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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.

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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

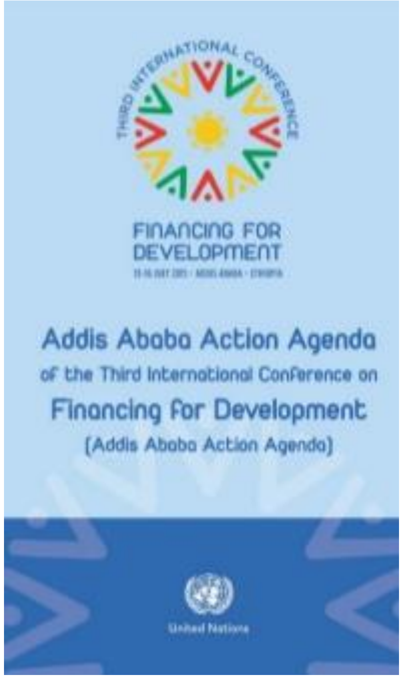
Official Development Assistance is not sufficient; What other main sources?

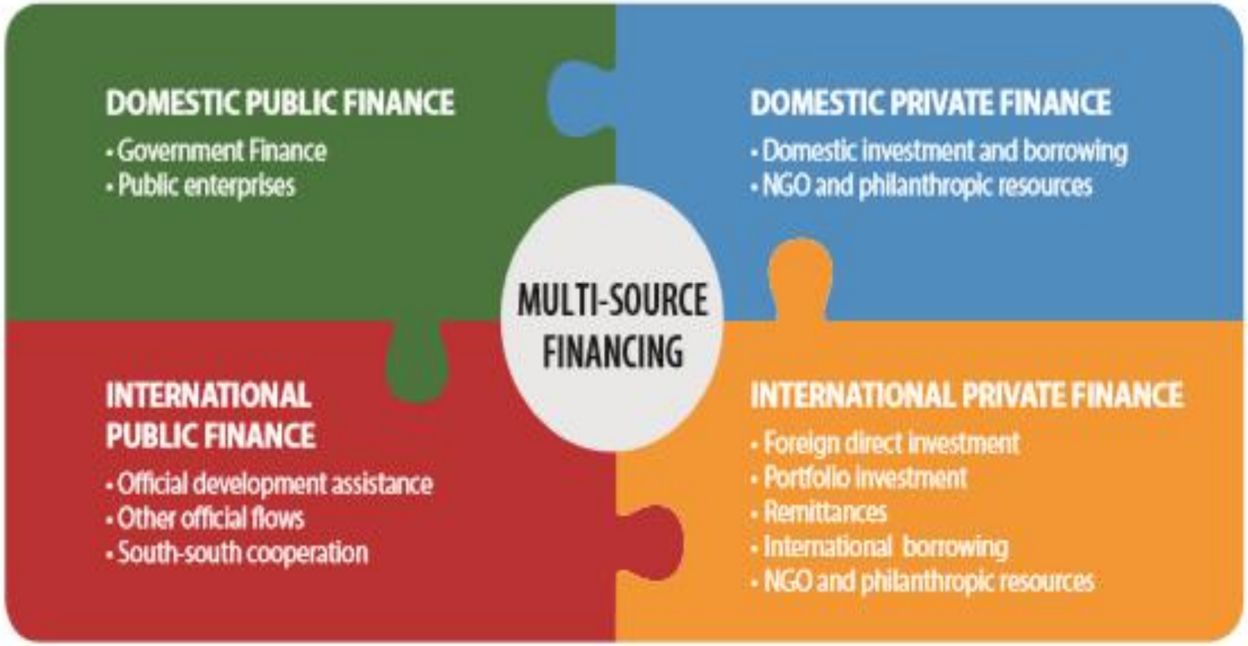
- *Domestic revenues*
- *Private finance*
- *Debt*

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

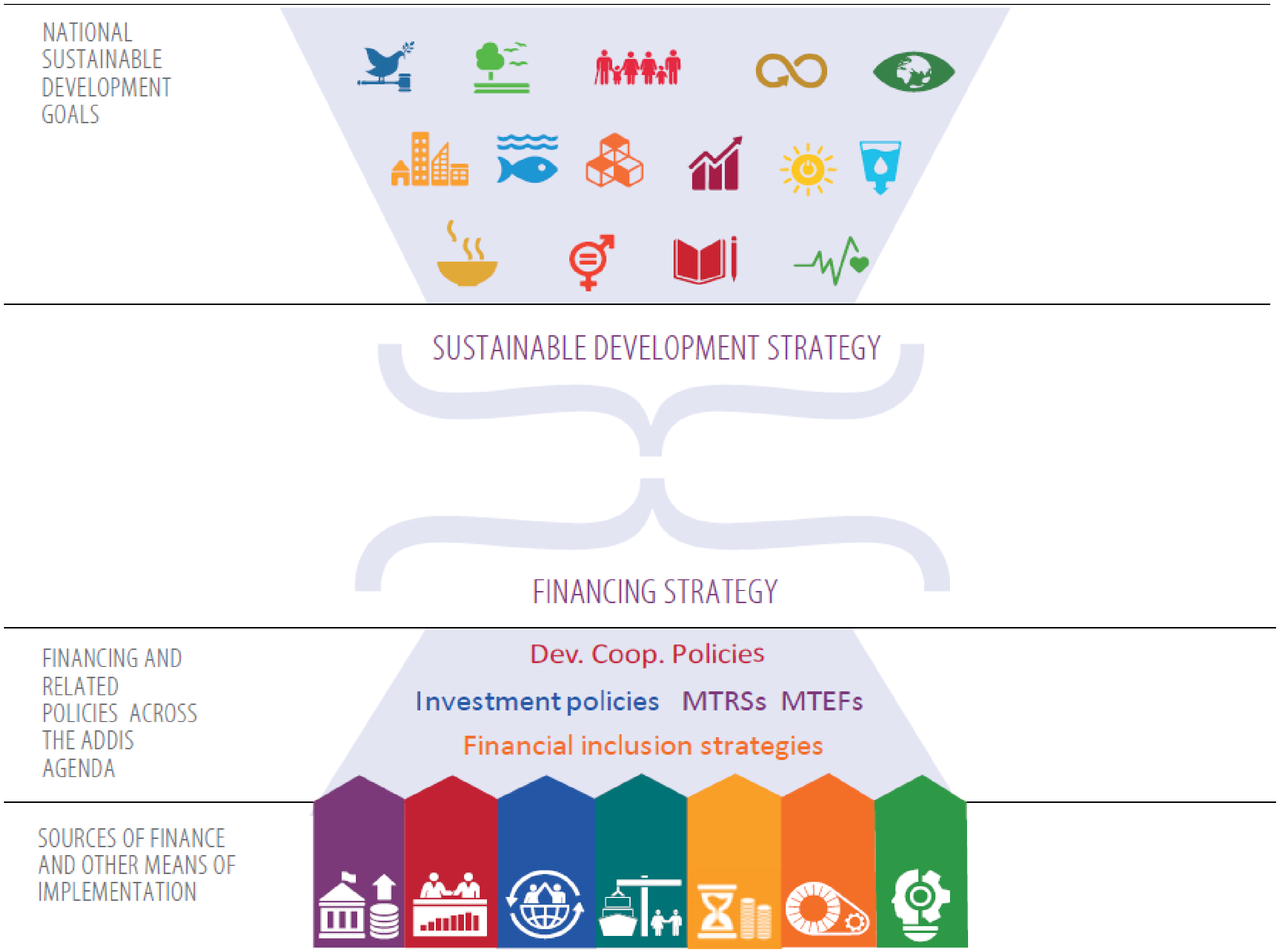




INFF is a way to think long-term, SDG financing

- *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

Q&A