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The seventeenth sustainable development goal – (sub-goal 4): SDGs and debt sustainability: an empty promise?

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The seventeenth sustainable development goal – (sub-goal 4): SDGs and debt sustainability: an empty promise?

Bonn, 16 March 2015. According to estimates by the *International Monetary Fund* (IMF), a quarter of the world's poorest countries are currently so highly indebted that they are at high risk of plunging into a debt crisis. In relation to these countries' economic performance their debts are regarded as "unsustainable". As outlined in sub-goal 17.4 – suggested by the United Nations Open Working Group (OWG) – the international community should try to *"assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring…"*. This sub-goal of the 17th SDG (*Strengthen the means of implementation and revitalise the global partnership for sustainable development*) therefore ties in with the initiatives by the United Nations in the field of sovereign debt restructuring and responsible lending and borrowing.

In the past, poor debt sustainability has been shown to be a key obstacle to development. Severely indebted countries have, for example, often had to make radical cuts to social spending and investments in infrastructure due to high debt services. Although, over the past two decades, a number of ad hoc debt relief initiatives for developing countries have helped reduce the level of debt significantly, the root of the debt problem has not been solved. A current example from an industrialised country would be the debt crisis in Greece, where social spending has been cut drastically in order to pay for borrowing costs.

The Open Working Group (OWG) does not, however, mention any instruments for avoiding and overcoming debt crises. In response to the OWG proposal, UN Secretary-General Ban Ki-moon presented a synthesis report in September 2014, in which he was slightly more specific on the topic of reforming the instruments of the *global debt governance system*. The Secretary-General suggested an informal forum for sovereign debt restructuring. But, here once again, the Secretary-General remains rather vague in this respect. What does he mean by "informal forum"? Which tasks should this forum take on? According to the best-known proposal to date put forward by two economists from the American think tank *Centre for International Governance Innovation,* an informal *"Sovereign Debt Forum"* should serve as a consultation and analysis platform for creditors and debtors.

But is an informal forum for tackling debts of sovereign states really enough to prevent and overcome debt crises in developing and emerging countries? No. The Greek debt crisis has shown us this much. The debt crisis in the land of the acropolis would have been neither prevented nor overcome with an informal forum. So, it is evident that additional instruments are needed in order to achieve long-term debt sustainability. The chance to formulate sustainable development goals should be used especially to promote the principles of the *United Nations Conference on Trade and Development* (UNCTAD) for responsible sovereign lending and borrowing as well as the idea of introducing a sovereign insolvency procedure. The UNCTAD principles include a voluntary commitment to responsible sovereign lending and borrowing. These principles are, however, not legally binding, and so it remains unclear to what extent their implementation will be monitored.

In contrast, a sovereign insolvency procedure could establish internationally binding rules for all creditors to resolve debt crisis. Litigations by various vulture and hedge funds in sub-Saharan Africa and Latin America have shown that such rules are necessary. These investors buy securities at a very low price and then sue for repayment of the higher face value. For example, the lawsuit between the *NML Capital* hedge fund and the state of Argentina in September 2014 prevented an orderly and fair restructuring of Argentinean debt. It was against this backdrop that the UN General Assembly passed a resolution which is to form the basis on which a legal framework for sovereign debt restructuring is to be developed by the end of 2015.

At the moment, the political feasibility of implementing such a sovereign insolvency procedure seems limited. While the UN resolution was welcomed by the G-77 countries in particular, influential nations such as the USA, Great Britain and Germany voted against it. This could be one of the reasons why the UN Secretary-General is merely suggesting an informal forum in his synthesis report on the *Post-2015 Development Agenda*.

To ensure debt sustainability, however, it will be necessary to establish specific instruments in the SDGs for preventing and overcoming debt crises and to review their implementation. Otherwise, this sub-goal will remain an empty promise.

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