FUNDING THE SDG STIMULUS THROUGH DEBT RELIEF: A STRATEGIC APPROACH

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BACKGROUND

1. Background: SDG Stimulus asks for debt relief to be a major part of the financing
2. In recent meetings w governments, IFIs, G20 (FfD Addis etc), growing agreement by wide range of governments on widespread debt service crisis, and vitally willingness to take serious immediate measures for fiscal space, and MT to change architecture
3. But careful strategy needed because balanced against sentiment of lack of money to fund global development + disagreement on precise solutions
4. So – present diagnosis, possible solutions which could be pursued via G20 and FfD processes and how much money could provide to SDG Stimulus

DIAGNOSIS 1: WORST EVER DEBT CRISIS?

1. Until recently, scale and breadth of crisis not seen because focus on debt stocks: IMF paper on the liquidity crisis has changed focus
2. DFI also highlighting since 2021 (+ other experts) nature of crisis through first ever global debt service database – ***Debt Service Watch***
3. Massive absorption of revenue (average 42% debt service to revenue for all G77 countries) - higher than for HIPCs or for LAC in 1980s
4. Also crowding out of SDG spending: 3x education spend, 4 times health, 11x social protection, and 54x climate/biodiversity
5. Affected countries: not HIPCs who had relief before, but LICs + MICs accessing bonds

DIAGNOSIS 2: COUNTRY GROUPS

1. Very widespread: 112 countries have debt service above 15% of revenue, fall into 4 broad groups:
   i. Short-term service problem – miscalculation suggested could treat by postponing service for 2-3 years – but not valid. Only 2 would gain – Tajikistan and Uzbekistan

   Vast majority have high service levels lasting until 2035 – split into three groups

   ii. 34 which depend on markets for budget funds (mostly UMICs): debt restructuring undesirable
   iii. 51 which don't access markets ("LIDCs") for which restructuring wouldn't affect access
   iv. 25 "disaster-hit" countries eg climate disasters, earthquakes – notably SIDS/LLDCs/LDCs
2. ***Not one size fits all*** – many countries may not want relief but need to have system in place which offers substantial relief/fiscal space when needed

THREE TAILORED SOLUTIONS

Market-Dependent MICs	Non-Market LIDCs	Disaster-Hit Countries
34	51	25
“Credit Enhancement”	Service/Stock Reduction or Long-term Rescheduling	Automatic post-Disaster Relief
Guarantees etc which genuinely reduce bond borrowing costs	20 worst affected (DS/Rev >60%) = debt reduction, Others = long-term rescheduling (postpone all DS for 10 years)	Cancel service falling due during reconstruction and recovery (3-5 years modelled on IMF CCRT)

SUGGESTIONS ON WAY FORWARD

1. Vital all of these provide substantial amounts of debt service relief – suggest for LIDCs/SIDS use benchmark of 10% service/revenue
2. Ideas on these already presented in Addis FfD, well received by many governments and IFIs as feasible/appropriate
3. More details on proposals are in NCA report, and coming out in briefings being finalised as we speak, to be presented to Global Sovereign Debt Round Table of G20 on 16 September
4. Estimated max contribution to SDG Stimulus: $400 billion a year,but around 90% would be from credit enhancements, and lots of countries wont want relief so cost of relief low
5. Should be accompanied by enhanced revenue efforts by countries to ensure sustainable financing of SDG results – and of course new financing especially from MDBs

FFD-RELATED SUGGESTIONS

- NCA report also emphasises broader normative measures which FfD could pursue to deal with the current crisis and stop the next one, especially to:
  i. stop “predatory debts” – debts which are corrupt, avoiding formal approval, have usurious interest, no development impact (eg Mozambique) – by adding a protocol to UNCAC stopping collection of such debts
  ii. regulate credit rating agencies and bond issuers to bring down costs permanently (and avoid having to use guarantees)
  iii. change debt sustainability analysis to include SDG spending needs, especially the positive multiplier effects on growth and revenue of dealing with the triple crises of climate, nature loss and inequality

FFD-RELATED SUGGESTIONS

iv. enhance role of UN + voice and representation of global South in architecture - eg make UNSG or DSG co-chair of IFA Working Group, add reps of major UN groups to discussions, enhance role of UN agencies according to capacities

v. enhance accountability of North and South governments to domestic stakeholders for lending/borrowing decisions

vi. provide capacity-building support to borrowing countries in a range of areas, but especially to: a) negotiate better new financing and debt relief deals (rather than relying on overpriced commercial advisors who transfer no capacity; b) enhance accountability to domestic stakeholders for national debt strategies; and c) design more SDG-linked financing strategies which are accessible to domestic parliaments and other stakeholders

SUGGESTIONS ON STRATEGY

1. Last chapter of NCA report deals with this. Very short-term, measures vs crisis SHOULD be delivered by G20 - big positive opportunity w Brazil/SA G20 presidencies
2. Normative – deal with these in FfD process, with recommendations back to others - eg get UNCAC protocol done finally at UNCAC COSP in 2025
3. Both need coalitions of countries who are prepared to be “ambitious” in the sense of measures which genuinely tackle the problem, but don’t cost a fortune
4. Timing – big push to see if anything can get done by G20 by November (esp risk of Trump admin); if not, renew efforts next year; start UNCAC process now; and keep on constant pressure through/during/after FfD process
5. Need for much more research to design details of proposals