13TH UNCTAD Debt Management Conference

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Relief, Restructuring and Recovery: Dealing with Debt in Times of Global Crisis

5-7 December 2022
Palais des Nations, Geneva

The UNCTAD Sustainable Development Finance Assessment

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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Debt sustainability and the logic of ‘standard’ assessments

- “[f]rom its inception, this approach to debt sustainability has emphasized the importance, in the absence of a binding automatic external adjustment mechanism such as the gold standard was believed to have produced, of the ability and the commitment of government to ensure that foreign claims are honoured before domestic claims.” (Kregel 2006)
- “For a government to be solvent, the present value (PV) of future primary balances must be greater than or equal to the public debt stock. For a country as a whole, the present value of future non-interest current account balances must be greater than or equal to its external debt” (IMF, 2013).
- In practice strong focus on evolution of the debt-to-GDP ratio

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UNCTAD's alternative approach: The SDFA framework

- How can developing countries achieve structural transformation (including the SDGs within the bounds of their external and public debt sustainability requirements?
- What are the conditions required to allow for a developmental path that is compatible with sustainable debt burdens?
- Crucial point of departure is the assumption that long-run output growth is demand-led and that the balance of payment performance represents the dominant economic constraint to growth and development in developing countries.

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Three components of the SDFA

1. External Financial Sustainability

If the growth in exports plus remittances is faster than the growth in net external liabilities, external financial sustainability will be improving.

2. Public Sector Financial Sustainability

A country's public sector finances will be moving towards sustainability if the rate of GDP growth is greater than the rate at which public sector net liabilities are increasing.

3. Integrated External & Public Sector Financial Sustainability

Over the longer-term, public sector net liabilities will be sustainable if the rate of growth consistent with external financial sustainability exceeds the average cost of public sector net liabilities.

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Applications

- *Insights for policy-making*: *Areas* of integrated external and public financial sustainability
- *Tool to assess external financing needs*
- So far, *application to three countries* to assess their long-term external and public sector financial sustainability, considering investment requirements for SDGs 1-4
- *Visual policy tool* to determine trends in external and public sector financial sustainability: Assessment of the impact of different policy choices

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Differences with conventional DSAs

- Achievements of SDGs at the centre of the analysis
- Shift to more realistic assumption of demand-led growth dynamics under balance of payment constraints allows for a range of policy choices and combinations, not only austerity policies
- Emphasis on broader dimension of external and public sector financial sustainability (and their debt financing)
- Includes gross remittances as a source of foreign currency income

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Work in progress: Ways forward

- Further country studies
- Inclusion of further SDGs, in particular climate change-related
- Refinement and expansion of core analytical relationships in the basic model

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Further Information

UNCTAD SDFA framework webpage

- https://mobilizingdevfinance.org/tool/unctad-sustainable-development-finance-assessment-sdfa

Non-technical background paper

- https://mobilizingdevfinance.org/research-material/unctad-sustainable-development-finance-assessment-sdfa-framework-linking-debt

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Thank you!