Summary of some discussions on debt and debt sustainability held during the ECOSOC Forum on FFD, April 23-26, 2018

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Background

The Permanent Mission of Antigua and Barbuda (A&B) – in partnership with the Friedrich-Ebert-Stiftung and representatives from the Jubilee network in the USA, Caribbean, Germany and the United Kingdom – organized two meetings focused on debt and debt sustainability on May 23 and 24.

- "Before the Next Storm – Debt relief as a crisis response for Caribbean countries, and how other SIDS might benefit", was an open side-event on May 23, the first morning of the Forum. Speakers included Ambassador Webson from Antigua and Barbuda, Jubilee Caribbean's Reverend Osbert James, Jubilee Germany's Jürgen Kaiser, and UNDP Policy Specialist Gail Hurley. The session, which was well attended by UN Member States, Civil Society Groups and Secretariat from the FFD Institutional Stakeholders, explored how external debt might be turned into an instrument of efficient support in cases of future catastrophes, if there is a proper mechanism to allow for moratoria and serious debt restructuring and relief.
- "Moving Forward on Debt and Debt Sustainability: With a special focus on the situation of Caribbean Countries" was a luncheon and roundtable, held at the FES NY conference room on May 24 under Chatham House Rule, to discuss – with a special focus on the situations of Caribbean countries, who have suffered serious natural disasters in recent years – different views and perspectives on what is needed to move forward within the multilateral system on sovereign debt and debt sustainability. The room was filled to capacity with representatives of Northern and Southern UN Member States, as well as members of the secretariats of many of the FFD Institutional Stakeholders.

In addition, on May 26 the FFD Forum featured a brief thematic roundtable on "Debt and Systemic Issues" to review emerging debt trends and challenges and innovative instruments to address shocks. Later that day, the International Monetary Fund (IMF) in conjunction with the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), held a side-event on evolving debt vulnerabilities in least-developed and low-income countries. The following text summarizes these discussions.[1]

Summary of discussions

Discussions unfolded in the shadow of several recently released IMF reports touching on debt and debt distress, including: "Macroeconomic Developments and Prospects in Low-Income Developing Countries", "World Economic Outlook 2018" and "Global Financial Stability Report", all of which point to rising debt vulnerabilities and the possibility that we are closer to, if not yet on the very cusp of, another serious financial crisis. IMF representatives noted that over the past 3 years debt levels have risen sharply. Reasons include commodity price shocks and slow adjustment, natural disasters, and fraud in

[1] Statements in this summary attributed to an individual or organization were made in the context of one of the open meetings, rather than the meeting under Chatham House Rule held at FES.

the banking of state enterprises. Gaps are associated with PPPs and state enterprises that are not monitored well, indicating a need to keep a close eye on where debt is building up in the public sector.

During the thematic roundtable, UN Secretary General's Special Representative for Disaster Risk Reduction noted that – while the international community has done quite a lot with regard to dealing with disasters after the fact (with both public and private sector working on *ex post* quick disbursement and insurance) – 2018 marks the first time the agenda for disaster risk reduction, which is about being prepared *before* a disaster event occurs, was discussed at the Financing for Development Forum.

With lack of access to concessional finance for Middle Income Countries (MICs) emerging as a huge issue, there was a lot of discussion of options for different "state contingent instruments", in which a sovereign's debt service payments are linked to its capacity to pay, in the event of real world variables or events like natural disasters. That can be accomplished by linking the instruments to a country's GDP, to commodity prices, or to triggering natural disasters like hurricanes or earthquakes. Then, during an economic downturn or in the aftermath of a natural disaster, the debt service burden is automatically reduced to give the country policy space to enact countercyclical and stabilization policies. UNCTAD made the point that solving sovereign debt problems isn't a silver bullet for developing economies because most of their debt is private, and when problems arise, this debt often migrates to the public sector.

During the side-event organized by A&B, Jubilee and FES, "Before the Next Storm," participants from the Caribbean described with emotion both the economic and the human impacts of increasingly strong hurricanes in recent years. Ambassador Webson noted that the Caribbean has experienced over 200 disasters, which – without even counting Puerto Rico, the Dominican Republic or Cuba – have resulted in the loss of approximately 90% of GDP. In Small Island State (SIDS) economies where the government is often the main employer, welfare agent, and driver of the economy, rebuilding after a natural disaster involves borrowing, and often re-borrowing because, with the exception of Haiti, all the Caribbean countries are designated as middle or high income countries and do not get concessional loans.

Reflecting on the scale and persistence of the problem, Gail Hurley from UNDP noted that over the last 40 years, across all the small island states, there have been at least 61 debt restructurings. And growth is affected: in the Caribbean, a particularly hard hit region, growth is less than 1% annually, compared to closer to 3% elsewhere. She also pointed out that countries borrow not to build up *new* capital stock, but to replace destroyed capital stock.

Call to action

In this context, representatives from the Jubilee movement asked, "How can any country with high debt to GDP ratios possibly address their SDG commitments?"

Then then presented a call to action from a recent meeting of Jubilee Caribbean to Governments of the Caribbean and the International Financial Institutions to establish debt relief as an instrument for emergency support and reconstruction ahead of the next hurricane season. Such debt relief operations would imply both a moratorium and a pre-defined framework for restructuring organized by an impartial and competent institution.

Their message: we have a window of opportunity to act and an attainable goal: the cost of debt relief for the Caribbean is in the millions rather than billions of dollars. Given political will, this goal is attainable.

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