would likely be necessary if the government is to receive additional debt relief. UNDP could also assist the government in the diagnosis of sectoral reforms needed to ensure that human development programmes would be targeted to encompass the poorest communities. And it could help in the diagnosis of the reforms needed to increase the efficiency and productivity of delivering social services.

The methods for assessing the fiscal resources required if the country is to implement the social development targets proposed by the national government.

What is the extent of fiscal resources that would be freed by debt relief so that a country could pursue these social and human development objectives? If the HIPC Initiative does not provide for a fiscal dividend, what would be the extent of *additional* resources needed?

Capacity-Building for Effective Debt Management

UNDP has gained experience in the Joint Programme and its present involvement through financing of debt management projects in a great number of countries. This gives it reason to consider its future role in debt management as a component within the overall context of its debt policy. The contributions will be at three levels: national, regional and global.

National. UNDP should continue financing the installation of DMFAS with accompanying training. Support should also go to countries using systems other than DMFAS. While the installation of computerized systems are basic for data collection and the management of information and payments, UNDP will have reason to give added emphasis to developing capacity for the analysis of the country's debt situation, preparing international negotiations on debt and debt relief and formulating the strategy for international borrowing. In this context, it is important for countries to acquire capacity for analysis that links debt payment



obligations to its financial requirements for sustainable development, particularly expenditures with direct impact on poverty reduction.

Debt management now faces issues that go beyond the traditional limits of external debt management. Resources permitting, UNDP should support governments dealing with such issues as the coordinated management of domestic and external debt and the coordination of aid and debt management. The electronic linking of debt management databases and software systems to the government's existing system for budgeting and accounting presents new opportunities and challenges, which should be supported by international donors including UNDP.

While considering the possibility of providing funds for the joint programme, UNDP should note that UNCTAD and the COMSEC have made progress over the past 15 years in building debtor government capacity in debt management. But much more work needs to be done. For example, software programs used to calculate essential baseline debt statistics need to be more user-friendly and updated to capture the complexity of private debt accumulation. Enhanced capacity-building in this area is critically needed.

Regional. UNDP should base its activities on the experience of ESAIDARM/MEFMI and actively promote the establishment of similar regional programmes in other parts of the world. The approach seems to be cost-effective in providing training and advisory services for country-level activities and in facilitating the exchange of experiences on debt management and debt strategies of debt managers. All the better if the regional activities, as in the case of ESAIDARM evolving into MEFMI, could also offer a framework for regional experience-sharing and training on wider financial management topics.

UNDP should support initiatives for regional debt management initiatives in West Africa, where many highly indebted poor countries are situated. Other regions where UNDP support should be further strengthened are Central America and the countries of Eastern Europe and the Commonwealth of Independent States. High-level interest in countries is essential for success; so is cooperation with the partners of the Joint Programme and other international actors. But an active role for UNDP in programming, financing and coordination may be crucial for overcoming some of the hurdles that have delayed the development of regional programmes in recent years.

Global. UNDP should focus on the capacity of the international system to provide support for debt management and on the international coordination for such support. It is a matter of international concern that the financing of the DMFAS programme in UNCTAD, for example, has not yet found any long-term solution. UNDP should therefore continue to consult with UNCTAD and other technical assistance providers to find ways to ensure the long-term viability, including the commercial viability, of DMFAS and other relevant software. It is essential to find the resources necessary for the development of DMFAS so that it can continue to address the new demands it faces in servicing its customers.

In addition, UNDP should consult with its international partners on the usefulness of some sort of international forum for debt or debt management. While the membership, agenda and operations of such a forum are all open for discus-

sion, attention should go to the establishment of an international professional association of debt managers, an idea that originated at an inter-regional debt management conference arranged by UNCTAD and co-sponsored by UNDP in December 1997.

The debt management forum's main objective would be to offer debt management professionals a global forum to discuss technical matters of common interest and to exchange experiences, know-how and information about debt management, complemented by regional events. UNCTAD has drafted the possible statutes for such an organization, provisionally referred to as the World Association of Debt Management Offices.

