

ASSESSMENT OF SUSTAINABILITY AND INSOLVENCY OF THE EXTERNAL DEBT



OIC Outlook Series

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ORGANISATION OF ISLAMIC COOPERATION
STATISTICAL, ECONOMIC AND SOCIAL RESEARCH
AND TRAINING CENTRE FOR ISLAMIC COUNTRIES

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(SESRIC)

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Assessment of Sustainability and Insolvency of the External Debt

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SESRIC

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Introduction

Sovereign debts, their sustainability and debt crises have been one of the foremost issues for the international policy makers over the past decades. At present, the global credit system is again going through a state of instability. The current instability, however, also stems from the recent “sub-prime crisis” in the United States of America (USA) and financial meltdown of several European economies. The current trends of the sovereign debt of several European countries have led to the possibility of the financial institutions to collapse. The European sovereign debt crisis started in 2008, with the collapse of Iceland’s banking system, and it further spread to Greece, Ireland and Portugal during 2009. Similarly the public sovereign debt of the USA has also crossed the critical levels and it may lead to another global financial crisis. These developments will severely impact the OIC member states already in debt stress. Therefore, it is important that policies are being devised now in order to minimize the negative consequences of such an international crisis.

Furthermore, questions have been raised at the academic level about the sustainability of US public debt and a possible crash of the US dollar. In this background, it is pertinent that a review of the current state of sovereign debt of the OIC is being undertaken and to identify those member states which are going through external debt stress and also present some measures to spot those member states that are considered as vulnerable to an external debt crisis in future.

In order to achieve minimum standards of living, address the issues of poverty alleviation, and promote economic growth by creating employment and building infrastructure, developing countries have been using external finance for resource mobilization. However, developing countries have also gone through repeated episodes of unsustainable increase in their external indebtedness and excessive burdens of debt-service that have impeded the economic growth and caused severe financial crises. It is in this context that the Monterrey Consensus of the International Conference on Financing for Development (United Nations, 2002) has highlighted the significance of sustainable debt levels in the process of the mobilization of resources for development.

A wide range of traditional mechanism and instruments have been employed to address the debt burden of the poor countries, in particular the poor economies of the Sub-Saharan region. In the 1980's, the approach adopted by the international financial institutions had been to condition any relief to be provided by the debtor country through a bilateral arrangement, on the implementation of structural and stabilization programs that have been supported by the IMF and World Bank. It normally involved debt rescheduling through the Paris Club. However, this approach failed to provide debt sustainability and/or improvement in economic growth of these poor economies. Later, in 1996, the IMF and World Bank implemented the Highly Indebted Poor Countries (HIPC) initiative to deal with overall debt burden of the poor economies. The international institutions were very optimistic about the success of this new initiative. Among the 42 countries that initially qualified under the HIPC, 34 were from the Sub-Saharan region. However, the process of implementation was too slow and only four countries could qualify to get any debt relief in the first HIPC initiative (Uganda and Mozambique were the first OIC member states to get debt relief under the HIPC initiative). The terms and conditions of the HIPC had been revised to incorporate some of the criticism and pressure from the international civil society. There is still no consensus on how to establish a transparent and effective mechanism to address the debt stress of many developing and underdeveloped economies. One of the difficult questions is the determination as to when sovereign debt restructuring and/or any relief is inexorable.

In order to address this issue, several approaches to analyze external debt sustainability have been extensively discussed in both theoretical and empirical literature. The key determinants of such analyses include the prevalent stocks of external debt, the dynamics of fiscal and external repayment abilities that are linked to the economic growth and access to additional external financing. Two general approaches to debt sustainability analysis have been pursued beside other theoretical and empirical models. The *first* one focuses on the financial sustainability (a borrower based approach) in which a fiscal deficit is considered sustainable if it is being able to generate a constant debt-to-GDP ratio [Cuddington, 1996]. The condition implies that it is possible to run a sustainable fiscal deficit as long as the growth rate of the economy is higher than the interest rate, which will in turn ensure the stability of debt-to-GDP ratio. The *second* approach evaluates if there is a present value borrowing constraint that could limit the quantities to borrow. Gupta (1992) presents a good review of the concept. This concept has been extensively used by the IMF and World Bank in the recent years. The concept has been outlined as a group of indicators with specified thresholds. The indicators and their respective thresholds are based on the premise: "An entity's liability position is sustainable if it satisfies the present value budget constraint without the major correction in the balance of income and expenditure, given the costs of financing it faces in the market" (IMF, 2002). The concept has been derived from the work of Hamilton and Flavin (1986). Beside these two main approaches, more recently Meltem Ocal and Serhan Oksay (2011) have developed the concept of Solvency Ratio, normally used to assess the ability of a firm to pay its long-term loans, to monitor country's ability to meet its external debt obligations. The Solvency Ratio of the External Debt (SRED) has been calculated for Turkey, employing the time series data.

In this report, beside a brief review of the overall external debt situation at the aggregate and regional levels of the OIC, the present value approach and SRED approach have been used to assess the external debt sustainability situation of the OIC member states. The SRED approach has been applied for the first time in this report to classify the member states with respect to their vulnerability to a possible future financial crisis.

Trends

Several indicators have been proposed in determining the sustainable levels of external debt. However, there has not been any consensus among the economists on one single indicator. Most of the proposed indicators are in the form of ratios, considering the stock of country's debt in relation to its ability to service the debt. Prior to the HIPC initiative in 1996, external debt-to-GDP or -to-Exports, and debt service-to-exports have been employed by the creditors.

The total external debt of all the OIC member states in 2009 is 1,051.67 billion US dollars. The distribution of the total external debt in the six regions of OIC has been reported in Table 1. Three regions – East Asia and the Pacific (EAP), Europe and Central Asia (ECA) and Middle East and North Africa (MENA) – account for over 80% of the total external debt of the OIC members in 2009. However, the share of EAP has increased from 16% in 1990 to 38% in 2009. Similarly, the share of external debt in the total has increased significantly in the ECA region (from 5% to 32%). On the other hand, the share in the total external debt of South Asia (SA) region has stayed fairly constant through these years. There has been substantial decrease in the shares of MENA and SSA in the total (See Table 1).

Generally, total external debt is further classified into several heads. These include: Public and Publicly Guaranteed External Debt (PPG), Privately Non-Guaranteed, Central Bank Deposits and IMF loans. The total external debt reported in Table 1 only includes PPG and Privately Non-Guaranteed external debt. Private Non-Guaranteed external debt includes the long-term external obligations of private debtors. These debts are not guaranteed for repayment by a public entity.

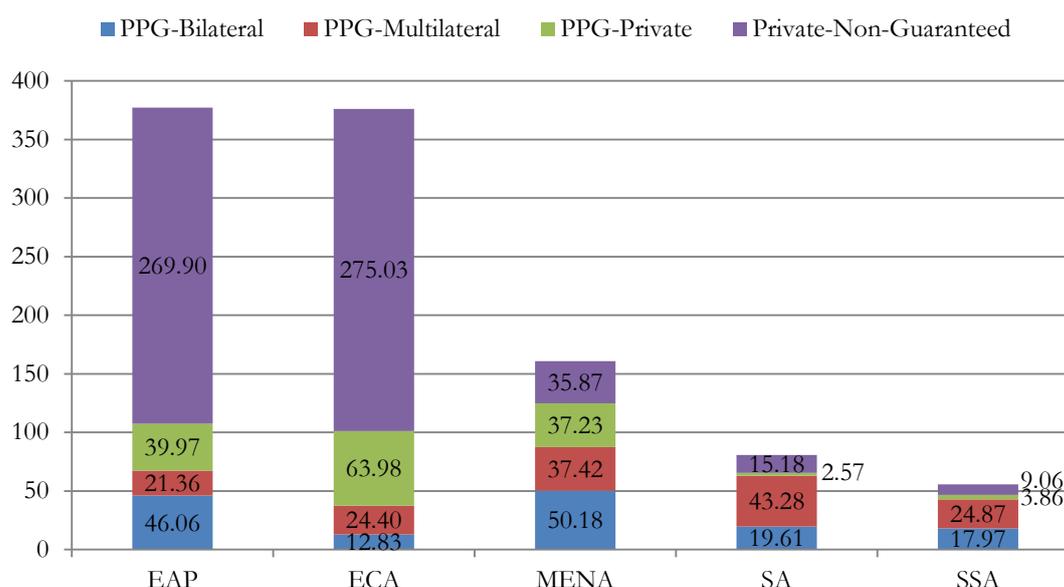
Table 1: PPG and Privately Non-Guaranteed External Debt of the OIC Regions, 1990-2008

	1990	1995	2000	2005	2006	2007	2008
EAP	51.38	81.67	135.69	216.74	277.53	342.40	384.68
ECA	49.42	79.55	134.33	215.52	276.39	341.66	383.85
MENA	151.44	179.07	154.99	162.45	154.75	166.84	156.71
SA	32.95	46.05	48.47	52.04	57.56	64.79	74.16
SSA	89.76	104.19	93.21	81.53	52.72	55.22	57.49
LA	1.96	2.12	1.36	1.22	1.14	0.74	0.83
OIC Total	376.93	492.64	568.06	729.49	820.10	971.64	1,057.72

Source: Author's calculations based on the data from Global Development Finance, World Bank

Overall, the proportion of PPG in the total external debt of OIC is around 42% of the total external debt. However, in the two regions, EAP and ECA, PPG only constitutes 28% and 26%, respectively, in the year 2009. In all other regions, a very significant proportion (around 80%) of the total external debt is PPG (See Figure 1).

Figure 1: Composition of the External Debt of the OIC Regions, 2009



Source: Author's calculations based on the data from *Global Development Finance*, World Bank

A further summary of growth patterns of PPG and total external debt, both the total and at the regional level have been reported in Table 2. In the same table ratios of the debt with respect to Gross National Income (GNI) have also been reported. The overall average growth rate in the External Debt of all member states, in two time periods has dropped significantly from 22% (2000-2005) to 11% (2005-2009). However, at the regional level the average change in the levels of external debt has varied considerably. The average increase in the debt during 2000-2005 has been highest in ECA of 75% while the total external debt of the SSA region decreased by 16% during the same period (See Table 2).

The overall average debt ratios of total external debt to GNI have increased to 41% in 2009 from 34% in the preceding year (Table 2). One of the explanations for this increase is attributed to the impact of the global economic and financial crisis resulting in slower growth rate in majority of the developing countries (GDF, 2011). At the regional level, the ratios of external debt measured against GNI and exports have been lowest in MENA and EAP regions in 2009. On the other hand, the member states in ECA and SSA experienced significant increases in the ratio to GNI in 2009.

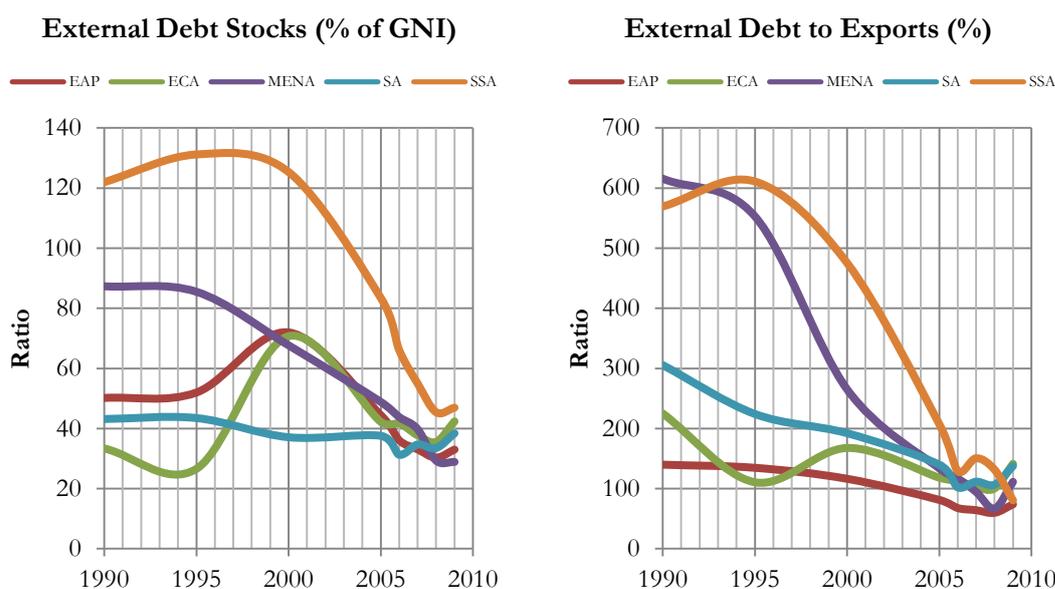
The trends in these ratios at the aggregate and regional levels have been reported in Figure 2. The OIC member states in the SSA region have made significant improvements in the main sustainability indicators. For example, the debt-to-GNI ratio has come down from 122% in 1990 to 47% in 2009, similarly debt-to-exports ratio declined from 569% in 1990 to 80% in 2009. The other OIC region making good progress is the MENA, where the ratio of debt-to-GNI came down from 87% in 1990 to 29% in 2009. There has been some improvement in the debt-to-exports ratio (from 615% to 111%), but the ratio is still on the high side and is a matter of concern.

Table 2: Growth Patterns of PPG and Total External Debt

VARIABLE	OBSERVATIONS	MEAN	STDEV	MINIMUM	MAXIMUM
<i>All Members with data through 2009</i>					
Total External Debt/GNI	43	0.41	0.41	0.03	2.53
PPG/GNI	43	0.30	0.24	0.02	1.15
Growth in external debt (2005-2009)	45	0.11	0.55	-0.71	1.53
Growth in PPG (2005-2009)	45	0.03	0.46	-0.81	1.26
Growth in external debt (2000-2005)	45	0.22	0.57	-0.75	2.50
Growth in PPG (2000-2005)	45	0.18	0.44	-0.69	1.71
<i>Countries in EAP</i>					
Total External Debt/GNI	2	0.33	0.04	0.30	0.36
PPG/GNI	1	0.17	-	-	-
Growth in external debt (2005-2009)	2	0.22	0.07	0.17	0.28
Growth in PPG (2005-2009)	2	2.06	0.15	1.95	2.16
Growth in external debt (2000-2005)	2	0.09	0.22	-0.06	0.24
Growth in PPG (2000-2005)	2	2.12	0.07	2.07	2.17
<i>Countries in ECA</i>					
Total External Debt/GNI	8	0.42	0.36	0.03	1.13
PPG/GNI	8	0.18	0.17	0.02	0.52
Growth in external debt (2005-2009)	8	0.75	0.75	-0.46	1.53
Growth in PPG (2005-2009)	8	0.14	0.60	-0.47	1.26
Growth in external debt (2000-2005)	8	0.48	0.93	-0.58	2.50
Growth in PPG (2000-2005)	8	0.14	0.52	-0.61	1.04
<i>Countries in MENA</i>					
Total External Debt/GNI	10	0.29	0.22	0.04	0.71
PPG/GNI	10	0.22	0.18	0.02	0.61
Growth in external debt (2005-2009)	10	-0.01	0.33	-0.68	0.47
Growth in PPG (2005-2009)	10	-0.01	0.37	-0.81	0.54
Growth in external debt (2000-2005)	10	0.26	0.77	-0.75	1.84
Growth in PPG (2000-2005)	10	0.26	0.72	-0.69	1.71
<i>Countries in SA</i>					
Total External Debt/GNI	3	0.38	0.19	0.24	0.6
PPG/GNI	3	0.31	0.13	0.22	0.25
Growth in external debt (2005-2009)	3	0.63	0.35	0.30	0.99
Growth in PPG (2005-2009)	3	0.45	0.26	0.22	0.73
Growth in external debt (2000-2005)	3	0.37	0.47	0.02	0.90
Growth in PPG (2000-2005)	3	0.35	0.38	0.09	0.79
<i>Countries in SSA</i>					
Total External Debt/GNI	18	0.48	0.55	0.05	2.53
PPG/GNI	20	0.39	0.28	0.03	1.15
Growth in external debt (2005-2009)	21	-0.16	0.34	-0.71	0.85
Growth in PPG (2005-2009)	21	-0.16	0.38	-0.79	0.93
Growth in external debt (2000-2005)	21	0.11	0.25	-0.42	0.58
Growth in PPG (2000-2005)	21	0.15	0.26	-0.33	0.59

Source: Author's calculations based on the data from Global Development Finance, World Bank

Figure 2: External Debt Stocks of OIC Regions to GNI (left) and Exports (right), 1990-2009



Source: Author's calculations based on the data from *Global Development Finance*, World Bank

After this brief review of the general trends in external debt and its ratios, two approaches have been employed to address and further analyze the debt sustainability at country level.

Present Value Approach

After the introduction of the HIPC, the IMF and World Bank have started using the concept of *present value of the external debt* in determining the sustainable thresholds. The concept is based on the theoretical work of Gupta (1992) and the proposals made by Hamilton and Flavin (1986). The indicators based on the concept have been employed to assess sustainability. Theoretically, these indicators are based on the present value of fiscal budget in relation to the present value of the interest paid on the debt: "An entity's liability position is sustainable if it satisfies the present value budget constraint without a major correction in the balance of income and expenditure, given the costs of financing it faces in the market" (IMF, 2002a). Practically what it means is that the debt sustainability is assessed on the basis of the ratios of present value of debt stocks to GNI, exports or government revenue. In its further development, another important question had to be addressed, should there be one single threshold for all countries? Based on the empirical research, it was evident that debt stress not only depends on the level of debt itself but on number of other macroeconomic factors and on the quality of policy institutions. Therefore, using a single threshold for all countries was deemed too restrictive. The Country Policy and Institutional Assessment (CPIA), developed by the World Bank, has now been used to classify countries into three groups: Strong, Medium and Weak. The classification is based on the score of the CPIA. [World Bank, IEG (2009)]. The CPIA rankings of the member states that have been documented by the World Bank have been reported in the *Appendix* for reference (See Table A1).

The thresholds of various debt sustainability related indicators are based on these CPIA rankings. The thresholds of some of the key indicators based on these ranking are as follows:

Table 3: PPG and Privately Non-Guaranteed External Debt of the OIC Regions, 1990-2008

	PV OF DEBT/EXPORTS	PV DEBT/ GNI	DEBT SERVICE/EXPORTS
Weak Policy (CPIA \leq 3)	100	30	15
Medium Policy (3 < CPIA < 3.9)	200	45	25
Strong Policy (CPIA \geq 3.9)	300	60	35

Source: *The World Bank's Country Policy and Institutional Assessment*

Most of the countries classified as having weak policies and institutions are from Sub-Saharan region with the exception of Maldives from South Asia. At the same time many member states from Sub-Saharan region have also been assessed as having strong in terms of their CPIA rankings and these include: Burkina Faso, Mali, Mozambique, Niger, Nigeria, Senegal and Uganda. Three countries from the ECA, Azerbaijan, Kyrgyz Republic and Uzbekistan are also in the list of countries with strong policies. Some of the member states, who were initially classified as having strong institutions have been moved to the medium list, they include Maldives, Mauritania, Pakistan, Tajikistan and Yemen.

We have used the latest classifications according to CPIA rankings in 2009 and have examined the trends of the three important indicators of debt sustainability: Present Value of External Debt to Gross National Income, Present Value of External Debt to Exports and Debt Service to Exports. The results of these ratios with their respective “Thresholds” have been reported in Table 4. All countries that have been assessed as having strong policy institutions had their ratio under the limits of the thresholds of the three indicators, so the results for these countries have not been reported. However, some of the member states in the weak and medium groups do seem to have some issues. Among the weak countries from SSA region, Guinea-Bissau, Sudan, Comoros, Guinea, Togo and Djibouti have the ratios of Present-Value of External debt above the thresholds. Comoros is the only member state from SSA where all three ratios are above the specified limits.

Among the member states classified as having medium policy institutions (3 < CPIA < 3.9), only Mauritania and Tajikistan have some of the indicators above the threshold values.

Table 4: Ratios Based on the Present Value of External Debt

A. WEAK POLICY (CPIA \leq 3)					
	PV-ED/GNI		PV-ED/Exports		Debt Service/Exports
Guinea-Bissau	646.61	Guinea-Bissau	202.62	Comoros	15.07
Sudan	352.25	Sudan	73.08	Threshold	15.00
Comoros	337.63	Maldives	53.70	Gambia	11.48
Guinea	152.13	Togo	49.64	Côte d'Ivoire	11.38
Togo	136.43	Djibouti	49.04	Guinea	7.73
Djibouti	132.80	Côte d'Ivoire	46.06	Maldives	7.01
Threshold	100.00	Guinea	44.22	Cameroon	6.69
Côte d'Ivoire	88.07	Comoros	39.79	Sudan	5.86
Gambia	80.63	Threshold	30.00	Chad	2.72
Maldives	69.03	Gambia	29.53	Uganda	1.90
Chad	40.85	Chad	21.84		
Cameroon	12.05	Cameroon	3.59		

Table 4: Ratios Based on the Present Value of External Debt (cont.)

B. MEDIUM POLICY (3 < CPIA < 3.9)					
	PV-ED/GNI		PV-ED/Exports		Debt Service/Exports
Threshold	200	Mauritania	83.34	Tajikistan	70.49
Pakistan	157.23	Threshold	45.00	Threshold	25.00
Mauritania	152.78	Tajikistan	39.47	Pakistan	16.49
Tajikistan	113.65	Pakistan	23.90	Mauritania	5.16
Sierra Leone	103.73	Sierra Leone	20.27	Benin	4.01
Benin	61.69	Yemen	17.37	Sierra Leone	2.39
Yemen	47.19	Benin	11.82		
Afghanistan	24.54	Afghanistan	5.34		

Source: Author's calculations based on the data from *Global Development Finance*, World Bank

Based on the data reported in Table 4, among the weak group of members, most of the countries are from the Sub-Saharan region, except Sudan. Countries like Guinea-Bissau, Comoros, Guinea, Togo and Djibouti have PV to GNI and PV to Exports ratios much higher than the threshold values.

Solvency and Liquidity

Both in the theoretical and empirical research, economists have tried to develop 'Early Warning System' (EWS) that would provide signals in advance that a currency crisis or debt crisis will occur. Several indicators have also been identified to facilitate such analysis. Some of the traditional indicators, such as slowing down of export growth, over-valued exchange rate and worsening current account deficit were not found to be very reliable in predicting a forthcoming crisis. Some authors have recently developed the "exchange market pressure index" to predict whether currency to exposed to a serious risk of devaluation (Kaminsky, Lizondo and Riehart (1998)). An extensive review of EWS models can be found in Berg et al (2004). The main problem with such models stems from the fact that liquidity and solvency concepts are interrelated and sometimes it is difficult to determine whether the incapacity to pay is short-term or enduring.

Meltem Ocal and Serhan Oksay (2011) have recently employed the concept of Solvency Ratio, normally used to assess the ability of a firm to pay its long-term loans, to monitor Turkey's ability to meet its external debt obligations. They have proposed Solvency Ratio of External Debt (SRED) defined as the ratio of the sums of current and capital account to the debt service (sum of principal and interest payments) to predict the crisis. They calculated these ratios for Turkey for the years 1980-2009 and have argued that trend of the ratios seems to explain the build ups to several financial crisis that Turkey has gone through during these years. SRED greater than 1 or close to 1, shows that the country is in a comfortable position to service its foreign debt obligations. On the other hand ratios below one are indicative of shortage of foreign currency and possibility of crisis in future. A negative ratio will obviously indicate that there is a serious liquidity problem and may result in insolvency. In this report, SRED for the member states have been calculated to identify the countries may be facing liquidity/solvency problems based on the trends of SRED during recent years. Such an analysis for member states have not been performed before and this is the first time that these results have been provided for the OIC member states. Given the availability of data, SRED have been calculated for the member states and been reported in Table 5.

Table 5: SRED Ratios of OIC Member states, 2005-2009

Country	2005	2006	2007	2008	2009	Trend
Benin	-1.40	-28.38	-8.75	-4.64	...	
Burkina Faso	-7.12	-0.75	-12.37	-25.56	...	
Guinea-Bissau	-2.92	-1.35	-3.01	-9.10	...	
Senegal	-1.77	-0.82	-0.76	-3.05	...	
Turkey	0.49	0.25	0.21	-0.14	-0.07	
Egypt	3.37	0.93	1.17	1.19	-0.69	
Morocco	0.31	0.33	-0.24	-1.26	-1.14	
Maldives	-1.42	-1.53	-1.60	-4.06	-1.28	
Albania	-0.70	0.16	-1.11	-2.50	-3.99	
Yemen	1.05	3.99	-2.47	1.05	-11.02	
Kazakhstan	-0.01	0.98	0.00	0.24	0.09	
Cameroon	-0.45	2.80	1.25	0.13	0.18	
Tajikistan	1.18	3.79	5.47	-1.08	0.18	
Kyrgyz Rep.	0.02	-0.09	0.16	-1.76	0.37	
Indonesia	-0.10	0.49	0.59	-0.08	0.62	
Tunisia	0.47	0.84	0.29	0.77	0.75	
Guinea	-0.30	0.29	0.65	0.22	0.82	
Malaysia	1.08	1.88	1.76	0.58	0.82	
Côte d'Ivoire	-0.84	0.87	0.65	0.32	0.87	
Djibouti	0.90	2.67	2.40	-1.48	0.96	
Nigeria	3.24	4.56	20.66	36.16	30.95	
Sierra Leone	-4.04	5.07	11.45	-24.63	12.37	
Uganda	3.12	38.58	10.47	-2.15	7.96	
Mali	0.45	-23.52	-0.74	-1.70	7.72	
Algeria	2.73	1.41	22.12	32.12	5.68	
Bangladesh	0.29	2.07	2.27	1.29	5.21	
Jordan	-0.67	2.40	0.47	0.37	4.43	
Lebanon	0.29	0.65	1.14	2.00	2.82	
Sudan	-0.32	-1.40	-1.23	0.54	2.37	
Gambia	-0.28	0.20	0.77	0.69	1.88	
Azerbaijan	1.23	5.90	10.62	11.30	1.26	
Guyana	2.41	2.76	2.87	4.33	...	
Niger	-2.19	-0.33	0.50	6.59	...	

Source: Author's calculations based on the data from Global Development Finance, World Bank

The top four countries in the list are from the Sub-Saharan region. Three of these member states have already qualified for HIPC initiative, Guinea-Bissau has yet to reach the completion point

before getting full relief under the program. The rest of the countries in the high risk group are mostly from MENA region except for Turkey and Maldives. The ratios of these countries, in the high risk group, have been negative in most of the recent years. A negative ratio on the one hand indicates that foreign exchange inflows, based on the current and capital account in the balance of Payment (BOP), have been negative. And the absolute magnitude of the ratio suggests the intensity of the problem in relation to the obligations of their external debt. For example, although Turkey has been experiencing negative ratios in the years 2008 and 2009, the magnitude of these ratios is low. On the other hand the ratio for Burkina Faso in the year 2008 was -25.56, suggesting a very severe state of their balance of payment and ability to service their external debt. Furthermore, in some cases the ratio seems to increase through time. This would indicate that conditions are worsening and the country may be approaching towards a financial crisis.

Concluding Remarks

Two approaches, present value and solvency ratio, have been employed to review the external debt situation in the OIC member states. Furthermore, some of the key indicators of external debt has also been presented at the regional level. Most of the low income member states in the Sub-Saharan region have been suffering from external debt stress and been struggling to sustain their external debts. Sachs (2002, 2004) has argued that most of the African countries have been facing poverty trap. Debt servicing further reduces their per capita income and make it more difficult for these countries to accumulate capital. In most of the cases, the situation can be described through “debt overhang”, where the private sector is discouraged to invest because they realize that most of the income generated will be taxed to pay for the external debt. Given the present state of debt stress of many member states, particularly in the Sub-Saharan region, external borrowing should not be one of the best options to utilize foreign savings. Foreign direct investment (FDI) should have been a better solution, in which investor holds the responsibility of the investment. However, in order to attract FDI, member states will need to improve overall environment through better governance and political stability.

The Heavily Indebted Poor Countries (HIPC) initiative that was introduced in 1996 to address the external debt of low income developing countries went through several modifications. By 2009, 42 countries have been identified and 22 countries have benefitted from the HIPC initiative by receiving debt relief. Among the member states; Benin, Burkina Faso, Cameroon, Guyana, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone and Uganda have received debt relief under the program so far.

Although the enhanced HIPC program is more ambitious, it does not seem to be grounded realistically as to how much debt reduction is required for most of heavily indebted poor countries in order to achieve a sustainable course to growth and poverty reduction (Sachs, 2002, 2004). It has been suggested that the HIPC initiative should further be approached from a sustainable development perspective instead of an ad hoc thresholds of some ratios. The approach should also be rationalized on the basis of the proportion of large population that are below poverty line. Furthermore, servicing of the publicly guaranteed debt is basically a public finance issue. However, the HIPC criterion seems to look at the debt issue as a balance of payment problem. In order to correctly evaluate the sustainability problem, domestic public debt should be incorporated into the analysis of the HIPC.

It has been pointed out in the introduction that there seems to be lack of consensus in determining as to when debt restructuring is unavoidable. There is also disagreement on the mechanism of a proposed debt restructuring and/or debt relief. One of such proposals calls for “Collective Action” in the event of a default. IMF outlined a Debt Restructuring Mechanism (SDRM) by Anne Krueger in 2001. The SDRM proposal outlined a more orderly restructuring process of sovereign debt. One of the novelties of the proposal was to get the involvement of the private sector in the resolution of the crisis. It also required the establishment of an independent and international arbiter to decide on the burden sharing in case of default. However, it did not get the support of the US Treasury and some other important stakeholders. A counter proposal had been tabled in the form of Collective Action Clauses (CACs) [Regina Bernhard and Christian Kellermann (2008)]. One of the shortcomings of the proposal was that it did not address the pre-existing debts. The proposal did not get the support of IMF. There is an urgent need to identify a comprehensive solution by reviewing and evaluating some of the existing proposals that have been presented. In this regard, the OIC and IDB can play a pivotal role in formulating a framework in which better support can be provided to the member states in case of external debt stress.

This report has presented some of the measures of debt sustainability of the member states for the first time. It is also hoped that more thorough analysis of these results will be carried out in future.

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Statistical Appendix

Table A1: CPIA Rankings of the OIC Member states, 2005-2009

	2005	2006	2007	2008	2009	POLICY TYPE
Cameroon	2.5	2.5	3.0	3.0	3.0	Weak Policy
Chad	3.0	2.5	2.5	3.0	2.5	Weak Policy
Comoros	1.5	1.5	2.0	2.0	2.0	Weak Policy
Côte d'Ivoire	1.5	1.0	1.5	2.0	2.5	Weak Policy
Djibouti	3.0	2.5	2.5	2.5	2.5	Weak Policy
Gambia	2.5	2.5	2.5	3.0	3.0	Weak Policy
Guinea	2.5	2.5	2.5	2.5	2.0	Weak Policy
Guinea-Bissau	2.0	1.5	1.5	1.0	1.5	Weak Policy
Maldives	4.5	3.5	3.0	3.0	3.0	Weak Policy
Sudan	1.5	1.5	1.5	1.5	1.5	Weak Policy
Togo	1.5	1.5	1.5	2.0	2.5	Weak Policy
Afghanistan		3.0	3.0	3.0	3.5	Medium Policy
Benin	3.5	3.5	3.5	3.5	3.5	Medium Policy
Mauritania	4.0	4.0	4.0	4.0	3.5	Medium Policy
Pakistan	4.5	4.5	4.5	4.0	3.5	Medium Policy
Sierra Leone	3.5	3.5	3.5	3.5	3.5	Medium Policy
Tajikistan	4.0	4.0	3.0	3.5	3.5	Medium Policy
Yemen	4.5	4.5	4.0	4.0	3.5	Medium Policy
Azerbaijan	4.5	4.5	5.0	5.0	5.0	Strong Policy
Bangladesh	4.5	4.5	4.5	4.5	4.0	Strong Policy
Burkina Faso	4.5	4.0	4.0	4.0	4.0	Strong Policy
Guyana	3.5	4.0	4.0	4.0	4.0	Strong Policy
Kyrgyz Rep.	4.0	4.0	4.0	4.0	4.0	Strong Policy
Mali	4.5	4.5	4.5	4.5	4.5	Strong Policy
Mozambique	4.5	4.5	4.5	4.5	4.5	Strong Policy
Niger	3.5	3.5	3.5	3.5	4.0	Strong Policy
Nigeria	3.5	4.0	4.5	4.5	4.5	Strong Policy
Senegal	4.0	4.0	4.0	4.0	4.0	Strong Policy
Uganda	4.5	4.5	4.5	4.5	4.5	Strong Policy
Uzbekistan	4.0	4.0	4.0	4.0	4.0	Strong Policy



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