

Managing the Commons through Debt for Development Swaps: How to Reduce Sovereign Debt to Enhance National Patrimony



**JOFFRE BALCE, SECRETARY
ASSOCIATION FOR GOOD GOVERNMENT**

**SUSTAINABLE SHARED GROWTH
SEMINAR 23. 7TH MAY 2017
AMECOS, CALOOCAN CITY**

Origins

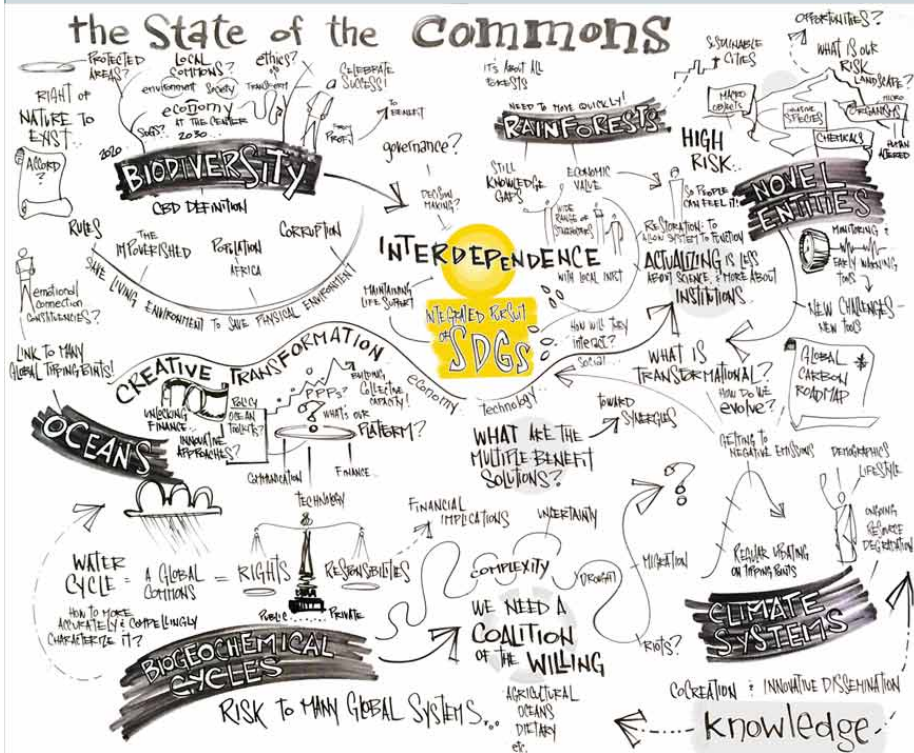


“a general term for shared resources in which each stakeholder has an equal interest” (Digital Library)



- Derived from the traditional English law, common land is land owned collectively by a number of persons, or by one person, but over which other people have certain traditional rights, such as to allow their livestock to graze upon it, to collect firewood, or to cut turf for fuel.

Expanding the Application



- Natural: Land, air, water, sunlight, minerals
- Social: parks, roads, footpaths, coasts, beaches
- Intellectual: culture, language, sports, libraries
- Technical: internet, public works, basic services, currency

Updating the Definition



The Commons is Patrimony



- A Proposed Georgist definition: resources to which individuals have equal rights to access for the purpose of a dignified human existence and the exercise of self-determination

The Commons & Patrimony

The Common Wealth is Patrimony



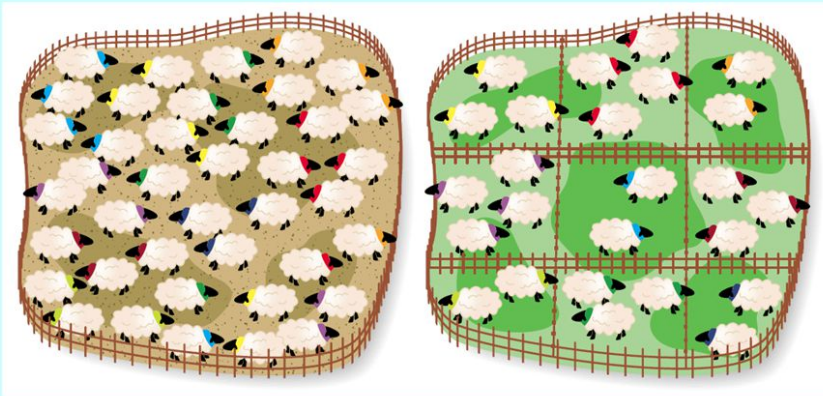
Why Patrimony requires Sustainability

- Valued things passed down from previous generations; heritage.
- “We borrow the Earth from our children.” ~ A Native American
- We owe the commons to succeeding generations

The Mythical Tragedy of the Commons

Common Property is the Problem

Tragedy of the Commons

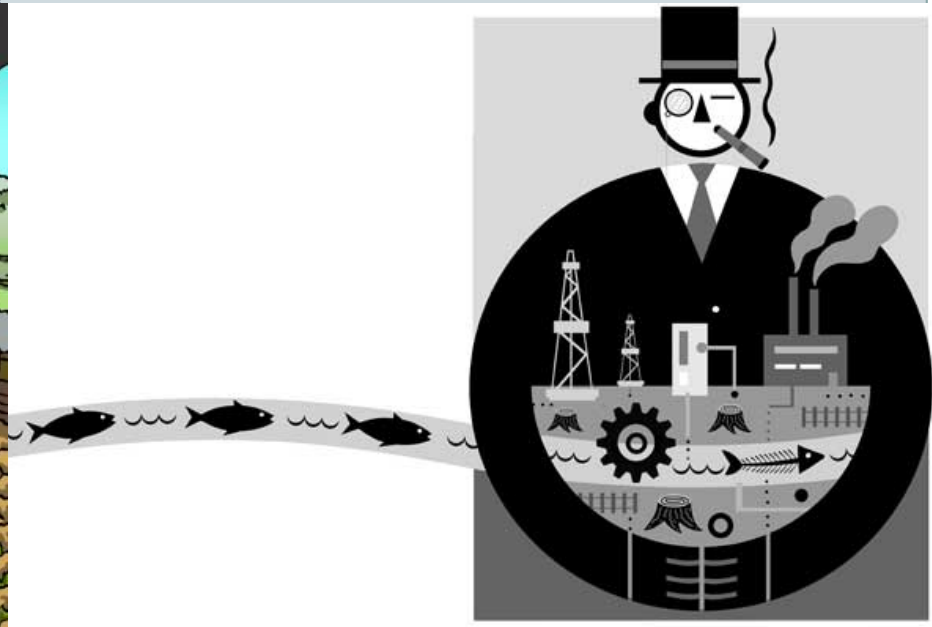


Private Property Is the Solution

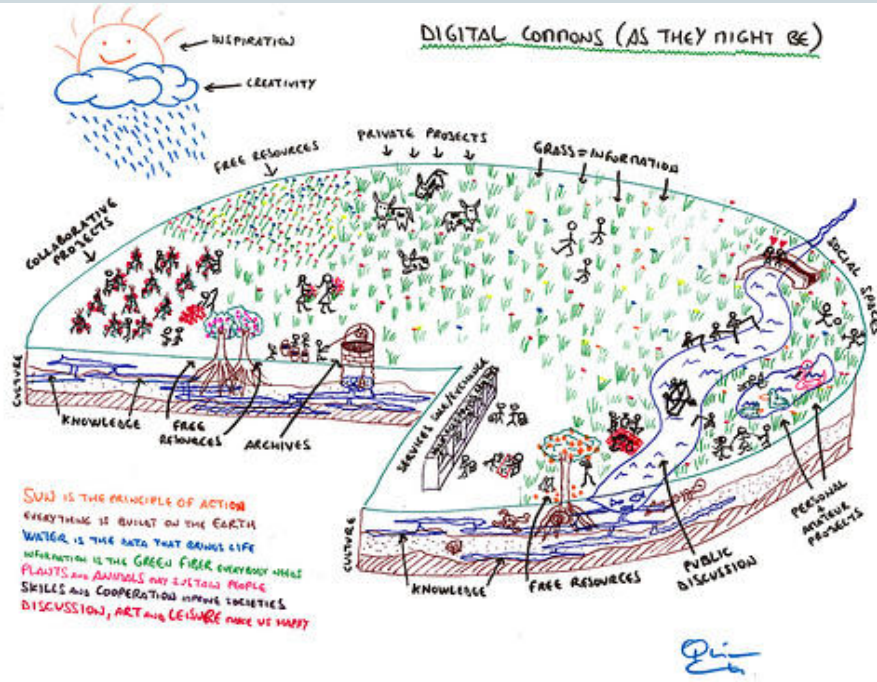


The Real Tragedy of the Commons

From Enclosure & Exclusion to Deprivation & Degradation



Restoring Liberty



- People used to be free to work for themselves by working on the commons
- The original freedom to work for oneself is taken by the institution of private property wrongly applied on the commons.
- Democracy is restoring the natural liberty by a proper application of private property in land & the commons

The Nature of Money

Economic



MONEY

Humans are the only species that pay to live on the Earth.

... but to whom?

Political

Permit me to issue and control the money of a nation, and I care not who makes its laws.

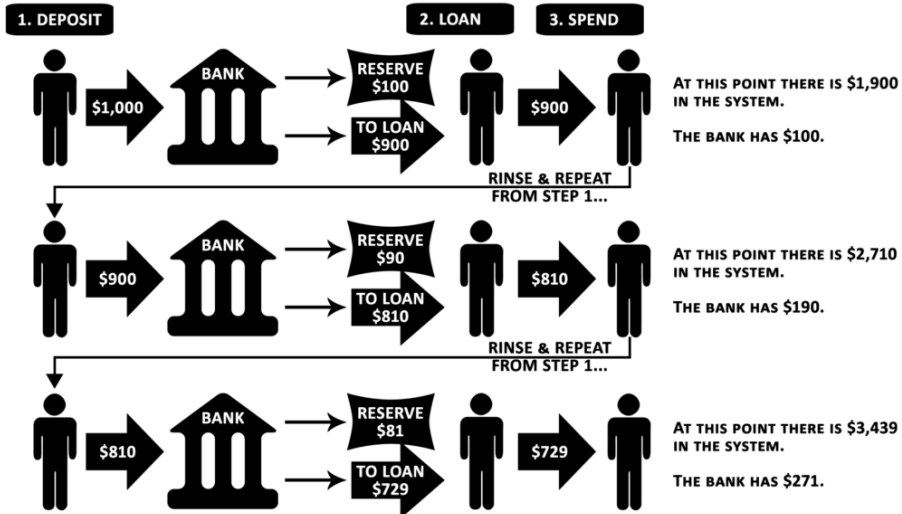
QUOTEHD.COM

Mayer Amschel Rothschild
German Businessman

Lend It Into Existence

Spend It Into Existence

THE BASIC FRACTIONAL RESERVE BANKING CYCLE



[HTTP://CYNIC.ME](http://cynic.me)

Seigniorage and Inflationary Finance

- Seigniorage: amount of real resources appropriated by the government by means of base money creation.
- Seigniorage revenue:

$$S_{rev} = \dot{M}/P = \mu m = \dot{m} + \pi m, \quad (9)$$

M : base money stock;

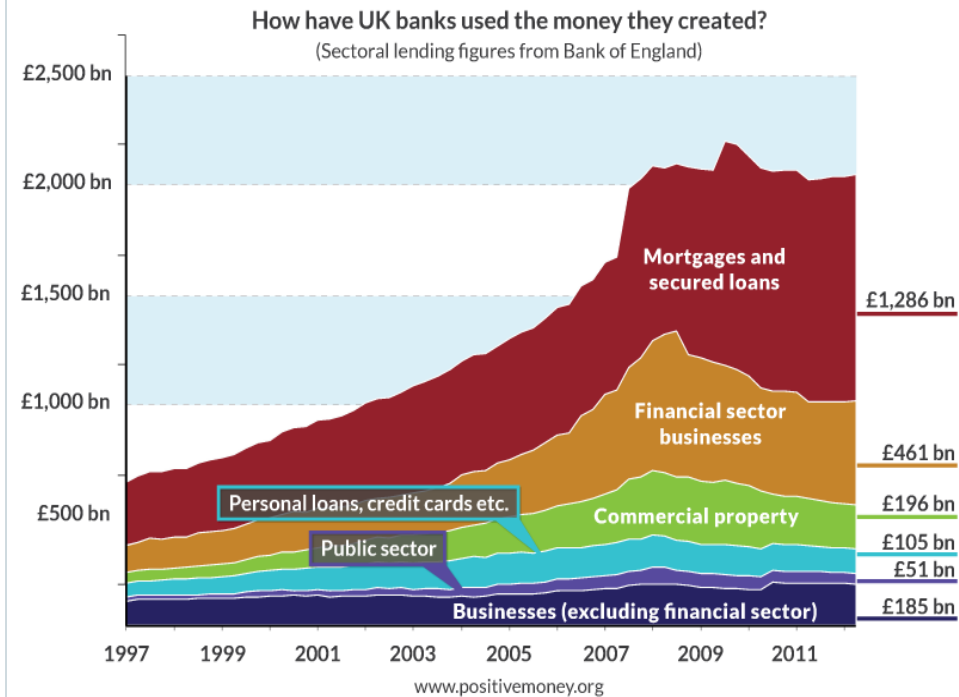
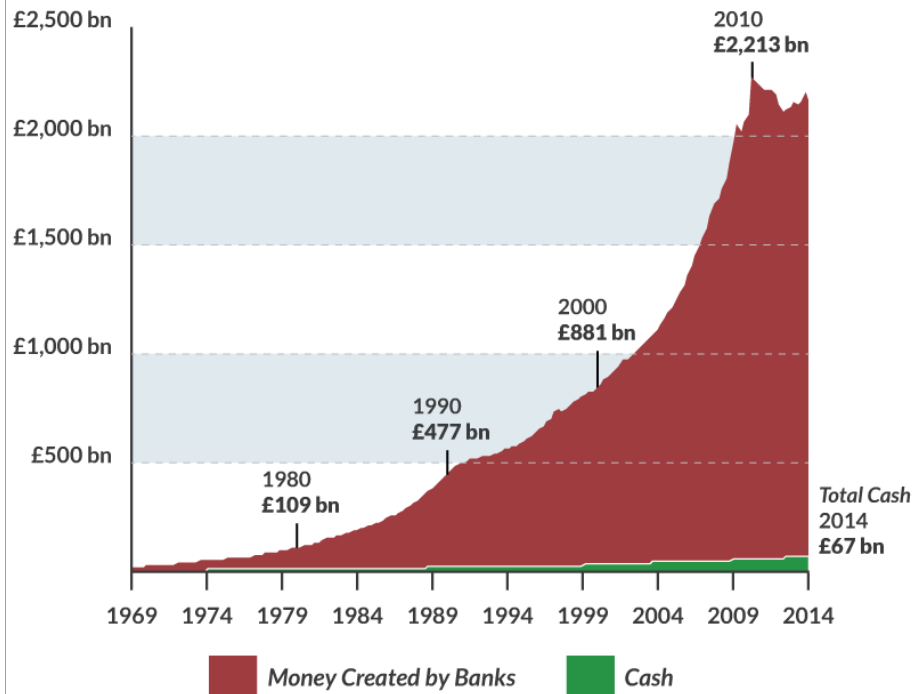
P : price level;

$\mu \equiv \dot{M}/M$: rate of growth of the monetary base;

m : real money balances.

The UK Illustration

Courtesy of Debt-Creation and Where the Money Went



The Principle of Debt-for-Development Swaps



From Debt Servitude to

Service to Develop Others

Today 97% of all money in the economy is created
by private banks out of nothing and lent to us at interest.

**IT IS NOT A LAW OF NATURE THAT WE HAVE
TO HAVE A DEBT-BASED MONEY SYSTEM**

IT CAN BE REDESIGNED

The service we render others is
the rent we pay for our room on
earth.

Wilfred Grenfell

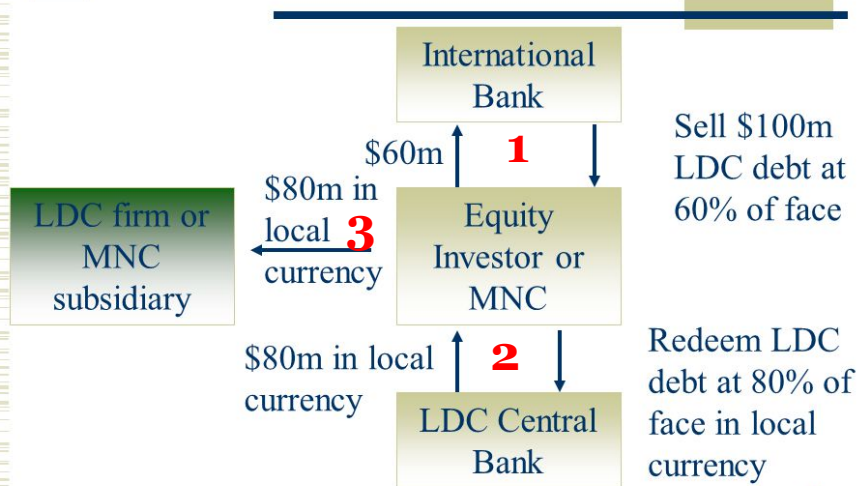
Debt for Development Swap: a Simple Allegory



- Student accumulates a mobile phone debt his allowance can't pay
- Parent assumes the debt if student works at home on weekends
- Student is relieved of debt, parent saves on hiring a gardener & both can spend quality time.

Origin of Debt-for-Development Swap

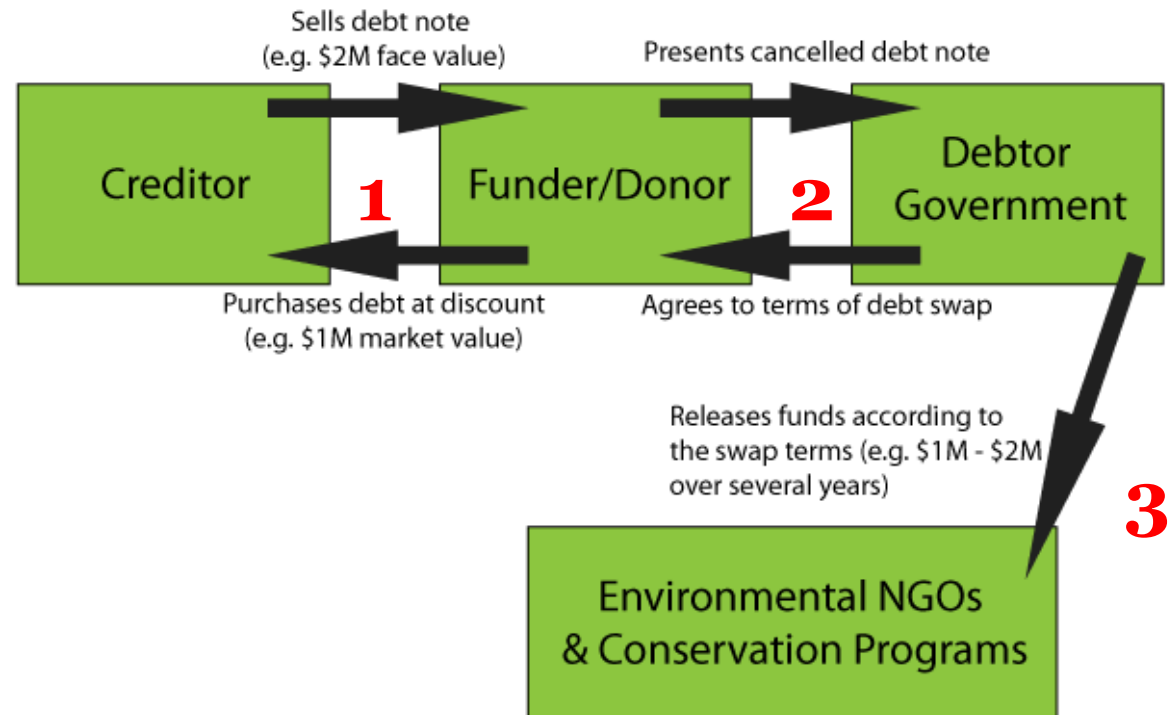
Debt-for-Equity Swap Illustration



1. Investor buys the a country's debt from a borrower at a discount
2. Investor redeems the debt from the borrower country at the local currency and a lesser discount but still at a profit
3. Investor buys shares in a local private or privatised corporation

Funder has \$1MM in cash he can spend directly on the project or do a debt-for-nature swap as follows:

1. Funder buys \$2MM from creditor for \$1MM
2. Funder and debtor government agrees to cancel debt note
3. Government makes available local currency for a project from the savings in debt repayments



Debt-for-Development Swaps

Two Kinds



Commercially-Driven

- Government debts held by multinational commercial banks and financial institutions
- Preference for cold cash over long term payments
- Development & commercial interests coincide

International Aid-Driven

- Government debts held by other government and inter-government agencies
- Ability to achieve aid targets at the soonest time at less cash out
- Inter-governmental goodwill

Application to Water Projects



Commercial: DfD Swaps for Water Districts

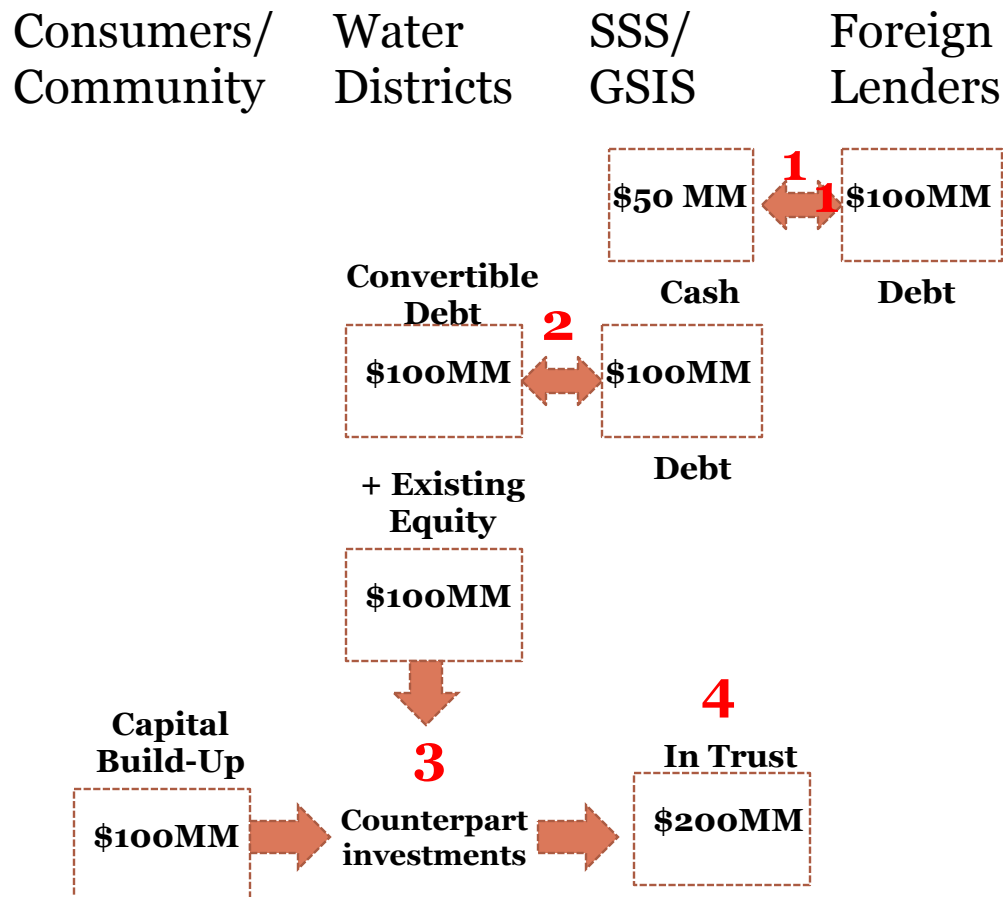
- Water districts are currently in the control of bureaucrats who are not held to account to consumer/subscribers.
- Government banks can swap their loans into equity held by consumers/subscribers to become investors in a water district co-op.

Developmental: DfD Swaps for Watersheds

- Existing ODA loans can be retired on the condition that instead of repaying them, government generates funds from the debt repayment savings to projects on counterpart funding by international NGOs.
- The INGOs are no longer the new creditors but partners

DfD for Water District Co-Privatisation

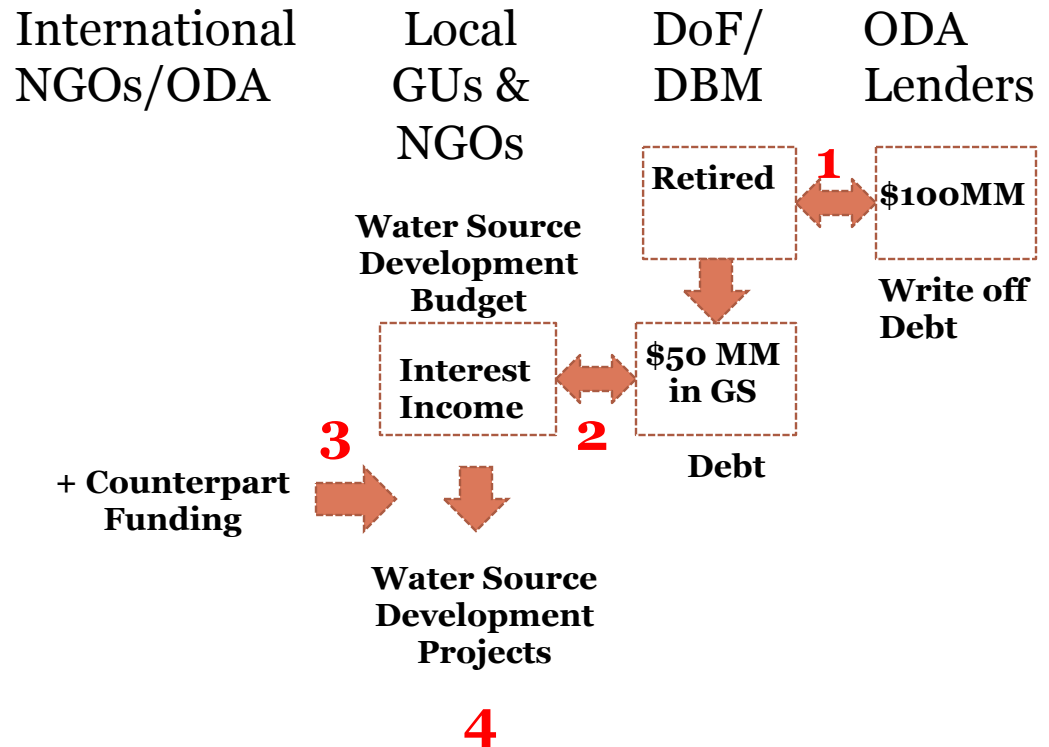
1. SSS/GSIS retire debts owed by water districts at a discount
2. SSS/GSIS redeem the debt as bonds convertible to equity by the consumers
3. Consumers are enticed to invest in the co-op by counterpart from the existing equity in the co-op.
4. SSS/GSIS increase their pool of investments in trust to better serve the members.





DfD for LGU Water Source Development

1. DoF negotiate for debt retirement. ODA writes-off debt. DBM approves purpose.
2. DoF/National treasury issues GS (government securities) equivalent to 50% of retired debt, interest earnings for watershed project
3. International NGOs/ODA are invited to provide counterpart funding based on income stream generated by GS.
4. More reliable cash flow generated for water source development projects.



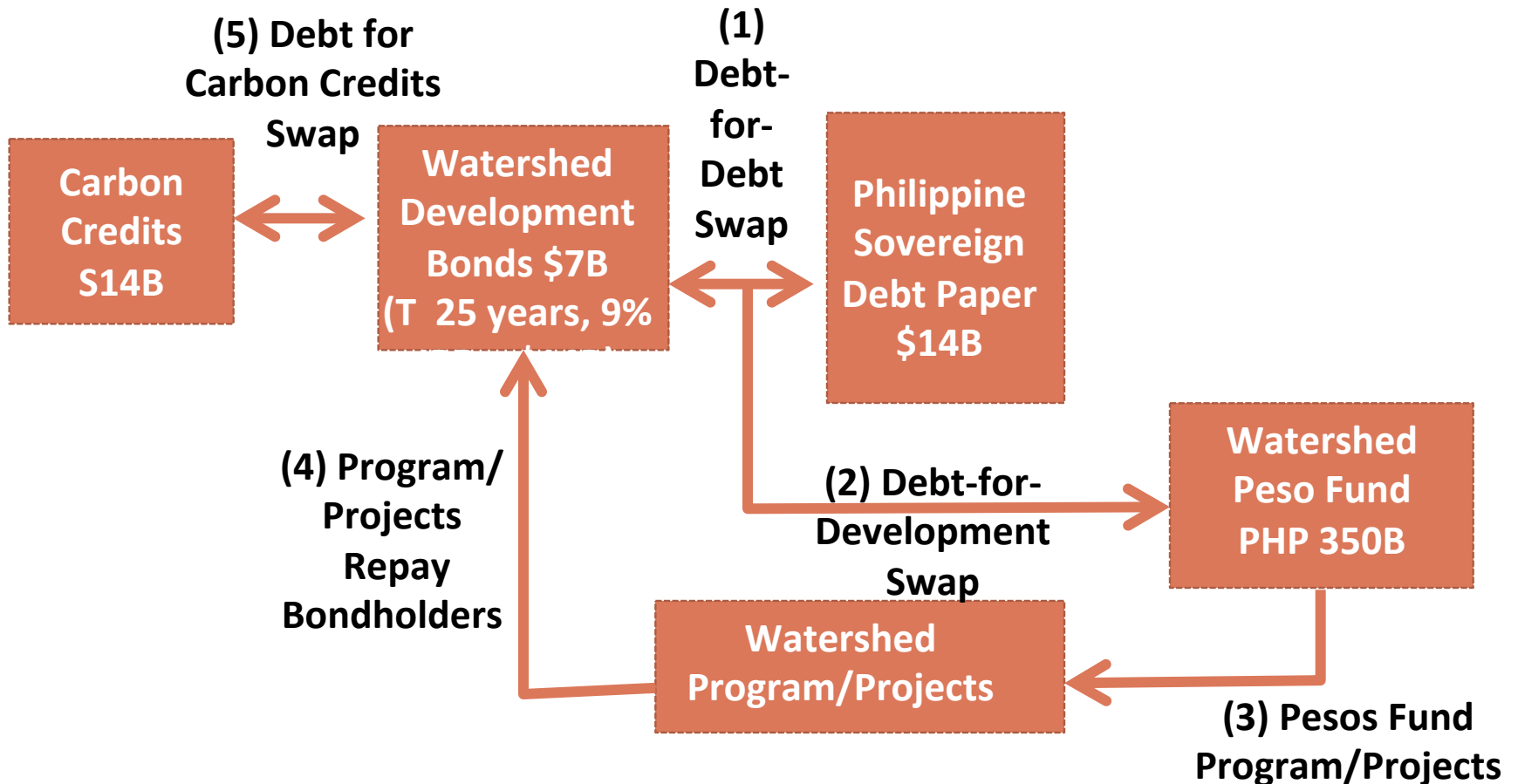


Projected Benefits of Proposed DfDs

- Reduction of debt burden
- More resources for development
- Formation of counterparty partnerships than one-way aid
- Generation of more local resources to spur development and build investments from the grassroots and the household levels
- More accountability through better governance by genuine co-op structures.



My Proposed Innovation



Debt-for-Carbon Credit-for-Development Swaps



1. DoF underwrite Watershed Development Bonds to based on reduction of Philippine sovereign debts.
2. Savings in debt servicing Philippine sovereign debts form the Watershed Development Fund (WDF) in equivalent pesos.
3. WDF funds development projects in exchange for
4. Share in LGU land value taxes, as more access to safer water enhances land values, that will fund the bond repayment
5. Philippine sovereign debt paper can be swapped further with carbon credits whose purpose is to repair damage and mitigate climate change risks

Wrapping It All Up



- Debt for Development Swaps, when best practices are applied, can reduce debt burdens while freeing up resources for what the nation needs.
- The process can enhance the nation's sovereignty and patrimony by ultimately reducing the needs for external resources and mobilizing local resources, particularly the economic rents – the common wealth.
- External resources from partners is more liberating, sustainable and developmental than debt.
- A paradigm shift on economic framework is required.



Returning to Fundamentals

- “Our fundamental mistake is in treating land as private property” (Social Problems, 195)
- Credit as a facilitator of exchange is older than money and perhaps is even now more important than money...But though it may be made into money it is not itself money...” (Science of Political Economy, 493)
- “The curse of credit as a flux of exchanges is that it expands when there is a tendency to speculation, and sharply contracts just when most needed to assure confidence and prevent industrial waste.” (Standard, Feb 11, 1888)