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Multilateral Policy Responses II: Sovereign Debt Restructurings – Practical Ways Forward

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TOWARDS BETTER DEBT RELIEF: WHY AND HOW ?

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WHY MORE DEBT RELIEF ? FACTS

- "All LIDC debt was cancelled by HIPC/MDRI so why do we need more debt relief ?"

1) **Not all LIDC debt was cancelled** –
   - some countries got HIPC but part of the relief fell through the cracks (Gambia/Mauritania and Arabs);
   - some creditors didn't participate (Libya, ex-Yugoslavia)
   - some haven't finished HIPC yet (Somalia and Sudan); and
   - some "chose" not to go for HIPC or "didn't qualify" (Cambodia, Kenya, Lao, Zimbabwe)

2) **Not only LIDCs need debt relief** – many MICs/SIDS were ineligible for HIPC and have received traditional relief which doesnt cancel much debt

WHY MORE DEBT RELIEF ? FACTS

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3) Latest data indicate growing and spreading debt crisis

- Average debt service to revenue ratio is 36% for ex-HIPCs, 36% for LIDCs, and 28% for SIDS
- Virtually 50% of LIDCs are in debt distress or at high risk of being so.

4) The crisis never went away

- More than 20 LIDCs, ex-HIPCs and SIDS have restructured some of their external or domestic debt in the last decade, but in many cases under the radar because not through "traditional" channels such as the Paris Club – mostly domestic debtm or with China, or collateralised loans….

WHY MORE DEBT RELIEF ? CAUSES

Lets look at the underlying causes, which should preferably guide us in designing solutions:

1. **Increases in financing needs** (mostly related to the SDGs) – 3 times as much need as under MDGs
2. **Changes in debt sources and costs:** move from grants to loans for HIPCs or countries which graduated into LMICs, lack of aid, new offers of Eurobonds and PPPs, development of domestic debt markets
3. **Exogenous "shocks":** lots which we should have foreseen (increasing natural disasters due to climate emergency, regular commodity and financial market shocks)

HOW BEST TO DO DEBT RELIEF

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1. Dont Reinvent the Wheel – HIPC and MDRI did bring major progress (though sometimes exaggerated)

- **Based debt relief to considerable extent on debtor needs:** aimed to reach a particular level of Present Value to Exports or Budget Revenue, rather than previous “lowest common denominator” of what creditors would provide
- **Ensured that debt relief was close to comprehensive:** coordinated most creditors which were then crucial: Paris Club organised most bilaterals, IMF brought in others, World Bank coordinated multilaterals, and commercial debt buybacks with sharp reductions ***(no debt off limits)***
- **Tried to make debt relief relatively rapid:** by end of the process had got to stage where Liberia got all its relief in 4 years
- **But Still Far Short of Good Enough – lets look at each “principle” in turn**

BASE RELIEF ON SDG FUNDING NEEDS

Basing debt relief on debtor needs ?

a) **Was ultimately an interpretation of debtor needs based on a macroeconomic view of which debt levels were sustainable**
b) **Too closely tied to "debt overhang" ie reducing debt stock, only in later versions focussed more on reducing debt service levels**
c) **Took little account of financing needs for the SDGs – just reduced debt service levels to "macroeconomically sustainable" levels**

So ideally, especially now that BWIs seem much more lined up behind the SDGs than they were the MDGs (World Bank has poverty and inequality reduction as core goals, IMF has costed some of the SDGs) – BASE DEBT RELIEF ON SDG SPENDING NEEDS

MAKE DEBT RELIEF COMPREHENSIVE

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a) **Huge efforts made to ensure relief comprehensive - but some creditors never participated.** Most important were commercial creditors – (especially "vulture funds") which decided to sue instead and we did not (with the exception of Belgium and the UK) force them to join in; and a few bilaterals (Libya, ex-Yugoslavia) which refused to provide relief and where we failed to use our huge strategic leverage to push them to do so

b) **Creditor composition has changed** dramatically – notably rise of new South-South export credit and other debt (to Brazil, China, India, Venezuela); global Eurobonds; domestic debt; and public-private partnerships. But all of these types of creditors have been generous in restructurings in the past and there is no reason why they couldn't be again.

c) **Some of the creditos are the same –** eg new lending by OECD ECAs and MDBs – and global community could stop this immediately if it wanted

So ideally, especially if remember that all these creditors have given generous relief in the past, and overcome our "fear of the markets" to give prudent debt relief and force the recalcitrant creditors to participate – MAKE DEBT RELIEF TRULY COMPREHENSIVE

MAKE DEBT RELIEF RAPID

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a) Gradually made debt relief more rapid and less laden with conditionality – but at least partially the greatest advances were achieved for countries with very powerful strategic friends – notably Liberia and the USA

b) For a lot of countries took 10 years or more to get to comprehensive debt relief – far too much conditionality and not tailored to country capacities or really streamlined to priority issues

So ideally set a much shorter time horizon for relief – preferably maximum 3 years for all with strictly streamlined conditionality

SUGGESTIONS ON WAY FORWARD

- ***We need to act now -*** getting debt service/revenue ratios down to sustainable LIC-DSA levels of around 15% could add $25 billion a year to what is available to spend on the SDGs – without debt relief we will never reach the SDGs
- ***Debt relief is not the only solution*:** we also need changes in the international tax regime and stronger tax collection efforts by countries with TA from donors; renewed increases in ODA – South-South cooperation is still growing; and more "contingent" finance – in the sense of both varying country payments according to ability, and providing much more rapid concessional and low conditionality finance after "shocks" hit
- ***One size will not fit all:*** we will need to adapt the exact degisn of debt relief to what countries most need for financing the SDGs
- ***But "HIPC+++" principles would help:*** relief based even more on country needs, enhanced coordination, more rapid debt relief with less conditionality
- ***AND FINALLY – none of this will happen without leadership*** – where is the leadership at global level to make this happen and ensure we don't waste the chance to meet the SDGs ? OIF LIDCs have thrown the ball – who will catch it ?