

# Mapping the global partnership for development



## Debt relief and sustainability template

Debt relief can provide a valuable complement to domestic resources and new ODA so as to enable greater investment in reaching the MDGs. High servicing costs of both external and domestic debt can squeeze out expenditures that are necessary for meeting the MDGs. Over the past three decades a number of institutions and initiatives have been established to reschedule or cancel debts that have reached unsustainable levels. The Millennium Declaration called on industrialized countries to “implement the enhanced programme of debt relief for the heavily indebted poor countries [HIPC] without further delay and to agree to cancel all official bilateral debts of those countries in return for their making demonstrable commitments to poverty reduction”. It also stated their determination “to deal comprehensively and effectively with the debt problems of low- and middle-income developing countries, through various national and international measures designed to make their debt sustainable in the long term”.

The Monterrey Consensus added that “future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration” and that “innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income countries and countries with economies in transition” should be explored. In 2005 the G8 agreed that “all the debts owed by eligible heavily indebted poor countries to IDA, the International Monetary Fund and the African Development Fund should be cancelled” through the Multilateral Debt Relief Initiative (MDRI). Finally, the 2005 World Summit Outcome stressed “the need to consider additional measures and initiatives aimed at ensuring long term debt sustainability through increased grant-based financing, cancellation of 100 per cent of the official multilateral and bilateral debt of heavily indebted poor countries and, where appropriate, and on a case-by-case basis, to consider significant debt relief or restructuring for low- and middle-income developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative, as well as the exploration of mechanisms to comprehensively address the debt problems of those countries. Such mechanisms may include debt for sustainable development swaps or multi-creditor debt swap arrangements, as appropriate”.

Alongside problems of external debt, many countries have been experiencing increasing problems with domestic debt. Although public borrowing from domestic constituents can help to deepen and broaden financial markets, as well as provide valuable resources to invest in growth and development, excessive domestic debt can leave a country with high servicing costs that squeeze out expenditure, and leave the country vulnerable to increases in real interest rates.

| Components of the model  | Proxy indicators and data sources  |
|--|--|
| <p><b><u>External Policies and Actions</u></b></p> <p>Decisions taken on debt relief ▲ (global data)</p> | <ul style="list-style-type: none"> <li>Chronology of external engagement with</li> </ul> |

|  |  |
|--|--|
| <p>Conditions linked to debt relief ▲</p>  | <p>debt relief</p> <ul style="list-style-type: none"> <li>• Details of conditions to be fulfilled before gaining debt relief</li> </ul> <p><i>Data sources:</i> <a href="#">World Bank debt reports</a>, <a href="#">Paris Club</a></p>  |
| <p><b><u>Key flows</u></b></p> <p>External concessional loan finance and repayments ▲ ▼ (local data)</p> <p>Debt relief ▲</p> <p>Domestic borrowing and repayments ▼</p> <p>Importance of loans ▲</p>  | <ul style="list-style-type: none"> <li>• Profile of external debt<sup>1</sup></li> </ul> <p><i>Data sources:</i> <a href="#">World Bank / IMF Quarterly external debt Statistics</a>, <a href="#">World Bank country aggregate reports</a>, <a href="#">World Bank estimated debt service</a>, <a href="#">IMF country information</a>, regional development bank and Central bank data</p> <ul style="list-style-type: none"> <li>• Loans rescheduled or cancelled</li> </ul> <p><i>Data sources:</i> <a href="#">World Bank</a>, <a href="#">IMF</a>, <a href="#">Paris Club</a></p> <ul style="list-style-type: none"> <li>• Profile of internal debt<sup>2</sup></li> </ul> <p><i>Data sources:</i> Central bank data on treasury-bills and debentures issued</p> <ul style="list-style-type: none"> <li>• Proportion of ODA as loans</li> </ul> <p><i>Data source:</i> <a href="#">OECD / DAC</a></p> <ul style="list-style-type: none"> <li>• Degree of concessionality</li> </ul> <p><i>Data sources:</i> World Bank country classifications and project documents, IMF and regional development bank sources</p> |
| <p><b><u>Country Context (of relevance to debt relief and sustainability)</u></b></p> <p>Debt in relation to the economic situation ▲</p> <ul style="list-style-type: none"> <li>- Size of economy</li> <li>- Exports</li> <li>- Revenues</li> </ul> | <ul style="list-style-type: none"> <li>• External public debt to GNI ratio</li> <li>• External public debt to exports ratio</li> <li>• External debt servicing as a % of government revenue<sup>3</sup></li> </ul>   |

<sup>1</sup> New loans contracted, net of interest and principal paid

<sup>2</sup> New securities issued, net of interest and amortization

<sup>3</sup> This indicator is already commonly calculated. It shows what proportion of government expenditure goes towards servicing external debt, but does not capture an assessment on the quality of expenditure that occurred as a result of the borrowing; or an assessment of the quality of expenditure that would take place if debt servicing was foregone.

|  |   |
|--|---|
| <p>Debt in relation to the MDGs ▲ ▼</p> <ul style="list-style-type: none"> <li>- Net new aid</li> <li>- MDG financing</li> </ul> | <ul style="list-style-type: none"> <li>• Total debt servicing (external + domestic) as a % of government revenue</li> </ul> <p><i>Data sources: World Bank <a href="#">WDI</a>, <a href="#">World Bank / IMF Quarterly external debt Statistics</a></i></p> <ul style="list-style-type: none"> <li>• External debt servicing as a % of new ODA</li> <li>• External debt servicing as a % of the annual MDG financing gap (less the potential for Domestic Resource Mobilisation (DRM))<sup>4</sup></li> <li>• Total debt servicing (external + domestic) as a proportion of the annual MDG financing gap (less the potential for DRM)</li> </ul> <p><i>Data sources: <a href="#">World Bank estimated debt service</a>, IMF, <a href="#">regional development bank</a>, <a href="#">Central bank data</a>, <a href="#">OECD / DAC</a>, <a href="#">Ministry of Finance and sectoral ministry planning estimates</a></i></p> |
| <p><b><u>Impacts</u></b></p> <p>Government spending ▲ ▼</p> <p>Ability to attract new finance ▲</p>                              | <ul style="list-style-type: none"> <li>• External debt servicing as a % of <ul style="list-style-type: none"> <li>- Education expenditure</li> <li>- Health expenditure</li> </ul> </li> <li>• Trend in aid flows over previous 10 years</li> <li>• Credit ratings</li> </ul> <p><i>Data sources: <a href="#">OECD / DAC</a>, <a href="#">EIU reports</a>, <a href="#">Moody's</a>, <a href="#">Standard &amp; Poors</a></i></p>  |

---

<sup>4</sup> Representing the 'MDG opportunity cost' of servicing external debt