Political Economy Research Institute and IDEAs

Sovereign Debt and Climate Finance Conference

Summary Report

The Sovereign Debt and Climate Finance Conference, held from May 3rd to 5th at the Political Economy Research Institute, University of Massachusetts Amherst, in collaboration with International Development Economic Associates, was a platform for in-depth discussions on the sovereign debt crisis and the financing challenges hindering the transition to clean energy with a specific focus on developing countries, separately, but also how these crises interact with each other and other emergencies. Also, how to decouple the global economy from fossil fuels. The conference presentation challenges the international financial architecture that embeds power through global financialization in the global north. The conference's strength was significantly enhanced by the diverse perspectives from scholars across disciplines, which led to insightful and solution-centered conclusions crucial for our collective efforts toward climate stabilization.

The conference implemented a unique hybrid approach, with 546 individuals opting for online registration and 84 choosing in-person registration (the venue's max capacity). This innovative format ensured broader participation and enriched the discussions, making the conference more impactful. The first and second days were structured into four sessions, while the final day featured three sessions.

This report serves as a comprehensive guide, summarizing each session of the three-day conference. It highlights the emerging common themes and points of contention, providing a deeper understanding of the discussions. A video of the entire presentation accompanies each summary. These insights underscore the need for collective action in addressing the debt crisis in the global south and climate financing crisis, emphasizing the importance of continued dialogue. By reading this report, you will thoroughly understand the conference's discussions and conclusions.

May 3rd, 2024

Attendance

- **Online:** 111
- **In-person:** 84/48 (The second number is presenters/moderators/staff)

C. P. Chandrasekhar and Jayati Ghosh conducted the opening ceremony.

Session 1: Finance & The World Economy, 1

Dani Rodrik focused on the effectiveness of industrial policy as a desirable development strategy that can finance climate transition and poverty alleviation in the global south. He makes the case that service may be a more feasible alternative for the global south.

Jan Kregel examined the maldistribution of finance. In his presentation, he suggested "simple" solutions to the uneven flow of funds using a system patterned on Keynes' clearing proposal, but this would look different for developed and developing countries.

Gerald Epstein postulated in his presentation four ways to improve finance for climate projects in developing countries: 1) Improving access to dollar liquidity by improving access to the Fed Swap line, 2) delinking from the drive financial market, 3) joining a China-led network, and 4) continue to demand for global facilities that will improve insurance and liquidity support.

Question & Answers Session (Moderator Patrick Mason)

The discussion section focused on questions about:

1. The Federal Reserve Swap line and who gets access to it. It was noted that it seems to depend on US Treasury Bills holders.
2. The importance of the bond market compared to cross-border lending after the financial crisis.
3. The proposed clearing systems should abstract from power as international power establishes the financial architecture that further embeds global power.
4. Industrial Policy in developed countries is not only a response to China but a response to maintain control over critical technology.
5. The proposal to de-emphasize industrial policy, as it may not be feasible in the current global structure for the service sector, was questioned, using India and the continent of Africa as cases to show how this may not be appropriate.
6. Regional Monetary Union as a response to reserve dominance.
7. How casual work is incorporated into the analysis of global poverty
8. Global conflicts impact global finance and the solutions to remedy the unjust global finance system.

Session 2: Finance & The World Economy, 2

Shari Spiegel presented findings from the Financing Sustainable Development 2024 Report. Her presentation focused on the cycle of debt due to the financial architecture design. She showed that developing countries pay more for their debt, and the challenge lies in addressing the liquidity and high cost of debt servicing. However, she notes that there is convergence in solving this issue between the global south and the north.

Richard Kozul-Wright, in his presentation, argued that the hyper-globalized financial world is resilient, and this is where the issue lies. He points to the many shocks that led to categorizing the financial system as erotic, with boom and busts growth, high inequality, and uneven growth, yet it persists. He went on to note that the current setup of the financial system has yet to lead to a boost in investment, as evidenced by the investment crisis, which is kept together by debt.

C. P. Chandrasekhar's presentation makes the case for LMICs to differentiate between domestic and foreign debt. He argues that restructuring domestic debt only marginally expands fiscal space. He notes that the DDR does not resolve the stress created by unserviceable foreign debt. Chandrasekhar posits that DDR establishes a case of double-dose austerity, and more emphasis should be put on foreign debt.

Question & Answers Session (Moderator Michael Ash)

The discussion section focused on questions about:

1. The politics of austerity versus DDR
2. A new growth pathway incorporating the climate change agenda and reassessing the IMF and World Bank growth proposals.
3. The power of international finance, who holds most of the debt in developing countries, and how that impacts solutions to the debt crisis.
4. The importance of investment for structural transformation.
5. Using real gross national disposable income versus GDP to capture risk in developing countries.
6. Reducing total debt stock to increase borrowing from the commercial market rather than stabilize the economy towards economic independence.
7. The creation of a global safety net. A) the IMF using SDR swaps and B) automatic issuing of SDR linked to the global growth rate each year.

Session 3: Perspectives On LDC Debt Stress & Restructuring

Kevin Gallagher and Marina Marques presented their report from the spring meeting at the IMF, Debt Sustainability as if Development Really Mattered. In it, they make the case for a significant investment push to meet the SDGs of about 3 trillion USD annually for EMDE, excluding China. They showed five country-specific pathways through which the funds can be generated. The presentation also focused on a call to reform the DSA framework to account for critical development needs, climate, and other shocks.

Daniel Munevar examined the structure of debt in developing countries in his presentation, noting that solutions to the debt problem are often immediate fixes that ignore long-term sustainability, which needs to change. By focusing on the priorities of developing countries, the debt crisis can be solved from a structural level.

Avinash Persaud proposes a way to mobilize the 1 trillion dollars in cross-border flow to developing countries. He notes that climate finance has progressed due to the issue of scope and scale being introduced to the discourse. However, he posits that more than domestic flow and concessional debt are needed to solve climate finance for developing countries. Tackling the cost of capital will be crucial in mobilizing funding for the developing world.

Question & Answers Session (Moderator Lenore Palladino)

The discussion section focused on questions about:

1. How does factoring in interest rate hikes after climate shock impact DSA?
2. What does expanding the scope of finance mobilization look like for developing countries? Is there space for cheap private finance as multilateral agencies may not expand lending to the necessary magnitude needed in the coming decade?
3. Issues with counter-cyclical lending from multilateral agencies at low interest rates.
4. Debt burden sharing in Latin America and the role of the exchange rate.
5. Blended finance feasibility.
6. The creation of an index that would provide a redline for developing countries wanting to enter the bond market.
7. Why are MDBs guaranteed an AAA rating?

Session 4: The Structural Underpinnings of Balance of Payments Stress

Jayati Ghosh's presentation focused on the balance of payment crisis in developing countries. She detailed the reasons for low and middle-income countries' BoP stress in her presentation. Ghosh posits that the global financial architecture is responsible for the BoP stress by showing how the power of Fed hikes influences BoP stress in developing countries. Her presentation showed that external factors such as fed hikes are essential to debt stress conversation.

Mark Weisbrot presented on the politics of the IMF. He pointed out the implications of political leadership for progressive policies regarding debt and climate finance.

Ishac Dewan, in his presentation, notes that the IFI leakage problem lowers aid effectiveness and proposes three solutions. He notes that focusing on rescheduling debt would be an effective way to solve the debt crisis of the three.

Leonce Ndikumana showed how stopping capital flight and odious debt in Africa could help solve the climate financing shortfall internally and fund other critical investments needed for development. He refutes the idea that external debt expansion is a suitable way to increase investment in essential development sectors.

Question & Answers Session (Moderator James Boyce)

The discussion section focused on questions about:

1. Why is there a debt problem? There is an issue with investing monies borrowed into projects that would produce the return rate needed to service debt adequately.
2. How would developing countries meet payments for imports if they withdrew from the capital market?
3. The factors that motivate the Fed's response to SDR
4. How do we measure power's influence on the global financial structure? Law, regulations, and tax structure were discussed as suitable measures.
5. Cartelization and south-south corporation as a response to the debtor's club.
6. How does country-by-country exchange of information help the illicit flow of finance?

Saturday, May 4, 2024
Attendance:

- **Online-** 131
- **In-person** 80/47 (The second number is presenters/moderators/staff)

Session 1: The Orthodox Restructuring Template

Hasan Comert's presentation focused on the IMF debt sustainability framework (DSF). In it, he criticizes DSF by examining its underlying assumptions. He argued that the framework often ignores the structural factors of debt accumulation in its analysis.

Isabel Ortiz presented findings from the report End Austerity: A Global Report on Budget Cuts in 2022-25 and Alternatives. In the presentation, she showed that most countries have been engaging in austerity cuts that mainly target social protection, public sector wages, subsidy reduction, and privatization of public service, among other things. She pointed out that there is a distributional shift towards the rich, especially after shocks. In her presentation, she concluded with nine alternatives to austerity that the government may employ.

Emma Burgisser's presentation reflected on the 16th IMF quota review. In it, she argued that it is not so much about the strength of the arguments as to why the quota system should be reviewed but where power lies. Most votes are held in advanced economies, which feeds into the structural inequality entrenching the unjust global financial architecture.

Question & Answers Session (Moderator: Nancy Folbre)
The discussion section focused on questions about:

1. Savings-led growth models versus Investment-led growth models.
2. The perceived democratic nature of the IMF governance structure.
3. IMF exceptional access policy
4. The importance of a just DSA reform in securing climate finance for debt-stressed countries in the global south.
5. External loans foster austerity.
6. Strategies to pressure the IMF to reform from both inside and out.

Session 2: The Political Economy of Debt Crisis Resolution

Ndongo Samba Sylla & Charles Abugre focused their presentation on the structural conditions that put developing countries in debt distress. They pointed out that structural adjustment programs (SAP) are a reason for the cycle of debt distress in many developing countries. They note that SAP is never in the interest of the implementing country but to serve the interest of international investors. They further note that there is no current debt resolution to the debt crisis, but we have debt postponement, which will not alleviate the debt problem. They showed how SAP affects the food system in Ghana.

Ahilan Kadirgamar presented the political economy of debt crisis resolution in Sri Lanka. He showed that Sri Lanka is in an IMF trap. This IMF trap facilitates the debt crisis rather than fixing it. Kadirgamar posits that Sri Lanka's plan to fix the economy is simply an IMF plan, which keeps the country in an IMF trap rather than bringing economic sustainability and independence. He proposes alternatives to the IMF trap.

Lara Merling's presentation focused on debt, underdevelopment, and the need for a new financial architecture. She questioned who decides when a country faces a debt crisis and when it must be resolved and examined how debt accumulates. Merling argued that a new financial architecture is needed as the current structure keeps developing countries in debt.

Question & Answers Session (Moderator: Mwangi wa Githinji)
The discussion section focused on questions about:

1. Structural Adjustment Programs' impact on food surplus in Africa
2. The domestic beneficiary of bad IMF policy
3. IMF assumptions and projections impact on recovery
4. Sri Lanka's post-COVID restructuring empowered commercial banks
5. IMF macroeconomic framework

Session 3: Restructuring Strategies in Latin America & The Caribbean

Karina Patricio Ferreira Lima emphasized the role of law in solving the sovereign debt crisis. Her presentation examined the current legal frame of debt restructuring, how it has changed, and the crisis of the creditors club paradigm.

Matias Vernengo presented on debt cycles and the protracted crisis of neoliberalism. He showed a simple model of currency crisis and default. He highlighted the consequences of the current external shock in Latin America, showing that the fiscal crisis is a currency crisis.

Esteban Perez reflected on sovereign debt and debt restructuring in the Caribbean. He examined the context in which sovereign debt accumulates in the region. He notes that hurricanes should not be argued as the cause for the increase in the debt level in the region, though it may push the debt level up. Esteban notes that the relationship between the current and fiscal accounts is a more plausible cause for the sovereign debt crisis in the Caribbean.

Question & Answers Session (Moderator: Kevin Young)
The discussion section focused on questions about:

1. The implications and complications of green bonds and contingent debt
2. Capital control in Argentina
3. The initiation of bond finance and sovereign debt finance
4. The impact of the Vulture Fund on Argentina's current crisis
5. Statutory mechanism to prevent vulture funds

Session 4: Winners & Losers in a Debt Stressed World

Andres Arauz examined SDR rechanneling as an alternative to fixing the unequal money flow. He argues for a new issuance of SDRs. Arauz states that SDRs are considered for fiscal purposes, not only for the balance-of-payment issue, as seen during the COVID-19 crisis. Therefore, he argues that debt relief can be another purpose of the SDR.

Margarita Olivera examined financialization through a feminist lens. She focused on the winners and losers, often women and marginalized people in Brazil.

Dzodzi Tsikata's presentation focused on the social protection strategy of debt restructuring, noting that the care economy must be considered in our solutions to the debt crisis. Her work also illustrated how structural adjustment programs (SAP) are a fundamental feature in the debt cycle. Tsikata showed that the IMF creditors and the Central Bank of Ghana were the winners during SAP in Ghana.

Jomo Kwame Sundaram presented on the global green New Deal versus carbon taxes, prices, the market, and what he considers other distractions. He started by stating the reluctance of the global North to finance the global transition in the global South, then challenged the arguments for a carbon tax to fund climate stabilization in the global South.

Question & Answers Session (Moderator: James Heintz)
The discussion section focused on questions about:

1. The regressive nature of carbon tax: Its limitations and strengthens.
2. Carbon tax impact on emission versus its redistributive property within a country and globally.
3. SDR rechanneling to MDBs
4. A dilemma developing countries face towards climate stabilization is choosing between mitigation and adaptation.
5. Policy agenda to solve debt crisis through a feminist lens.
6. Care economy and social policy deficit
7. Why does capital flow to mitigation easier than lost and damage or adaptation

Sunday, May 5, 2024

Session 1: A Green New Deal

Attendance

- **Online –** 225
- **In-person –** 80/44 (The second number is presenters/moderators/staff)

Robert Pollin showed how fossil fuel subsidies are defined and measured, which is crucial in redistributing these monies to green projects. Pollin illustrated the difference between explicit and implicit subsidies but focused his presentation on explicit subsidies, arguing that while the explicit subsidies are less than the implicit subsidies in total, the sum is large enough to close some of the climate stabilization funding gaps in developing countries. He used case studies to bring home his arguments. He also notes the regressive nature of fossil fuel subsidies and the vested interest in maintaining this destructive policy, which benefits the top 10% of the countries analyzed.

Tim Sahay presented on the polycrisis. He highlighted several overlapping emergencies in the developing world and asked who benefits from these crises, who pays, and who will take responsibility.

Ramaa Vasudevan's presentation examined the future of green investment. She notes that the window of opportunity to get climate finance right is closing while the scale needed is increasing. Vasudevan posits that green industrial policy must be more than a sectorial shift; it must be broader than manufacturing and beyond GDP indicators to social well-being and social provisions to ensure a standard of living and inclusion.

Question & Answers Session (Moderator: Lawrence King)
The discussion section focused on questions about:

1. Mechanism that would ensure that the unjust financing practices of IMF do not manage climate funds.
2. Market pricing, energy subsidies, and cash transfer methods.
3. The state's role in smoothing prices due to climate shock.
4. Monitoring fiscal savings.
5. The global polluting class.
6. Human rights framing of the redistribution of fossil fuel subsidies.
7. South-South Corporation.
8. The distributional impact of fossil fuel subsidies on poor, working, and middle classes.
9. A contemporary Global Green New Deal.

Session 2: Financing Alternatives

Pablo Bortz focused his presentation on multilateral development banks and energy transition finance, using lessons from Latin America and the Caribbean. He notes that the energy transition must be development-oriented. His presentation showed that climate finance follows a total credit dynamic with little mobilization of private funds and no strategy to develop local content.

Adrina Adiba looked at debt for nature swaps as a solution to debt sustainability and conservation questions through a critical lens. In the presentation, she examines the usefulness of DFN swaps in freeing up fiscal space by lowering debt servicing and channeling funds toward conservation efforts. Adiba used a case study approach to answer this question, using Indonesia, Ghana, Peru, and Belize.

Farwa Sial presented on securitizing the green transition agenda with innovative debt instruments. In this presentation, she examined the proposed transformation of the global landscape and its relevance to the global south. She questioned how we frame innovative financial instruments, which are innovative debt instruments. In her presentation, she called for a shift in the international financial system and credit expansion through other instruments.

Question & Answers Session (Moderator: Lilia Couto)

The discussion section focused on questions about:

1. Green finance as regular finance.
2. What is climate finance?
3. DFN Swaps as a trap case of Belize.
4. The problematic nature of DFN swaps.
5. State's role in mobilizing private finance.
6. Implications of MDBs derisking climate finance.

Session 3: Climate Finance Needs & Possibilities

Chavon Rogers examined the debt trap low and lower-middle-income countries that are fossil fuel producers face, which hinders climate stabilization. These countries rely on the extractive fossil fuel sector to generate foreign exchange revenue to service the external debt. Using a case study of two countries, he showed that debt forgiveness would help expand the fiscal space to increase funding flow to climate stabilization and reduce reliance on the fossil fuel sector, making decoupling plausible.

Fathimath Musthaq analyzed climate finance through the lens of SIDS. She used the renewable climate initiative to question the assumptions that underlie climate finance funding models.

Shouvik Chakraborty illustrated a progressive distribution of climate financing responsibility among Annex II countries to developing countries.

Bhumika Machhala presented on the climate credit score, how credit agencies use market power to convert climate vulnerability into sovereign risk, and its impact on fiscal space.

Question & Answers Session (Moderator: Sumangala Damodaran)

The discussion section focused on questions about:

1. Climate-vulnerable small island states should not fund their climate stabilization projects through loans but grants.
2. The unjust contradiction that some developing countries label high-income face. Due to their high-income status, they do not qualify for restructuring programs, but there is a premium on the cost of borrowing because of their developing status as if they are low income.
3. Current account balance issue in SIDS.
4. The role of the Asian Development Bank in helping SIDS in the region.
5. Derisking
6. Credit agencies reform.

Closing Remarks

Jayati Ghosh