Course Name: **DEVELOPMENT MANAGEMENT**

Course Code: **DMA711S**

***Department*:** **SOCIAL SCIENCES**

Course Duration: **ONE SEMESTER**

NQF Level and Credit: **LEVEL 7; 15 CREDITS**

Marker-tutor Details: **Ms Nelao. N. Puleinge**

Cell.: 0812496212

E-mail: npuleinge@yahoo.com

Ms N N Puleinge would like to thank all students for submitting assignment one.

Debt sustainability refers to the ability of a country to meet its current and future payment obligations without exceptional financial assistance or going into default. The debt sustainability model is a structured examination of a developing country's financing needs with its capacity to repay borrowed funds. The World Bank and the International Monetary Fund (IMF) use the Debt Sustainability Framework to guide the borrowing decisions of low-income countries. The framework measures a developing country's lending and borrowing decisions surrounding low-income and developing countries.

Countries incur debt by borrowing. Borrowing can enable countries to finance important development programs and projects—but, taken too far, the burden of debt repayment can overwhelm a country’s finances, at worst leading to default. Elevated debt in low-income

countries and emerging market economies in recent years has raised concerns about countries' capacity to sustain these levels of debt. COVID-19 is adding to spending needs as countries seek to mitigate the health and economic effects of the crisis.

The resulting rise in public debt will likely heighten the tension between meeting important development goals and containing debt vulnerabilities. A debt instrument is a financial claim that requires payment of interest, principal, or both by the debtor to the creditor at a future date. Countries incur debt to a wide range of creditors, including private bond holders, banks, other countries and their official lending institutions, and multilateral lenders such as the World Bank.

A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default. Analysts look at whether policies needed to stabilize debt are feasible and consistent with maintaining growth potential or development progress. When countries borrow from financial markets, risks associated with refinancing are important too.

Debt crisis is a situation in which a government (nation, state/province, county, or city etc.) loses the ability of paying back its governmental debt. When the expenditures of a government are more than its tax revenues for a prolonged period, the government may enter into a debt crisis. Various forms of governments finance their expenditures primarily by raising money through taxation. When tax revenues are insufficient, the government can make up the difference by issuing debt.

Low-income countries face major public financing shortfalls to meet even basic public expenditure needs. For example, a recent ODI study documented how significant increases in tax and aid will be needed to ensure that all countries can afford the necessary investments in healthcare, education and social protection in order to end extreme poverty by 2030.
Many low-income countries can do more to improve tax collection to reduce the need for borrowing, but this is often a difficult challenge as they tend to have a significantly lower tax

potential than other countries. This is partly due to the structure of low-income country economies, which often have small manufacturing and formal sectors, and a less educated workforce.

Careful management of the opportunities, costs and risks of different sources of borrowing is crucial for low-income countries. Capacity for debt management remain weak, many low-income countries, and increased support to tackle this is important. But the underlying reasons for the limited improvement in debt management are linked to a lack of demand, accountability and political commitment. I'll come to this point under proposal three.

Lenders should play a key role in improving the borrowing options available to low-income countries. Creditors could offer State Contingent Debt Instruments (SCDIs), where repayments are paused if the borrower faces repayment difficulties. They can also support changes to debt contracts to make restructuring easier, and endorse better contractual terms and conditions. This could entail supporting clauses that allow for restructuring by a majority of creditors, 'standstills' where repayments are halted during difficult periods, or supporting mediation and arbitration mechanisms.

There is considerable room for improvement in debt transparency at the country level, so that domestic citizens and parliaments can provide incentives for governments to improve debt contraction, use, and management. In addition, levels of 'hidden debts' such as Contingent liabilities are high in many countries, meaning, without greater transparency, the real debt risks that low-income countries face are obscured. Transparency is a theme that has only been taken up to a limited extent by international initiatives. Good Proposals (PDF) include creating a mandatory public register of lending and requiring both multilateral actors and private sector creditors to use the register. The public disclosure of lending contracts would allow parliaments, journalists, and civil society organisations to examine them, and would also allow other lenders to have the full information before making further loans.

Low-income countries are vulnerable to crises – especially those caused externally – for various reasons. A high proportion of their debt is in foreign currency and their economies are small and vulnerable to changes in the prices of commodities or in global financial markets, including the availability and cost of borrowing. Ensuring debt is managed to deal with potential shocks is an important but difficult element of low-income countries' debt management. Tools that they can use as part of their national development strategy include capital account management techniques, and the use of public development banks and other institutions to try to direct national savings towards longer term productive investment.

Nevertheless, there are limits to how much individual countries can be expected to insulate themselves from shocks, which is why the role of creditors and the international system is important. The evidence shows that restructuring is a common feature of sovereign debt markets and given that many countries are in or close to crisis, the focus should be on how to restructure unsustainable debt better. Permanent mechanism for resolving sovereign debt problems has long been on the international agenda and should be revived as the best solution. The key feature of such an institution is that it would be impartial and draw upon expertise, with a legal basis that would make its decisions binding. Fast-disbursing international finance to help developing countries deal with temporary shocks should also be promoted. These four issues should be at the top of the international agenda.

ASSIGNMENT 01: 100 %

***END OF FEEDBACK TUTORIAL LETTER*!**