DSA and SDG/GPG

The impossible alignment?

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An illustration of the tragedy of horizons

- The DSA is focused on fiscal and external sustainability at any point of time in the future which is consistent with its essence (debt must be paid back)
- The maturity of EMDEs (and notably LICs) debt is relatively short, which means that DSA time horizon must be short
- Reaching the SDG and contributing to Global Public Goods (GPG) requires investments which are producing fiscal and external returns on the long term (hence with more uncertainty)

- **Mainly an issue of time inconsistency**
- **Can we do more on LICs debt maturity?**

DSA could hamper achieving SDGs

- Based on a DSA consistent approach, fiscal and external sustainability is at the heart of IMF programs.
- DSA is also at the heart of debt restructuring process through Paris Club/Common Framework...
- While IMF proned fiscal (and external) adjustment in PRGT countries is more and more mindful of prioritizing allocation of fiscal expenditures for SDGs, the quantitative tagets linked to debt sustainability remain the key of IMF programs.

Different ways to deal with the issue

- *«DSA's methodology must explicitly incorporate countries' long-term financing needs to pursue the SDGs, climate goals, human rights and gender equality commitments.»* **D. Munevar EURODAD**

- **Need to redefine debt sustainability, not as a goal per se, but relative to the development goals to be achieved.**

- **A tautological approach confounding debt sustainability and SDGs financing which does not solve the essence (and notably the rationale) of the inconsistency**

- **A different way to deal with the issue: take into account how making progress towards SDGs can help to mobilise ressources**

Different ways to deal with the issue

- ❑ Take into account potential fiscal and external benefits of SDGs
- ➢ haircut on debt to finance some investment to reach SDGs (numerator)
- ➢ better incorporating these benefits in the baseline (denominator)
- ✓ A lot of practical hurdles (data, quantitative assessment of SDGs benefits...) and does not solve fudamental issues
- ❑ Take into account an exhaustive measure of wealth in the DSA
- ➢ take into account net capital accumulation could help to foster a more long term view
- ➢ take into account human and natural resources capital make even more links with SDG/GPG
- ✓ A more consistent approach, but beyond practical hurdles, the need to assess financial return on capital remains

Different ways to deal with the issue

- **Take into account an exhaustive measure of wealth in the DSA to align with the SDG : the wealth of nations measured by the WB**

- ***«Whether economic progress is sustainable can be measured by how real wealth per capita is changing, as this represents changes in future production (and ultimately consumption) opportunities. Wealth in this context encompasses the value of all the assets of a nation that support economic production, such as its factories and roads (produced capital); forests, fish stocks, and fossil fuel reserves (natural capital); labor force (human capital); and net foreign assets. As long as real wealth per capita does not decline, future generations will have at least the same opportunities as the current generation, suggesting that development may be sustainable.»***

- **The time inconsistency issue could remain unless it is a credible indicator for creditors (and including it in DSA could help), but need to assess financial return on an exhaustive measure on capital**

Different ways to deal with the issue

- **DSA and financing GPG: the example of a pure GPG, climate mitigation**
- **Climate mitigation (example energy transition) are generating only global benefits (GES emission reduction)**
- **These benefits could not therotically be incorporated in the DSA framework**
- **But, they could be taken into account in the DSA framework through capacity to mobilize external financing linked to mitigation policies**

-international pressure to do more could come through restriction of external financing

-reciprocally, a more active mitigation policy could attract additionnal financing by the international community (including mar

Different ways to deal with the issue

- **DSA and financing environmental SDGs as well as GPGs: nature preservation**

- **Nature preservation is generating tangible local (natural capital) and global benefits (climate mitigation, biodiversity...)**
- **Local benefits difficult to assess on the sort term**
- **Global benefits could be incorporated in the DSA framework as far as the international community is ready to pay for these tangible benefits**
- **Easier quantitative assesment as debt for nature swaps already exist**

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Different ways to deal with the issue

- ❑ **Incorporating SDGs in the debt composition through contingent instruments a way to align DSA and SDGs**
- ➢ **Contingent instruments are reducing the default risk and hence this should be taken into account by a significant haircut in the total debt**
- ➢ **When increasing the resilience to external shocks, contingent instruments are contributing to achieving SDGs (look at the effect of Covid19 crisis on SDGs achievement!)**

Look at U. Panizza: Debt Sustainability in LowIncome Countries, The Grants versus Loans Debate in a World without Crystal Balls,FERDI, 2015)

Different ways to deal with the issue

- **Incorporating SDGs in the debt composition through contingent instruments a way to align DSA and SDGs**
- **Need to increase leverage of contingent instruments on resilience through quantitative (more usage) and qualitative (standardisation, link to resilience) means**
- **Food for thought: standardisation of contingency to multidimensionnal vulnerability would help to increase debt sustainability of most vulerable countries**

Different ways to deal with the issue

- **Incorporating capacity to mobilise external financing in the DSA framework, another way to align DSA and SDGs**

- **making progress towards most of the SDGs (and not only SGD 8) can increase the capacity to mobilise external financing**

-from the public sector (example SDG 16, peace, justice and strong institutions)

-from the private sector («*Since the United Nations Sustainable Development Goals (SDGs) were launched in 2015, they have been increasingly accepted and applied in the financial markets as environmental, social and governance (ESG) and impact investing are becoming mainstream»,Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, ICMA, June 2023)*

- **A special treatment (haircut?) for green, social and sustainabi**

Different ways to deal with the issue

- **Incorporating capacity to mobilise internal financing in the DSA framework, another way to align DSA and SDGs**
- **Making progress towards all the SDGs (and not only SGD 8) can increase the capacity to mobilise domestic resources, both tax revenue and private savings through increased trust in the future and in the institutions.**
- **Could also reduce residents capital outflows**
- **Need for more research on the links between SDGs, private saving and willingness to pay taxes.**