Chapter 28
Do We Have to Rethink Sovereign Debt of Developing Countries?

Wissem Ajili
Eslsca Paris Business School, France

ABSTRACT

The chapter joins new reflections interested in measuring welfare and social progress. The main objective is to determine whether the sovereign debt management process in developing countries is economically viable, socially equitable, and ecologically sustainable. The analysis advocates rethinking the sovereign debt around the idea of social sustainability, that is, the non-questioning of the living conditions of present and future generations and their economic, social, and political choices. The chapter suggests the need for developing countries (1) to ensure a comprehensive management of public debt based on the co-responsibility of both the indebted countries and their creditors, (2) to borrow in priority to finance the most productive investment expenditures, which can have an impact on the populations' standards of living and on economic prosperity, and (3) to reduce the use of austerity programs and anti-social policies.

INTRODUCTION

During the last two decades, the sovereign debt of developing countries (DCs) subject has gained interest in the international scene. Indeed, after the rejection of the International Monetary Fund (IMF) proposal for the law on state bankruptcies[1] in 2003, the United Nations' resolutions[2] in favor of making the sovereign debt management framework more equitable between debtor countries and their creditors have multiplied.

However, it must be noted that the debate remains inconclusive. While international financial institutions (IFIs) and some developed countries advocate the preservation of the contractual approach based on the market mechanisms, some developing countries supports an institutional or even juridical approach (CNUCED, 2015). Definitively, the failure of the contractual approach, whether partial or total, leads us to wonder about the limits and inadequacies of the traditional approaches to sovereign debt.

DOI: 10.4018/978-1-7998-4459-4.ch028

In this chapter, the authors join new reflections interested in measuring social progress and welfare introduced by the Stiglitz-Sen-Fitoussi report (2010). They aim to refocus the debate on the sovereign debt of DCs around the idea of sustainability, in other words, to say whether what is done is *economically, ecologically, politically, and socially sustainable* (Fitoussi & Stiglitz, 2012).

Therefore, the authors try to re-examine the predominant sovereign-indebtedness view, which is purely accounting in favor of the sustainability idea in its large acceptance, i.e. with respect to the life conditions of present and future generations and without compromising their economic, political, and social choices.

The chapter main objective is to highlight the lack of research directed towards a social sustainability of sovereign debt. The authors argue for a new theoretical and institutional framework aimed at reconciling existing purely accounting approaches with the United-Nations new proposals for a sovereign debt more respectful of the living conditions of present and future generations. The chapter reaches the sustainable development literature founded on the interweaving of three spheres which are economic, social, and environmental. Indeed, the sovereign debt issue has been anchored in this three-dimensional logic thanks to the United-Nations doctrine in this field. Beyond its economic, social, and cultural effects, the international financial system stability is dependent on sovereign debt issues in DCs.

The chapter is organized into three sections: The first one identifies the limits of the traditional sovereign debt framework and demonstrates the inadequacies of its measurement tools. The second section focuses on social sustainability as an alternative approach (Berr & Combarnous, 2007). Nevertheless, the lack of a rigorous theoretical framework on the one hand and the irrelevance of the indicators and measurement tools on the other, greatly limit the scope of the social sustainability approach (Raffinot, 2013).

Finally, the last section deals with the question of the relevance of the approach by the *social acceptance* of the sovereign debt, i.e. the effective capacity of a government to raise taxes or reduce transfers, without any social movement or troubles (Villieu, 2011). In this context, the choice concerned a small developing country, Tunisia. Indeed, since the revolution of 2011[3], the growing social requirements for auditing Tunisian sovereign debt revive the question of to what limit the population can accept the burden of public debt having contributed to their impoverishment and subjugation (Legrand, 2016; Merckaert, 2012; Toussaint, 2016b).

SOVEREIGN DEBT: THE INADEQUACIES OF THE THEORETICAL FRAMEWORK AND THE LIMITS OF THE MEASUREMENT TOOLS

The chapter deals with a slippery concept that is “sovereign debt”. Numerous definitions do exist, including the national government’s debt, the central government’s debt, and public debt in foreign currencies. While some consider sovereign debt to include just liabilities of the central government, other extend the concept to the central bank debts. In some cases, the term sovereign debt is interchangeably used by the terms of public debt or government debt (Abbas, Pienkowski & Rogoff, 2019).

In this chapter the sovereign debt means a central government’s debt issued in a foreign currency to finance public deficits. The chapter does not make a distinguishing between sovereign debt, government debt, public debt, or national debt. Moreover, the chapter deals only with the external debt issued in the international financial markets and borrowings from IFIs (World Bank, European Investment Bank, African Development Bank, etc.) as well as bilateral loans, and loans from foreign commercial banks. Indeed, the choice of the external public debt issued in foreign currencies seems to be more relevant in

Related Content