Long-term debt sustainability and the Sustainable Development Goals: Beyond the short-term prioritization of creditor interests

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Financing SDGs at sustainable debt levels

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Everyone agrees SDGs need large scale investment effort

But how much exactly?
Costing of the SDGs

IMF 2019 Staff note on SDG investment

- Additional annual spending needs for selected SDGs (education, health, roads, electricity, and water and sanitation) in 2030 for 155 countries:
  - **MICs +4 percentage points of GDP**
  - **LIDCs +15 percentage points of GDP**
  - **SSA +19 percentage points**
- Additional spending needs USD 2.6 trillion (2.5% of 2030 world GDP)

→ With current funding we are not set to meeting the SDGs.
Use all potential sources

Official Development Assistance is not sufficient; What other main sources?

• Domestic revenues
• Private finance
• Debt

Adjust financing source to purpose:

• Social sectors need different types of financing than energy and transport infrastructure
• Fragile countries and LDCs need a different approach than more developed countries
An increasingly complex financing landscape requires an Integrated National Financing Framework
INFF is a way to think long-term, SDG financing

• *INFF allows to extend comprehensive financial planning up to 2030*

• *Link financing to development policies*

• *Make decisions on debt issuance, taxation, investment strategy etc., based on these considerations*
Functional relations in an INFF
The EU’s approach

The partner country is in full ownership of policy and financing agenda, which the EU supports:

• Domestic revenue mobilisation and expenditure efficiency
  • ATI, tax policy and administration, illicit financial flows, etc.
  • Improve procurement, investment etc.

• Budget support grants
  • EU largest budget support grant provider
  • Dialogue and reforms

• Blended finance and guarantees
  • Leverage investment, lower risks for investors
  • Improve investment climate
Can this be compatible with sustainable debt?

We believe so, but we need to act quickly, effectively and in a coordinated way in:

- Improving transparency
- Building capacity, improve institutional framework
- Developing new resilience building debt instruments
- Improving the framework for debt crises resolution
Transparency

• Private Sector Debt Transparency Principles of the Institute of International Finance – need further progress on implementation, need to find a host

• The official sector should have similar standards, e.g. in the framework of the G20 Operational Guidelines for Sustainable Financing

• Better reporting of guarantees, collaterals, debt of public corporations, sub-national entities, contingent liabilities and other fiscal risks

• Availability of MTDSs, debt audits by SAIs and oversight by Parliaments and civil society

• Review disclosure clauses in debt contracts
Building capacity and improving institutions

• Centralisation of debt management
  • Helps better manage risks and lower costs
  • Allows to control the signature of new debt contracts, ensures records are kept centrally
  • More capacity to negotiate terms
  • It allows for a better management of the relationship with the market

• Improvement of capacity building efforts, better coordination globally and on the ground
State-contingent debt instruments

• Give fiscal space to vulnerable countries in bad times, pre-default

• Tied to natural disasters, climate change events or GDP / commodity prices

• Defer or reduce debt payments

• Can the official sector lead the way in bilateral and multilateral lending?
Resolution of debt crises

• Improve the contractual approach (Collective Action Clauses) – replicate the work done on bonds with regard to loan contracts

• How to maintain the relevance of the Paris Club?

• Agreement of official creditors not to sell distressed sovereign debt?

• Regulation against vulture funds in some EU Member States (Belgium, France)
Conclusion

Financing development implies:

• Sound public policies and regulatory framework

• Using debt for productive investment

• Comprehensive financing strategies and sound use of ODA

• Adequate capacity