High-Level Political Forum on Sustainable Development Side Event

Cluster IV on Liquidity and Debt Vulnerability
Concept Note
"Financing a sustainable recovery: The role of debt-relief instruments"

Thursday, 15 July 2021

7.30 – 9.00 am (New York time)

Background

This side event, convened by Cluster IV of the *Financing for Development in the Era of COVID-19 and Beyond Initiative,* aims to discuss how to operationalize some of the policy options generated by Discussion Groups III (Global liquidity and financial stability), IV (Debt vulnerability) and V (Private sector creditors) over the summer of 2020 and presented to Heads of State and Government at the High-Level Meeting on 29 September 2020, co-convened by the Prime Ministers of Canada and Jamaica and the Secretary-General. The event also builds on the Secretary General's March 2021 brief *"Liquidity and Debt Solutions to Invest in the SDGs: The Time to Act is Now"*.

The COVID-19 pandemic has triggered a sharp increase in debt vulnerabilities worldwide. Across developed and developing economies, large fiscal stimulus measures coupled with a fall in revenues pushed public debt levels to record highs. In 2020, global public debt was estimated to have surged to almost 100 per cent of gross domestic product, up from 65 per cent in 2008. Additionally, many developing countries were already saddled with elevated debt burdens prior to the pandemic. This has not only impeded their response to the crisis, but also exacerbated debt sustainability risks and raised concerns over widespread sovereign debt distress. More than a third of emerging market economies are currently assessed to be at a high risk of facing a fiscal crisis, and over half of the least developed and other low-income countries are assessed to be at a high risk of, or are already in debt distress.

Given high indebtedness and insufficient access to finance, many developing countries are struggling to recover from the COVID-19 crisis, which could lead to deep and long-term social and economic scarring. Weak fiscal positions are also severely constraining the ability of many economies to address growing climate challenges and manage a green transition. Against this backdrop, the provision of debt relief through different financial instruments can help create the fiscal space needed for countries to invest in a sustainable, inclusive, and green recovery.

The G20's Debt Service Suspension Initiative (DSSI) and the subsequent establishment of the Common Framework on Debt Treatments Beyond the DSSI (Common Framework) are important initial steps in facilitating debt relief efforts for many vulnerable countries. However, middle-income countries facing high debt burdens remain ineligible to benefit from the initiative, and there is no clear incentive or mechanisms that can provide an enabling environment or compel private creditors to participate in debt relief efforts. There is need for more comprehensive debt relief initiative, that encompasses a wider group of countries and enables participation of all creditors, particularly given the urgent need to fill substantial gaps in financing SDGs and climate action.

The Secretary-General has called on the international community to consider debt relief initiatives that build on and complement the Common Framework.[1] The focus would be twofold: debt management and freeing up resources for investment in the pandemic response and in rebuilding more inclusive and sustainable societies. In this context, depending on countries' specific circumstances and debt profiles, a range of financial instruments such as debt swaps, debt exchanges and reprofiling, debt buy-backs, and credit enhancements could be considered. To help countries manage future crises, state-contingent debt instruments can also be used to build debt moratoria into contracts.

For countries that do not have unsustainable debt burdens but are fiscally constrained, 'debt-for-development' and climate debt swaps could enable these countries to repurpose funds allocated to debt service for investments in COVID-19 recovery, climate action, and the SDGs. Such debt swaps have historically been used for social or environmental objectives, and for both official and commercial debt. In the former case, official creditors cancel debt while in the latter, grant funding is used to repurchase commercial debt in the market (which is generally traded at a discount). In both cases, this is done in return for a commitment to allocate freed resources for investments in agreed priorities. There is a need to identify and understand the challenges associated with the implementation of these financial instruments, as well as to discuss potential solutions. These include exploring the structure and design options for such instruments in order to address the high transaction and monitoring costs involved, and to create significant space for investments in the benefiting countries.

Within the UN system, several streams of work are currently being done in this area. In December 2020, ESCWA launched the Climate/SDGs Debt Swap Initiative, aimed at supporting Member States that are facing high debt burdens and need additional financing for the SDGs and climate action. An Advisory Committee has been formed to guide the process of operationalizing debt swaps in selected pilot case countries. Currently, work is underway to operationalize a debt-for-climate swap initiative in selected middle-income countries. ESCAP is working with the Pacific Islands Forum secretariat to develop a framework for debt for-climate-swaps in the Pacific SIDS. ECLAC is exploring the use of national income-linked bonds, to maintain the policy space needed to address the immediate impact of COVID-19 and to support the recovery. ECLAC has also proposed the creation of a Caribbean Resilience Fund, which would include opportunities for financing debt reduction through debt swap initiatives. ECA is also pursuing different instruments of improving liquidity and debt relief for countries in Africa, including through debt restructuring and debt swap opportunities.

[1] United Nations (2020). Liquidity and Debt Solutions to Invest in the SDGs: The Time to Act is Now. Secretary-General's Policy Brief, March.

Beyond the UN system, several other initiatives and discussions are also taking place, including on credit enhancements to support countries' continued access to international capital markets.[2]

Objectives

The goal of this discussion is to:

- Bring together the UN system and other entities to discuss ongoing work on debt-relief instruments;
- Strengthen international and regional discourse on debt relief, especially in relation to climate change preparedness and the upcoming COP26;
- Explore the range of instruments and initiatives that can best facilitate efforts on debt relief, in order for countries in need to get back on track towards achieving the SDGs.

Guiding questions

- How best can the international community facilitate debt relief for countries in need?
- Can debt swaps be scaled up? What are the biggest transaction costs, and can these be overcome? Should we differentiate between initiatives that focus on buying back market debt and those that focus on swapping official debt, e.g. for climate action?
- What are the main challenges in the implementation of debt swap initiatives and how can these challenges be resolved for both creditor and debtor countries?
- Are there mechanisms and/or instruments that the official sector can use to incentivize private creditor participation in debt relief?

Format/programme

The side event will be structured as an interactive panel discussion, with one session covering global perspectives and one session on regional perspectives.

Welcome: Mr. Navid Hanif, Director of the Financing for Sustainable Development Office, DESA (3-5)

Opening Remarks: Ms. Rola Dashti, Under-Secretary-General of the United Nations and Executive Secretary of ESCWA (3-5)

Moderator: Ms. Sharon Spiegel, Chief of the Policy Analysis and Development Branch, Financing for Sustainable Development Office

Global perspectives:

- Ms. Stephany Griffith-Jones, Financial Markets Program Director, Initiative for Policy Dialogue, Columbia University – The global perspective (5)

[2] Volz et al. (2020), Debt Relief for a Green and Inclusive Recovery: A Proposal. Berlin, London, and Boston, MA: Heinrich-Böll-Stiftung; SOAS, University of London; and Boston University.

- Mr. Jeromin Zettelmeyer, Deputy Director, Strategy and Policy Review Department at International Monetary Fund – IMF experience and strategy (5)
- Mr. Marcello Estevão, Global Director, Macroeconomics, Trade and Investment Global Practice, World Bank Group –World Bank experience and strategy (5)
- Mr. Thomas Melonio, Executive Director for Research and Innovation, French Development Agency – The creditor perspective (5)

Discussion (15 minutes)

<u>*Regional perspectives:*</u>

- Mr. Saleh Kharabsheh, former Minister of Energy and Mineral Resources, former Minister of Environment, Jordan; Member, Advisory Board, ESCWA Climate/SDGs Debt Swap Initiative – Perspective from the Arab Region (5)
- Mr. Alberto Isgut, Officer in Charge, a.i., Financing for Development Section, Macroeconomic Policy and Financing for Development, ESCAP – Perspective from Asia and the Pacific (5)
- Mr. Sheldon McLean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean – Perspective from Latin America and the Caribbean (5)

Discussion (15 minutes)

Moderator closes

Closing remarks: Mr. Mounir Tabet, Deputy Executive Secretary, UNESCWA