

**POLICY NEEDS IN SOCIAL PROTECTION AND SOVEREIGN DEBT**  
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Colleagues,

In early November of last year, the leaders of five major Protestant organizations sent a letter to the President of Indonesia, who was serving as the chair for 2022 of the Group of 20 major economy countries (G20). The church leaders expressed deep concern about the economic, social and environmental situation into which the world had fallen, and they made six recommendations to the political leaders in the Group of 20. It is now half a year later and those recommendations remain as cogent as ever. I want to focus on two of them:

- **Governments should assure “adequate social protection for the socio-economically vulnerable (including children, the aged and those unable to work) and [provide] support to small farmers.”**
- **G20 governments should cancel “unsustainable debts and [introduce] a moratorium on debt payments for low and middle-income countries in debt distress while their debts are being renegotiated.”**

Thus, the topics I want to address are excessive government indebtedness and social protection expenditures by governments. They are related because whenever governments have overspent and cannot borrow more because creditors no longer believe they can repay their debts, the politicians look for which expenditure to cut back and – sure enough – it is often the expenditures on social protection. So, let me say a few things about each topic.

### **Social protection**

People who sincerely care about addressing poverty will call on governments to provide a basic set of social protections. These include publicly funded benefits and cash transfers for children and mothers, assistance for disabled adults who are not able to work, basic pensions for the elderly, and insurance for people who are temporarily out of work. Governments should also provide access to adequate health services and to education for the children, as well as assuring that people have access to adequate shelter.

All of this costs money, which because the provider is the government, has to come from public revenues. Traditionally, the funds come from two sources. One is taxation of individuals and companies. The other is contributory payments by future beneficiaries into social security pension schemes. You will understand that governments need to set tax rates and social security contribution rates to cover anticipated social protection needs. You will also understand that nobody enjoys paying taxes and the amount of public revenue generated by a tax system that has little public ambition will support only the most

primitive and rudimentary system of social support.

This means advocates for social protection must also be advocates for fair and effective tax systems. There are better and worse ways to design a public revenue system, but the overall principles should be fairly clear: you want a system with low administrative cost, little leakage or opportunities to game the tax system, and that should distribute the burden of paying taxes according to the ability to pay, which is to say the rich should pay proportionately more of their income in tax than the poor, what we call a “progressive” tax system. There are tradeoffs in designing tax systems. For example, it is harder for enterprises to cheat on value added taxes, but they are the opposite of progressive taxes.

Taxation is a complicated topic but what I want to emphasize here is more political than technical. It is that civil society, including churches and faith-based institutions, need to advocate for a public revenue system that provides enough resources to pay for the social protection system that the country wants...or should want. Now, not all governments welcome political pressure from the population, but wherever it is possible, organized advocacy can make a difference.

Moreover, there are international organizations that will help governments that want to design more effective revenue systems and expenditure programs. Don't laugh, but on both the revenue and expenditure side of the equation, the International Monetary Fund (IMF) can be an ally, especially when its staff members in countries are reminded that the IMF has endorsed the sustainable development goals. Lots of technical assistance is also available to governments, notably from the International Labor Organization, UNICEF and the UN's Food and Agricultural Organization for farmers and fisherfolk, as well as from the World Bank, the usual partner of the IMF. And these institutions are increasingly talking to each other as well as to the governments. And some, including the IMF, are increasingly willing to consult with civil society as they prepare their recommendations to the government.

And there are networks of civil society organizations that help support advocacy in countries, including one I am involved in, the Global Coalition for Social Protection Floors, a global network of over 100 CSOs and labor union organizations from around the world.

However, I do not want to seem naively optimistic about this. It is still a struggle everywhere and all at once. I only want to say that in many countries, the struggle can be won.

I also don't want to minimize another issue. Financial resources for social protection will grow with a growing economy, as incomes and expenditures rise, and tax collections rise alongside them. However, during times of economic hardship, revenues will likely fall just when expenditures need to be greater. This is as much the case in an economic recession as when there are environmental catastrophes to address, such as droughts, floods, other severe weather and other natural events exacerbated by global warming.

We saw during COVID that governments did some reallocation of expenditures to meet

pandemic spending requirements, but mostly they covered their additional social and health expenditures by borrowing. This is the right and proper approach to take, even in cases in which the COVID-fighting spending created opportunities for fraud which were taken. Indeed, one function of CSO advocacy in countries is to demand accountability from the government and that fraudulent behavior be punished (although we must also be sensitive to governments that use accusations of fraud to arrest political opponents).

### **Emergency financing and sovereign debt**

While the policy call on social protection in the letter to the G20 was mainly addressed to the authorities responsible at country level, the recommendations for alleviating unsustainable sovereign debt require international cooperation. After all, if a government can no longer borrow and if it has spent most of its reserves, the curtailment of government expenditures will be sudden and catastrophic unless some institution or government offers at least temporary financing to help.

The help offered has traditionally been in the form of official loans from the IMF, the World Bank, other development banks, and donor governments, as in the form of humanitarian or development support, mainly loans but also often grants. The emergency need is for cash and so governments with already unsustainable debt will find themselves going further into debt, if only to postpone their day of reckoning.

Well, now we are in 2023 and it is time to address the unsustainable debt by renegotiating the obligations. The letter of the church leaders to the G20 called for cancelling unsustainable debt, but that has proved very difficult to bring about. You may know of the decision in 2021 by the G20 to set up a “common framework” under which the foreign creditors of low-income countries would agree to reduce debt repayment obligations. The process is complicated, is taking too long to yield results and need not put the crisis country into a sustainable debt situation.

There are many reasons for this, such as lack of trust among the different classes of creditors (bondholders, traditional official creditors, Chinese institutions, multilateral lenders). Also, some of the creditors and experts on the debtor side may lack confidence in the IMF’s debt sustainability analysis, which is meant to be the analytical basis for arriving at the amount of needed debt relief. The IMF became notorious in years past for underestimating the degree of relief needed, summarized as “too little, too late.” Finally, after the creditors reduce their claims on the debtor, they want to be confident that the debtor will honor its new reduced obligations and that is thought to be contingent on the debtor government implementing the policy changes it promised to the IMF.

As of today, only the program for Chad has been completed, without any reduction in Chad’s debt. In this case, the private creditors never accepted the demand of the official creditors that they reduce their claims on Chad. Instead, the official creditors eventually accepted the private creditor view that no debt reduction was needed.

We hear almost weekly that the agreement on Zambia is close and yet it never closes. And none of the other cases are anywhere near as advanced as Zambia.

The basic problem with the Common Framework is that it is meant to gather commitments of the debtor and its creditors in a particular sequence. First, IMF staff and the debtor government work out a reform agenda and a financing plan meant to achieve sustainability over a set time period. Then the official bilateral creditors are meant to decide among themselves how much relief to give and finally the private creditors are meant to follow the lead of the official creditors. Except there is no legal obligation on the private creditors to accept the official creditors plan and, as mentioned above, there is often skepticism about the deal.

There are ideas on how to structure the negotiations differently, and even some draft legislation in New York, which is relevant as more than half of the private lending to developing countries is governed by New York law. We can discuss some of these ideas if you wish. The key takeaway at this point, however, is that there does not seem to be a functioning, let alone adequate, mechanism for resolving sovereign debt crises.

### **Conclusion**

In conclusion, I have tried to draw attention to a struggle between economic classes within a country and a struggle between a debt-crisis government and its foreign creditors. In both struggles, civil society, including the churches, can and should work toward resolving the struggles in a socially responsible direction. The church organizations that have organized this “side event” are working in just that direction. More power to them.

Thank you.