

## *Session 3: Debt and debt sustainability*

### *Key trends and challenges in SIDS and evolution of FfD-related agreements on debt*

Strengthening the capacity of experts from SIDS to meaningfully engage in intergovernmental negotiations on the outcome document for the Fourth International Conference on Financing for Development

New York, 9 December 2024



## Overview

- [Progress since the 2015 Addis Ababa Action Agenda
  - ❖ Debt trends in SIDS - heavy debt burdens hamper investment in SDGs and climate action
  - ❖ Debt crisis resolution
  - ❖ Debt crisis prevention]
- Commitments by the international community to support SIDS
- AOSIS debt-related inputs for the FfD4 elements paper
- FfD4 Elements Paper: Development oriented debt architecture



# Debt and debt sustainability

## Specific commitments by the international community to support SIDS in addressing debt challenges

### Addis Ababa Action Agenda

Encourage study of new financial instruments to address the needs of SIDS (and other developing countries) experiencing debt distress (e.g. debt swaps)

### The Antigua and Barbuda Agenda for SIDS

IFA should go further to fully address SIDS' unique circumstances; make concessional finance easier

Incorporate multidimensional vulnerability into debt sustainability and development support

Consider establishment of a dedicated SIDS Debt Sustainability Support Service

Consider the use of state-contingent instruments



# AOSIS debt-related inputs for the FfD4 elements paper

- Establish a mechanism where partial debt forgiveness for SIDS is tied to verifiable progress in climate mitigation, adaptation, and biodiversity protection. Debt-for-climate swaps and restructured agreements would incentivize countries to meet ambitious climate goals, while reducing their debt burden.
- Establish a dedicated SIDS Debt Sustainability Support Service to enable sound debt management and devise effective solutions for SIDS in relation to debt vulnerability in the immediate term and debt sustainability in the long term, building on and avoiding duplication with relevant dedicated initiatives.
- Deploy a programme of debt financing, reprofiling and debt relief for SIDS, including cancellation, restructuring and swaps, as well as utilizing blue and green bonds and swaps, where appropriate and needed.
- Promote, where appropriate, the use of state-contingent clauses in lending, including climate-resilient debt clauses when lending to developing countries vulnerable to hazards, including those linked to climate change.



## FfD4 Elements Paper – Advance a development-oriented debt architecture

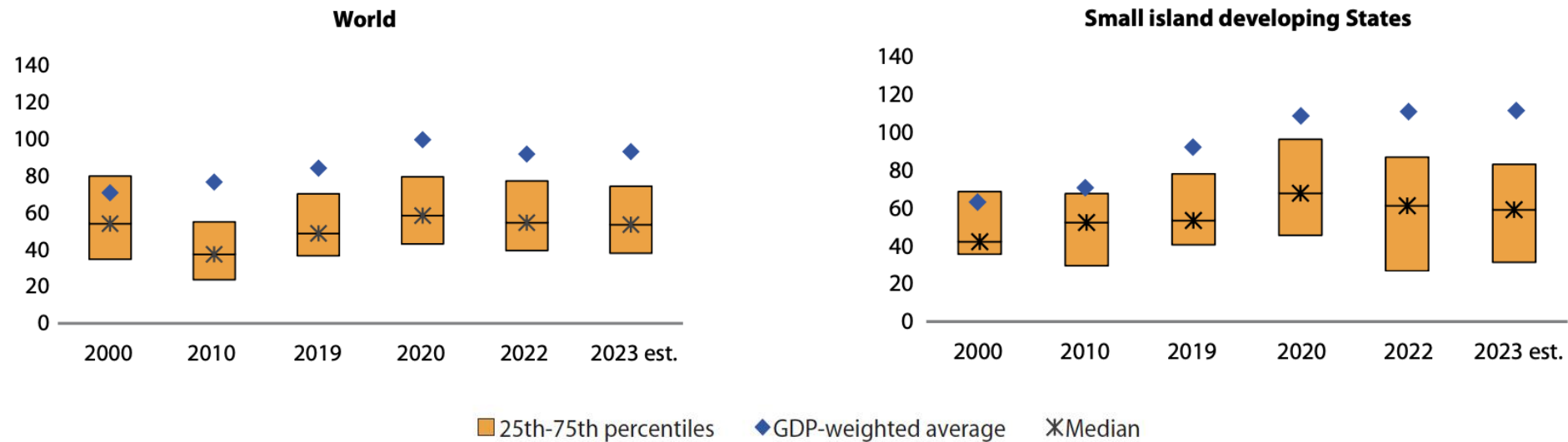
- 1) Sustainable and responsible borrowing and lending, and debt crisis prevention [*state-contingent debt clauses*]
- 2) Expand fiscal space for investment in SDGs in countries facing severe debt challenges and high cost of debt servicing [*DSSS*]
- 3) Improve the debt architecture for quicker, fairer and deeper debt resolution to restore countries to a path of sustainable development [*expand CF eligibility; legal/ financial advice; towards legal framework*]
- 4) Debt sustainability assessments [*capture resilience, climate risks, etc.*] + *CRA reform (systemic issues)*



# Debt and debt sustainability

**Sovereign debt levels of SIDS as a group were on an overall upward trajectory since 2000 and plateaued after COVID**

Overall general government debt evolution, world and SIDS, 2000-2023  
(Percentage of GDP)



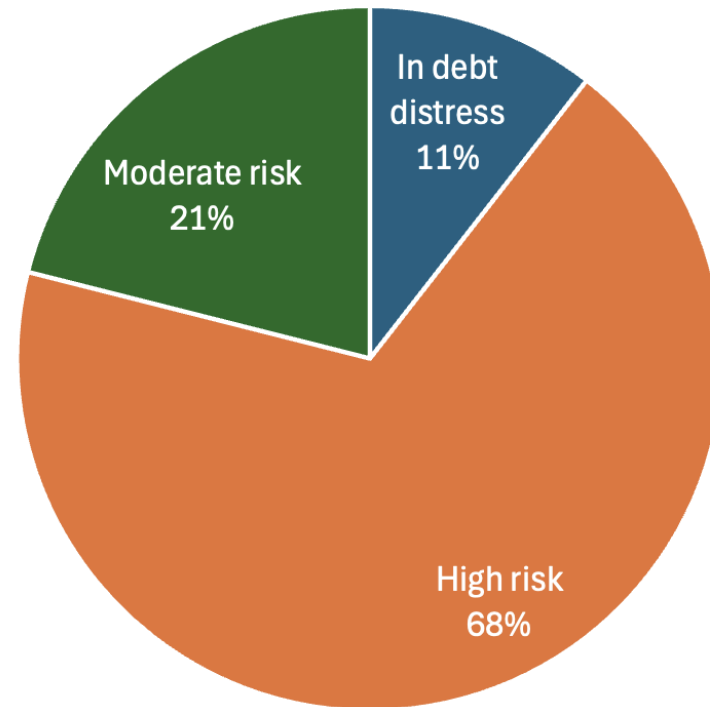
Source: FSDR 2024.

Note: Overall general government debt includes both domestic and external debt.



# Debt and debt sustainability

**80 per cent of PRGT-eligible SIDS are at high risk or already in debt distress**



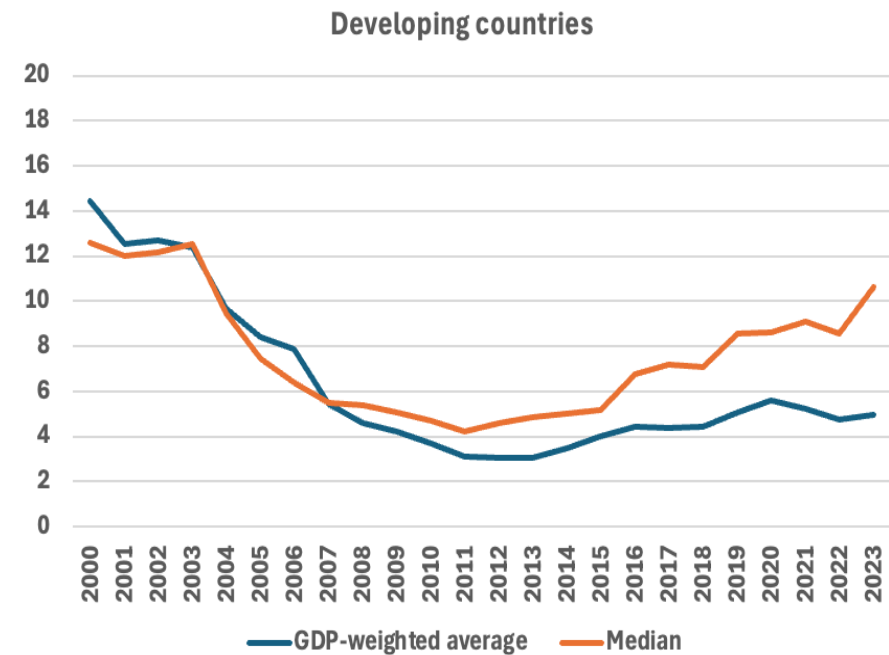
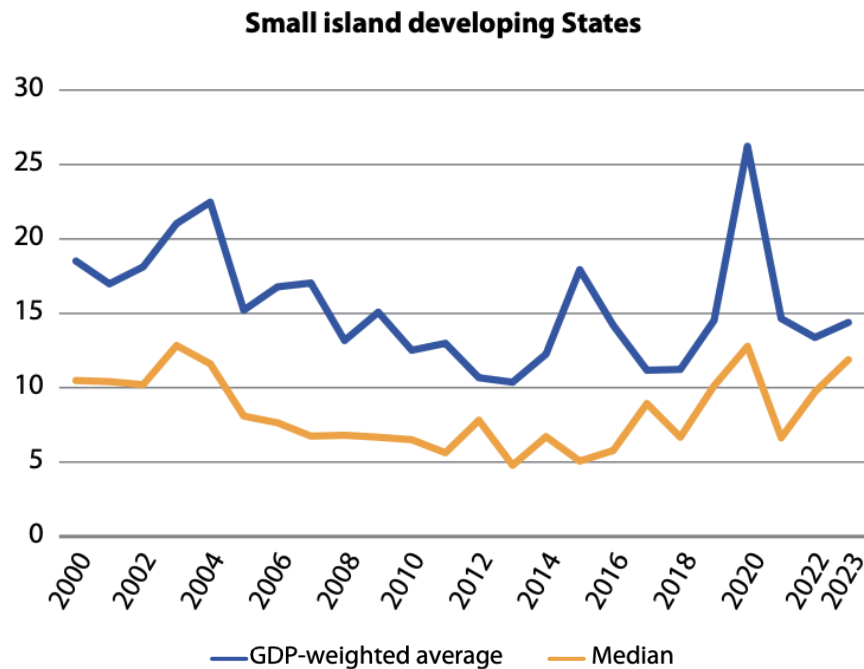
Note: External debt distress ratings produced by IMF/World Bank as of 30 September 2024 (i.e. the latest data). The data only covers 19 SIDS that are eligible for IMF's Poverty Reduction and Growth Trust.



# Debt and debt sustainability

## SIDS' median debt service on external public debt has more than doubled in the past decade

**Debt service on external public and publicly guaranteed debt, 2000–2023**  
(Percentage of general government revenue)



Source: FSDR 2024.





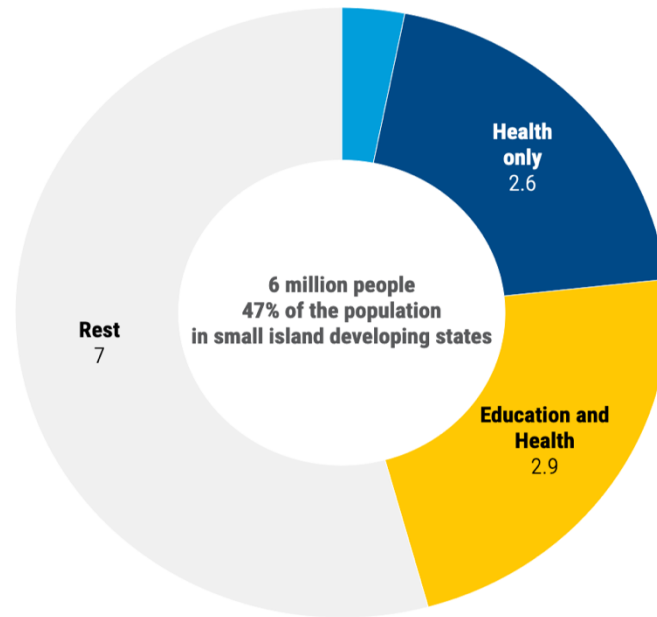
# Debt and debt sustainability

## High debt service burdens hamper implementation of the SDGs in SIDS

**People living in countries where net interest payments are higher than spending on education or health**

in millions

■ Education only ■ Health only ■ Education and Health ■ Rest



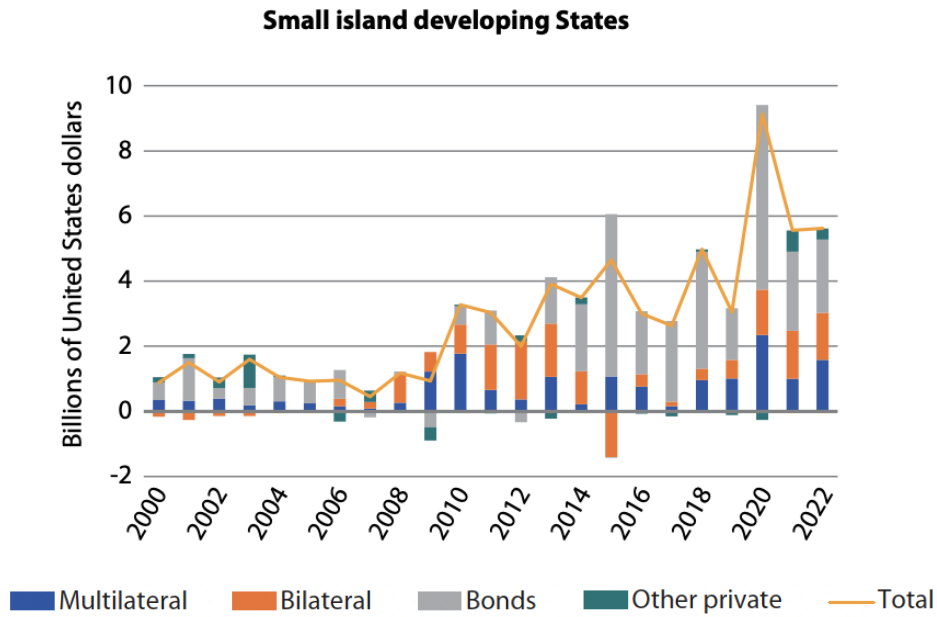
Source: UN Global Crisis Response Group calculations, based on IMF World Economic Outlook (April 2023), IMF Investment and capital stock database and World Bank World Development Indicators database. Figures for 2019-2021.



# Debt and debt sustainability

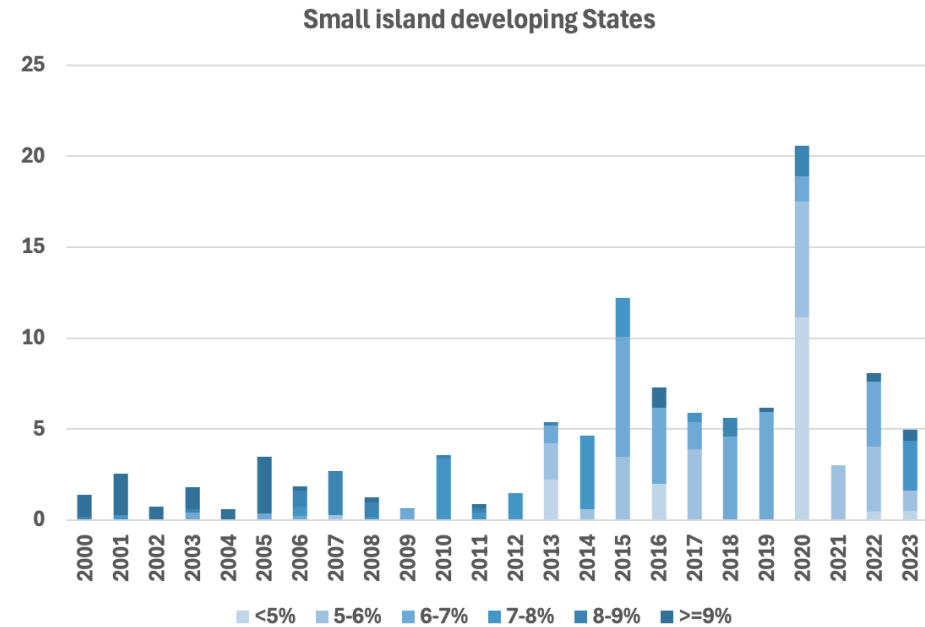
With debt service burdens projected to remain elevated for several years, amidst limited new financing options, more needs to be done to reduce the risks of liquidity crises

Net external public sector debt flows, 2000-2022  
(Billions of United States dollars)



Source: FSDR 2024.

Sovereign bond issuance in hard currencies, by coupon rate  
(Billions of United States dollars)



Source: UN DESA calculations based on LSEG data.

Note: Data includes sovereign bond issuance in pounds sterling, euros, Japanese yen and United States dollars.



## Progress since 2015 AAAA – Debt crisis resolution

- Significant efforts to strengthen debt crisis resolution have been insufficient to counteract growing challenges (G20 Common Framework, the Global Sovereign Debt Roundtable, other G20 efforts)
- Debt treatments under the Common Framework: slow progress, debt relief provided does not provide sufficient fiscal space for ambitious and necessary SDG investment programmes, excludes many middle-income countries



## Progress since 2015 AAAA – Debt crisis prevention

- SIDS remain highly vulnerable to debt crises.
- Technical assistance and sharing of good practices is supporting progress in public debt management.
- Borrowers have made improvements in debt reporting, while reporting by creditors on their lending has been mixed.
- Progress remains gradual and uneven across countries and numerous challenges persist.



## Progress since 2015 AAAA – Debt crisis prevention

- More effort is required: enhance debt transparency by both debtors and creditors, offer capacity support to SIDS to strengthen debt management.
- Need to address a growing set of global and national risk factors e.g. the climate crisis, instability in global financial system, conflicts etc.
- Need to revisit the AAAA commitment on consensus on the principles on responsible borrowing and lending and strengthen the implementation



# Debt and debt sustainability

## Other commitments by the international community that will also support SIDS in addressing debt challenges

### FfD Forum 2023 and 2024:

- Undertake actions and reforms to strengthen debt crisis prevention and support countries facing constraints
- Strengthen public debt management and transparency
- Improve international debt mechanism
- Implement resilience measures such as state-contingent clauses
- Scale up debt swaps when appropriate; and reduce mechanistic reliance on credit rating agencies.

