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Making debt work for development

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Multilateral Policy Responses I: Long Term Debt Traps and the Renewed Relevance of Debt and Disaster Relief Initiatives

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



Before the next storm:

Debt Relief as crisis reaction in catastrophic situations



UNCTAD-DMFAS

Geneva 19.11.2019

FAIR CLIMATE FINANCE THROUGH LOANS?



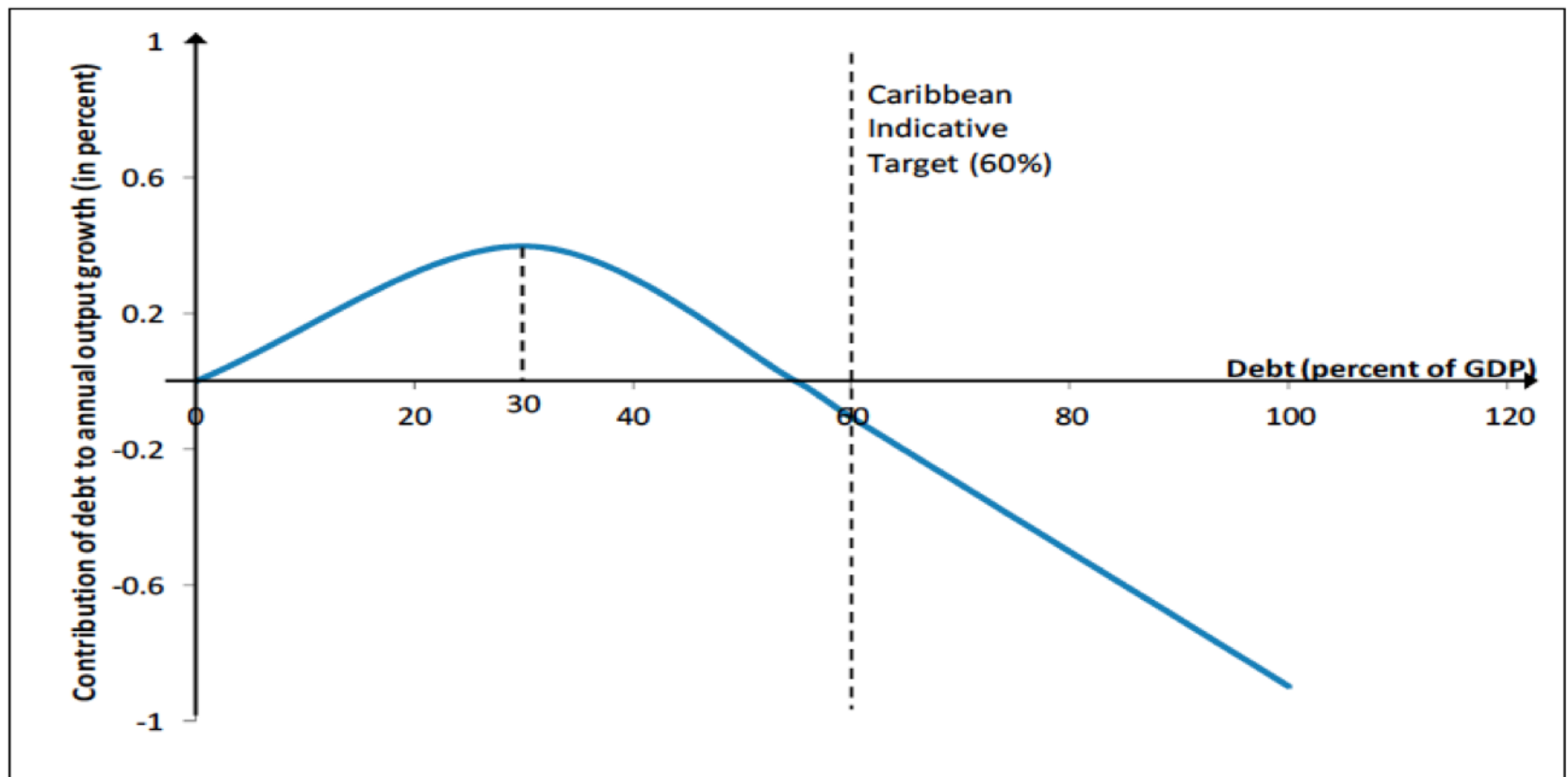
erlassjahr.de

Entwicklung braucht Entschuldung



The Debt-Growth Nexus

Figure 12. Stylized Shape of the Threshold Effects of Public Debt on Growth



Debt relief for climate finance?



- Mitigation
- Adaptation
- Loss & Damage Financing

Proposal by Jubilee Caribbean



Two-step debt relief process

- Interest-free moratorium of about 6 months
- comprehensive debt restructuring which would avoid a return into an unsustainable debt situation with high likelihood.

Both elements have worked before...



Paris Club moratorium for Indonesia after the 2004 tsunami



Comprehensive restructuring of Indonesia's in 1969 external debt from the Soekarno era

Indonesia 1969: difficult environment



- EDT: US-\$ 2.1bn
- p.c. income 65current US-\$
- debt divided between Paris Club members and Eastern block countries
- no co-operation after 1965 coup and atrocities
- three futile restructurings under Club's *Classic Terms*

Innovation needed

- end-1968: Decision to employ an independent expert
- WB/IMF / McNamara/ Abs
- „Shuttle Diplomacy“



Principles of the „Abs Plan:



- Overall aim of restoring creditworthiness
- No discrimination on the basis of creditor identity or terms of lending
- No cancellation of Soekarno debt, but full repayment combined with full elimination of current interest, no late interest charged
- Exclusion of a later re-opening of the accord due to either positive or negative development of the IDN economy

Key elements for Success



- True impartiality of the independent expert
- Realistic assessment of the need for debt relief
- USA and NL as champions
 - for more or less honorable reasons

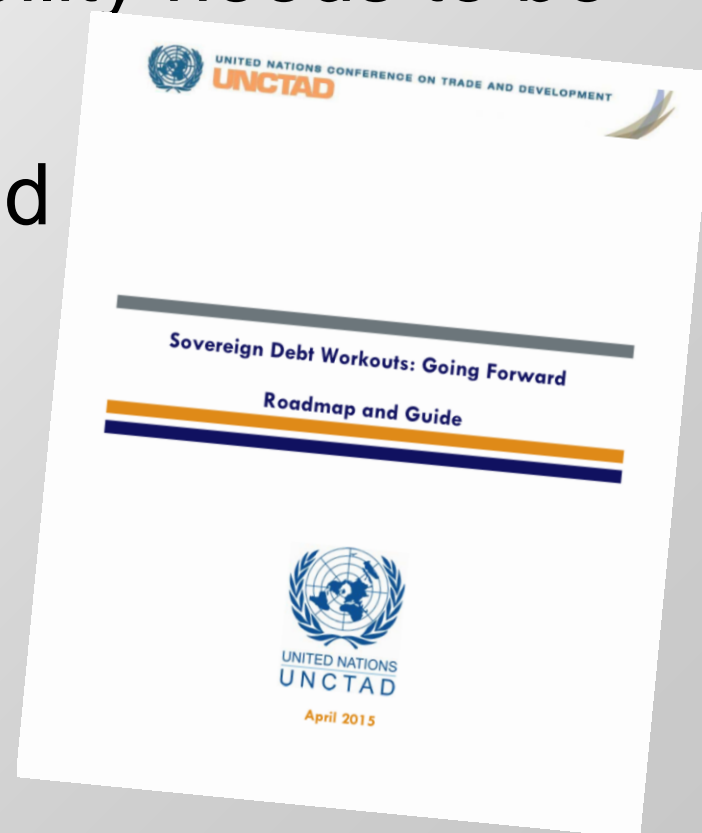
(No) Precedence?



- The (still) existing debt was simply un-payable
- The debt was created by a previous regime, which no longer existed
- The contracted debt was largely unproductive, therefore the debt service was an unbearable burden on the state budget
- The new government had shown a good performance in starting the economy afresh, which merited support

Lessons for today

- Impartiality is a key element
- Restoring debt sustainability needs to be the overarching aim
- UNCTAD's Roadmap and

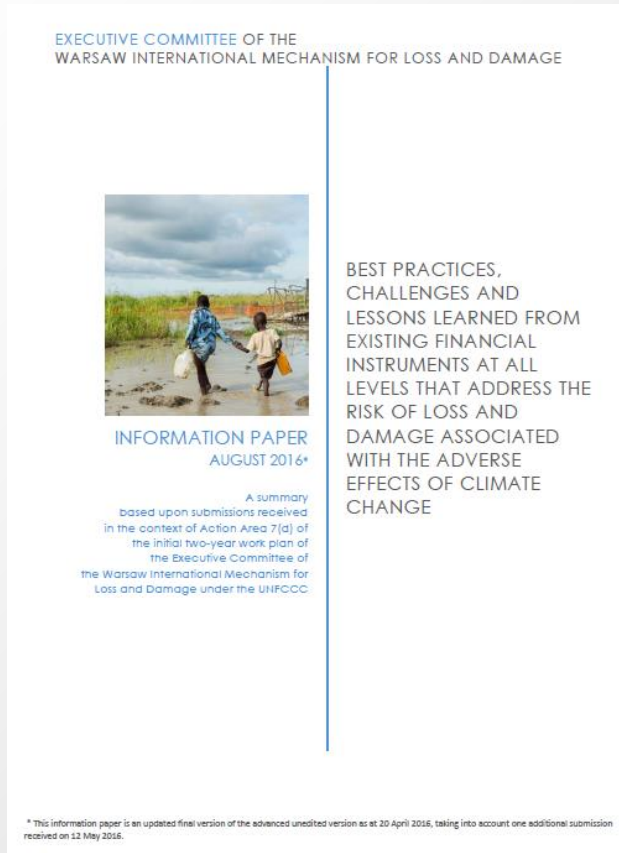


Where are we in the Process?



„I was here, Madame Chair in 2015 when last we tried to get a statutory sovereign debt restructuring mechanism. We failed, but maybe it is time for us to revisit it. What we got instead were 9 principles of sovereign debt restructuring (...) I believe however, that this looming crisis requires a more structured approach“

Mr. Courtenay Rattray, delegate of Jamaica, on behalf of CARICOM to the UN Second Committee New York Oct. 19th 2019



Revision of the Warsaw International Mechanism for Loss and Damage at COP 25 in Madrid next December