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## When is a debt sustainable?

by

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*The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*

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'Development Finance at the Cross Roads: What Role for Public Debt Management?'

Panel 6: When is debt sustainable?  
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**“Ensuring Sustainable Debt, Development and Protections from  
Economic Shocks”**

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**Remarks As Prepared for Delivery**

I want to extend my gratitude to all of the organizers and the UNCTAD for this conference and for their continuing and essential convening role on these vital issues.

My organization, Jubilee USA is part of the broader community of global organizations that coalesced around resolving debt crisis in the poorest countries of the world over 20 years ago. Jubilee USA moves forward global policies that address the root causes of poverty and inequality related to debt, tax, trade and transparency issues. In the United States, Jubilee USA's founders and members include the US Conference of Catholic Bishops, American Jewish World Service, Islamic Relief, the United Church of Christ and most mainline national Christian Churches.

In the 1990's we began our work to address inequality and finance development by addressing the global debt crisis. Together we won two great debt relief and financing initiatives to address global poverty and promote children's education and health: The Heavily Indebted Poor Country Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI). Because of these initiatives, over \$115 billion was won in debt relief to benefit some of the world's poorest countries. Because of that debt relief we know in sub-Saharan Africa that more than 52 million kids went to school who never would have seen the inside of a classroom. We know that school fees were cancelled, hospitals were

opened, because of this historic initiative, because of this relief and the international accountability laws that we won, all of this money had to go into building social infrastructure. World Bank President Jim Kim cites debt relief as one of the two reasons we see sustained economic growth in some countries across Africa.

It was out of these initiatives that concepts around achieving debt sustainability were born.

Unfortunately, as successful and important as HIPC and MDRI were, we now realize that those solutions were not enough to entirely grasp the problem. Out of the 38 very poor countries that benefitted from the HIPC and MDRI initiatives, 31 again face debt distress, financial crisis or unsustainable debts. 31 out of 38.

But not only has that crisis impacted and returned to some of the world's poorest countries, we have also seen it impacting middle-income and even developed countries. From 2009 to 2014, debt service in Africa nearly doubled. While at the same time in the same countries in Africa, we saw spending on health care decline. We are currently seeing a tragic situation on Small Island Developing States or SIDS across the world, many of these islands with poverty rates that range from 30% to 50%. These so called Middle-Income Small Islands are now facing crisis, just as so-called middle-income countries in Africa are facing similar crises.

These new crises have become more complicated. Debt itself has changed and the instruments of debt have changed. Where 20 years ago, debt was relatively quarantined to a rather small group of lending facilities, international financial institutions, governments and bonds - now we see more complicated instruments and a broader array of types of credit and debt.

With this new reality and this lack of debt sustainability there is a small group of exploitative hedge funds that are trying to benefit from countries wrestling with financial crisis. These so called "vulture funds"

are responsible for predatory behavior in Detroit, in Greece, in Argentina and were recently stopped in Puerto Rico by an act of the US Congress. So called “vulture funds” buy debt for pennies on the dollar and then sue in full using aggressive litigation tactics to collect the full amount. These types of funds have successfully collected aid monies that were intended to provide development financing in the developing world. Some of the victims of this behavior sit here in this room.

In 2016 and 2017 the IMF and World Bank reviewed their sustainability framework. The current framework offers a lot of valuable information and pulls together much needed analytical data. As my co-panelist Martin Guzman raised in his remarks, debt sustainability frameworks need to be discussed in relation to strengthening global policies on debt restructuring and responsible lending and borrowing. Further debt sustainability analysis could be strengthened by ensuring they take into account issues such as development, improving flexibility to reevaluate after external shocks and reviewing fiscal targets to ensure that tax evasion and corruption are curbed.

We and the religious organizations that we represent and work with around the world, believe very much that debt sustainability works hand in hand with public budget transparency and responsible lending and borrowing. Beyond preventing predatory financial behavior, public budget transparency and responsible lending and borrowing can provide financing of billions of dollars annually for the developing world. Both in the monitoring of debt levels and in the financing for development, these issues cannot be separated from debt sustainability.

These concepts are reiterated in the very promising recent work of the G20 which the US Government and G20 endorsed over the summer: the Operational Guidelines for Sustainable Development. This also compliments the strong consensus building work over the last 6 years with UNCTAD’s efforts on responsible lending and borrowing.

These conservative stewardship policies cost nothing and can raise billions in the developing world.

Further it's why we support improved debt restructuring at the International Monetary Fund. It is why we supported the United Nations General Assembly process to create a legal global bankruptcy framework. Similar to Chapter 9 or Chapter 11 in the United States, global bankruptcy can provide the same kind of stability we rely on in domestic economies into the global financial system. Pope Francis supports such a system to provide financing to end poverty. Adam Smith the father of modern economics believed global bankruptcy is critical for global stability. We believe that a country's debt can be called sustainable after the debt is adequately restructured.

For debt sustainability frame works to be effective, they must work alongside public budget transparency, responsible lending and borrowing and stronger restructuring regimes.

I would offer that debt sustainability frame works to be effective must also take into account development, external shocks and fiscal policy.

In terms of issues around development, debt sustainability frameworks must take into account the reality that poor populations and vulnerable communities often do not have their needs met when "sustainable" debts are paid. There needs to be a greater efforts in analyzing the sustainability of a debt when the basic needs and economic rights of people are not met.

Next, external shocks can immediately change the debt dynamics of an economy. Antigua and Barbuda, Dominica and so many Caribbean islands have been decimated by hurricanes. Our partners in Dominica can testify to this reality. Bishop Gabriel Malzaire who leads the Catholic Church on the island and is the President of the Caribbean Catholic Antilles Episcopal Conference, sent a letter to the International Monetary Fund. His letter on behalf of Caribbean Catholics, called on

the IMF and other creditors to temporarily delay debt payments for islands like Antigua and Barbuda recently ravaged by Hurricane Irma. Debt sustainability frameworks must have the flexibility to adjust to external shocks.

When disaster strikes, when famine spreads and when economic crisis impacts the poor, we need to be able to reevaluate these situations. In line with our previous thoughts on improving debt restructuring and looking at Chapter 9/11 styles of bankruptcy – it seems the Caribbean would be a perfect candidate for a regional Caribbean initiative. This post HIPC initiative, could be a regional initiative with the high debt distress many Caribbean countries are experiencing. It can utilize the principles of bankruptcy for a regional Caribbean mechanism.

Finally, debt sustainability also must rely on improved fiscal policies that curb tax evasion and corruption. Standards can be set in debt sustainability frameworks that provide targets to governments to curb illicit financial flows, tax evasion, corruption and corporate and professional tax avoidance. We also acknowledge the growing issues around tax evasion, illicit financial flows, anonymous shell companies and corporate tax avoidance. As the President Mbeki report noted, one of the greatest diversions of financing for human needs is because of tax evasion and corruption. Last year the UN Conference on Trade and Development (UNCTAD) released a study on five countries that showed how much money they were losing because of “trade mis-invoicing.” Currently we believe that 80% of all illicit financial flows are because of trade mis-invoicing at borders and port authorities. This is actually a relatively easy problem to tackle, and this particular problem if tackled could secure more than \$1 trillion a year to provide financing and support economic growth in the developing world. Addressing corruption, tax evasion, corporate tax avoidance, anonymous shell companies and related issues should be addressed.

In closing, to achieve true debt sustainability and ensure effective frameworks, we need to include a number of particular issues and promote

stronger policies around public budget transparency, responsible lending and borrowing, securing greater development protections, stronger debt restructuring policies and fiscal policies that curb tax evasion and corruption.

Thank you.