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Review of the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific and issues pertinent to the subsidiary structure of the Commission: macroeconomic policy, poverty reduction and financing for development

Securing public debt sustainability while pursuing the Sustainable Development Goals

Note by the secretariat

Summary

Economic activity in Asia and the Pacific slowed down considerably in 2022 and is expected to remain weak in 2023, amid high inflation, a weak global economy and the uncertainty caused by the war in Ukraine. Responding to high inflation and rising interest rates in advanced economies, monetary tightening in several Asia-Pacific economies has gathered pace since the second half of 2022. Such economic conditions have implications for the fiscal and debt positions of developing economies. Government debt levels in the region have been rising, which along with higher financing costs and an uncertain economic outlook suggests that the risk of public debt distress will be considerable in coming years. This implies that the scale of fiscal responses available for pursuing the Sustainable Development Goals and for climate action are likely to remain limited.

However, using a strategic foresight analysis that takes into account climate and socioeconomic megatrends, as well as Sustainable Development Goal implementation scenarios under difficult macroeconomic conditions, analyses carried out by the Economic and Social Commission for Asia and the Pacific show that higher debt levels are not necessarily a bad thing and do not always translate to a higher risk of debt distress. Building on this foresight aspect, a thorough examination of national public debt profiles reveals that debt sustainability depends on several factors, including the strength of the fiscal position and debt servicing capacity; the drivers and purpose of increasing debt; the type of debt (domestic versus external); the creditor profile; and certain structural, governance and institutional aspects. There is also a need for a long-term, holistic and forward-looking approach to assess existing and future public debt sustainability in Asia and the Pacific that duly considers, among others, national Goal-related investment needs; national Goal financing strategies; and the socioeconomic and environmental benefits of public investments in the light of key megatrends such as climate change and the ageing of societies.

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With bold policy actions at the domestic level and a spirit of multilateralism and collaboration, enhancing fiscal space to secure public debt sustainability and effectively responding to the commitments related to the 2030 Agenda for Sustainable Development and climate action should not be an onerous task. Examples of domestic policy options for forward-looking implementation include: increasing fiscal revenues through better and effective tax administration, a broadening of the tax base and greater reliance on direct and progressive taxation measures; improving allocative and operational efficiency of public spending and its effectiveness, including through the use of digital technology; and enhancing public debt management. The role of the international development community in strengthening and facilitating coordinated discussions among debtors and creditors, including for debt restructuring, and in accelerating progress towards common international debt resolution mechanisms and frameworks, should not be underestimated either.

The Commission is invited to review and discuss the policy ideas and forward-looking suggestions contained in the present document and provide feedback and guidance to the secretariat in that regard to help guide its forthcoming analytical work and its planning and preparation of technical assistance and future capacity-building projects. Members and associate members of the Commission are encouraged to share their specific experiences and initiatives on these issues.

I. Introduction

1. The war in Ukraine and a cost-of-living crisis have increased poverty and inequality in Asia and the Pacific, thereby deepening the socioeconomic scars left behind by the coronavirus disease (COVID-19) pandemic. Historically high inflation is undermining economic stability, while increases in interest rates are raising the levels of fiscal and debt stress of developing economies. Such economic conditions are making it difficult for countries to continue to invest in the transformative 2030 Agenda for Sustainable Development for an inclusive and sustainable future. In particular, a growing post-pandemic public debt overhang together with weak economic growth prospects and higher interest rates have considerably increased the risk of public debt distress in the region. As a result, the scale of fiscal responses available for pursuing the Sustainable Development Goals and for climate action are likely to remain limited.

2. Given this outlook, the present document sets out the case for a significant shift in thinking about leveraging public debt for development gains. New perspectives on fiscal and public debt analysis are presented to help developing countries in the region continue their investments in the Sustainable Development Goals while maintaining public debt sustainability over the long term.

3. In the present document, strategic foresight analysis techniques[1] are applied to examine the use of debt in a structured and systematic way, as well as to allow for the modelling of future socioeconomic developments on the basis of scenarios linked to the changing fiscal, monetary and socioeconomic environment.[2] The foresight scenarios, developed for socioeconomic and climate trends and their possible mitigation through Sustainable Development Goal investments, present various overall debt risk profiles and contain

[1] For instance, see United Nations Development Programme, Global Centre for Public Service Excellence, *Foresight Manual: Empowered Futures for the 2030 Agenda* (Singapore, 2018).

[2] For details, see *Economic and Social Survey for Asia and the Pacific 2023: Rethinking Public Debt for the SDGs* (forthcoming).

evaluations of their sustainability risk. Such analysis allows for better preparation in case of potential debt distress events and makes it possible to fully capture development opportunities oriented towards the Sustainable Development Goals. Insights from this foresight analysis are used to make policy recommendations aimed at more inclusive and sustainable economic development.

4. The present document provides the context of the global and regional trends that are having an impact on the financial needs and resources of governments. This is followed by a description of the current state of play in terms of the availability of debt resources to support government fiscal spending. The document also includes suggestions on policies that can be used to reduce fiscal and debt distress by increasing fiscal revenue, improving the efficiency and effectiveness of public spending and enhancing public debt management. Suggestions are also included that can help countries and territories facing elevated levels of debt distress to effectively engage in sovereign debt restructuring. Furthermore, the document contains suggestions on how the international development community can step up its efforts to assist Asia-Pacific governments by accelerating progress towards common international debt resolution mechanisms and restructuring frameworks.

II. Context

5. Economic activity in Asia and the Pacific slowed down considerably in 2022 and is expected to remain weak in 2023, due to high inflation, a weak global economy and the uncertainty resulting from the war in Ukraine. Average output growth for developing economies in Asia and the Pacific was estimated to be 3.5 per cent in 2022, compared with 7.1 per cent in 2021. It was expected to reach approximately 4.4 per cent in 2023. Inflation surged to 7.7 per cent in 2022 from 3.5 per cent in 2021, amid high global food and energy prices, and it was expected to remain at an elevated level (6 per cent) in 2023. This historically high inflation is not only undermining economic stability but adversely affecting low-income households more than others, thus worsening the deep socioeconomic scarring from the COVID-19 pandemic. Therefore, restoring price stability and safeguarding the vulnerable are not just macroeconomic issues, but critical factors for achieving the 2030 Agenda for Sustainable Development in the region.

6. Responding to high inflation in the region, monetary tightening in several Asia-Pacific economies has gathered pace since the second half of 2022. Since both demand and supply factors are responsible for high inflation in most economies, the conduct of monetary policy has become increasingly complex. Central banks in the region need to balance managing inflation expectations amid supply-driven factors, while minimizing the adverse impacts of higher interest rates on economic recovery prospects. In addition, they need to remain wary regarding pressure on their currencies to depreciate in the context of rising interest rates in advanced economies. According to the assessment of the Economic and Social Commission for Asia and the Pacific, interest rates in the region are expected to remain elevated in 2023.

7. Fiscal needs of governments for development spending are growing. For example, fiscal resources are needed to complement monetary policy in tempering high inflation by abating the rising cost of living through targeted subsidies or cash transfers to shield poor households from high food prices amid the risk of social unrest. Fiscal space is also needed for countercyclical stimulus packages, amid the risk of a sharp global economic slowdown in 2023. Given the limited progress made towards the Sustainable Development Goals,

future financing needs to effectively pursue the Goals will be considerable and meeting those needs remains critical. At the same time, financing needs for climate-related issues, including mitigation and adaptation as well as losses and damage resulting from climate-induced disasters, are also weighing on public finances.

III. Public debt situation in Asia and the Pacific

8. Prior to the COVID-19 pandemic, in 2019, the average government debt-to-gross domestic product ratio in developing countries in Asia and the Pacific reached an 11-year high of 40.4 per cent. In 2021, it rose further, to 49.1 per cent. Government debt in two thirds of Asia-Pacific economies is currently at its highest level since 2008. Given the higher fiscal deficits, higher borrowing needs and rising interest rates, public debt service payments are also expected to rise in many countries of the region in coming years.

9. Sizeable primary fiscal deficits, defined as total fiscal deficits excluding interest payments, are the main reasons behind the rising public debt trends in Asia and the Pacific in the past decade. For several debtor countries, especially those relying on external debt, currency depreciation has also contributed to higher debt levels. In contrast, past high economic growth, relative to borrowing costs, contributed to limiting the debt surge to some extent.

10. Around half of the developing Asia-Pacific economies still rely heavily on external debt, in particular from bilateral and multilateral official creditors.[3] The Asian Development Bank and the World Bank remain the largest multilateral creditors in the region. However, their loans have become less concessional over time, with the proportion of concessional loans decreasing from 51 per cent of all loans in 2008 to 26 per cent in 2021. Beyond official creditors, the role of private bondholders, such as institutional and individual investors, is increasing in the region’s sovereign creditor landscape.

11. Several small island developing States and landlocked developing countries have seen the sharpest increases in debt from China, predominantly for infrastructure projects under the Belt and Road Initiative. Lending by China to the region surged nearly 12-fold from $6 billion in 2008 to $71 billion in 2021. However, the share of concessional loans was very low, accounting for a mere 4 per cent of all loans.

12. Several Asia-Pacific countries, some with relatively high levels of domestic debt, increased issuances of local-currency government bonds in domestic markets in 2020 and 2021, primarily to fund stimulus packages in response to the COVID-19 pandemic. While these bond issuances can help broaden the investor base and increase the depth and liquidity of domestic capital markets, governments need to be wary of the increasing risk of sudden capital outflows, as foreign holdings of these bonds have also increased since 2008.

13. The risk of public debt distress is rising in Asia and the Pacific. According to the Debt Sustainability Framework for Low-Income Countries, 11 countries in the region are facing a high risk of public debt distress, including eight small island developing States. Of the Asia-Pacific economies for which sovereign credit ratings assessed by agencies are available, 18 of them are classified as being below investment grade. As fiscal and debt risks

[3] Ibid., chapter 2.

are deemed high in these economies, they typically suffer from higher government borrowing costs.

14. Amid an urgent need to fill the financing gap of the 2030 Agenda for Sustainable Development and climate ambitions in the near future, it is time for policymakers and the international development community to rethink the debt-development nexus in a forward-looking manner, with a foresight-based focus on underlying socioeconomic and climate megatrends.[4] There is a need to increase awareness of the fact that higher public debt can be a powerful tool for sustainable development, if used judiciously. The public debt thresholds advocated by the International Monetary Fund and the World Bank and used in their debt assessments, which are assumed to be "optimal", are in fact too low, and they contribute to sub-optimal development outcomes. A thorough examination of the public debt profile of countries from multiple perspectives reveals that a higher debt level is not necessarily a bad thing. In some cases – for example, Japan and Singapore – it does not translate into a higher risk of debt distress. Several factors matter, such as the strength of the fiscal position and the debt-servicing capacity; the drivers and purpose of increasing the debt; the composition (domestic versus external) of debt; the creditor profile; and certain structural, governance and institutional aspects. How much weight is given to these features in assessing debt distress varies across countries and involves an element of judgment.

15. There is also a need to revamp the conventional debt assessment tools for more in-depth future debt sustainability assessments. The current approach to public debt sustainability analysis focuses heavily on maintaining debt at sustainable levels in the short term. It undermines government ability to access financial resources and is inconsistent with a long-term journey towards inclusive and sustainable development. There is a need for a long-term, holistic approach to assessing public debt sustainability that duly considers, among others, a country's Sustainable Development Goal investment needs; national Sustainable Development Goal financing strategies; and the socioeconomic and environmental benefits of public investments. Indeed, the Economic and Social Commission for Asia and the Pacific has developed such an augmented and future-focused approach to debt sustainability assessments,[5] and it will engage with member States at the fourth session of the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development, to be held in Bangkok later in 2023, and through technical assistance projects.

IV. Policies to enhance the fiscal space

16. With bold policy actions at the domestic level and a spirit of multilateralism and collaboration, enhancing fiscal space to secure public debt sustainability and to effectively respond to the ambitions of the 2030 Agenda for Sustainable Development and climate action should not be an onerous task. Detailed discussion of several such forward-looking policies is available in theme studies prepared for the seventy-seventh and seventy-eighth sessions of the Commission. The discussion below highlights the salient policies.

[4] Ibid., chapter 2.

[5] Ibid., chapter 4.

A. Increasing fiscal revenue

17. Better and efficient tax administration can help reduce tax avoidance among companies and individuals. Higher tax-payment compliance not only increases fiscal revenues, but also postpones potential future increases in tax rates. Among other measures to further improve the quality of tax administration, governments could introduce and enforce effective tax legislation; increase the use of information technology in tax operations, such as electronic invoicing and tax reporting; streamline tax procedures; and adopt risk-based compliance controls. Dedicated units for large taxpayers can also be set up.

18. Governments should also seek to broaden the tax base by rationalizing existing tax exemptions, formalizing informal economic activities and introducing new taxes that will benefit inclusive and forward-looking green development. For example, generous tax incentives to promote foreign investment projects in carbon-heavy industries could be rationalized or cancelled. In addition to supporting economic formalization, digitalization of tax administration systems also expands the tax base, given the rapidly growing digital economy.[6]

19. In most Asia-Pacific economies, the tax systems rely on indirect taxes, such as consumption taxes, rather than direct taxes, such as corporate and personal income taxes. Such reliance is mainly underpinned by large informal economies and limited tax administration capacity to collect direct taxes.[7] Reducing the reliance on indirect taxes can boost future government revenue and reduce income inequality. In this regard, governments should seek to leverage the potential of more direct taxation in the coming years, in particular more progressive personal income taxes.

20. Emerging transboundary challenges on taxation also require enhanced regional and global tax cooperation. New business models and a changing global economic landscape are making taxation based on traditional models, which are territory-based and rely on tangible assets, more challenging. Examples include the rise of the digital economy, illicit financial flows, profit-shifting by multinational firms and offshore evasion by wealthy individuals. The Asia-Pacific region would benefit in the future from more policy dialogues, exchange of knowledge and best practices, and capacity-building on international tax cooperation.

B. Improving public spending efficiency and effectiveness

21. Asia-Pacific countries can improve public expenditure management by enhancing both allocative and operational efficiencies. Enhancing allocative efficiency requires linkages between annual budgets and the Sustainable Development Goals and other future development priorities at the national level. To that end, budgeting approaches that focus on gender, climate concerns or the Sustainable Development Goals can be adopted. Meanwhile, improving operational efficiency involves better project cycle management, including having effective due diligence, suitable project sizes, strong project oversight and measures to curb corruption.

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[6] *Economic and Social Survey of Asia and the Pacific 2022: Building Forward Fairer – Economic Policies for an Inclusive Recovery and Development* (United Nations publication, 2022).

[7] Ibid.

22. Regarding allocative efficiency, defence expenditures in many Asia-Pacific economies still account for over 10 per cent of the total public expenditure.[8] In Thailand, defence spending has been partially reallocated to fund the introduction of a universal health care programme, which offers greater development impacts.[9] Beyond defence spending, the public sector remains the major employer in several Asia-Pacific countries where civil service salaries account for over half of total public expenditure.[10] In this regard, governments may reassess their future priorities and allocate more fiscal resources to other concerns, for instance, enhancing food and energy security and achieving national climate ambitions.

23. On operational efficiency, digitalization and the targeting of public spending, programmes can play an important role. Greater use of information technologies should be introduced throughout the process, from the allocation of funds to expenditure and impact monitoring. This is particularly important for core public spending areas, such as health care, education and social protection, which have notably reduced poverty and income inequality in the Asia-Pacific region.[11] In the Pacific, health spending has been reoriented towards preventive care, specialized health services and early treatments. This approach has resulted in enhanced health spending effectiveness and should remain the way forward from the strategic foresight perspective.

24. The provision of government subsidies on essential items helps vulnerable households to weather commodity price shocks. Amid high global food prices, governments may consider enhancing the scale and targeting of food subsidies, such as school food programmes. Similarly, targeted energy subsidies can be used to address high energy prices, although these programmes should be temporary in nature to avoid disruptions to a long-term transition towards clean and renewable energy. To increase the efficiency and transparency of these subsidy programmes, governments should seek to adopt digital systems for the registry and management of subsidy programmes in the near future, such as the Aadhaar programme in India. More broadly, promoting long-term food and energy security would help relieve future subsidy costs.

C. Better public debt management

25. In order to cope with rising public debt levels and increasing future debt sustainability risks, governments can make public debt management more effective. Among other benefits, this can result in lower financing costs and better risk management. To this end, governments should aim to establish or achieve the following aspects of good public debt management practices in the coming years:

(a) Clear debt management objectives and transparent legal frameworks that grant the authority to borrow and issue government guarantees;

(b) Strong and effective fiscal-monetary coordination;

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[8] *Reclaiming Our Future: A Common Agenda for Advancing Sustainable Development in Asia and the Pacific* (United Nations publication, 2022).

[9] *Economic and Social Survey of Asia and the Pacific 2018: Mobilizing Finance for Sustained, Inclusive and Sustainable Economic Growth* (United Nations publication, 2018).

[10] *Reclaiming Our Future*.

[11] *Economic and Social Survey of Asia and the Pacific 2018* and *Economic and Social Survey of Asia and the Pacific 2022*.

(c) Separate and accountable public debt management offices to strengthen policy credibility;

(d) The timely collection, monitoring and reporting of public debt data;

(e) The right balance between debt servicing costs and risk level, owing to the refinancing risk, realization of fiscal contingent liability and risks stemming from volatile interest rates, exchange rates and market liquidity;

(f) An effective government cash management system that features centralized government bank accounts and an ability to make accurate cash flow forecasts.

26. Many Asia-Pacific countries have demonstrated various good practices on public debt management. For instance, Indonesia established the Financial System Stability Forum – comprising the Ministry of Finance, the Bank of Indonesia, the Financial Services Authority and the Indonesia Deposit Insurance Corporation – to strengthen the coordination of fiscal and monetary policy. The Forum convenes regular meetings and its members share their assessments on macroeconomic and policy factors that influence economic and financial stability. To promote accountable debt management, Nepal set up the Public Debt Management Office in 2018 to consolidate all debt management functions under the Ministry of Finance. In addition, Papua New Guinea amended the Fiscal Responsibility Act to accommodate the absorption of contingent liabilities and established an inter-agency office under the Department of Treasury to monitor and clear arrears.

V. Considering sovereign debt restructuring

27. A default on sovereign debt can incur large socioeconomic costs for debtor countries due to several reasons. Losses in economic output due to a sovereign debt default are estimated at 1–4 per cent of gross domestic product annually in the short to medium term.[12] The impact can also be long-lasting, with significant deterioration in poverty and social indicators.[13] Such a high cost of sovereign defaults is underpinned by factors such as higher borrowing costs; capital market exclusion; reputational spillovers; domestic financial and political costs; and direct sanctions and trade costs. Creditor holdouts also result in protracted negotiations, prolonged debt overhang and repeated debt restructuring needs.

28. Debt restructuring is the main channel for mitigating the damage in a scenario of potential or materialized sovereign defaults. Through different combinations of maturity extensions, coupon adjustments and principal haircuts,[14] much-needed breathing space can be created to ensure future

[12] See Dmitry Kuvshinov and Kaspar Zimmermann, "Sovereigns going bust: estimating the cost of default", *European Economic Review*, vol. 119 (October 2019), pp. 1–21; Silvia Marchesi and Tania Masi, "Life after default: private and official deals", *Journal of International Money and Finance*, vol. 113 (May 2021); and Juan P. Farah-Yacoub and others, "The social costs of sovereign default", Policy Research Working Paper, No. 10157 (Washington, D.C., World Bank, 2022).

[13] See Farah-Yacoub and others, "The social costs of sovereign default".

[14] Maturity extensions, sometimes referred to as rescheduling or reprofiling, refer to extensions in the due dates of interest payments or principal repayment and the introduction of grace period. They can also reduce the present value of outstanding debt claims, but such reductions tend to be limited. Coupon adjustments refer to reductions in interest rates on the outstanding debt. Principal haircuts refer to reductions in the principal amount of the debt.

continuity in essential public spending, reduce fiscal burdens, regain access to financial markets and restore financial resilience in the longer term.

29. Most sovereign debt restructurings are not sufficiently pre-emptive and are too small in scale. Debt restructuring that is carried out too late is mainly due to concerns over domestic political costs and financial instability. Moreover, the failure of international capital markets to recognize unsustainable debt situations as well as a common view that treats a restructuring offer as a de facto sovereign default also contribute to delayed restructuring. Meanwhile, debt restructurings that come too late do not serve their primary objective of restoring long-term fiscal sustainability. Incentives for shallow restructuring arise because accepting policy and decision failures and financial losses incur various costs both for debtor countries and their creditors.

30. The examination of debt profiles (using strategic foresight analysis) and of past default events highlights a few debt restructuring priorities. From a debtor country's perspective, the results of the examination point towards several steps in the process of sovereign debt restructuring, including the following:

(a) *Carrying out a comprehensive and realistic assessment of public debt sustainability with reference to socioeconomic and climate megatrends, which shape long-term spending needs and often define their quality and returns from investment*. This exercise can be conducted by the government itself if it has adequate internal capacity. However, for an overwhelming majority of cases, the debtor country conducts this debt sustainability analysis with extensive support from development partners, primarily the International Monetary Fund;

(b) *Determining the scope of restructuring*. One important decision involves whether to restrict the restructuring to domestic or external debt only or to conduct a comprehensive restructuring that covers both. This has important implications on the restructuring approach, as each option has advantages and disadvantages. For example, domestic debt restructuring provides the debtor country with greater flexibility in designing the restructuring plan, limiting creditor holdout and preventing potential litigation. However, domestic financial stability would be the main concern, as domestic financial institutions often have significant exposure to local sovereign debt. For external debt restructuring, the primary concern is that it there is a reputational cost to the government in the international capital markets, especially when domestic debt is excluded from the restructuring;

(c) *Preparing restructuring proposals on the scale and elements of debt restructuring for different creditors*. The proposals serve to prepare the creditors and mark the beginning of a formal negotiation process. Some proposals are publicly released, whereas others are disclosed only to target creditors and guarded by non-disclosure agreements;

(d) *Negotiating with official and private bilateral creditors*. Compared with private creditors, official bilateral creditors are often more willing to cooperate with debtor countries to find solutions to unsustainable debt or, in some circumstances, to provide bilateral bailouts. This is due in part to the overriding concern of bilateral creditors with broader public welfare and to their extensive economic linkages with, and national interests in, debtor countries. Existing debt resolution or policy coordination platforms, in particular the Paris Club and the Group of 20, also expedite and simplify debt restructuring negotiations with bilateral creditors, thus encouraging debtor countries to seek future relief agreements with bilateral creditors first and allowing private creditors to leverage the larger fiscal space created by official creditors;

(e) *Managing implementation and litigation risks*. Litigation risks largely concern the restructuring of external debt that is issued under foreign law, usually in New York or London, and the debtor country has no control over it. The holdout creditors can insist on full payment on their claims and block payments from the debtor country to other creditors who have agreed to the restructuring terms. In this regard, the progress made in adopting collective action clauses in sovereign borrowing contracts is encouraging as it partly helps address this issue.

31. Successful sovereign debt restructuring depends on several conditions. Pre-emptive, swift and adequate sovereign debt restructuring, informed by reliable debt sustainability assessments, can greatly shorten debt distress episodes and mitigate the overall socioeconomic damage of a debt default. To this end, strengthening sovereign debt monitoring and data transparency help promote future proactive and sufficient debt restructuring efforts.

32. In addition, for domestic debt restructuring, strong political commitments are essential to address potentially strong resistance from powerful vested interest groups. Transparent and inclusive engagement with broad stakeholders can help reduce such political resistance and gain future public support. A credible strategy for complementary reforms aiming at addressing the root causes of the debt distress will also help increase trust among creditors and the public.

33. Furthermore, successful sovereign debt restructuring hinges upon the fair treatment of all stakeholders. Debt restructuring is inevitably painful for all the parties involved, not just debtor countries. A smooth restructuring that reasonably balances concerns of debtor countries and creditors, such as through a more collaborative approach to debt workout, is still in everyone’s common interest.

VI. Role of the international development community

34. The international development community can play a significant role in strengthening and facilitating coordinated discussions among debtors and creditors, including for debt restructurings, and in accelerating progress towards common international debt resolution mechanisms and frameworks. The Group of 20 Common Framework for Debt Treatments is a recent example of such efforts. There are a number of actions that could be taken to make the Framework more effective and increase its impact, including to (a) extend eligible debtors beyond low-income countries to highly vulnerable, indebted middle-income countries; (b) extend eligible creditors beyond official bilateral debts and include private creditors, if possible; (c) consider options to reduce the amount of debt stocks, such as debt-for-climate swaps; (d) promote debtor-creditor dialogue; (e) improve coordination within and among official creditors; and (f) ensure transparent operations by all official creditors.[15] Moreover, as the Debt Service Suspension Initiative ended in December 2021 and debt

[15] For more details, see Bodo Ellmers, “Financing sustainable development in the era of COVID-19 and beyond: an analysis and assessment of innovative policy options”, Briefing (Aachen, Germany, Misereor, 2020); International Monetary Fund and World Bank, “Implementation and extension of the debt service suspension initiative”, Joint IMF-WBG Staff Note, September 2020 (Washington, D.C, 2020); and *Financing for Sustainable Development Report 2022* (United Nations publication, 2022).

servicing resumed for many economies before debtor countries could reach an agreement under the Common Framework, debt standstills during ongoing negotiations should be offered.

35. More broadly, multilateral debt efforts would benefit from changes in the underlying concepts, such as taking into account a debtor's financing needs for climate action and for achieving the Sustainable Development Goals when considering the scale of debt relief. Changes in the institutional arrangement, such as establishing a global sovereign debt coordinating body to issue norms for the prudential issuance of public debt and to provide capacity-building on future debt issues, are also important.[16]

36. As a major creditor for several Asia-Pacific countries, China can play a significant role in easing the public debt burden of many developing economies. Under the Debt Service Suspension Initiative, China extended debt relief worth at least $2.1 billion, including debts owed to entities such as the China International Development Cooperation Agency and the Export-Import Bank of China.[17] During the period 2000–2019, China cancelled about $3.4 billion of its official zero-interest loans to African countries, while restructuring an additional $7.5 billion in debt, primarily through maturity extensions.[18] Similar considerations could also be explored for debtor countries in Asia and the Pacific.

37. Ensuring comparability of treatment across creditors, including private creditors, is a critical issue. Typically, private creditors have incentives to hold out and benefit from stronger debt service capacity of a country due to debt relief provided by official creditors. Although comparability of treatment is a principle of the Common Framework, there is currently no concrete mechanism in place to enforce private sector participation. To address this, various proposals have been made, such as limiting the amount of future debt recovery by private creditors; binding minority creditors to majority decisions on restructuring terms; and considering the inclusion of State-contingent clauses to protect debtors from exogenous downside risks.[19] More broadly, mechanisms that allow debtors to regain market access after debt restructuring are desirable.

38. The support provided by the United Nations system, together with international financial institutions, to debtor countries in adopting collective action clauses in sovereign borrowing contracts could be strengthened, which would help reduce the holdout and litigation threat by some creditors. Meanwhile, it would be beneficial to provide more developing countries with technical assistance aimed at supporting the adoption of risk-sharing mechanisms between debtor countries and creditors in the near future, such as through the introduction of State-contingent clauses.

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[16] Alberto Isgut, "Addressing sovereign debt challenges in the era of COVID-19 and beyond: the role of the United Nations", *Asia-Pacific Sustainable Development Journal*, vol. 28, No. 2 (December 2021), pp. 149–192.

[17] Reuters, "China says has given $2.1 billion of debt relief to poor countries", 20 November 2020.

[18] Kevin Acker, Deborah Brautigam and Yufan Huang, "Debt relief with Chinese characteristics", China Africa Research Initiative Working Paper, No. 39 (Washington, D.C., John Hopkins University, 2020).

[19] *Financing for Sustainable Development Report 2022*.

39. Globally, donor countries have failed to meet their commitments to provide 0.7 per cent of their gross national income as official development assistance. Similarly, in the area of climate finance, developed countries pledged in 2009 to scale up funding with a goal to mobilize $100 billion annually by 2020. The amount increased steadily to $79 billion in 2018; however, the goal has not been met. While government efforts to enhance fiscal space on the domestic front are critical, the scale of the financing needs of many poor and vulnerable Asia-Pacific countries substantially exceed their fiscal capacity to service rising debt levels and meet the Sustainable Development Goals and climate ambitions.

40. Greater efforts could also be made to ensure that a country's vulnerability to external shocks (such as climate change-induced natural disasters) is properly reflected in allocating concessional finance and assessing public debt sustainability. The dominant use of per capita income as a proxy for the development level of a country means that some highly vulnerable countries with a higher income level have no access to concessional finance. However, higher vulnerability means that the capacity to service debt may decline unexpectedly in the aftermath of shocks. To address this issue, the United Nations has set up a high-level panel of experts to examine a multidimensional vulnerability index. By reflecting a country's vulnerability to external shocks that are beyond its control but which could cause large losses, this index would help to comprehensively assess the economic, social and environmental vulnerabilities of developing countries in the future. A debt sustainability analysis that takes this index into consideration would also reflect greater relief needs for highly vulnerable countries.

41. The provision of technical support by multilateral organizations to debtor countries in the areas of sovereign debt monitoring and sustainability assessment can also help governments to make informed, evidence-based and forward-looking policy decisions. Moreover, effective coordination among official creditors is often the first step in successful sovereign debt restructuring, while timely and adequate debt relief efforts by official creditors help to catalyse private creditor participation. The coordination framework among official creditors can also be leveraged as a basis for broader coordination that also involves private creditors.

VII. Issues for consideration by the Commission

42. The Commission is invited to review and discuss the policy ideas and suggestions contained in the document and provide feedback and guidance to the secretariat on these areas. This would help to guide the secretariat's forthcoming analytical work; its planning and preparation of future technical assistance and capacity-building projects; and the implementation of strategic foresight as a long-term planning tool.

43. Members and associate members of the Commission are encouraged to share their specific experiences and initiatives on these issues. Sharing and discussing such examples would be fruitful, allowing participants to learn from each other and enriching their policy deliberations.

44. In this context, members and associate members may wish to share their national experiences in terms of:

(a) Enhancing fiscal space by improving fiscal revenues, spending efficiency and effectiveness, and the management of public debt;

(b) Providing recommendations and highlighting opportunities for regional and international cooperation to help debtor countries deal with a high risk of debt distress.