RESOLVING THE WORST EVER GLOBAL DEBT CRISIS

TIME FOR A NORDIC INITIATIVE ?

NORWEGIAN CHURCH AID
actalliance

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The views expressed in the report are those of the author and do not necessarily represent the views of Norwegian Church Aid.

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ACRONYMS

AfDB	African Development Bank (overall AfDB Group or hard lending window of Group)
AfDF	African Development Fund (soft lending window of AfDB Group)
AFRODAD	African Forum and Network on Debt and Development
APMDD	Asian People's Movement on Debt and Development
AsDB	Asian Development Bank (overall AsDB Group or hard lending window of Group)
AsDF	Asian Development Fund (soft lending window of AsDB Group)
AU	African Union
CCRT	Catastrophe Containment and Relief Trust (IMF, 2015-)
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale
CF	Common Framework (G20, 2020-)
CM	Commonwealth Meridian (Commonwealth Secretariat)
COVID-19	Coronavirus disease 2019
CRII	Commitment to Reducing Inequality Index (DFI and Oxfam)
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DANIDA	Danish International Development Agency
DC	Development Committee (governing body of World Bank Group)
DFI	Development Finance International
DMFAS	Debt Management and Financial Analysis System (UNCTAD)
DMOs	Debt Management Offices (generic term, developed or developing countries)
DRI	Debt Relief International
DRS	World Bank's Debtor Reporting System
DSA	Debt Sustainability Analysis (IMF/World Bank)
DSSI	Debt Service Suspension Initiative (2020-21)
EAC	East African Community
ECCU	Eastern Caribbean Currency Union
ECOWAS	Economic Community of West African States
EFF	Extended Fund Facility
EURODAD	European Network on Debt and Development
FAO	Food and Agriculture Organisation (FAO)
FINGO	Finnish Development NGOs
FINNIDA	Finnish International Development Agency
FSO	Fund for Special Operations (soft lending arm of IADB)
G20	Group of 20 (OECD + non-OECD countries + EU)
G24	Group of 24 (G77 countries representative body to IMF and World Bank)
G7	G7 (Group of 7 major industrialised countries)
G77	Group of 77 (non-OECD countries representative body to UN) (Often ("+China")
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country Initiative
HIPC-CBP	Heavily Indebted Countries; Capacity Building Programme (DRI, 1996-2010
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development (World Bank hard window)
IDA	International Development Association (World Bank soft window)
IDS	International Debt Statistics (World Bank report and database)
IFC	International Finance Corporation (World Bank private sector window)
ILO	International Labour Organisation
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee (governing body of IMF)
LATINDADD	Latin American Network for Economic and Social Justice
LDCs	Least Developed Countries (UN)
LICs	Low-Income Countries (World Bank_

LIC-DSA	Low Income Countries' Debt Sustainability Framework (IMF/WB)
LIDCs	Lower-Income Developing Countries (IMF) – mostly Low + Lower-Middle Income
LLDCs	Landlocked Developed Countries (UN)
LMICs	Lower-Middle Income Developing Countries (World Bank)
MACs	Market Accessing Countries (IMF)
MDGs	Millennium Development Goals (UN, 2001-2015)
MDRI	Multilateral Debt Relief Initiative
MEFMI	Macro-Economic and Financial Management Institute of Eastern and Southern Africa
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MTDS	Medium Term Debt Strategy
NCA	Norwegian Church Aid
NORAD	Norwegian Agency for Development
ODA	Official Development Assistance (from OECD to non-OECD countries)
OECD	Organisation for Economic Cooperation and Development
PC	Paris Club
PCDRT	Post-Catastrophe Debt Relief Trust (IMF, 2010-15)
PRGT	Poverty Reduction and Growth Trust
PV	Present Value
RST	Resilience and Sustainability Trust
S&P	Standard and Poor's (Credit Rating Agency)
SDG	Sustainable Development Goals (UN, 2015-2030)
SDR	Special Drawing Right(s) (IMF)
SIDA	Swedish International Development Agency
SIDS	Small Island Developing States (UN)
SOE	State Owned Enterprise
SRDSF	Sovereign Risk and Debt Sustainability Analysis (for MACs, IMF/World Bank)
SSDC	South-South Development Cooperation (among G77 countries)
UMICs	Upper-Middle Income Countries (World Bank)
UN	United Nations
UNCAC	United Nations Convention Against Corruption
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Education, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNFSDO	United Nations Financing for Sustainable Development Office (UNDESA)
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UNW	UN Women
WAEMU	West Africa Economic and Monetary Union
WAIFEM	West African Institute for Financial and Economic Management
WB(G)	World Bank (Group- group includes IBRD, IDA and IFC/MIGA)
WEO	World Economic Outlook
WHO	World Health Organisation
WWF	World Wide Fund for Nature (formerly World Wildlife Fund)

FOREWORD

In 2002, Norwegian Church Aid published the report "Defining Illegitimate Debts". In the report the author Joseph Hanlon explored some of the most shocking origins of claims of the 1982 debt crisis. Much of the debt had been incurred by dictators or for odious and failed projects. It had not benefited the population that were now expected to repay it. In Norway the claims originating with the ship export campaign came under scrutiny.

That report helped kickstart a Norwegian debt audit, the first and only of any creditor. More importantly, this was a seminal work to develop rules for responsible lending and borrowing under the auspices of the UN Conference on Trade and Development (UNCTAD). The goal, to reduce the chances of a new debt crisis. However, no binding rules were adopted, and no permanent debt workout mechanism was established. Furthermore, in 2002 the International Monetary Fund (IMF) proposed the Sovereign Debt Restructuring Mechanism (SDRM). This was far from a perfect mechanism, which would have allowed countries other than heavily indebted poor countries (HIPC) to restructure unpayable debts. It was also not adopted.

A little more than 20 years later a new debt crisis is in the making with more and more countries at risk of debt distress or already in crisis. This updated report shows that countries are now paying more than they did before the HIPC debt-cancellation. It is "the worst global debt crisis ever". The world's 20 biggest economies, the G20, have established the *Common Framework* which is an initiative to provide debt relief for low-income countries. This mechanism has proven sluggish, provides little debt relief and no-long term solution for the few countries that have agreed to it. Much more is needed.

A high debt burden is a huge drain on a country's economy and hit the poorer parts of the population first through cuts in welfare, education, or health expenditure to pay debts. A debt crisis is paralyzing and undermines all other development efforts. The 1982 crisis lasted over 20 years with much suffering before it was finally resolved in 2005. We do not have a generation to tackle this new debt crisis.

Norwegian Church Aid's position on sovereign debt cancellation remains clear. We are advocating for the establishment of an UN-led debt workout mechanism and binding standards for responsible lending and borrowing, as well as debt transparency. However, it is difficult to reach an international agreement on this.

This report takes a historical approach by looking at what has worked in past debt restructuring, develops principles for what a successful debt workout needs to contain, and recommends the next steps. It is based on interviews with officials and policymakers and develops proposals that would massively improve the architecture for debt-workouts. We believe many of the proposals could find international agreement today.

The Nordic and likeminded countries were trailblazers amongst donors in tackling the past debt crisis. It is possibly a paradox that they are now much smaller creditors.

The new debt crisis will make it next to impossible to deal with the multiple crisis that developing countries and the world is facing. In June/July 2025 the UN holds a new Financing for Development conference. With negotiations starting in 2024 we urge Nordic countries to spearhead solutions to handle the debt crisis of today.

Enjoy the report!

Dagfinn Høybråten
Secretary General
Norwegian Church Aid

ABSTRACT

There is an almost universal consensus that the new developing country debt crisis is very serious: this report proposes a Nordic Initiative to resolve it via the G-20 and the forthcoming UNFFD conference in 2024-25.

A new ***Debt Service Watch*** database prepared for this report, shows that when measured by the burden of debt service on budgets, this is the worst global debt crisis ever. In 2024, debt service is absorbing 41.5% of budget revenues, 41.6% of spending, and 8.4% of GDP on average across 144 developing countries: figures much higher than those before relief was provided to Latin America in the 1980s, and to HIPCs from 1996. Most important, service exceeds all social spending, and is 2.7 times education spending, 4.2 times health, 11 times social protection, and 54 times climate adaptation. The crisis is also widespread – affecting 118 countries - and concentrated in those which have accessed capital markets (rather than those previously receiving relief). It is also a long-term crisis, with high debt service and stock burdens forecast by the IMF to persisting into the mid-2030s, meaning that temporary postponement of service will not solve it. The creditors to whom the debt is owed are so diversified that meaningful relief will require external and domestic bondholders, and for some countries multilateral creditors, to participate.

To find the best solutions, the report learns lessons from all debt relief initiatives since World War II. On the most recent initiatives, it finds that debt relief through the current "Common Framework" (and similar efforts for middle-income countries) is falling way short of expectations in terms of timeliness, participation by creditors, and the scale of relief provided. Most important, countries will still be paying an average 48% of their budget revenue on service ***after relief, freeing up virtually no money for spending on the SDGs***. As a result, very few countries are applying for relief, compared to the very large number with high debt burdens.

Progress on mobilizing additional new financing – including via the World Bank RoadMap, Bridgetown Initiative and Paris Summit - has also been very disappointing, compared to the original expectations generated of US$500 billion extra a year for the SDG Stimulus proposed by the UN Secretary General. In addition, such money will come mostly in loans, adding to the debt burden. It should also not be forgotten that debt relief has major advantages over new financing in terms of rapid delivery, long-term predictability, country ownership, sustained increases in social and environmental spending, and accountability.

The paper makes 10 recommendations for comprehensive debt relief and new finance to support the SDGs and reduce dramatically the risk of future debt crises. Its key suggestions are that **debt relief** should be:

- available to countries of all income levels and regions, tailored to their needs;
- provided in ways which reduce service rapidly to less than 15% of budget revenue;
- provided rapidly and with immediate standstills of payments when a country applies for relief;
- including all creditors by drawing on legal and regulatory tools used successfully in the past, and
- providing legal protections for debtors against holdouts and lawsuits in all major financial centres.

To reduce the risk of future debt crises, it recommends:

- making debt relief and new lending (including PPPs) fully transparent and accountable to parliaments, citizens and audit offices in developing countries, as well in creditor countries.
- passing an amendment to the UN Convention Against Corruption to prevent corrupt or predatory lending or debt restructuring, giving legal action against such acts teeth in all countries.
- dramatically enhancing efforts to build developing country capacity to negotiate debt relief and new lending, and to make development financing more transparent and accountable to stakeholders.
- accompanying relief with extra concessional multilateral and bilateral funds, measures to reduce market borrowing costs for countries, and greater efforts to mobilise progressive tax revenues.
- establishing a permanent legitimate supporting architecture led by the United Nations.

Nordic governments have a remarkable history of leading initiatives to reduce developing country debt. The report therefore proposes a new initiative for Nordic and like-minded governments, building on a consensus expressed by 40 governments, international organisations, CSOs and independent experts while preparing this report. It would build on current relief mechanisms, and provide comprehensive, effective and just relief – as well as more rapid financing – to help countries accelerate SDG progress. The executive summary and final section of the report describe precise measures to pursue via UN and G-20 channels. Given its participation as a G20 guest in 2024, and its history of activism around UN FFD conferences, Norway would be ideally placed to lead this initiative.

EXECUTIVE SUMMARY

There is an almost universal consensus that there is a new developing country debt crisis. Norway and the Nordic countries have long been at the forefront of advocating and implementing measures to resolve previous debt crises. This report therefore describes a potential new Nordic initiative, which builds on current debt relief mechanisms, declared policy intentions by the Norwegian and German governments, and a remarkable degree of consensus among 40 governments, international organisations, CSOs and independent experts interviewed for the study. It suggests how to provide comprehensive, effective and just debt relief to resolve the current - and prevent future - debt crisis.

The context of the report (Chapter 2) is that COVID-19 and high global inflation have dramatically set back prospects of reaching the Sustainable Development Goals, and of citizens accessing their rights to basic public services. The global crisis of extreme inequality and poverty has also dramatically worsened in 2020-22, and without strong remedial action the world will not eliminate poverty by 2030. The climate emergency is becoming ever more urgent and must be fought by spending much more on adaptation – and in ways which reduce poverty and inequality. Confronting all these crises will require huge extra funding to avoid widespread post-COVID austerity and a "lost decade" for development. So, the report asks: *what contribution can debt relief make to financing post-COVID recovery and the SDGs?*

1) The Scale of the Crisis

The new debt crisis is the most severe developing countries have ever faced (Chapter 3). Looking at **key indicators of "economic" sustainability,** in terms of ***debt compared to country GDP***, the new crisis has been building for a decade, pushed up by the global financial crisis in 2008-09, and commodity price falls in 2014-16. The COVID-19 pandemic has worsened the crisis so at end 2023, ***countries in all developing regions (except Europe), income groups and special situations face excessive average debt burdens***. This is not a temporary problem: IMF analyses indicate that without drastic action to cut spending and/or increase taxes, high debt/GDP would persist in most countries through the 2020s. In addition, many countries face huge actual and potential liabilities from US$1 trillion of public-private partnerships.

The debt service burden is the worst ever faced. We have compiled a new ***Debt Service Watch*** database for this report, which covers external and domestic debt service for 145 developing countries for 2024. It finds that service currently averages 41% of budget revenue, 53% for low-income countries (LICs) and 55% for Africa. However, the crisis is not confined to LICs: lower-middle income countries (LMICs) average 50%, and all regions exceed 29%. Debt service is also an average of 8.4% of GDP. The former Heavily Indebted Poor Countries (HIPCs) are paying 8.8%, more than twice the level they were paying before they received relief from 1996. Even Latin American countries are paying more on average than they were in the 1980s.

Most vital is the degree to which debt service is crowding out spending to confront the global polycrises and accelerate progress to reaching the SDGs. Debt service averages 41.6% of total spending across all countries, and reaches 55% in Africa and LICs, and 36-37% in LMICs, least developed and landlocked countries, and has been rising rapidly as a % of total spending in recent years. ***Debt service exceeds total social spending (education + health + social protection) on average across all countries:*** by two thirds in Africa and LICs, and by 25% in LMICs. For countries currently in default or seeking debt relief, it is 2.5 times as high as social spending. ***Debt service is 2.7 times education spending across all countries, 4.2 times health spending, 11 times social protection spending***. For 42 countries reporting climate spend in their UNFCCC NDCs, ***debt service is 54 times planned climate spending, rising to 65 times in Africa***.[1]

The crisis is also very widespread. ***The worst affected countries are not those which received debt relief before, but those which accessed global and national capital markets excessively post-2010***. Overall, only 33 of 151 developing countries assessed do not have any debt problem: ***116 have excessive service/revenue (>15%); and 2 more have excessive stock/GDP (>60%).*** Service exceeds 20% of revenue in 95 countries, and 20% of spending in 88 countries. It exceeds total social spending in 33 countries, education spending in 104 countries, health in 116, social protection in 107 and climate in 38 of 42 countries. In addition, service will still be exceeding 15% of expenditure in 2030 (and beyond) in 91 countries ***– showing that for the vast majority of countries this is not just a temporary "liquidity" crisis which could be solved by postponing debt service for a few years, as was done under the DSSI***.

One other key finding is that **creditors have changed considerably since 2000**: domestic debt has risen sharply, and because of higher interest rates domestic service is higher than external in 65% of countries. Shares of debt to China and global bond markets have also risen fast, but in LICs and LMICs multilateral creditors (notably the World Bank) are the most important creditors, owed 46% of debt. Two-thirds of these countries are paying most of their service to multilateral creditors. ***This means that debt relief can cut service enough, only if commercial and domestic and in many cases multilateral creditors participate.***

2) What Can Be Done: The Lessons of History

What can be done about this crisis ? To answer this question, the report (Chapter 4) examines key lessons from debt reduction initiatives since World War II, focusing on the post-war settlement of German debt; the gradual move to debt reduction for LICs and MICs during 1988-2010; and responses since the 2008-09 crisis. It finds that the best relief:

1. Is provided to all different types of debtors (by income, special situation, and with/without market access), but has worked best when tailored to their needs;
2. Is based above all on assessing country financing and liquidity needs, with a particular focus on growth, poverty reduction and (more recently) the MDGs/SDGs;
3. is provided rapidly and in an automatic or orderly way, to avoid huge extra costs caused by lengthy defaults and delays in restructuring;
4. includes all significant creditors to maximise relief and ensure genuine burden-sharing;
5. provides protection against holdouts and lawsuits by non-participating creditors;
6. maximises transparency and accountability, especially to domestic stakeholders, on lending, debt restructuring and the spending of their proceeds;
7. ensures the introduction of laws and procedures for responsible borrowing and lending, and to protect against corrupt, predatory and odious debts;
8. has a sustainable and comprehensive supporting architecture involving all stakeholders;
9. builds capacity of developing countries to negotiate debt relief and improve future borrowings; and
10. is accompanied by high-quality development finance to ensure all countries can reach their development goals – even those which do not have heavy debt burdens.

Compared to these objectives, the current Common Framework for debt relief for lower-income countries, and similar ad hoc arrangements for other middle-income countries, are falling far short. There has been marginal recent progress in agreeing deals after long delays, and improving participation by creditor governments, and the Global Sovereign Debt Round Table has been working hard to resolve technical issues such as comparability of treatment and how to implement standstills. Several creditors have also agreed to put contingency clauses in their new loans, suspending service payments if countries are hit by natural disasters. However, less positively, relief is still being provided only to a very small number of countries, with long delays after they default. Commercial, multilateral and often domestic creditors are not participating on comparable terms. There continue to be major problems with transparency and accountability of debt relief and new borrowing, and many new corrupt, predatory and odious loans are still being made. There is no comprehensive legitimate supporting architecture involving all stakeholders, and capacity-building support to countries to negotiate relief or new finance is inadequate, leaving them depending on commercial advice.

Most tellingly, relief is not based on any target for reducing debt service rapidly to sustainable levels. After their relief deals, according to IMF forecasts, Chad, Ghana, Sri Lanka, Suriname and Zambia will still pay an overall average of 48% of their budget revenue on debt service in the next 3 years, compared to the 11% average reached after HIPC/MDRI deals. Even worse, the Suriname and Zambia agreements include clauses saying countries will pay even higher amounts of service to creditors if their economic outcomes improve. Because of this inadequate relief, these countries will have to cut their overall budget spending by an average 4% of GDP in the next 5 years (between a quarter and a third of current spending). This leaves no room for countries to raise spending to confront the polycrises or reach the Sustainable Development Goals by 2030. Given these failings, it is no surprise that a large number of countries which desperately need debt relief are not applying for it: we must fix these problems for it to be worth them applying.

On the other hand, there has been some progress in mobilising additional finance to support the SDGs. This is currently falling trillions of dollars short every year of the amounts needed to fund the SDGs, as highlighted by the UN Secretary General in his SDG Stimulus proposal for US$500 billion more a year.[2] In the last 3 years:

- the IMF issued US$230 billion of SDRs[3] to developing countries in 2021 and, with the multilateral development banks, could channel a further 60 billion of reallocated SDRs to developing countries in future years. However, proposals to issue SDRs on a regular (eg biannual) basis have gone nowhere.
- the new Evolution Roadmap for the World Bank has so far agreed to allow it to lend up to US$10 billion more a year.[4] Similar measures by the other MDBs could double this amount to US$20 billion, and future high capital increases or replenishments of concessional windows could boost it much further, but we will still be well short of the US$400 billion a year envisaged from such initiatives for SDG Stimulus.
- as a result of the Bridgetown Initiative, Paris Summit for People and Planet and preparations for COP 28, new climate finance commitments have accelerated slightly. Agreement has been reached on creating a Loss and Damage Fund, and slightly faster progress is being made to the long overdue OECD target of US$100 billion of climate finance a year – though there is little sign of progress in talks on the New Collective Quantified Goal (NCQG) on Climate Finance. In addition, much of this is relabelling or rechannelling of existing commitments rather than new money. In a context where ODA is rising much more slowly, and much is being diverted to Ukraine or to spending on refugees in OECD countries, increases in climate ODA also risk reducing ODA for education, health or social protection.

- proposals by many developing countries (for example by the Bridgetown Initiative and UNECA) to reduce bond market borrowing costs for countries by using MDB and other DFI finance to guarantee their bonds, have so far met little enthusiasm: instead, rising global interest rates have raised costs higher.

There are also two major problems with this new funding: i) with the exception of the SDRs issued directly to developing countries, it will take several years to disburse; and ii) insofar as it consists of (especially non-concessional) loans, it risks increasing country debt burdens further. In addition, there are multiple reasons why "one dollar of debt relief is better than one dollar of new aid". The best debt relief disburses immediately (rather than taking several years as aid does); provides long-term predictable financing over the life of the cancelled loans; promotes country ownership by funding programmes included in the country's development plan and budget; can be targeted to key social and environmental spending; and, as delivered in the HIPC and MDRI Initiatives, is transparent and accountable to domestic stakeholders.

Not surprisingly, therefore, leaders of the Global South and the UN have been speaking out with increasing force on the need for rapid and comprehensive debt relief to achieve the SDGs.[5] Global civil society organisations meeting in Bogota on 20-21 September 2023, issued a statement calling for much more comprehensive debt relief (supplemented by new concessional financing) to achieve the Sustainable Development Goals,[6] and will be doing so again in the C-20 processes surrounding this year's G-20, as well as in the build-up to the UN FFD Conference of 2024.

3) Recommendations

Based on these lessons, and on stakeholder consensus, Chapter 5 of the report makes a proposal for more effective and just debt relief. It turns the lessons into a set of 10 principles which combine to build a debt relief initiative and mechanism; and then proposes detailed measures to make debt relief:

1. **open to all countries which need relief** based on the weight of their debt burden, regardless of their income level or special situation, and tailored to maximise access to affordable financial markets, so that most countries which need relief will also want it (see Section 5.2.1).

2. **maximise its contribution to the SDG and climate adaptation financing needs** of debtor countries, by basing the assessments of debt sustainability and relief needs on bringing debt service to revenue levels down to below 15% of budget revenue, while ensuring that the spending itself is highly "productive" in terms of SDG results (see Section 5.2.2).

3. **rapid in order to avoid delay, and automatic or "orderly" to minimise uncertainty**, by identifying unsustainability clearly as soon as it emerges, and following this with immediate formal standstills of debt service payments (see Section 5.2.3).

4. **include all creditors** (i.e. commercial, multilateral, domestic and non-Paris Club governments), by providing them with menus of different modalities to fit with their national legal and regulatory frameworks, and offering them multiple "carrots and sticks" to encourage participation (5.2.4).

5. **provide legal protection against holdouts** and lawsuits, preferably through laws similar to the vulture fund law introduced by the UK in 2010 forcing all creditors to provide comparable treatment, as well as laws to protect payments systems from seizure of assets (5.2.5).

6. **maximise transparency and accountability** before and after lending and restructuring, especially of debtors to their key domestic stakeholders (parliaments, citizens and independent audit offices), and of creditors to global bodies through compulsory registers of loans and other liabilities (5.2.6).

7. **ensure future borrowing and lending are made much more "responsible",** by passing an amendment to the UN Convention Against Corruption which would prevent corrupt and predatory lending or debt restructuring, and give legal action teeth in all jurisdictions (5.2.7)

8. **provide a comprehensive supporting architecture**, building on the Common Framework, which would consist of an Inter-Agency Task Force of UN and other agencies, each bringing to the table its own comparative advantages, and consulting all stakeholders through participation (5.2.8)

9. **enhance capacity-building efforts** to promote debtor country leadership and skills in debt negotiations and renegotiations, transparency and accountability to domestic stakeholders, and ability to analyse SDG-related debt sustainability (5.2.9); and

10. **accompany debt relief with high-quality new finance**, including extra concessional external funds from multilateral and bilateral sources, measures to reduce market borrowing costs such as suggested under the Bridgetown Initiative, greater efforts to mobilise progressive tax revenues through global taxes on methane

emissions, bunker fuels, financial transactions and global wealth, and regular biennial SDR issues. These measures could mobilise trillions of dollars a year, and ensure that all countries (even those which do not need formal debt relief) can introduce wide-ranging **SDG Acceleration Compacts as part of the SDG Stimulus programme** (5.2.10).

Among these recommendations, the most urgent and crucial for successful debt relief are the first five. However, the last five are also essential to minimize future debt crises and ensure the SDGs are better funded. At the recent IMF and World Bank Spring Meetings, there was near-universal consensus that current debt relief mechanisms require comprehensive revision: at the same time, participants lamented the lack of political will to move forward. It is this political will which – as they have so many times in the past - Nordic and other like-minded governments could once again provide – by launching a comprehensive initiative.

Norway in particular, is well-placed to speak out on these issues, given its invitation to participate in the G20 chaired by Brazil in 2024. The final section of this report suggests key immediate and longer-term measures Norway can advocate, by putting debt relief at the forefront of its G20 agenda, and its buildup to the UN Financing for Development Conference in 2025. This will enhance Norway's longstanding multiparty tradition of being a global leader, by helping to solve the world's most serious ever developing country debt crisis.

1 INTRODUCTION

1.1 Background and Context of this Report

There is an almost universal consensus that there is a new developing country debt crisis, which was emerging before COVID but which the pandemic and the subsequent polycrises of inflation, low growth and high interest rates have made much worse. Nordic countries have long been at the forefront of advocating and implementing measures to resolve past debt crises, beginning with the cancellations agreed for Least Developed Countries at the UNCTAD 1978 conference. They were instrumental in creating the HIPC Initiative (the last big round of global debt reduction) and in the adoption of responsible lending and borrowing principles by UNCTAD and the OECD. Norway has been a particular champion of dealing more effectively with debt crises, unilaterally cancelling old claims due to their classification as odious debt, conducting the first ever creditor debt audit, and advocating consistently for a much-improved debt reduction architecture.

As a result of all these measures, Nordic countries have very few outstanding loans to developing countries. However, they still have a strong stake in resolving the current debt crisis, which could unravel decades of progress in reducing poverty, and which is already diverting their aid and developing country tax revenue away from financing the SDGs. Without further action to improve international mechanisms for debt relief, even more new aid will be needed for countries to reach the SDGs; and countries will be even less resilient to external shocks, increasing the need for humanitarian aid.

There is growing agreement that, while providing a foundation for enhanced action, recent debt relief measures agreed by the G20 are inadequate. While they are beginning to deliver some relief, this is after lengthy delays, excludes some crucial creditors, and is falling way short of the debt service reductions needed to allow countries to fund the SDGs and climate adaptation. As a result of these problems, very few countries are applying for debt relief compared to the large number of countries in debt crisis. All the other 53 stakeholders interviewed for this report (from OECD and non-OECD governments, international and regional organisations, civil society organisations and independent and academic experts) agree that the global debt relief architecture must be comprehensively and urgently reinforced.

Nordic governments have found themselves excluded from global governance initiatives, because these have been increasingly concentrated around the G7 and the G20, of which they are not members (except via the EU for EU members), rather than around the UN. However, this has never stopped them from advocating more fundamental action in all possible fora, including the G7 and G20 when invited, as well as the Bretton Woods Institutions, United Nations and European Union. The same opportunities for advocacy continue to exist if Nordic countries wish to use them, notably for Norway given that it has been invited by Brazil to participate in the G20 in 2024 – a unique opportunity to raise its voice on debt and SDG financing.

The Norwegian government has recognized the scale of the crisis and the need for urgent action. Its coalition agreement states that it will: *"support the development of international mechanisms for effective and just sovereign debt resolutions".*

In this context, this report aims to describe a potential new Nordic initiative, based on the principles enunciated in the coalition agreement, to establish new mechanisms for comprehensive debt relief (building on existing mechanisms) which can resolve the current and prevent future debt crises in just and effective ways. It has been commissioned by Norwegian Church Aid (NCA) from Debt Relief International, which has a 30-year track record of working on debt relief for developing countries.

Norway's G20 participation in 2024, and the buildup to the UN Financing for Development Conference in 2025, make 2024-25 crucial for delivering on this promise and responding to the UN Secretary-General's call for an SDG Stimulus of US$500 billion a year.

1.2 Methodology of this Report

The areas covered by this report are as follows:

1. A brief examination of the impact of the COVID pandemic and subsequent polycrises on low- and middle-income developing countries, and their prospects for reaching the SDGs, enhancing rights to basic public services, reducing poverty and inequality, and accessing development finance **(Chapter 2)**
2. An examination of the debt burdens of developing countries, their evolution since 2011 and especially the more recent impact of COVID-19 on current and projected future debt burdens, including an analysis of the degree to which debt service is crowding out other expenditures crucial to the SDGs (notably on education, health, social protection and climate). **(Chapter 3)**
3. An examination of previous and recent initiatives adopted by the international community to provide debt relief for these countries (including debt cancellations and conversions beginning in the 1970s, the Brady and Paris Club debt reductions, the HIPC and MDRI initiatives, and more recent steps including the DSSI and the new G20 "Common Framework" and similar arrangements for MICs **(Chapter 4)**
4. Presentation of a comprehensive and politically/technically feasible proposal for building on existing mechanisms and measures to establish more just and effective mechanisms to resolve the current debt crisis, and prevent similar crises recurring in the future **(Chapter 5)**.

All of this analysis has been conducted as a desk study. Two methods were used to gather information:

- Comprehensive collection of data on public debt service and government spending on key social sector and climate SDGs, which were compiled into a new ***Debt Service Watch*** database for 139 of 145 developing countries which borrow from the World Bank as of end 2023 (see Annex 1).
- Interviews in 2021-23 with most major stakeholders involved in debt relief issues, equally split between 3 groups: creditor and debtor governments, international and regional organisations, and CSOs and think tanks. All of these interviews took place at the most senior technical level possible, to ascertain both the institution's technical views on the issues covered as well as its likely political stance on the initiative. The lists of questions put to interviewees, and of institutions interviewed, is attached in Annex 2.[7]

Since its first publication in 2021, the conclusions of the report have been presented in Washington DC, Oslo, Marrakech and London, and the report has been comprehensively updated based on the feedback received at these meetings and on developments during the last 14 months. These include the worsening of the global debt crisis, the updating of the global debt service database prepared for this report, and some very limited progress on providing debt relief and/or new financing to countries in crisis.

1.3 Structure of this Report

The rest of this report is structured as follows:

- **Chapter 2** describes the context of the report, including the "polycrisis" of the COVID-19 pandemic, extreme inequality and rising extreme poverty, recent high inflation, and the climate emergency.
- **Chapter 3** analyses the nature of the current debt crisis, examining the recent, current and projected debt burdens of developing countries, as well as the creditor composition of debt and its implications. It also examines the impact of debt on progress to and prospects for the SDGs, and presents a typology of how the debt crisis is hitting different groups of debtors differently.
- **Chapter 4** examines previous solutions to debt crises since 1945. It pays particular attention to two previous mechanisms for coordinated debt reduction (Brady Plan and HIPC/MDRI Initiatives), and to the most recent responses to the global financial crisis of 2008-09 and the COVID-19 pandemic of 2019-20. It ends by presenting the key lessons on progress achieved by earlier and current initiatives.
- **Chapter 5** presents a proposal for an improved mechanism for comprehensive debt relief, focusing on immediately feasible and practicable measures, and showing how they comply with the principles of effective and just sovereign debt resolution, and lessons learned from previous attempts at debt relief.

2 THE CONTEXT: COVID-19, INEQUALITY, CLIMATE EMERGENCY AND INFLATION

This report is written at a key time for global development, due to four overlapping global emergencies which have together often been described as an economic, social and environmental "polycrisis"[8]:

1. **The COVID-19 pandemic** has dramatically set back prospects for reaching the Sustainable Development goals and for citizens accessing their rights to basic public services.
   - It is often assumed that COVID has had less of a **health impact** in low- and middle-income countries. At first sight, this is true in that Latin America, North America and Europe dominate reported deaths. However, if the figures are adjusted for major under-reporting in lower-income countries,[9] South Asian and Sub-Saharan African deaths increase dramatically, and half of the estimated 18.6 million global COVID-related deaths have been in the Global South.
   - One key reason for high infection and death rates in many developing countries has been **poor health and social protection systems**. As the Commitment to Reducing Inequality Index 2020 report[10] has shown, lower-income countries went into COVID with much lower levels of health and social protection spending, and therefore lower coverage of their citizens, than wealthier countries. In these countries, the poor and the marginalised suffer particularly from lack of access to healthcare and social protection. The Sustainable Development Goals agreed in 2015 were designed to reverse this by targeting universal coverage in all countries. The pandemic has exposed the very limited global progress on the SDGs, and need to do much more if citizens are to access their rights to health and social protection by 2030.
   - The pandemic has also had a major negative economic impact on developing countries. After initial tough lockdowns which caused sharp falls in GDP, many developing countries (except in East Asia) lifted COVID restrictions – partly because their poor social protection systems would have made restrictions drive millions more into poverty. Nevertheless, as a result of collapses in demand from richer country markets for their exports and tourism, they have been very hard hit by the pandemic. Emerging Market and Middle-Income Countries saw GDP growth fall from 3.5% in 2019 to minus 2.3% in 2020, and LIDCs[11] to zero in 2020 from 5.3% in 2019.

2. **The extreme inequality and poverty crisis** (including the gap between rich and poor countries) has been dramatically worsened in 2020-21, and without strong remedial action this will prevent the world from eliminating poverty by 2030[1]:
   - Even before COVID-19, in more than half of countries, income inequality had grown to extreme levels not seen since World War 2.[12] Particularly since the global financial crisis, inequality has been rising sharply in developing countries, as the wealthiest continue to accumulate fortunes based on earnings from financial investments, property and inheritance; while poorer citizens have no such assets.[13] Such levels of inequality are seriously undermining growth in almost all countries.[14] Before COVID, it was already clear that it would be impossible for lower-income countries to end extreme poverty without a major reduction in inequality.[15]
   - COVID has sharply worsened inequality and extreme poverty. The IMF estimates the Gini coefficient in lower-income countries has risen by 6%,[16] and the World Bank suggests up to 124 million people have fallen into extreme poverty,[17] three-quarters in IDA-eligible countries. This poverty increase could take more than a decade to reverse, erasing all hope of countries meeting global and national goals to eliminate poverty and reduce inequality by 2030.[18]
   - The most effective ways to reduce extreme poverty and inequality are: universal free public services, especially education, health and social protection; and enhanced labour rights (especially for women) including higher minimum wages and formalization of employment contracts. All of these have not been happening, and will require increased development financing, only part of which can come from progressive taxation, ensuring all citizens bear their fair share of the tax burden.[19]

3. **The Climate Emergency** is becoming ever more urgent, but cannot be confronted without spending much more on adaptation - and in ways which reduce inequality and poverty:
   - At the last three climate negotiation COPs, there has been a clear acknowledgement that climate emergency produced by global heating is becoming ever more urgent. Implementing sharp cuts in carbon emissions, and strong adaptation measures in LIDCs during the next decade, will be crucial for preventing a global catastrophe.[20] Yet lower-income countries are currently spending only around 7-15% of their estimated adaptation spending needs of US$200 billion a year.[21]
   - It has also been increasingly acknowledged that the twin crises of climate and poverty are best combatted together, through what is known as a "just transition". This involves focusing support on the poorest citizens who suffer most from climate change, as well as on those needing to move out of carbon-producing jobs, and ensuring that moves to greener energy and more sustainable economies are led by communities of the poorest most marginalised citizens. Very little of current climate adaptation or

1 For details of the inequality crisis, and what needs to be done to rescue the related SDG10, see Martin and Kripke 2023, A Call to Save SDG10, report for the Save SDG10 Coalition, June 2023

mitigation investment is channelled in such ways so that "no one will be left behind" in the transition to green economies.[22]

4. Since March 2022, there has been a dramatic acceleration of **global inflation**. This was provoked initially by a dramatic rise in energy and food prices due to constraints on supplies from Russia and Ukraine resulting from the Russian invasion of Ukraine, supplemented by supply bottlenecks in other goods and labour markets as post-COVID demand accelerated. According to the IMF, globally prices will rise by a cumulative 30.2%, almost twice as fast as the 16.6% forecast in October 2021. These prices rises have at the same time led to increased austerity, as budgets have had to be cut in many countries and spending has fallen increasingly short of SDG needs adjusted for inflation; and higher global and national interest rates, pushing up the costs of all developing countries' borrowing at market-linked interest rates.

5. Confronting the combined effects of all four of these crises will require large additional amounts of affordable development financing: yet they have all reduced access to such financing.
    - Even before COVID, flows of affordable financing to developing countries to assist them with the SDGs and climate adaptation were woefully inadequate. Overall concessional financing flows to developing countries were around US$180 billion a year, way short of the US$2 trillion they require to finance the SDGs. Flows of climate adaptation finance to all developing countries have been running at US$20 billion a year, compared to needs of US$200 billion.
    - COVID worsened both of these situations by increasing their financing needs. As a result of lack of financing, lower-income countries have been much less able to respond to all of these crises: their average COVID response spending packages have been 3% of GDP, compared to 15% of GDP for OECD countries[23]. Their spending on climate adaptation averages only 2.5% of total spending;[24] and their spending on education, and especially health and social protection, to reach the SDGs and end poverty, remain woefully short of national needs.[25]
    - As this report shows, even before COVID, many developing countries had very high levels of debt and debt service. In the absence of sufficient concessional money, in spite of enhanced flows from multilateral institutions and the issuance of IMF Special Drawing Rights, much of the developing country response to COVID has had to be funded by more debt which, together with economic collapse, has dramatically increased debt burdens in developing countries.

This report is therefore written in a context of an acute financing crisis for most lower-income countries. They are being forced into austerity packages with large government spending cuts, to balance their budgets and bring down debt levels. If this trend is not reversed, many developing countries could be facing a "lost decade" for development where they make no progress to the SDGs. One key question facing the international community is therefore: what contribution can debt relief make to financing the post-COVID recovery and restoring hope of reaching the SDGs ?

3 NATURE OF THE NEW DEBT CRISIS

In the interviews conducted for this study, all but one of 51 interviewees judged that there is currently a new developing country debt crisis. But how do we judge the scale of this new "debt crisis" ? In other words, how should we judge whether countries have a high debt burden ?

Debt is often very positive: unless a country has enough tax revenue or grants to pay for all its development plans and the Sustainable Development Goals (SDGs), which is very unlikely, some borrowing is essential to finance national development plans. But a very longstanding analytical literature shows us that unsustainable debt burdens can cause massive damage to national sustainable development prospects, in four ways:

1. high levels of **debt service** divert the proceeds of national and international new development financing away from investing in progress towards the SDGs, to repaying debts, thereby "**crowding out" expenditure on the SDGs.** Based on in-depth analysis, the IMF and World Bank[26] have concluded that for low-income countries, the point at which external debt service became "unpayable" (an economic definition of unsustainability) has been when it exceeds 14-23% of budget revenue (varying according to the strength of country debt management).[27] DFI's earlier analysis of 32 HIPCs[28], conducted with more precise data including when countries defaulted on domestic debt (which always happens well before default on external debt), identified an average total public debt service/revenue ratio of 15.2%, and the HIPC Initiative used 15% debt service/revenue as the criterion to grant relief to HIPCs[29]. So 15% is used as the benchmark in this study to identify unsustainable debt service. However, this study places equal emphasis on the degree to which debt service is crowding out spending on key social and environmental SDGs, by comparing debt service with education, health, social protection and climate spending. There is no established benchmark for this comparison, so it looks at whether debt service exceeds each of these.

2. high levels of **debt stock, also known as the "debt overhang effect"** raise major worries about a country's development prospects. These deter policymakers from thinking long-term and continuing to invest in large-scale SDG-related programmes, and lead them to focus on "robbing Peter to pay Paul" i.e. short-term spending plans and new borrowing to help repay existing debt, with no net benefit for "fiscal space" to fund the SDGs. They also deter lenders and donors from supporting those long-term programmes financially, leading to a reduction in volume of flows and an increase in their costs and a shortening of their maturities. Again, following in-depth analysis, the IMF and World Bank have identified that default has occurred at levels of 35-70% of GDP,[30] varying sharply depending on country debt management capacity. Earlier analysis by DFI identified an average level of 58%[31], and many other countries and regional groupings (CEMAC, EAC, ECCU, ECOWAS, EU, WAEMU) have chosen to use figures of (or close to) 60% of GDP as their ceilings[32], so for simplicity the level of 60% is used in this study to identify an unsustainable debt overhang.

3. Particularly important in the context of much more frequent recent economic, pandemic and climatic shocks, high levels of *debt stock and service* make countries **more vulnerable to shocks** by depriving them of the foreign exchange and budget reserves, and the immediate liquidity buffers, which they need in order to be resilient against such shocks, by investing adequate funds to confront the shocks and recover from them quickly.

4. High levels of **arrears and eventual default on debt** can trigger an even more rapid and fundamental move to short-termism on all sides, with policymakers focusing on short-term extra loans, emergency tax rises and spending cuts leading to austerity and lower growth; official institutions on providing rapid money to help repay debts owed to them; and commercial creditors ceasing new funding except on unaffordable terms.

If such conditions continue for long periods due to insufficiently just or effective debt relief, they can lead to "lost decades" for development, with negative per capita growth rates and virtually no progress on social and environmental goals, as was the case for Latin America in 1982-90 and for lower-income countries in 1980-1996, and continually for many Small Island Developing States (SIDS) since the early 1990s.

As a result, the debt analysis literature has concluded that countries should not continue to honour their debts over lengthy periods at the cost of their national development, and that it is better for a country to receive debt relief as soon as possible once it reaches unsustainable levels of debt (for more discussion of this issue, see Section 5.2.3). However, due to lack of will among creditors to provide relief, there continues to be a disconnect (both in terms of levels of debt and debt service, and in terms of the speed of relief) between countries reaching unsustainable levels of debt, and them receiving relief on that debt burden. As section 3.4. shows, many countries currently have unsustainable debts but are not receiving any relief.

The rest of this chapter looks at the nature and composition of countries' current debt burdens, as well as which countries are the most heavily burdened, in order to define the scale of the crisis which an effective and just debt resolution mechanism needs to resolve.

3.1 The Debt Burden of Developing Countries: Recent Trends and Current Status

3.1.1 The Rising "Debt Overhang": Pre-COVID Trends and Explanations (2011-19)

The new developing country debt crisis has been building up for around a decade, as shown in Figures 1 to 4. Whether grouped by region, income level or special status, virtually every group of developing countries saw their debt to GDP levels fall between 2002 and 2009, and then rise sharply in 2009, and again after 2014. These trends reflect the two major shocks of the Global Financial Crisis in 2008-09, and sharp commodity price falls in 2014-16.

Figure 1 shows this trend for all groups of countries except for emerging and developing Europe after 2015, reflecting the fact that the countries in that group are less commodity dependent so had to borrow much less to offset commodity price falls, and their bond prices have stayed far lower post-COVID. It also shows that even pre-COVID, LAC countries had average debts close to 70% of GDP .

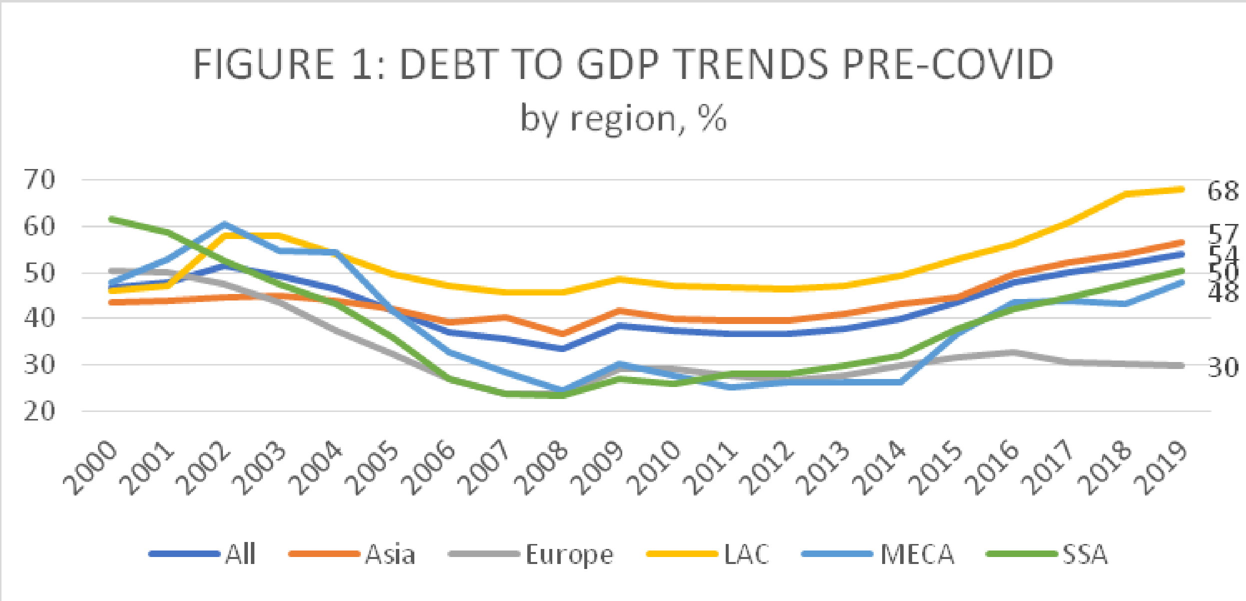


Figure 2 shows the huge influence that HIPC debt relief had on bringing down debt ratios for countries in special situations (especially Least Developed and Landlocked countries) between 2000 and 2010. It also shows that the ratios of SIDS have stayed at or above 60% through most of the last 20 years, reflecting their ongoing debt crisis due to repeated climate-related weather events (and that they were particularly hit by the GFC impact on tourism)

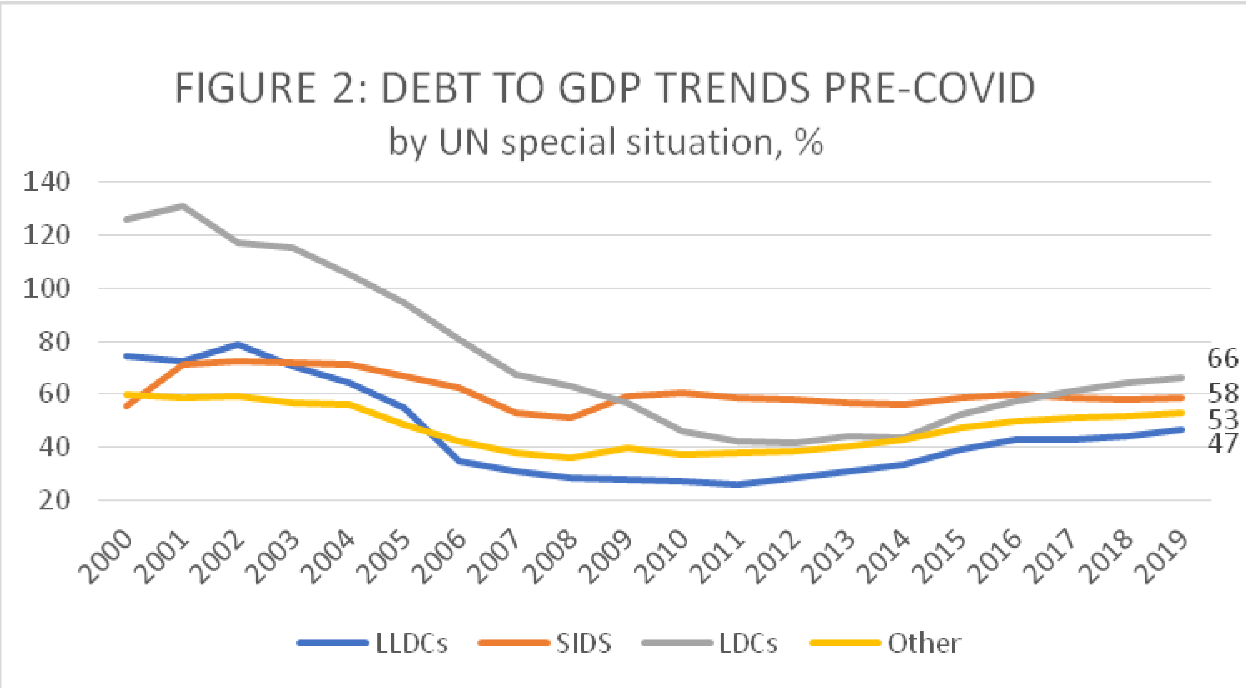
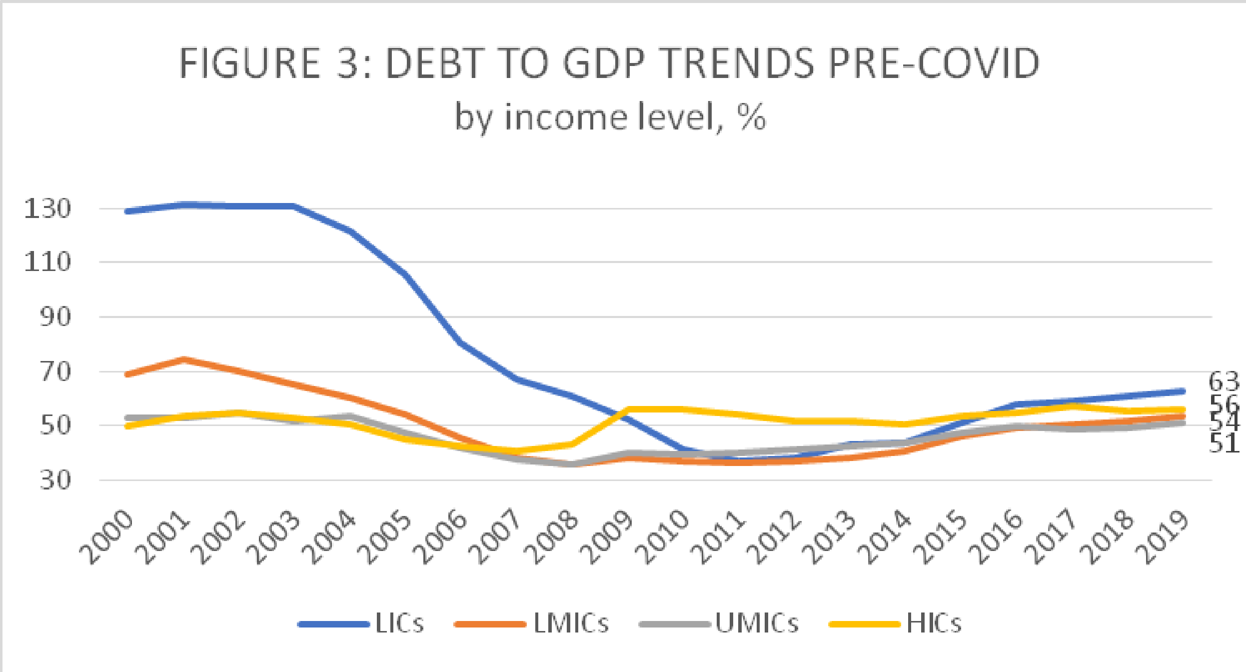
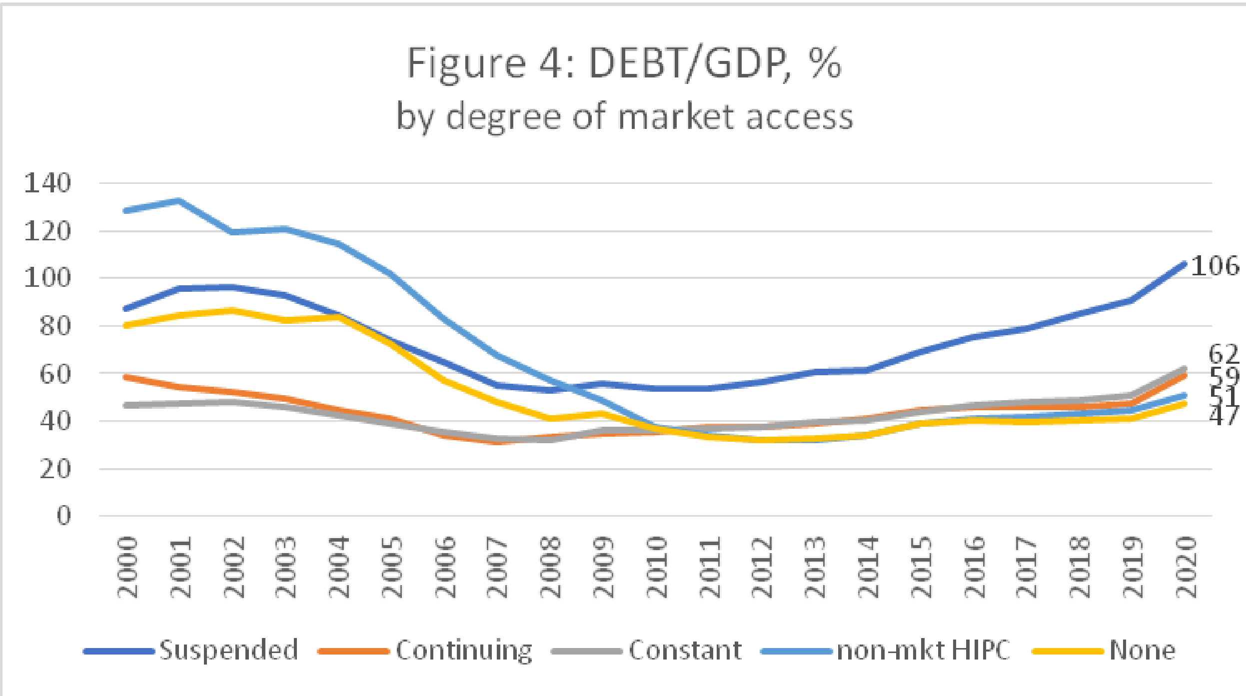


Figure 3 shows that even before COVID, debt/GDP ratios had risen since 2010 for all income level groups of countries except HICs. This reflects the shift of a large number of countries away from grants to loans, due to a sharp fall in aid flows compared to their GDP. It also shows the influence of HIPC debt relief on bringing LIC and LMIC debts down between 2000 and 2010, that HICs were worst hit by the Global Financial Crisis of 2008-09 because they were most connected to global markets, and that commodity-dependent LICs and LMICs were worst hit by the 2014-16 commodity price crash of 2014-16.



Finally, Figure 4 shows that debt/GDP ratios rose most sharply after 2010 for countries whose access to global financial markets rose sharply and then was suspended as they fell into default. They also rose significantly for countries which have been accessing markets constantly for many years, and those which began to access markets occasionally more recently. Those which did not access markets at all (including non-market HIPCs) kept much greater control over their debts post-HIPC relief, and saw virtually no rise in debt/GDP before the commodity price shocks of 2016-18 and especially the COVID-19 pandemic in 2020. ***So, any idea that the current debt crisis is about HIPCs being irresponsible post-relief and getting back into problems is not borne out by the facts: rather it was countries (HIPC or non-HIPC) which accessed financial markets excessively which got into major problems.***



3.1.2. The Impact of COVID, and Current and Projected Debt Stock/GDP

Since the onset of COVID-19, debt levels have risen further in all different groups of countries. The latest IMF data[33] indicate that debt rose by 9% of GDP across all developing countries during 2019-22, to an average of 64% of GDP, with a particularly sharp rise of 11% in Asia. At the end of 2022, debt/GDP exceeded 70% on average in Asia and Latin America, 57% in Sub-Saharan Africa and 53% in the Middle East and Central Asia. Among income groups, low-income countries have the highest debt levels; and among countries in special situations, Least Developed Countries and SIDS are worst affected. What has therefore changed due to COVID is that virtually all groups of developing countries, whether regions (except Europe), income levels or country situations, now have average debt to GDP ratios between 55% and 75%.

In addition, the **current debt problem is not temporary**. According to IMF forecasts, debt stocks are expected to rise by a further 11% across all developing countries through until 2028, reaching an average 75%. However, trends could differ markedly in different regions – with a 17.5% rise in Asia and a 6.5% fall in Sub-Saharan Africa; and income groups – with sharp rises in UMICs but falls in LICs.

Because of these divergent trends for sub-groups, the IMF has recently suggested that prolonged debt crisis for lower-income countries is less likely.[34] This ignores the fact that the forecasts of falling debt to GDP ratios are based on assumptions of rapid growth in Africa and LICs unconstrained by future macroeconomic, climate or pandemic shocks; and of drastic action in many of these countries to reduce budget deficits and debt levels by slashing public spending and increasing taxes. Given the frequency of shocks in recent years, and the failure of countries to sustain large spending cuts and tax rises, the IMF has suggested that faster and deeper debt relief will be essential to reducing debt/GDP sustainably.

Finally, the current debt stock numbers are a major underestimate of the external liabilities of developing countries. There is an additional debt burden on developing countries, which is often hidden from citizens. Since 2010, countries have increasingly turned to "**off-budget" liabilities** such as Public-Private Partnerships to fund development, especially infrastructure. The financing mobilised for these projects is among the most expensive available – around 3 times the cost of public debt financing – because funders demand 15-20% annual returns during the project. These are often considered as "contingent liabilities" i.e. which turn into public debt only if something goes wrong with the project. But the reality is that their cost is automatically borne by the budget (via public subsidies or foregone budget revenue) from the start.[35] More than US$1 trillion of such projects have started since 2010, but no data are available on national budget costs.

3.1.3. The Debt Service Burden: The Worst Debt Crisis Ever ?

For more than two decades, developing countries have been emphasizing that the key debt burden for them is debt service rather than debt stock.[36] This is because high debt service dramatically reduces their "fiscal space", by absorbing high proportions of budget revenue and GDP; and because it "crowds out" essential expenditure needed to reach the SDGs and confront the current polycrises.[2]

To begin with, we look at the proportion debt service represents of budget revenue and GDP.

Debt service in 2024 is averaging 42% of budget revenue (excluding grants) across emerging and developing economies, and 53% for low-income countries. This compares with the BWI assessment that ratios of between 14% and 23% (depending on the debt carrying capacity of the country) make external debt levels unsustainable for lower-income developing countries covered by the LIC-Debt Sustainability Methodology. However, the problem is not just confined to the poorest countries. As shown in Figure 5 below, the average service/revenue ratio is high for all income groupings: 50% for LMICs and 32% for UMICs. Nor is it a problem concentrated in one region: Figure 6 shows that Sub-Saharan Africa is spending 55% of its revenue, but Asia is spending 42%, Latin America and the Caribbean 35%, and the Middle East and Central Asia 29%. All of these income groupings have risen, notably LMICs and Asia, since 2023.

2 All data in this section is sourced from the Debt Service Watch database (see Annex 1).

Figure 5: Debt Service to Revenue (by Income group, %, 2024)

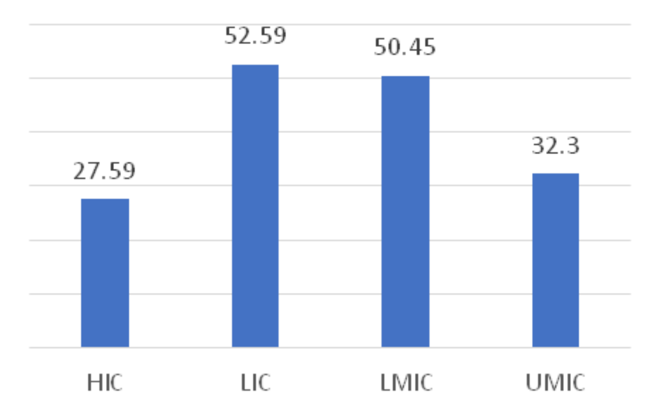


Figure 6: Debt Service to Revenue (by Regional group, %, 2024)

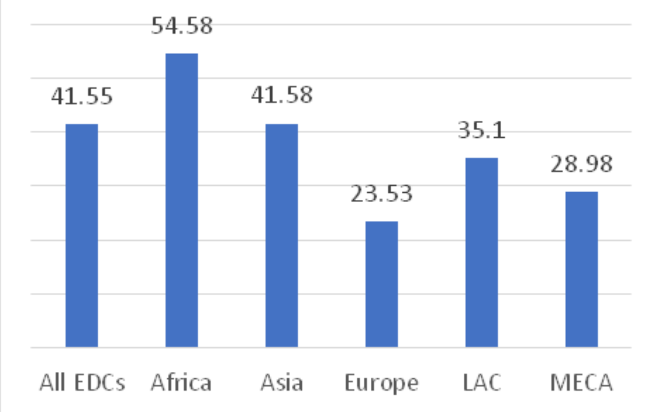
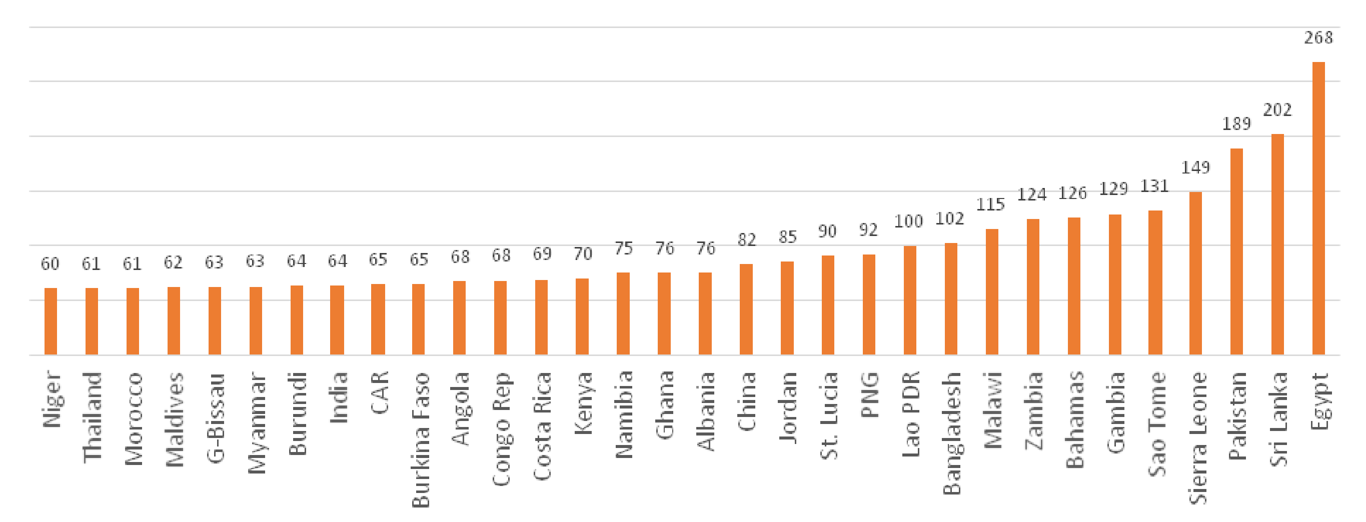


Figure 7 shows the 32 countries with the heaviest debt service burdens compared to revenue (over 60%), which come from a mixed range of regions, income levels and development situations. Of the 32 worst affected countries, 15 are in Sub-Saharan Africa, 10 in Asia, 3 in LAC, 3 in MECA and 1 in Europe. Just over half of them have UN-defined special development situations; and 8 are LICs, 16 LMICs, 7 UMICs and 1 HIC.

Figure 7: Countries with Highest Debt Service/Revenue Burdens (2024, %)

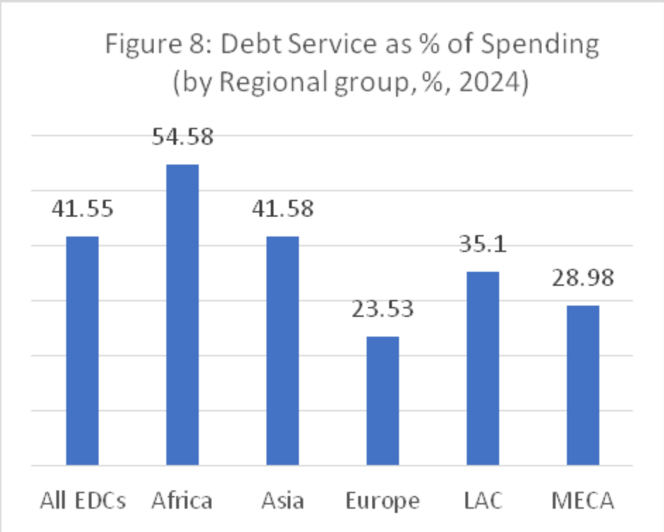


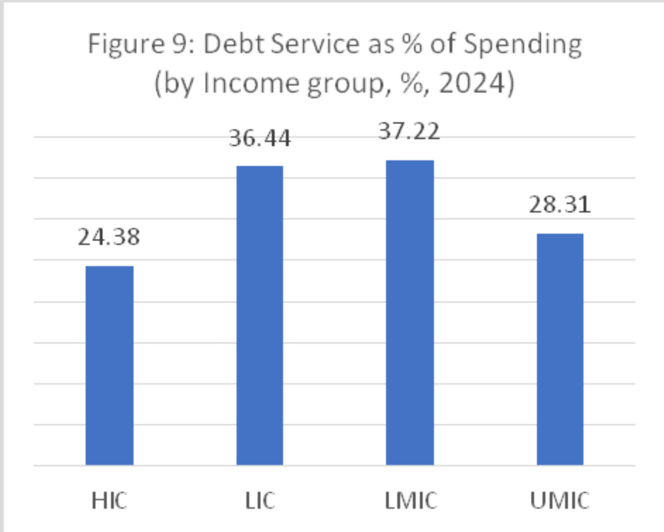
Debt service also represents an average of 8.4% of GDP for all countries, 8.8% of GDP for lower-income countries, and 9.7% of GDP for African countries. For former-HIPCs, this is well over twice the 3.7% of GDP they paid in debt service in 1996, before the HIPC Initiative was designed and reduced their debt burdens massively; and higher even than their scheduled 1996 debt service of 7% of GDP.[3] These amounts of course also include debt service denominated in domestic currency[4], but in the early 1990s virtually no low-income countries had developed domestic debt markets or were paying significant amounts of service. Even the external service being paid in 2024 averages 3.7% of GDP in HIPCs (equal to the pre-HIPC level). **These levels of service show that lower-income and African countries in particular are facing their worst debt crisis ever. But even the most indebted wealthier Latin American countries were paying only 10% of GDP in the 1980s before the Brady Plan reduced their debt, and current service averages 11% of GDP.**

Most vital is the degree to which debt service is crowding out spending to confront the global polycrises and reach the SDGs. As Figures 8 and 9 show, debt service averages 41.6% of total spending across all countries, and reaches an average 55% in Africa, and an average 36-37% in LICs, LMICs, least developed and landlocked countries. This has continued to rise in all groupings, by around 5%, between 2023 and 2024.

3 On HIPCs, see IMF and World Bank 1998; on LAC, author's own calculation from World Bank ***World Debt Tables***.

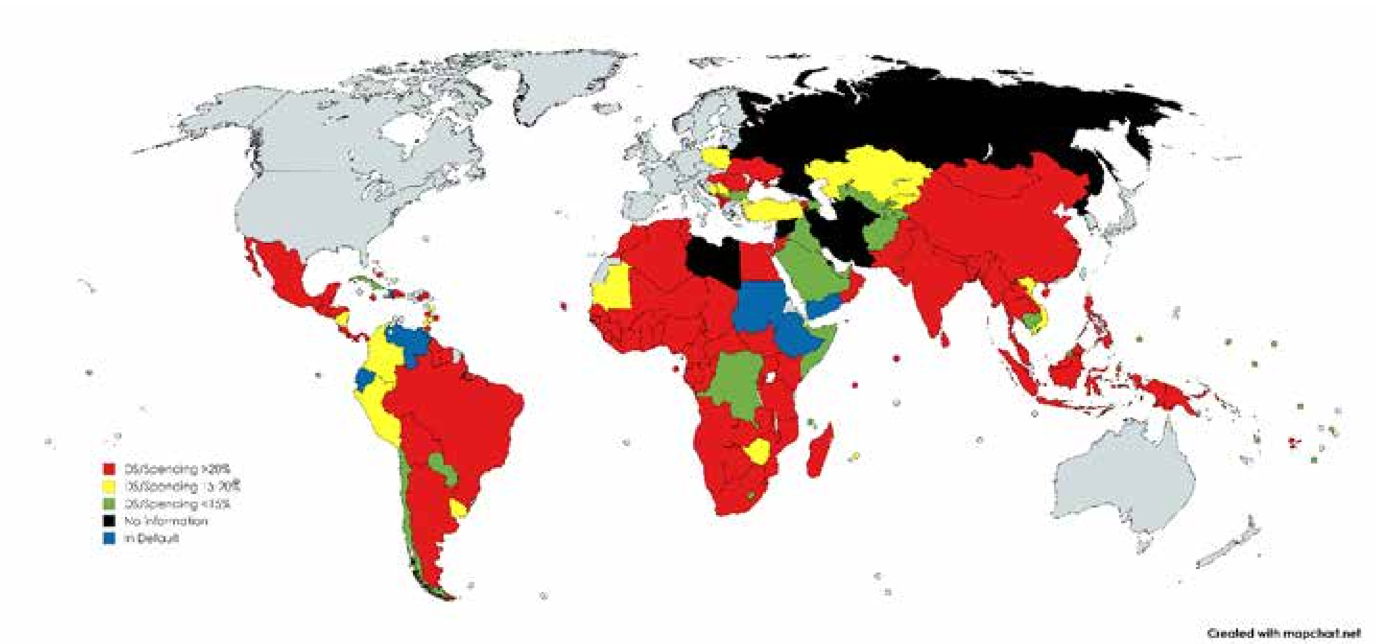
4 Though according to internationally agreed data definitions, external and domestic debt should be classified according to the residency of the creditor, most countries report debt split by its currency as we do here.





The crisis is also very widespread. ***The worst affected countries are not those which received debt relief before, but those which accessed global and national capital markets excessively post-2010***. Overall, only 27 of 146 emerging and developing countries do not have any debt problem: ***116 have excessive service/revenue (>15%); and 3 more have excessive stock/GDP (>60%) – showing that for a large number of countries this is not just a temporary "liquidity" crisis***. Service exceeds 20% of revenue in 95 countries, and 20% of spending in 88 countries. It exceeds total social spending in 33 countries, education spending in 104 countries, health in 116, social protection in 107 and climate in 31 of 33 countries. In addition, service will still be exceeding 15% of expenditure in 2030 (and beyond) in 91 countries ***– showing that for the vast majority of countries this is not just a temporary "liquidity" crisis which could be solved by postponing debt service for a few years, as was done under the DSSI***.

Figure 10: Countries Worst Affected by the Debt Service Burden



To assess the "crowding out" impact of debt service on SDG spending, this report focusses on three types of social spending which have been shown to have the highest impacts on reducing poverty and inequality, and for which data are available for a large number of countries (education, health and social protection). It also compares debt service and climate adaptation spending, as reported by countries in their UNFCCC NDC reports. Of course, these two types of spending are closely linked and mutually reinforcing, to the degree especially that if climate spending is spent in ways which promote equity, reduce poverty and help the most marginalised, it can have a double impact (as Greta Thunberg among others has been emphasising).[37]

Figure 11 shows that ***debt service exceeds total social spending (education + health + social protection) on average across all countries***, and exceeds it by two thirds in Africa. It also exceeds it by two thirds in LICs and by 25% in LMICs, and has risen in all income and regional groups since 2023. For countries currently in default or seeking debt relief, it is 2.5 times as high as social spending.

In more sectoral detail, Figures 12 to 15 show that ***debt service is 2.65 times education spending across all countries and more than 2.5 times across all regions; it is 4.2 times health spending, and almost 6 times in Africa*** **-** and these ratios have shot up by 70% in LAC and Asia since 2022 as countries have unwound their anti-COVID spending***; it is 11 times social protection spending, rising to 21 times in Africa where social protection spend is much smaller***. Finally, for 47 countries reporting climate spend in their UNFCCC NDCs, ***debt service is 54 times climate spending, rising to 65 times in Africa***.[38]

Put another way, ***if all debt service were eliminated, countries could double all core social expenditures on average across the world: low-income countries could treble them and lower-middle income countries increase them 2.5 times. Or they could increase their climate spending by 54 times (65 times in LICs).***

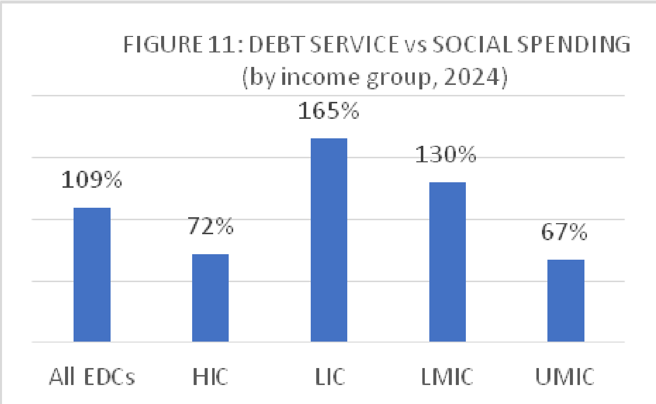


FIGURE 11: DEBT SERVICE vs SOCIAL SPENDING (by income group, 2024)

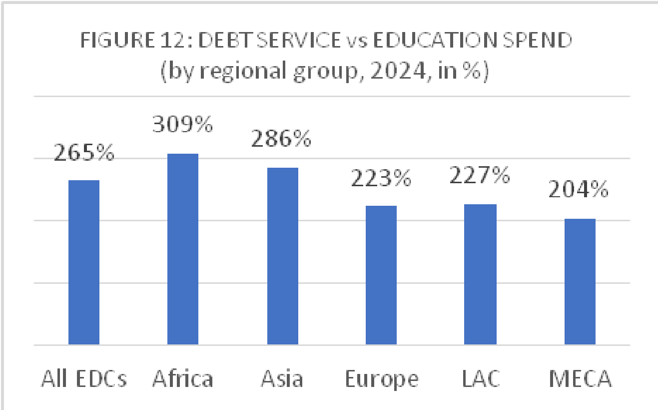


FIGURE 12: DEBT SERVICE vs EDUCATION SPEND (by regional group, 2024, in %)

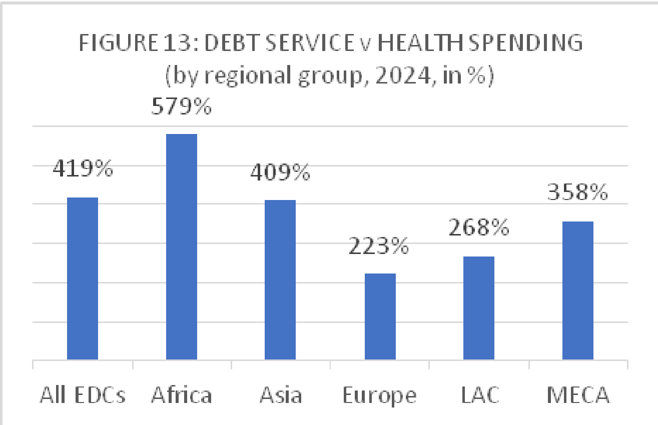


FIGURE 13: DEBT SERVICE v HEALTH SPENDING (by regional group, 2024, in %)

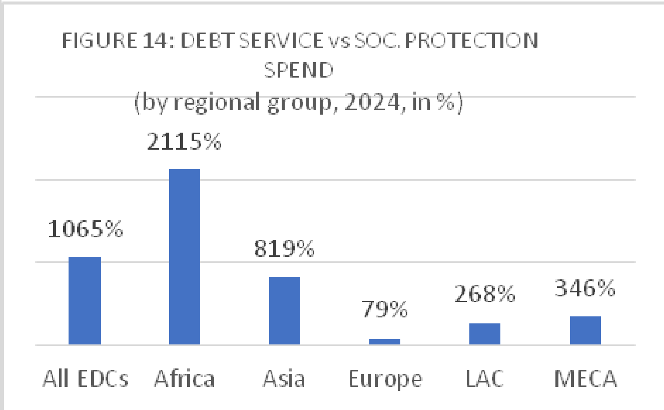


FIGURE 14: DEBT SERVICE vs SOC. PROTECTION SPEND (by regional group, 2024, in %)

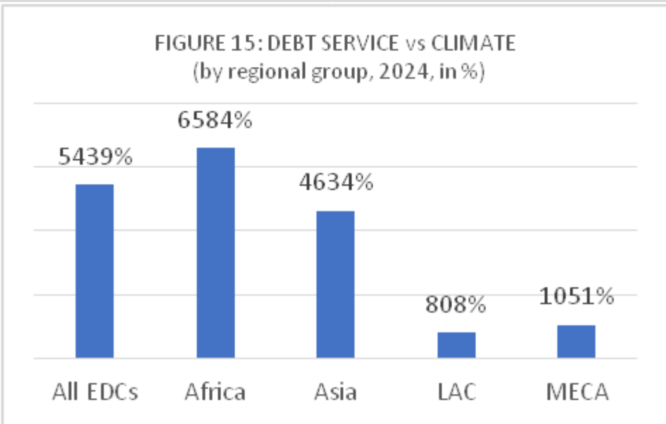


FIGURE 15: DEBT SERVICE vs CLIMATE (by regional group, 2024, in %)

3.2. The Creditor Composition of Debt and its Implications

Another important issue often raised about the current debt crisis is that the creditors are seen as different from those of previous crises. To assess whether this is true, this report looks at public sector debt, i.e. debt owed or guaranteed by governments (including state-owned enterprises' debt).

It does not cover debt owed by the private sector in developing countries, even though this is very high in many countries, and can become public sector debt if a country is short of foreign exchange to externalize private sector debt payments. This was of course shown clearly in the Mexican debt crisis of 1982 and the Asian Financial Crisis of 1997. The basis for this exclusion is not to imply that it is less important or burdensome for developing country economies: it can severely retard private sector growth. Rather it is that most developing countries have high levels of reserves to support servicing of this debt and therefore it is unlikely to be added to public sector debt burdens, and that global debt relief initiatives have typically been targeted only at reducing public sector debt to contribute to "fiscal space" for higher spending on the MDGs or SDGs.

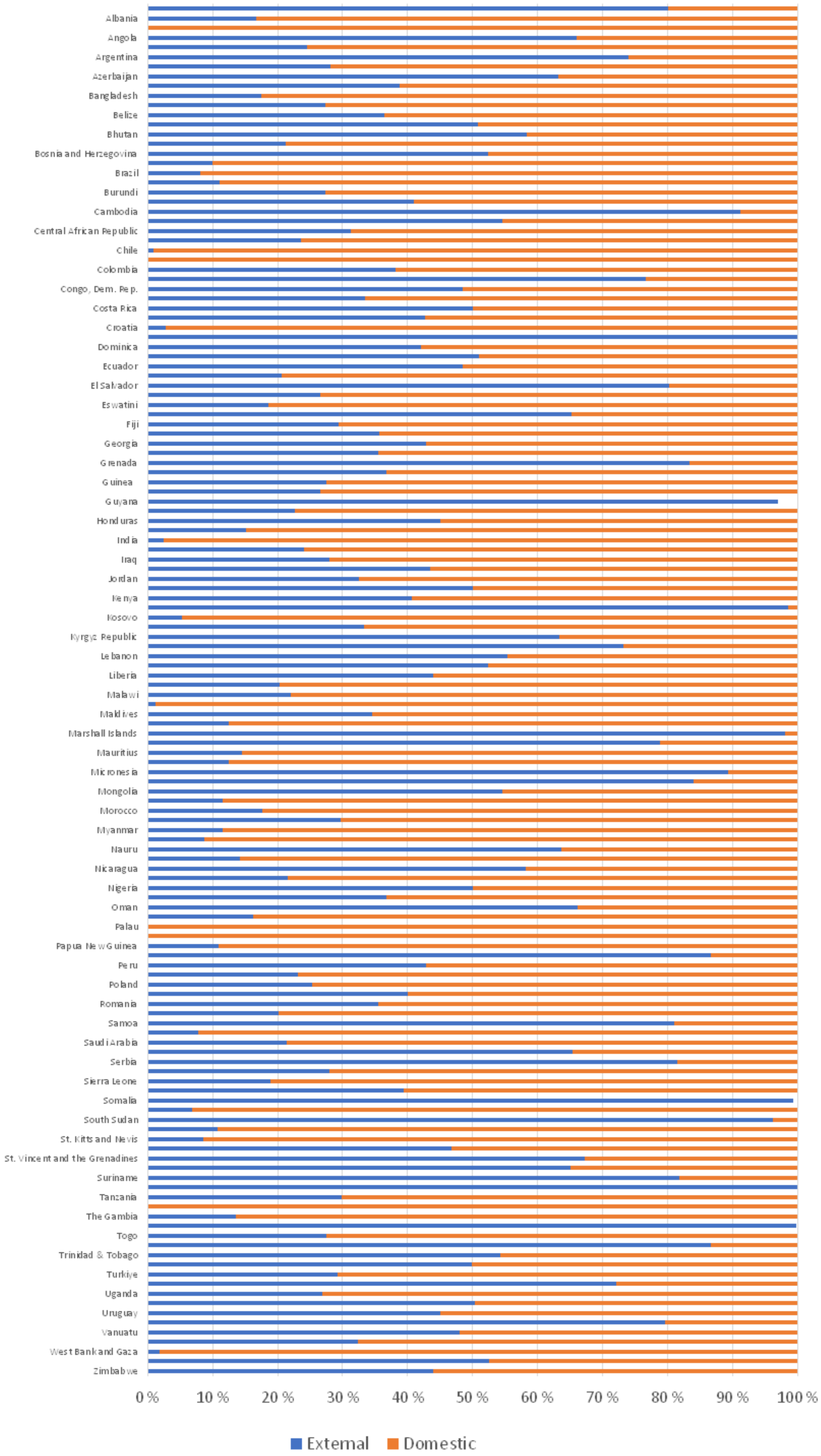
On the other hand, it is vital to include all public debt and liabilities to judge how much fiscal space debt relief can provide. This means including debt held by domestic creditors; and key non-debt liabilities such as public-private partnerships - which are also a burden on the budget.

3.2.1 Who are the Main Creditors ? Domestic or External ?

In analysing developing country debt, most of the focus has traditionally been on external debt – debt owed to non-residents of the country. This was justified in earlier periods, because most lower-income countries made little effort to mobilise domestic savings to support their development by issuing government debt. However, during the last few decades, large numbers of developing countries have built domestic debt markets, in which banks, other enterprises or individuals buy government debt as an investment. In terms of the amount of debt owed, domestic debt is not very important. Of the 141 countries where detailed data were available from IMF WEO, only 49 (35%) had domestic debt stocks higher than their external debt stocks.

However, unfortunately in most domestic debt markets, there is little competition among buyers, and government needs for financing are often high. As a result, domestic debts are often sold with very high interest rates (considerably above inflation), and short repayment periods. As a result, a large part of the current debt service burden in developing countries is domestic. Of the 143 low- and lower-middle income countries for which detailed debt service data were available in ***Debt Service Watch***, 90 have domestic debt service higher than their external debt service in 2024, as shown in detail in Figure 16. This means that any definitive resolution of the developing country debt problem must deal with domestic as well as external debt. As Section 5.2.4 explains, there are many precedents for domestic debt restructuring to achieve this .

FIGURE 16: SHARES OF EXTERNAL AND DOMESTIC SERVICE (%, 2024)



3.2.2 Who are the Main External Creditors ?

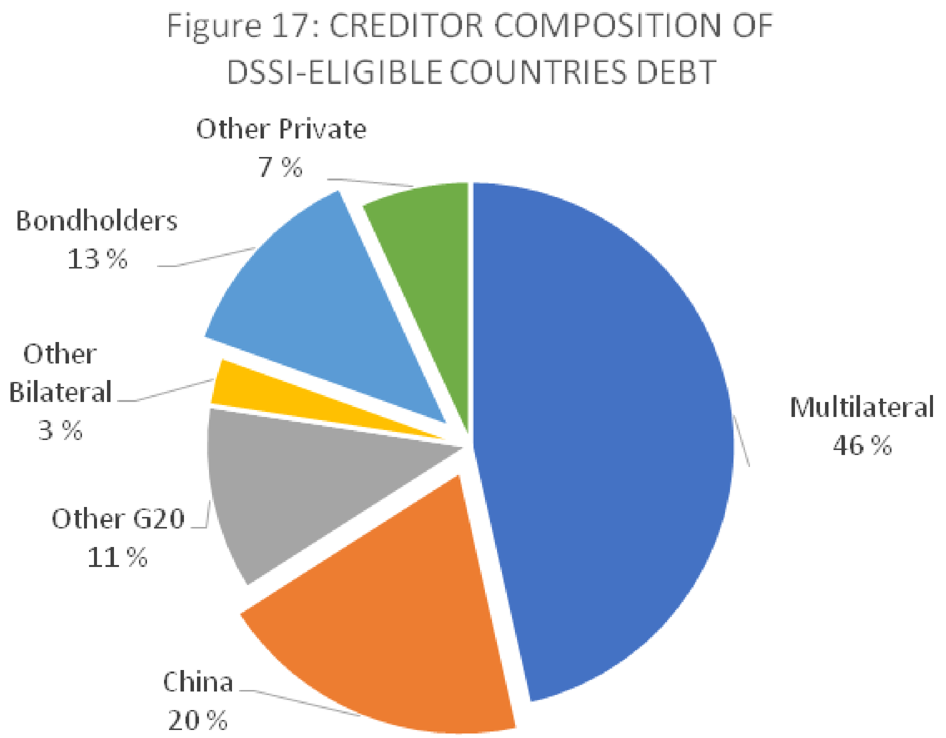
Within external debt, there are three main "creditor types": bilateral debt (owed to other creditor governments); multilateral debt (owed to institutions run by multiple governments) and commercial debt (owed to private sector creditors, eg banks, bondholders and companies).

To the degree that the current debt crisis of developing countries is seen (often incorrectly) as being mainly external, it is common to hear experts describing the "creditor landscape" as having changed fundamentally over the last 25 years. The most common claim is that whereas 25 years ago, most debt was owed to multilateral and OECD bilateral creditors, and commercial banks, nowadays it is owed to non-OECD bilateral creditors and bondholders – which makes it harder to restructure.

Leaving for Chapter 5 the issue of whether such a composition would make restructuring more difficult, it is necessary to state up front that **the picture on external creditor composition is a lot more complex than often presented.** The World Bank's numbers for the 73 DSSI-eligible countries show this clearly, as also presented in Figure 11 below:

- multilateral creditors hold 46% of their debt, and the biggest creditor is the World Bank;
- bilateral creditors are owed 34% of their debt, with the G20 owed almost all (91%) of the bilateral debt, and China accounting for 19.5% of total debt
- commercial creditors are also owed 19.5% of total debt, with bondholders owed 65% of this and other private creditors 35%.

Overall, developing countries owe 2.24 times as much debt to the World Bank group as to China.[39]



Looking in more detail at individual countries, 40 of the 68 DDSI-eligible countries for which data are available are currently (in 2020) paying more **debt service to multilateral** creditors than other creditors; 15 are paying most to bilaterals (but only 5 of these – Cambodia, Comoros, Congo, Lao and Vanuatu are paying most to China); 10 are paying most to bondholders; and 3 to commercial banks. Overall, the World Bank has indicated that for the DSSI-eligible countries, 31% of debt service paid in 2020 was to bilateral creditors, 27% was to multilateral creditors, 25% to non-bond private creditors, and 16% to bondholders.

From these data, it is easy to see that effective comprehensive debt relief for DSSI-eligible countries will not be feasible without participation by multilateral creditors and non-China bilateral creditors – as well as by the more recently important creditors of China and bondholders.

3.3. Towards a Typology of Crisis-Hit Debtors

Earlier sections of this chapter have shown that it is not possible to identify a small group of debtors (whether by income level, special UN status, or region) on which to focus any debt relief mechanism. The number of countries in which very high proportions of their revenue are being absorbed by debt service, and where debt service is massively diverting funds away from SDG spending on the social sectors and climate, is so high that there is a need for a mechanism that can work for every developing country which needs and wants it.[40]

However, this most definitely does not mean that a mechanism should be "one size fits all". Different groups of countries are likely to need different degrees of relief, as well as different types of relief (with some having only short-term liquidity problems and others having more fundamental solvency or SDG crowding-out problems). It is therefore vital that any mechanism is designed to be case-by-case, not in the often-used sense of the word which means trying to limit the amount of relief as much as possible, but in the sense of genuinely responding to debtor countries' needs to have debt burdens which are repayable without excessively crowding out the SDGs.

How do we begin to identify which countries might need what in terms of debt relief ? Probably the most important factor, especially for countries accessing financial markets, is that debt relief should not complicate or narrow their access to such markets. Table 1 below therefore shows a typology of cases in which developing countries are split up by their degree of "access to international financial markets" as of June 2024. It divides developing countries into four groups:

- Group 1 - Countries which do not have access to international financial markets and therefore could be relatively ready to opt for any debt relief on offer **(None- 54 countries)**
- Group 2 - Countries which have had access but whose access has been suspended recently because of high debt burdens or default followed by restructuring (or unstable and high-price conditions in international bond markets) and therefore are also relatively ready to opt for debt relief, but would like it to be followed by a return to markets over the medium-term **(Suspended or Default – 29 countries)**
- Group 3 - Countries which have had access to financial markets and which are continuing to use international financial markets occasionally even during their COVID crisis (partly because they cannot otherwise find enough financing to fund the SDGs), either directly via government or via SoEs or the private sector, and which therefore have not been prepared to opt for debt relief for fear of compromising their access to markets **(Continuing Access – 38 countries)**; and
- Group 4 - Countries which make constant recourse to international financial markets to fund their budget borrowing needs and would be reluctant to go for any form of debt relief which would compromise such access **(Constant Access – 26 countries)**.

It is also no coincidence that the vast majority of countries which fall into the group potentially wanting to opt for debt relief are also members of one of the UN groups classified as "in special situations", i.e. either Least Developed Countries, Landlocked Developing Countries or Small Island Developing States. These are in large part the countries which are already being severely affected by the climate emergency – Climate Vulnerable Countries. This applies to 30 of the 33 countries without market access which have excessive debt burdens, 16 of the 31 countries whose access to capital markets has been suspended or which are in default, and 13 of 32 countries with continuing access to markets, but only 2 of 18 countries with constant access to markets (which are generally wealthier or larger, and so do not fall into special situation categories).

These categories are also important for the types of debt relief which might be provided. For example, some category 1 and most category 2 countries would have their commercial and bond debt trading on international markets at high discounts, and therefore would be suitable for debt buyback, bond swap or conversion operations. Those avoiding default and debt distress would not.

Looking through the weight of the debt burden on a country-by-country basis for the 145 countries covered by the ***Debt Service Watch*** database, it is also possible to split countries into three groups:

1) 30 countries which do not have serious problems of either liquidity or solvency in 2024, and therefore would not need debt relief.
2) 116 countries which have **serious problems of liquidity** (total debt service above 15% of budget revenues) in 2024. Measured by comparison with expenditure, 88 countries have debt service above 20% of spending, and 107 above 15%.
3) 2 more countries without liquidity problems but which have **serious problems of solvency**, defined as debt stock exceeding 60% of GDP, where stock reduction might be needed during the SDG period.

In terms of crowding out SDG spending, debt service exceeds climate spending in 94% of developing countries, health spending and social protection in four fifths of countries (82 and 79 of 101 countries for which information is available), and education spending in two-thirds (68 of 101). Overall, there are 33 countries in which debt service exceeds the combined country spending on education, health, social protection and climate.

The aim of these classifications is to give an initial objective picture of the type of debt relief different countries might need. In summary, 116 countries have liquidity problems, and a further 3 have solvency problems. This reconfirms the widespread scale of the problem and the objective need for debt relief in a potential maximum number of 119 developing countries out of the 146 examined in this report.

However, it also indicates that the precise process of debt reduction will need to vary to take account of the nature of the debt burden in each country – and different degrees of market access – i.e. that there is no "one size fits all" recipe for debt relief. Indeed 30-40 of these highly indebted countries might well decide after further analysis that they prefer retaining market access to receiving debt relief – in which case their needs and wishes should not be ignored, and they should be supported via measures to reduce the costs of their access to financial markets. This subject is returned to in detail in Sections 5.2.1 and 5.2.10.

One final key issue emerges from this analysis. The reaction to the 2022-23 versions of this report and of the Debt Service Watch database (see Annex 1) has frequently been (largely due to the very high debt service numbers we have found) that the crisis is one of "short-term liquidity" i.e. of excessive debt service rather than stock, which could therefore be resolved by postponing debt service temporarily as was done under the Debt Service Suspension Initiative. However, the data show that this is not the case. ***The vast majority (91) of these countries will continue to have debt service exceeding 15% of spending through the early 2030s. They therefore have a long-term liquidity problem which cannot be solved by postponing debt service for a few years, because this would merely create an even higher debt service burden after 2030. These countries will therefore need service or stock cancellation over a decade if their debts are to be kept sustainable and allow significant expansion of fiscal space to increase spending on the Sustainable Development Goals*** (as discussed below in Chapters 3 and 4).

Table 1

Debt Crisis Typology by Degree of Access to Markets (as of June 2024)

None (34/54 in crisis)		Access Suspended or in Default (31/31)	Continuing Access (32/38)	Constant (21/28)
Afghanistan	*Madagascar*	*Angola*	*Albania*	*Bahamas*
Algeria	*Malawi*	*Argentina*	*Armenia*	Bahrain*
Antigua & Barbuda	*Mali*	Belarus*	Azerbaijan	*Brazil*
Bangladesh	Marshall Islands	*Belize*	*Barbados*	Bulgaria
Bhutan	*Mauritania*	*Cabo Verde*	*Benin*	Chile
Brunei	Micronesia	*Cameroon*	*Bolivia*	*China*
Burkina Faso	*Moldova*	*CAR*	*Bosnia & Herz*	*Colombia*
Burundi	*Myanmar*	*Chad*	*Botswana*	*Costa Rica*
Cambodia	Nauru	*Congo, Rep.*	*Cote d'Ivoire*	Croatia
Comoros	*Nepal*	*Ecuador*	*Dominica*	*Egypt*
Congo, DR	*Nicaragua*	Eritrea*	*Dominican Rep*	*Hungary*
Cuba	*Niger*	*Ethiopia*	*El Salvador*	*India*
Djibouti	**Palau**	*The Gambia*	*Gabon*	*Indonesia*
Equatorial Guinea	*PNG*	*Ghana*	*Georgia*	*Malaysia*
Eswatini	Samoa	*Grenada*	*Guatemala*	*Mauritius*
Fiji	*Sierra Leone*	*Haiti*	*Honduras*	*Mexico*
Guinea	Solomon Islands	*Lebanon*	*Jamaica*	*Morocco*
Guinea-Bissau	Somalia	Libya*	*Jordan*	*Panama*
Guyana	*South Sudan*	*Mozambique*	*Kazakhstan*	Paraguay
Iran*	*St. Lucia*	Russian Fed.*	*Kenya*	*Philippines*
Iraq	*St. Vincent & Gren.*	*S. Tome & Principe*	*Maldives*	*Poland*
Kiribati	Timor-Leste	*Sri Lanka*	*Mongolia*	*Romania*
Kosovo	*Togo*	*Sudan*	*Montenegro*	Saudi Arabia
Kyrgyz Republic	Tonga	*Suriname*	*Namibia*	*South Africa*
Lao P.D.R.	Tuvalu	Syria*	*Nigeria*	*Thailand*
Lesotho	*Uganda*	*Tunisia*	*N. Macedonia*	*Turkey*
Liberia	Vanuatu	*Ukraine*	*Pakistan*	U.A.E.
		*Venezuela**	*Peru*	*Uruguay*
		*Yemen**	*Rwanda*	
		Zambia	*Senegal*	
		Zimbabwe	*Serbia*	
			Seychelles	
			Tajikistan	
			Tanzania	
			Trinidad & Tobago	
			Turkmenistan*	
			Uzbekistan	
			Vietnam	

NOTES: Column heading definitions are described fully in the text above the table.

Country classifications: Countries in *italics* have liquidity problems; countries in **bold** have solvency problems. Countries underlined are those in "UN special situations" (LDCs, LLDCs or SIDS).

Source for all debt data is ***Debt Service Watch*** database (2024, forthcoming, see Annex 1). * - No recent data on debt stock or service available for Bahrain, Belarus, Eritrea, Iran, Libya, Russian Federation, Syria, Turkmenistan, Venezuela or Yemen.

4 LESSONS FROM PREVIOUS DEBT REDUCTION MECHANISMS AND INITIATIVES

Attempts at more comprehensive and coordinated debt relief are not new. As Figure 1 shows, they have been with us at least since the end of the Second World War.[41] They have come in three waves, the first being settlement of German debt postwar, which was not repeated as it was seen as a one-off ad hoc treatment; the second being the process of gradually introducing debt reduction for both low- and middle-income developing countries during 1988-2010, which was ended for low-income countries by the "grandfathering" (closing to new entrants) of the HIPC and MDRI Initiatives; and the third being the (so far limited) measures used to relieve debt since the 2009 global financial crisis.

These attempts also show two consistent patterns:

1) That the creditor community has each time moved through stages from providing more new money, to temporary liquidity relief on debt service, to genuine debt reduction; and
2) That this progress has been taking place more rapidly in recent waves of debt crisis, especially for larger debtors: in Germany's case, reaching a full and final settlement took 35 years;[42] whereas for large MICs in the 1970s-1980s it took 15 years. On the other hand; for HIPCs it took around 15 years to get to debt reduction, and 25 years to get to 100% reduction; and recently a framework for stage 3 (debt reduction) has been introduced 6 years after IDA-eligible countries began to show widespread renewed debt distress.

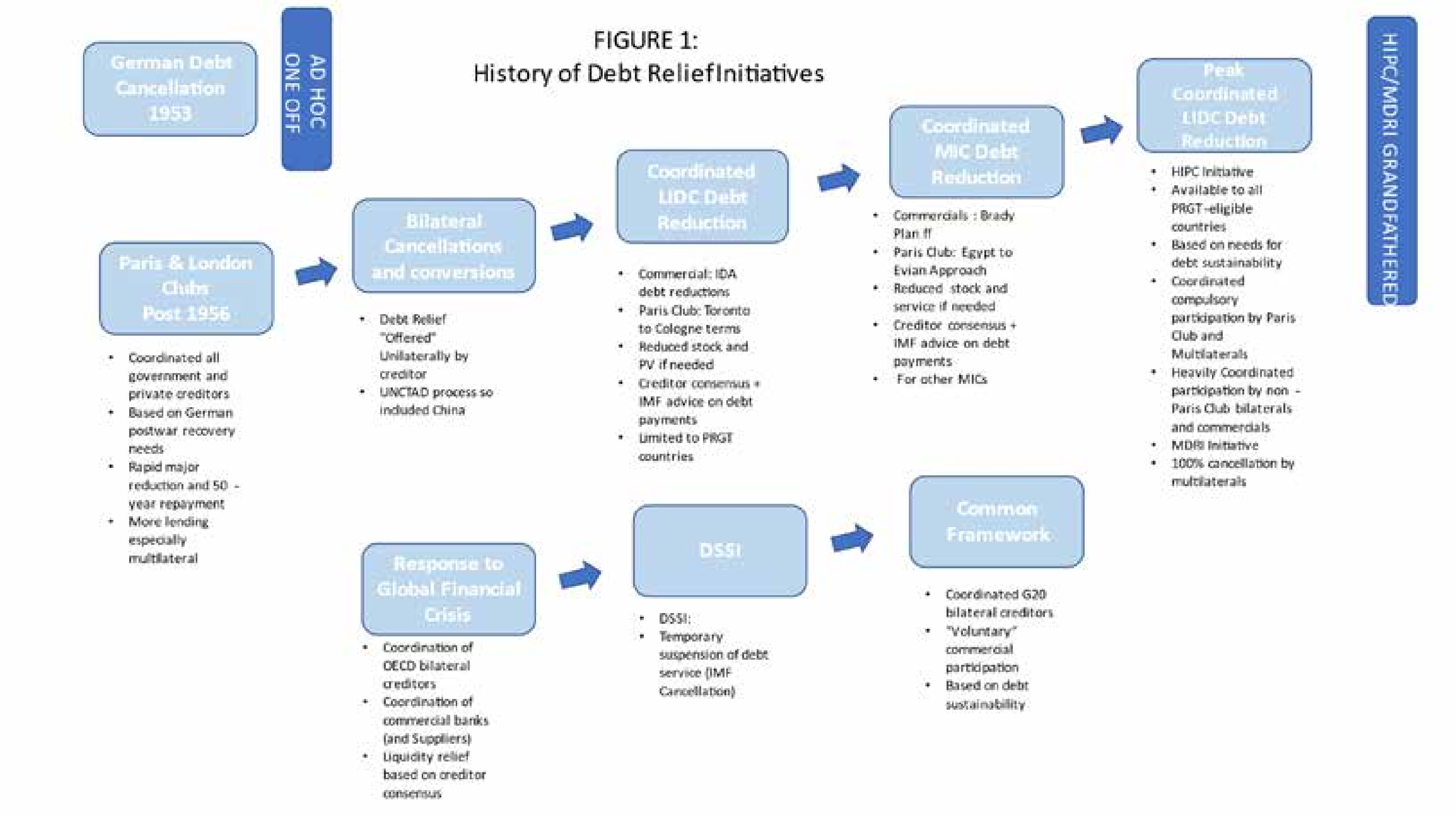
4.1. The London Debt Agreement to Reduce German Debts (1951-2)

The oldest debt agreement often cited as a precedent for comprehensive debt reduction is the London Debt Agreement to restructure debts Germany owed as a result of World War I and II. It fulfils many of the principles sought in this proposal:

- It involved a closely coordinated process led by France, the UK and the US, as well as 67 other 70 countries (many of them not members of the modern-day Paris Club, such as Pakistan, Egypt, Argentina, DRC, Cambodia, Cameroon, PNG, Malawi, Zambia and Zimbabwe), and compelled private banks and companies to take part, ensuring equal treatment for all creditors.[43]
- It was very large scale, covering the modern-day equivalent of US$ 206bn in debt relief (over twice the amount provided to 32 countries during the HIPC and MDRI Initiatives).
- The relief was based on what was then considered a high level of debt to GDP (25%) and on Germany's massive needs for postwar reconstruction (comparable to the needs the then creditor developing countries now have to reach the SDGs and combat climate change).
- The debts were reduced by 50 % and the remainder was made payable over 25 years with a 5-year grace period; and eventually interest payments were capped in line with German payment capacity. Germany's debt service fell to only 2.9% of exports in 1958, compared to the current levels of 10-21% debt service/exports considered sustainable under the LIC DSF.[44]
- In addition, the remaining payments were made contingent on German having a trade surplus (the modern-day equivalent might be contingent on budget surpluses).
- Finally, no detailed "policy conditionalities" were imposed on Germany beyond the existence of a Marshall Plan reconstruction programme which the relief would help to fund.

Figure 12

History of Debt Relief Initiatives



Combined with large amounts of new money, this debt reduction agreement helped to produce two decades of rapid growth in Germany. In marked contrast, failure to deal with debt after World War I played a major role in German popular resentment, leading to the rise of fascism and World War II.[45] However, it was treated as a one-off exceptional agreement and the international community did not grant remotely similar terms to a sovereign debtor until the 1990s.[46]

4.2. Traditional Debt Restructuring Mechanisms – Paris and London Clubs (pre-1980s)

The Paris Club was formed in 1956 as a meeting of Argentina's creditor governments chaired by France.[47] It has continued to play this role of coordinating (largely OECD[48]) creditor countries until today. During the period from 1956 to 1982, it moved forward in providing more coordinated debt relief. The 1956 Argentina agreement established one key positive innovation: the principle of meeting before a debtor had defaulted on its debts, but while it was in a position of "imminent default" (i.e. accumulating arrears), and the need to act rapidly to prevent further default and its negative economic consequences. However, the Club also established over time that the debtor had to have in place a "high conditionality" economic programme with the IMF, which is intrusive into national policy.[49] In addition, because its results were determined by the lowest common denominator of creditor positions (i.e. based on the position of least flexible creditor), they fell well short of debtor needs, tending to treat debt problems as short-term liquidity ones and therefore forcing debtors to return repeatedly to the Club to re-reschedule debts (Togo visited the Club 10 times during 1979- 1995).[50]

The London Club[51] is a similar grouping for commercial creditors (banks and others including companies and bondholders), which meets on a more ad hoc basis when the burden of commercial debt owed by a debtor is seen as sufficient to warrant the creation of a coordination structure. However, when non-bank commercial creditors were sufficiently important to merit their own for a, they met separately from the London Club. So the London Club provides both a positive precedent for coordinating all types of commercial creditors, and negative precedents where it failed to do so. It first met in 1976, but really came into its own in the 1980s when dealing with large commercial debts owed by Latin American countries. The goal of London Club agreements was that they should provide terms comparable to those of the Paris Club, which initially resulted in repeated rescheduling and the same degree of repetitive negotiations without a sustainable outcome as for the Paris Club. It is also important to realise that from the beginning of coordination in reschedulings, commercial creditors provided such terms only because they were offered a combination of carrots (tax incentives) and sticks (regulatory penalties) which were strongly enforced by the main OECD creditor governments.

4.3. Cancellations, Conversions, Buybacks and an Enhanced UN Role

After 1974, it became clear that following the oil price shock and the succeeding collapse in global commodity prices, many more developing countries would be unable to pay their debts. In a period where OECD countries still turned to the UN to resolve international economic issues, the UNCTAD IV conference of May 1976 agreed to expand UNCTAD's role in international debt negotiations. It became in effect the debtor government's unpaid advisor and "friend at court" at most rescheduling meetings, offering analytical justification and helping debtors to prepare and argue their cases for more generous relief. This initiative was important in acknowledging UNCTAD could play such a role.

In addition, the UNCTAD Trade and Development Board became the forum where member states agreed on major global debt relief initiatives – notably resolution 165,[52] under which 23 creditor governments provided "retroactive terms adjustment" and cancelled US$3 billion of concessional (ODA) debt owed by developing countries (mainly the Least Developed Countries). Denmark, Finland, Norway and Sweden were at the forefront, cancelling 100% of concessional debt owed to them; and Sweden went even further in 1985, cancelling all export credit debts owed to it by LLDCs. The Netherlands, Switzerland, the UK, China, Eastern European and OPEC countries cancelled lower percentages of their debts. Other creditors such as Belgium and the US did less, involving only interest rate reduction or debt conversion; and France, Germany, Italy and Japan did very little. This initiative was important in showing that a) debt cancellation rather than rescheduling was possible; b) OECD and non-OECD creditors could coordinate to offer the same terms in a UN setting; c) debt relief could be offered unilaterally by creditors without having any negative impact on debtor access to financial markets (bank loans at that time); and d) creditors could implement debt relief in different ways, presaging the "menus of options" which were used in later Paris Club terms.[53] During the second half of the 1980s, as the severity of the low-income countries' debt crisis became even more clear, almost all Paris Club creditors (including France, Germany, Japan, Italy and the US) joined in the cancellations, and were accompanied to some degree by the Soviet Union under Gorbachev. [54]

In the late-1980s, commercial creditors also began to get rid of bad debts from their portfolios, pushed by a combination of regulatory changes which forced them to set aside provisions against bad loans, and tax incentives which gave them tax relief for the write-offs. Provisioning (the stick) combined with tax relief (the carrot) to become a highly effective way to get banks to provide relief for countries whose debt had long been in arrears, and which were trading at a heavy discount on the secondary markets. The most popular method of getting rid of debt through what was known as "voluntary debt reduction"[55] was simply to sell their debts to other creditors through what were known as the "secondary markets". More than US$1 billion of debt was sold in this way in 1987-92.

Another much less popular method was to "convert" debts to spend the money on environmental, social or economic projects, known respectively as debt-for-nature, debt-for-development and debt-for equity swaps.[56] These became possible because at the time debts of many lower-income countries were trading at a very heavy discount (80%+) on their face value in secondary markets, meaning that countries could save 80% of their debt service due, while the remaining 20% could be used for the projects. Some debtors also showed initiative in buying back their own debts on the secondary markets, thereby saving 80% of the debt service due, and spent the proceeds on similar projects. However, the complexity of the operations and difficulties of getting financial gains for all sides meant that debt conversions did not exceed US$200 million by 1994 (though they have continued to be popular for some other MIC debtor governments and creditors - notably Germany).

Overall, these operations showed that a) it was possible for carrots and sticks to push commercial and official creditors to provide relief through "voluntary debt reduction" to debtors which had already defaulted; and that b) this could provide very large debt reduction as well as allowing the remaining (relatively small) sums to be spent on environmental or social goals.

4.4. The Beginnings of Coordinated Commercial Debt Reduction: Brady and IDA Buybacks

By 1989, it was evident that traditional London Club reschedulings were woefully insufficient to resolve the debt problems of large (mainly Latin American) debtor countries, who owed so much to commercial creditors that the whole global banking system could be at risk. US Treasury Secretary Brady proposed the Brady Plan, under which the IMF, the World Bank and Japan provided US$30 billion of loan resources (guaranteed by the US Treasury) to fund options through which commercial banks would sharply reduce debts or debt service, or provide new money on softer terms. [57]

A year later, similar steps were introduced for lower-income debtors (IDA borrowers). In 1989, the World Bank set aside US$100m of its net income on IBRD loans to reduce the commercial debt of low-income countries, the idea being that the IMF or bilateral governments could cofinance these operations: in practice, it became the like-minded bilaterals (especially the Netherlands, Norway, Sweden and Switzerland) which cofinanced the IDA Debt Reduction Facility, which still exists today. Though some of its operations offered a menu of options to creditors including conversions and interest rate reduction, by far the most popular was a simple buyback of debt.[58]

The main lessons of these coordinated commercial debt reductions were that in order for them to participate, creditors required a combination of regulatory pressure and tax relief incentives, and (where there were particular holdout creditors) legal action; and that in order to make debt relief possible for all commercial creditors, it was essential to provide a menu of options which would allow different creditor groups to provide relief in line with national laws, taxes and regulations.

4.5. The Beginnings of Coordinated Bilateral Debt Reduction: from Toronto to Cologne

At around the same time, the Paris Club group of creditors reached agreement on their first concerted processes of debt reduction for IDA-only debtors.[59] These began with the Toronto Terms (1988, 33% debt reduction) and moved on to the London Terms (50% reduction, 1991); the Naples Terms (67% reduction, 1995); the Lyon Terms (80% reduction, 1998); and the Cologne Terms (90% reduction, 1999). The last two of these sets of terms were part of the HIPC Initiative.

These initiatives contained some important new innovations, notably: 1) they paid some attention to debt financing needs, with the debt reductions being granted only if the IMF showed they were needed, but no target debt relief ratios to make debts sustainable; and 2) they allowed creditors to choose from a menu of options (debt cancellation, longer maturities or interest rate cuts) to achieve their debt relief in line with national regulatory and financing constraints. However, though they worked in close tandem with the commercial debt reduction measures described above, they failed to mobilise the participation of non-Paris Club bilateral creditors, and did not include multilaterals; and they provided insufficient debt relief, continuing the cycle of repeated agreements : one of the most egregious examples was Togo, which received no fewer than 10 treatments from the Club between 1979 and 1995.

4.6. The Peak of Coordinated Reduction – HIPC and MDRI, Evian

The most fundamental breakthrough in coordinated debt reduction for IDA-eligible debtors came in 1995, with the Heavily Indebted Poor Countries' (HIPC) Initiative, later transformed into the Enhanced HIPC Initiative (1999) and the Multilateral Debt Relief Initiative (MDRI – 2005). The HIPC Initiative marked a major change in the rules of sovereign debt restructuring in the following ways:

1) **Relative speed:** Relief was offered by creditors to all IDA-only debtor countries which needed it and had a reasonable IMF programme track record, rather than waiting until they defaulted;
2) **Relief based on need**: Relief needs were calculated and relief was provided on the basis of an amount likely to make the debtor's burden sustainable, which was agreed during tripartite discussions between the debtor, the IMF and the World Bank. with "topping up" of relief provided later in the process if debtor economic circumstances worsened;
3) **Relief provided proportionally and comparably by all creditors:** Relief was to be provided on an equal basis by all bilateral and commercial creditors, and multilateral creditors were to join in for the first time if bilateral and commercial relief was insufficient to make debts sustainable.
4) **Relief to be spent on poverty reduction programmes:** in the "Enhanced" version, debt relief proceeds were to be spent on the social spending (MDG) aspects of a country's Poverty Reduction Strategy, thereby enhancing the link between debt relief and poverty reduction. In addition, this spending was to be designed and supervised in a transparent way by government, donors and civil society, in a consultative process around a Poverty Reduction Strategy Paper and through regular consultations in whatever Donor-Partner Coordinating Group existed.

The main innovations of the Enhanced HIPC Initiative and MDRI was that they made the relief processes faster (reducing ultimately to 4 years of conditionality compare to a minimum of 6 and a maximum of 14 in the original HIPC Initiative); and that they made it "deeper" so that eventually almost 100% of debt owed by participating creditors (including multilaterals) was cancelled. On the other hand, a more negative onlooker might say such innovation was needed because the initial design of the HIPC Initiative was not fast enough (there was too much conditionality, and it was focused on economic liberalization rather than poverty reduction[60]), or deep enough (the IMF and World Bank set post-relief targets which left countries with too much debt burden, especially after their economic forecasts proved to be too optimistic, so that countries needed much more relief than originally estimated[61]). It would be essential to avoid these failings in any new mechanism.

The other dramatic step forward of HIPC was acknowledgement that debt relief was a highly effective way to spend aid – in effect a very efficient form of budget support to countries. This

a) chimed with the major efforts conducted during the 1990s and 2000s to convince donors to have aid which produced more results by switching away from multiple fragmented micro-managed projects over which debtor country governments and citizens had little ownership, to support the overall budget (or in cases where donors had less faith in budgeting processes key social sector programmes); and
b) meant that donors were prepared in general to accept less intrusive conditionality revolving around monitoring the spending composition and effectiveness of country budgets and programmes contained in the national development plan, rather than introducing additional small projects which were often not well-owned by national authorities or citizens.

The results of HIPC relief were very significant in terms of freeing up space for poverty-reducing spending in beneficiary countries. From a situation where debt service was 4 times as high as social spending in the 1990s, it fell to only 10% of such spending during 2007-12. Many countries credit HIPC relief (together with flows of additional finance) with having enabled them to reach key parts of the Millennium Development Goals such as universal primary education.[62]

Viewed in this light, the HIPC Framework and its enhancements provided many of the elements needed to meet the requirements and principles enunciated in the Norwegian and German governments' coalition agreements. Nevertheless, it was "grandfathered" (i.e. closed to new entrants) in 2010, and has not been used as an initial basic framework for providing relief to debtors during the current crisis. Some have argued (spuriously) that debt cancellation mechanisms should not remain in place because then countries would borrow (and creditors lend) irresponsibly in the expectation of debt relief – but there was never any evidence to underlie this, and the scale of new debt accumulation post-2010 without a continuing comprehensive debt relief mechanism just shows how wrong this logic was. The only convincing explanation offered by various sources over the years has been that after 2005 there was a growing swing away from debt relief by key creditor governments, which were more doubtful about the benefits of aid overall and in particular those of debt relief and budget support, and did not want to leave open a possibility that a wide range of countries would need debt relief.

A few years later in 2003, the Paris Club introduced the possibility of debt reduction, on a case-by-case basis for other low- and middle-income countries which were not classified as HIPCs, under the **Evian Approach**.[63] This built on exceptionally generous 50% debt reductions which had already been provided in 1991 to middle-income Egypt and Poland, and Iraq was an early beneficiary.[64] Such reduction was to be provided on a case-by-case basis, with terms varying based on country needs, meaning that many countries (eg Kenya) were assessed by the IMF and World Bank as having only liquidity problems requiring largely rescheduling, rather than major reduction.

This new flexibility on terms was very welcome but, given that some countries have a few years later needed debt relief via the DSSI (in spite of a longstanding wish to avoid debt reduction in order to keep access to international bond markets), it is legitimate to ask whether the assessments made even for IDA-eligible countries were rigorous enough in terms of their emphasis on total public debt service/revenue and domestic debt (which are currently downplayed in the LIC-DSAs) or their analysis of diversion away from SDG spending to debt service (which are not included). In addition, the Evian Approach continued to allow countries to default (i.e. accrue arrears) before relief, and to demand that countries request relief based on "imminent default" and adopt an IMF programme for the number of years for which the rescheduling or debt reduction applied. In addition, there was no participation by multilateral creditors. It is vital to note therefore, that the Common Framework explicitly builds on and contains many of these elements of the Evian Approach which, while an important step forward, include faults which have made it fall short of ideal implementation of the principles of fairness, comprehensiveness, rapidity and low conditionality – and which could now also apply to LIDCS/former HIPCs where they did not under the HIPC Initiative.

4.7. The Responses to the Global Financial Crisis, Ebola and COVID

In the last 12 years, there have been two final sets of initiatives to resolve the debt and MDG/SDG financing conundrum, both launched to respond to and mitigate the impact of major exogenous "shocks" for developing countries.

In response to the global financial crisis of 2008-09, the G20 took on a new coordinating role on global economic and financial policies, leading to agreement at the 2009 G20 London Summit on five measures to provide US$1.1 trillion of extra funds to developing (and developed) countries:[65]

1) the issuance of US$ 250 billion of IMF Special Drawing Rights (SDRs);
2) the trebling of lending resources available to the IMF, to US$750 billion;
3) enhanced financing envelopes for the non-concessional and concessional financing windows of the World Bank and the Regional Development Banks allowing them to lend US$100 billion more
4) US$250 billion of support for global trade finance institutions (perceived as being the critical sector where finance was most lacking as a short-term result of the crisis; and
5) Using IMF gold reserves sales to fund extra concessional lending for the poorest countries.

This was an impressive (and impressively fast) set of measures to confront the crisis. In the case of SDRs and trade finance, it also involved the issuance of funds to developing countries on an unconditional basis (which some would see as an advantage but other would question what the money was spent on). In addition, the IMF lending component was rolled out relatively rapidly to any country which wanted it and was prepared to accept the attached conditionality.

However, several less positive lessons can also be learned: these include that i) because the crisis was seen as mainly affecting developed countries, and due to US congressional opposition, the amount of SDR allocation was low and there was no agreement to reallocate SDRs from developed to developing countries; and ii) some of the MDBs (notably the World Bank) were extremely slow in disbursing the funds allocated to them, because of complicated procedures and restrictive policy conditions, so it took as long as five years for most of that extra MDB lending to arrive in country. There was of course no consideration of enhanced debt relief measures for developing countries, because HIPC/MDRI had just ended and there was not perceived to be a widespread debt problem (even though as shown in Chapter 2, most SIDS and many MICs already had very high debt levels).

The final set of initiatives covered in this chapter relates to **responses to health crises**. In February 2015, the IMF broadened the Post-Catastrophe Debt Relief Trust (PCDRT) (which suspended debt service or countries hit by natural disasters) into the Catastrophe Containment and Relief Trust (CCRT), which also covered fast-spreading epidemics. This was in response to the Ebola outbreak in West Africa and, as a result Guinea, Liberia and Sierra

Leone received combined assistance of US$100 million. Most importantly, the assistance provided under the original and modified initiatives involved **cancelling** (not just postponing) debt service to the IMF, allowing the earlier PCDRT to cancel all Haiti's debt to the IMF in 2010, over a 2-year period immediately after earthquakes and hurricanes.[66] It was provided rapidly and "offered" by the IMF so that it had no negative impact on country credit ratings. It has no conditionality except agreement in advance and then full transparency to civil society on what the money would be spent on (reconstruction after disasters or response to pandemics). It was also really tailored to countries' urgent liquidity needs, with the correct emphasis on GDP collapse or increase in budget deficit. In addition, it was the first debt relief initiative tailored to the needs of small islands (SIDS), in that it allowed middle income SIDS to benefit. The CCRT has been used in its expanded version to provide debt service cancellation of US$850 million to 29 countries hit hard by COVID. In many ways the CCRT is the epitome of high-quality debt relief. However, two criticisms are often made: that i) countries have to suffer a very severe GDP loss or cumulative revenue loss and expenditure increase (10% of GDP), to get relief – severely limiting eligibility; and 2) that eligibility is limited to low-income countries (only 30) rather than all 74 PRGT-eligible countries[67]. Both of these restrictions are partly due to concerns about lack of funding for the initiative – and another major flaw of this relief is that the IMF has not sold gold or used SDRs (rather than donor money) to fund it.

The most recent initiatives to respond to the COVID pandemic have again been taken by the G-20 (and for debt treatment also decided by Paris Club members, and supported technically by the Paris Club Secretariat).[68] There are three (of which two are about debt and one set about new finance):

1) Partly Additional Financing

As after the global financial crisis, the international response has included considerable new finance – only this time much larger and with more potentially reaching developing countries, as follows:

i) **Issuance of SDRs** has been increased to US$650 billion, of which developing countries received US$230 billion. The transparency and accountability of the use of these SDRs has been dramatically stepped up compared to 2009, with the IMF agreeing clear expenditure allocations for all SDRs with all countries and publishing them in its programme and Article IV documents, and using the same strong accountability arrangements established for the DSSI and IMF RCF loans (see below). In addition, agreement was reached at the October 2021 IMF/World Bank Annual Meetings that developed countries could reallocate around US$100 billion of their SDRs to developing countries on a voluntary basis.[69] However, ultimate progress on this has proved slow, with only around US$60 billion likely to be rechannelled: this will also take place via new IMF RST and multilateral development bank loans, thereby meaning that they add to country debt burdens, and might take 3 (IMF)-5 (MDBs) years to commit and disburse. Moreover, it is not clear how much of this financing would be "additional" for climate and environmental spending and therefore potentially reduce the austerity currently being forecast in IMF and World Bank programmes for the next 5 years.[70] Various sources such as the UN Secretary General and Southern and Northern CSOs, have been making proposal that SDRs should be issued regularly on an annual or biannual basis through until 2030, in order to scale up financing availability much more dramatically, but these proposals have not been taken up by the G20.[5]

- **The multilateral development banks are planning to increase their lending capacity considerably.** The new Evolution Roadmap for the World Bank has so far agreed to allow it to lend up to US$10 billion more a year.[71] Similar measures by the other MDBs could double this amount to US$20 billion, but this is well short of the US$400 billion a year envisaged from such initiatives for SDG Stimulus. The degree to which the MDBs are able to make any more than 5% of the progress towards the US$400 billion will continue to depend on donor countries' willingness to provide large capital increases for their non-concessional windows and grant replenishments for concessional windows.
- As a result of the Bridgetown Initiative, Paris Summit for People and Planet and preparations for COP 28, new climate finance commitments have accelerated slightly. Agreement has been reached on creating a Loss and Damage Fund, and slightly faster progress is being made to the long overdue OECD target of US$100 billion of climate finance a year. However, some of this is relabelling or rechannelling of existing commitments rather than new money. In a context where ODA is rising much more slowly, and much is being diverted to Ukraine or to spending on refugees in OECD countries, increases in climate ODA also risk reducing ODA for education, health or social protection.
- Proposals by many developing countries (for example by the Bridgetown Initiative and UNECA) to reduce bond borrowing costs for countries by using MDB and other DFI finance to guarantee their bonds, have so far met little enthusiasm: instead, rising global interest rates have raised costs higher.

Overall, there are two major problems with this new funding: i) with the exception of the SDRs issued directly to developing countries, it will take several years to disburse; and ii) insofar as it consists of (especially non-concessional) loans, it risks increasing country debt burdens further.

In addition, there are multiple reasons why "one dollar of debt relief is better than one dollar of aid" (See also Box 3 in Section 5.2.4). The best debt relief disburses immediately (rather than taking several years as aid does); provides long-term predictable financing over the life of the cancelled loans; promotes country ownership by

5 See for example United Nations Secretary General, SDG Stimulus to Deliver Agenda 2030, May 2024; and Seery and Jacobs 2023, False Economy, report by Oxfam, April 2023

funding programmes included in the country's development plan and budget; can be targeted to key social and environmental spending; and, as delivered in the HIPC and MDRI Initiatives, is transparent and accountable to domestic stakeholders. Not surprisingly, therefore, global civil society organisations meeting in Bogota on 20-21 September 2023, issued a statement emphasizing that much more comprehensive debt relief is one of the best ways to achieve the Sustainable Development Goals.[72]

2) Debt Treatment

So to what degree are the recent debt relief initiatives providing the necessary relief ?

- The ***Debt Service Suspension Initiative (DSSI)*** was introduced in April 2020.[73] It involved "suspending" (**not cancelling**) debt service owed to G-20 and Paris Club official bilateral creditors, falling due between April 2020 and December 2021 for all IDA/PRGT-eligible countries. It also went into effect rapidly - immediately on receipt of a request for relief by the debtor country. So **it represented a major advance on past Paris Club treatments because of its speed** (including of its approval by G-20 and Paris Club after the start of the COVID pandemic), **and coverage** of 7 additional non-Paris Club government creditors (China, India, Kuwait, Saudi Arabia, South Africa, Turkey and UAE). During 2020-2021, DSSI provided US$5 billion in debt service postponement to over 40 countries.[74] There was also much greater **transparency** in IMF documents on how this relief was spent, with detailed discussions in Board papers of the intended spending; and the Fund has been insisting on greater **accountability** by establishing multistakeholder committees to ensure spending is managed and reported on to government, donor and non-government stakeholders.

  However, it also had several major disadvantages:
  - **countries had to request relief.** This was initially interpreted as a default signal by some ratings agencies, preventing some countries from applying for fear of having a ratings downgrade, but agencies and most countries later changed their minds, so more countries applied in 2021.
  - **it was not intended to be debt reduction or even permanent relief** (though that is what some G7 and Nordic countries would have liked it to be, they could not get a consensus on this, particularly while the Trump administration was in power in the US). It was temporary liquidity relief, provided by postponing debt service, which then had interest added on top, increasing future debt service from the end of 2021. This was in spite of IMF forecasts that eligible countries would not exceed pre-COVID growth levels and be able to repay more debt.
  - **It ended in December 2021**, in spite of efforts by some OECD countries to extend it, and the fact that polycrisis and debt crisis are by no means over for most developing countries.
  - Despite an intent to encourage "**voluntary" participation by commercial creditors**, none participated. In response, China resisted wholehearted participation (not seeing why its relief should bail out OECD commercial creditors), by classifying some Chinese lending institutions as private commercial banks. There was also never any question of including **multilateral debt**.

- The ***Common Framework for Coordinated Debt Restructurings*** was introduced on November 15, 2020. It was intended to represent a "long-term and sustainable response to debt vulnerabilities triggered by the depth and duration of the crisis", going beyond the DSSI. The original idea of some G7 and Nordic countries and international organisations was that DSSI would be rapidly succeeded by comprehensive debt restructurings (including reductions where necessary) by all relevant creditors in a seamless transition, but instead there ensued an awkward period with little or no debt relief.

  The Common Framework is very much inspired by the Evian Approach (and the positive features of the DSSI), in terms of its procedures for debt relief. So it currently contains the advantages and disadvantages of the Evian Approach and the DSSI. In particular, on the positive side from a creditor point of view (though not necessarily from a G24/debtor country point of view) it will i) retain the extra coordination features of the DSSI by stretching beyond the Paris Club members to G-20 official bilateral creditors, and the coordination is being officialised through the establishment of "bilateral creditor committees" for all countries which apply for relief; ii) be based on an IMF-World Bank assessment of a debtor's relief needs to achieve debt sustainability, which will be presented to the "creditor committees"; iii) require an IMF high-conditionality programme throughout the duration of the debt relief; and iv) insist on even greater transparency and accountability than under the DSSI for the spending funded by the comprehensive relief.

On the less positive side, in the current version of the Common Framework:

i. most important, relief terms are decided case-by-case like Evian, instead of with clear similar multi-country thresholds to reach as in the HIPC initiative, and based on macro-economic debt sustainability analyses rather than compatibility with the SDG financing needs of the country. Most tellingly, relief deals aim to get debt service down to sustainable levels only over the long term, and this applies only to external debt service. ***After their relief deals, according to IMF forecasts as of end-2023, Chad, Ghana, Sri Lanka, Suriname and Zambia will still pay an overall average of 48% of their budget revenue on debt service in the next 3 years, compared to the 11% average reached after HIPC/MDRI deals.*** Even worse, the Suriname and Zambia agreements include clauses saying countries will pay even higher amounts of service to creditors if their economic outcomes improve. Because of this inadequate relief, these countries will have to cut their overall budget spending by an average 4% of GDP in the next 5 years (between a quarter and a third of current spending). This leaves no room for countries to raise spending to confront the polycrises, or reach the Sustainable Development Goals by 2030.

ii. eligibility is limited to PRGT-eligible countries. Though similar ad hoc arrangements have been created for some defaulting MICs (Sri Lanka and Suriname) to coordinate creditor governments, there is a risk that MACs or MICs might receive Evian-style relief less than they need.

iii. the Common Framework has brought enhanced participation by non-OECD creditor governments (though these also provided widespread relief under UNCTAD and HIPC programmes), and has established a Global Sovereign Debt Round Table to resolve technical issues such as comparability of treatment and how to implement standstills, which has made some important technical-level progress. However, reluctance of commercial creditors to participate has caused lengthy delays, and multilateral creditor participation has not been discussed (except in terms of providing more new loans and grants to countries).

iv. partly due to the complexities of enhancing coordination among bilateral creditors, and doubts about voluntary participation of commercial creditors but also due to political developments in debtor countries, debt relief progress has been very slow. There has been some recent progress in deals for Ethiopia, Ghana, Suriname and Zambia, but debtor countries have de facto had to default (Chad, Sri Lanka and Zambia) or cut other spending dramatically in order not to default (Ethiopia, Ghana, Suriname) long before they have received debt relief. This is a toxic combination which (together with the inadequacy of the relief being provided) undermines both their development and their prospects of re-entering capital markets after relief is received.

v. Given these failings, it is no surprise that a large number of countries which desperately need debt relief are not applying for it. As they see it, why risk losing any new financing, no matter how expensive, if debt relief is not substantial ? As a result, relief is still being provided only to a very small number of countries compared to the long list of countries which need it based on their debt service burdens, and with long delays after they default.

All of these problems are not unique to the Common Framework, and as will be shown in the next chapter, feasible solutions to each of them already exist which could be implemented as part of a revised or enhanced Common Framework. However, the tone of government and international organisations' views on the Common Framework (in interviews for this study) has changed considerably between 2021 and 2024. While insisting that the Common Framework should be the "foundation" for any mechanism, such official sources now see the need for a "comprehensive" revision of the Common Framework. CSOs and many UN member states from the Global South are more critical of the Common Framework, adding into the mix their preference for moving all debt relief processes to the UN or to independent arbitration. The next chapter of this report therefore focusses on how the comprehensive revision of the Common Framework could occur and what it could contain, as well as on what might be done to make the process more legitimate and representative by giving the UN a stronger role.

4.8. Overall Lessons from Past Initiatives

The overall conclusions and lessons from this analysis are that the best relief:

1. Is provided to all different types of debtors (by income, special situation, and with/without market access), but has worked best when tailored to their needs;
2. Is based above all on assessing country financing and liquidity needs, with a particular focus on growth, poverty reduction and (more recently) the MDGs/SDGs;
3. is provided rapidly and in a virtually automatic or orderly way, to avoid huge extra costs caused by lengthy defaults and delays in restructuring;
4. includes all significant creditors in order to maximise relief and ensure genuine burden-sharing;
5. provides protection against holdouts and lawsuits by non-participating creditors;
6. maximises transparency and accountability, especially to domestic stakeholders, on lending, debt restructuring and the spending of their proceeds;
7. ensures the introduction of laws and procedures for responsible borrowing and lending, and to protect against corrupt, predatory and odious debts;
8. has a sustainable and comprehensive supporting architecture involving all stakeholders;
9. builds capacity of developing countries to negotiate debt relief and improve future borrowings; and
10. is accompanied by high-quality development finance to ensure all countries can reach their development goals – even those which do not have heavy debt burdens.

5 A COMPREHENSIVE PROPOSAL FOR NEW DEBT MECHANISMS

5.1. Introduction

This chapter of the report aims to outline the components of a proposal for a new debt reduction mechanism (or mechanisms/architecture given that they will require a genuine "multi-pronged and multi-forum approach") which will provide "effective and just" debt resolution, It builds on the lessons of past (debt and non-debt) initiatives to fulfil these and several additional essential principles. It looks in turn at how the mechanism must be designed in order to best fulfil the following ten principles: [75]

1. being able to **help all heavily indebted developing countries** which want and need debt relief, regardless of income level, special situation, region or degree of market access;
2. ensuring that debt relief design is based on **maximizing its contribution to SDG financing** needs, including protection against all realistic potential climate or inequality "shocks", and not just based on a narrow definition of debt sustainability through debt/macroeconomic ratios or equations.
3. being **rapid and automatic/orderly** enough to avoid problems caused by default, and thereby maximise debtor demand for relief and positive reactions by rating agencies and financial markets
4. including **all significant and necessary creditors** for each debtor, including Paris Club and non-Paris Club bilaterals, multilaterals; commercial whether they are bondholders, banks or companies; and sources of other liabilities whether collateralised debt or PPPs;
5. providing **protection against holdouts and lawsuits** which could undermine debt reduction;
6. maximizing **transparency and accountability** (especially to parliaments and citizens) on new lending and debt restructuring, and the spending of their proceeds;
7. ensuring **ex ante future responsible borrowing and lending**, by enhancing laws and procedures for transparency and accountability, and against corrupt, predatory and odious[76] debts, and where possible transforming them further to make all lending maximise progress to the SDGs;
8. providing a sustainable **supporting architecture** in which all potential stakeholders have a clear role, and building on existing processes and platforms where these exist (including for example the Common Framework and the UN Convention Against Corruption).
9. providing **enhanced capacity-building to developing countries** (and to stakeholders in those countries such as parliamentarians, auditors and civil society), to maximise their leadership on debt relief and its impact on the SDGs, and to minimise the odiousness of future borrowings; and
10. accompanying debt relief with enough **high-quality development finance** to ensure that, regardless of the contribution debt relief can provide, all developing countries have strong prospects of reaching the SDGs even in a post-COVID world.[77]

This chapter looks at the proposal's content, support shown for it by different institutions in interviews and on paper, and the broad process which could be followed to achieve its adoption during the next 2 years, via the G20 in 2023-24 and the United Nations Financing for Development Summit in 2024.

5.2. Turning Principles into Action

5.2.1 Principle 1: Open to All Countries Which Need and Want Relief

The first principle of a comprehensive debt restructuring mechanism should be that it is able to assist all heavily indebted developing countries which need and want debt relief, regardless of income level, special situation, region or degree of market access. As shown in Chapter 3, unlike in past periods, it is impossible in the current crisis to isolate a group of developing countries and say that they alone need debt relief, or that another group of countries does not need debt relief. Especially if judged by indicators of debt service/revenue or debt service diverting funds away from SDG spending, high proportions of countries in every income group, special situation and region require urgent debt relief.

However, this does not mean that any restructuring mechanism should apply a "one size fits all" recipe to all countries. Countries will have different types of needs, ranging from cancellation of high debt service payments to provide long-term liquidity relief, to comprehensive debt stock reduction in order (to end the debt overhang effect on public and private investment and the longer-term diversion of spending away from the SDGs to service. They will also need a combination of debt relief and new financing for the public sector, because debt relief alone will be insufficient to reach the SDGs (see also 5.2.10 below). They will also need different relief contributions from different types of creditors, with some requiring mostly domestic debt relief and others mostly external, and some requiring key contributions to come from multilaterals or commercials/bondholders, or G-20 and other creditor governments (see 5.2.3).

But perhaps the most important need to tailor debt relief to the circumstances and wishes of debtors arises from their current and future intended degree of access to and reliance on global (and regional and domestic) financial markets. Here it is above all necessary to remember the lessons of earlier debt initiatives and the history of financial markets – that the more rapid and orderly the debt relief, the more likely a country is thereafter to improve its creditworthiness and crediting rating in a short time and regain access to markets; whereas the more a debtor is pushed into repeated default, the more severe the increase in its new financing costs and loss of market access (see 5.2.3). This means that any debt relief mechanism must above all be tailored to allowing the earliest possible return to markets, where market-based financing is essential for national development.

What does this imply in practice ? First, it means that there should be a much closer link between the assessment of "sustainability" of a country's debt and the process of providing debt relief. As a first step, debt sustainability assessments for all developing countries (MACs or LICs) should contain enough information to make a full judgment about debt overhang or liquidity burdens (see also 5.2.2 below).

Second, there should be a clear and transparent process of automatic stages of debt relief preparation and implementation, linked to a country's debt sustainability rating as follows:

- For countries with low total public debt service/revenue, debt service/expenditure and debt/GDP ratios, there should be no contribution to SDG financing asked from debt relief, and a more liberal attitude to borrowing provided it is responsible and matches the returns the projects will generate;
- For countries with ratios near threshold levels there should be a comprehensive analysis of how and under what circumstances debt relief might need to contribute in future, to keep debt sustainable, and a tighter attitude to (especially non-concessional) borrowing;
- For countries with ratios above the thresholds for more than a very temporary (eg 1-2 year) period, there should be immediate measures taken to conduct a comprehensive analysis with a view to potential debt relief, and to introduce a debt standstill if that analysis proves the case for relief.

Countries should therefore never get into a situation of being "in debt distress", except for a very temporary period if some completely unexpected shock arises, or some crucial group of creditors becomes a temporary holdout from relief. Being "in debt distress" is an admission of the complete failure of the international system to operate effectively, and a sign that a country is suffering massive damage to its economy and SDG prospects, and must not be allowed to happen in future.

And third, the process of debt relief and the type of debt relief provided should be tailored to minimise any disruptive effect on country access to reasonable-cost financial markets. This would imply that:

1) For **countries with no market access**, debt relief can be provided straightforwardly without any risks to this access, but this should not be an excuse for delay or non-participation by creditors.
2) **Countries with continuing but limited access to financial markets**, especially those which have moderate-to-high debt ratios, should be encouraged to do regular analysis of costs and benefits of market access compared to relief. For some examples of this, see Box 1. Depending on the results of this analysis, they should opt for the most desirable combination of relief and measures to reduce their costs of financial market borrowing (on these see Section 5.2.10).
3) Countries with **constant recourse to financial markets** should be provided with enhanced mechanisms which reduce the cost of their access to markets (as discussed in Section 5.2.10), as well as analysing the pros and cons of debt relief as soon as their debt ratios become high.

If debt relief is provided in an orderly and rapid fashion and with participation by almost all creditors, as proposed in this paper, countries should not in future get into being "**in default"** and having access to financial markets suspended, with credit ratings plummeting, and the cost of new financing soaring way beyond any objective justifying factors (see 5.2.2). It is these negative experiences from "bad debt relief" in the past which are deterring many countries currently. Measures to ensure that bad debt relief is avoided are discussed in the rest of this chapter.

5.2.2. Principle 2: Maximising Its Contribution to Debtor SDG and Climate Financing Needs[78]

The second principle should be that debt relief should be provided in such a way as to maximise its contribution to the SDG and Climate Financing needs of the debtor countries which need and want debt relief. This means that the assessment of debt relief needs should be based primarily on country requirements for funding the SDGs, and not on solely an economic definition of when a country is likely to default. This does not mean that all of the SDG and climate financing needs of all developing countries should or can be fulfilled by debt relief – for many countries which have low debt burdens, the financing will need to be primarily or almost entirely from other new money (on which see section 5.2.10 below).

In order for debt relief and new financing to be compatible with and maximising progress towards the SDGs and fighting the climate emergency, the first essential step is that forecasts of government financing needs should fully integrate these issues. DRI has assisted many HIPC governments during 2000-2012 to conduct these types of analysis, which started by costing the spending needs for national development plans which were already covering most of the SDGs, and then identified the contributions which additional tax measures, new financing and debt relief could be expected to make.

The SDG needs are generally included in country National Development Plans supported by UNDP through a process of making them SDG-compatible which has been taking place since 2016, but in varying degrees of detail. However, they have not until now been included for all countries or systematically (partly due to uncertainty as to where financing to fund the needs would come from), in the crucial documents which determine country debt relief and new financing needs and come closest to mobilising these in a coordinated way: in the debt sustainability analyses of the programme and Article IV documents which countries agree with the IMF.

BOX 1: HOW DOES DEBT RELIEF AFFECT ACCESS TO MARKETS ?

On the issue of when debt relief is advisable for debtor countries, in terms of its effects on market access, one can learn lessons from past experiences of countries in the different typology groups presented in 3.4 above.

Constant market access: Latin America. Latin America went through a lost decade of development in the 1980s when relief was woefully insufficient and slow, and as a result access to commercial bank lending gradually disappeared. As discussed in more detail in Section 4.4, the Brady Plan provided much larger and more rapid debt relief from 1988, and most analysts now credit it with allowing these countries to return to markets successfully following which they were able to tap international and local bond markets successfully to fund development.[79] In the 2000s, countries such as Ecuador and Uruguay negotiated "debt exchanges" of bonds at an even earlier stage of their debt crisis: these avoided any protracted defaults, also provided considerable relief, and were followed by an almost immediate return to capital markets.[80]

Limited market access: Ghana. Ghana's experience deciding in 1999-2002 whether to access the HIPC Initiative, is instructive for countries with continuing but limited access to financial markets. In 1999, Ghana was accessing commercial bank and export credit agency loans, but with debt service at 35% of budget revenue. From its own debt relief analysis, the evidence was clear: new lending was coming at increasingly high interest rates (adjusted up as default risk rose), and the maximum amount it stood to lose was US$50 million a year. On the other hand, its debt service burden was so high that it could gain at least US$210 million a year from relief. Nevertheless, two factors delayed a decision on debt relief: lobbying by lenders to say that Ghana would lose much higher amounts of finance; and a wish by policymakers not to be the government which lost face by going for relief for the first time since 1972.[81] The resulting delay while a new government was elected and convinced of the need for policy change, led to growing lack of finance. By the time Ghana decided to go for relief in 2001, it had lost US$400 million of relief and social spending, and accrued large arrears which damaged its reputation with financial markets severely. The decision had a major positive impact, also catalysing extra new finance and allowing Ghana to spend US$250 million more a year on social spending throughout the 2000s.

No market access: Bolivia and Uganda. In 1996, both of these countries had longstanding low access to markets and many unsuccessful attempts at prior debt relief. However, they were worried that HIPC relief might lose the private sector access to trade finance, and broader foreign investment. Fortunately, both had already seen that relief on commercial debt via IDA debt buyback operations had restored their access to private sector funds.[82] The countries also organised meetings with existing lenders and investors, in all of which they were told that comprehensive debt relief would improve their ability to repay remaining debt and therefore their access to new private flows. On this basis, both countries opted to HIPC relief, and the positive results materialised.

Finally, broader analysis of the impact of debt relief on private capital flows to Africa, [83] covering all African countries, concluded strongly based on over 50 interviews with different private sector stakeholders, that well-delivered debt relief would improve country credit ratings and increase flows of private sector finance – which is what subsequently happened once countries had finished receiving their HIPC relief. The US Treasury did similar analysis for potential Brady Plan Latin American beneficiaries, which also proved to be true. Indeed, this is why credit rating agencies have for decades included in ratings the assumption that lower debt levels improve ratings: provided relief is delivered effectively and rapidly, this is how ratings and market access will work.

Fortunately, there is a track record of work on these issues for some countries, and with clear methodologies, on which a new mechanism could easily build, both within the UN and within the IMF. On the UN side, UNDP has made detailed calculations of financing needs for all the SDGs at national level, using national data on costings, for a few pilot countries (notably Benin). UNCTAD has also modelled SDG costings for a much wider range of countries globally, but based on the globally known approximate percentages of GDP needed to reach the SDGs; and is including in its model the effects of the SDG investment on accelerating growth. Finally, and with the most traction so far in terms of potentially integrating SDG needs with debt sustainability burdens and relief prospects, such calculations have been included in several UNDP-sponsored Integrated National Financing Frameworks (eg Benin, Cameroon).[84]

The IMF, with inputs from the Sustainable Development Solutions Network and other UN agencies and independent experts as part of a joint working group, has also done two rounds of work on detailed country costings for some of the SDGs (essentially education, health, electricity, water and sanitation, and rural roads). The first was released in January 2019, looking at SDG costings for countries with different income levels, and with detailed case studies of Benin, Guatemala, Indonesia, Rwanda and Vietnam to present different country types.[85] The second major multi-country study was released in April 2021, and updates the calculations to take account of the negative impact of the COVID pandemic on SDG progress and prospects – therefore concluding that even more financing is needed.[86] Case studies were also completed for Cambodia, Nigeria, Pakistan and Rwanda,[87] and the methodology is still being used for a broader range of countries.

The IMF and World Bank have made notable progress on incorporating climate issues into the Sovereign Risk and Debt Sustainability Framework (SRDSF) introduced for Market Access Countries in 2021. There are several major improvements which could be made to the way this is done. More attention should be paid to calculating the higher positive growth and revenue multipliers arising from the extra climate-related spending, and to combining them with the extra spending needs and financing sources so as to show how debt sustainability can be maintained over the long-term. Without this work, assessments which include only the extra spending needs will inevitably conclude that debt is very unsustainable, and reduce countries' borrowing space further. In addition, it is vital to reform the LIC-DSF urgently to bring in climate, taking into account the lessons learned from the SRDSF.

It is probably unrealistic at this stage – two-thirds of the way through the SDG period, and after having been so blown off track by COVID and major conflicts - to expect governments of the global South to re-cost (or the international community to be prepared to finance) all of the SDGs. It is therefore vital to prioritise which of the SDGs should be included in a revised DSA methodology. Many have argued – including the IMF and World Bank - that the global crisis of inequality within countries is causing massive political and social upheavals, and is therefore just as urgent to resolve as that of the climate, and have also shown that reducing inequality can have a major positive impact on growth.[88] It is therefore vital that the IMF and World Bank (especially now that the World Bank has an inequality indicator – the Gini coefficient – in its new corporate scorecard targets) should include in the DSAs a scenario which simulates the additional social spending (especially on education, health, public housing, social protection and water), as well as financing prospects and multiplier effects, in order to reduce inequality sharply.[89]

There is therefore a very sound basis on which to build this part of the new mechanism. However, to make it comprehensive and convincing, four further steps are needed:

1) ideally the costing methodologies used by the IMF and other UN agencies would be made consistent so that governments could use results with full confidence they would be acceptable to all agencies;
2) ideally both the DSFs would include at a minimum all the SDGs relating to climate (and preferably biodiversity where there is also a major crisis) and inequality, with commonly agreed costing methodologies for each SDG based on more detailed assumptions capable of being tested at country level. Costing methodologies now virtually exist for all the SDGs, especially biodiversity and social protection, and therefore it would seem essential to broaden coverage beyond the IMF sectors.
3) ideally DSFs would incorporate fully the effects of SDG investments on accelerating growth and improving debt sustainability. This should apply beyond the effects of large infrastructure projects, to measure the effects of investment in social and environmental SDGs which are much greater than those of traditional large infrastructure.[90]
4) the final step would then be to pursue the integration of these costs and multiplier effects with financing prospects in more detail at country level, so as to provide the basis for mobilising more funding.[91] The IMF began this work in its 2019 studies, and has continued this work especially for a few Climate Vulnerable Countries, using the Climate modules of the SRDSF. But it has often failed to underline in its main Board papers, the huge financing needs and potential for accelerated growth which emerge from such analysis, in order to indicate transparently to creditors and donors (as well as to developing country governments in terms of mobilising domestic revenue and savings) how much extra finance could come from each source and what the plan is for mobilising it.

All of these changes could easily be made as part of the forthcoming review of the LIC-DSF by the IMF and World Bank in 2024-25 – indeed there is already a plan to introduce climate issues into the LIC-DSF by the end of 2024.[92] There also does not seem to be any lack of willingness among the international institutions interviewed for this study and for Martin (2024), or indeed among independent organisations such as Development Finance International or the Global Development Policy Center at Boston University[93]) to do more of this work, and in a cooperative joint manner. However, what all say is lacking is the funding for work on methodology to be completed and expanded, and for such work to be done comprehensively and routinely across all countries. ***Nordic+ countries could therefore play a prominent role in funding such analyses, and in encouraging cooperation among agencies conducting alternative debt sustainability analysis through some form of pooled Trust Fund. They could also advocate such additions to DSAs at the G20 and in the build-up to the 2025 Financing for Development Conference.***

These analyses would (as the Fund's analyses already have done) have a major spinoff benefit in alerting the international community even more clearly to the huge SDG financing needs of all types of countries, and in planning jointly and globally on how countries and the international community will finance at least some of them successfully; rather than as at present knowing that there are huge financing gaps but hoping (as one interviewee put it) "that the needs will go away or (like Dicken's Mr. Micawber) that the financing will turn up from somewhere unspecified." ***Nordic+ countries and CSOs can of course (and indeed are already) use these more comprehensive global analyses to step up advocacy with other partners for additional financing.***

At country level, these assessments should be led by the government itself, through participatory processes of constructing and implementing SDG-compliant development plans, which tackle the needs to recover from the COVID-19 pandemic and fight the climate and inequality emergencies. Most countries already have SDG-compliant national development plans, but many are revising them. Ideally, ***Nordic+ governments would put funding in the hands of governments to lead these processes of calculating their SDG financing needs and the contribution debt relief could make to funding them, and of national civil society coalitions and other stakeholder organisations to help organise these processes of participation and consultation on national priorities and debt relief needs, and of monitoring implementation of the spending through national budgets.***

Finally, as the IMF has pointed out when estimating expenditure needs for the SDGs, it is vital to ensure that all expenditures are as productive as possible, to reduce substantially spending costs at national level. The issues of how to achieve this are discussed further in Box 2, and ***Nordic governments could consider increasing funding for PFM programmes which channel spending to key SDG priorities such as reducing poverty and inequality, and fighting climate change, while making it more productive.***

BOX 2: The Need to Maximise Productivity of Expenditure

When forecasting expenditure needs for the SDGs, it is vital to continue efforts in developing countries to make government expenditure as productive as possible. In addition, when borrowing or lending responsibly, transparently and accountably – and to avoid corrupt or predatory projects, it is vital that borrowers and lenders maximise efforts to prioritise the most productive projects and programmes, so as to maximise development results. These issues formed the subject of a comprehensive study by DFI for the former UK DFID in 2016.[94] Because many developing countries were already facing increasingly unsustainable debts, the study aimed to identify how they can promote debt sustainability by ensuring debt is used productively.

Overall, the study suggested **ten lessons for supporting productive expenditure to keep debt sustainable**:

1. There should be a **clearer definition of "productive expenditure",** linked to the "macro" impact of programmes on pro-poor/anti-inequality and environmentally sustainable growth, in line with the SDGs. This is because the precise allocation of spending, its intended results within sectors, and the degree to which it targets growth, reduction of poverty and inequality, and environmental sustainability are the most important determinants of long-term development impact; and government spending on anti-poverty and anti-inequality programmes (rather than large-scale infrastructure) is the most productive for growth.
2. Particular attention needs to be paid to **prioritising** what is "transformational" for national economic prospects, rather than of "strategic" political importance to governments, or financially "viable" in terms of returns or availability of finance. Key large programmes and projects need to be identified by convincing macroeconomic tests of their impact on total factor productivity and long-term growth. Countries should have some flexibility to promote their own definitions of what is transformational, and need capacity-building support to ensure decisions are guided by technical rather than political analysis.
3. Several **key indicators are** needed to track progress at three levels:
   Macro: the design of results-based overall and sector programmes of public spending, and annual monitoring of their implementation and trends in GDP, poverty and inequality
   Micro: reinforced indicators to show projects will enhance debt sustainability, through tax revenue and foreign exchange earnings/savings;
   Meso: policy and institutional indicators, especially showing that countries are coordinating investment and debt management decisions, and matching projects with appropriate financing.
4. Once such indicators are established and tested for robustness, they could be used together to assess whether each country's expenditure is likely to be "productive", and this could be used as a **supplementary indicator** in providing flexibility in LIC-DSF ratings or IMF borrowing ceilings.
5. **Recurrent spending** is an essential complement to capital spending, and an appropriate balance between the two is needed to achieve development results. Stable and consistent rises in both types, and spending complementarily across a broad range of sectors, have been vital. Prioritising "productive" expenditure therefore does not mean prioritising capital over recurrent spending, or certain sectors over others.
6. There is no simple recipe for **sourcing finance** from certain lenders to increase productivity. Different development partners have different advantages: eg speed/low-cost/durability of some non-OECD partners; stable budget support and detailed appraisals/risk assessments by multilaterals; and highly effective poverty-focussed aid flows from some OECD governments. Budget support and aid effectiveness efforts, as well as improved negotiation by borrowers, have increased productivity of financing.
7. In terms of **external debt,** concessional loans and grants have generally been used for budget support, and major social and pro-poor investment programmes. Some countries have used non-concessional debt mainly for growth-oriented large service sector and infrastructure projects, but others have used it for deficit financing and debt refinancing, adding far more to debts than to repayment capacity.
8. **Domestic debt** has often been used for deficit financing – thereby failing to generate returns high enough to keep debt sustainable. Country experiences indicate that until domestic debt markets are more mature and competitive, and provide long-term financing with very low real interest rates, they should not be used extensively to fund investment because costs will exceed returns.
9. Only specific focussed **institutional reforms** will enhance investment productivity and debt sustainability. These include clear procedures to prioritise and appraise investment projects; linking projects to financing sources using a results-based programmatic budget, and coordinated debt management and public investment committees; using the LIC-DSF tool to assess the impact of major projects on debt sustainability; making spending and debt analysis and plans much more public and easy to understand; and dramatically reinforcing the roles of parliaments, audit institutions and civil society in holding governments accountable. There is also need for major extra capacity-building support to countries so they can exchange best practices, and especially for parliaments, audit institutions and civil society on accountability.
10. There are **major limits to what can be achieved** by making expenditure more productive, unless it is accompanied by far more concessional and semi-concessional external finance and enhanced domestic revenue mobilisation in order to fund investment sustainably; positive incentives to encourage provision of more external finance to countries which keep debt levels sustainable; and debt relief for countries whose debts become unsustainable, especially if this is due largely to exogenous shocks. (for more on DRM and new financing issues see 5.2.10 below)

5.2.3. Principle 3: Rapid and Automatic/Orderly Debt Relief to Avoid Actual Default

One of the key lessons from past debt relief mechanisms is that delay is disastrous. Delay forces debtor countries to contract even more debt (usually at higher cost) to cover the costs of repaying existing debt; or to accumulate arrears to domestic and external creditors, damaging their access to key sources of financing for trade and investment. It also causes major damage to the economy via cuts in new financing flows and government spending – and as shown in Chapter 3, sharply reduces fiscal space to spend money on the Sustainable Development Goals and the climate emergency.

Delay is also bad for creditors. It reduces the creditworthiness of the borrower, and its credit rating, and pushes up prices of new bond issues. It also forces creditors to make higher regulatory provisions against risks that the debtor will default on its debts. In the longer-term, it dramatically reduces prospects that the creditors will be repaid and therefore prospects for profitable private financing and investment in the debtor economy, and for higher growth, exports and investment earnings for the creditor economy. However, some less well-motivated "holdout" creditors may be tempted to delay or block agreement, often to make financial market gains from trades during a temporary delay.

So how can a debt relief mechanism provide rapid and automatic/orderly relief to avoid default ? The solution revolves around two issues:

1) ***early identification of and reaction to unsustainable debt levels***. The easiest way to identify unsustainable debt levels would be to set clear thresholds – revolving above all around debt service/budget revenue and debt service/expenditure levels – such as the 15% levels of service to revenue set under HIPC, or a similar proportion of total expenditure. The current LIC-DSA "ranges of thresholds" are inadequate for this purpose because they provide far too much room for subjective interpretation and would penalize countries which have demonstrated strong debt management capacity by providing them with less relief ! Similar thresholds also need to be set for market-accessing countries, rather than just relying on trends in and risks to their market access, which tell us little or nothing about the broader burden of debt on their economy.

   Such thresholds should be used to trigger an analysis of the potential benefits and costs of debt relief (a "debt relief analysis" similar to that which used to take place under HIPC), which would include the benefits of debt relief for growth, the SDGs and fighting the climate emergency (see 5.2.2 above). To avoid pre-empting decisions by debtor governments as to whether they wished to opt for debt relief, it could be added into current debt sustainability analyses as an additional scenario focusing on the potential impact of debt relief. The IMF already does this for countries which have gone for debt relief (eg Suriname) so there should be no problem doing a similar but more SDG-focussed simulation for all countries with a heavy debt burden.

2) The introduction of ***formal standstill mechanisms*** which suspend debt service while debt is renegotiated. Once the debtor government has opted for debt relief, a standstill should involve all creditors agreeing to suspend debt service payments, during the period while debt reduction is negotiated. The DSSI has already shown that a standstill on debt service covering most creditors is possible – without any negative effects on debtor credit ratings – provided that it is "offered" by creditors rather than provoked by unilateral debtor default.[95] In addition, the Sovereign Debt Round Table has made considerable progress on defining the preconditions for and process of a standstill. The only significant barrier to such a standstill has been seen as the lack of assurance that all (especially commercial) creditors would participate, which could in principle mean that money saved from a standstill by some creditors could be used to pay others. This issue is discussed in Section 4.2.4 below.

The main objection raised to "automatic" debt relief is a perceived risk of moral hazard - i.e. that developing countries will overborrow or lenders will overlend, because they know they will be bailed out afterwards by donor-funded debt relief. This has always been a spurious argument: the "topping up" procedure under the HIPC Initiative showed that there was no case where a country borrowed irresponsibly in order to increase its debt relief: rather, the need for relief was generated by the failure of over-optimistic forecasts (macroeconomic or project-related) to materialise, or the high cost of financing. The only cases where debtors or creditors were wrongly "bailed out" were when political pressure was applied by powerful OECD governments to bail out debtor countries regardless of their economic policies, or one or other group of creditors failed to participate fully in debt relief. A more orderly structured process of debt relief should reduce the likelihood of these situations to almost zero.

To ensure debt relief is provided rapidly and automatically/in an orderly fashion, Nordic+ governments could a) advocate a much more effective system for identifying when a country is falling into debt crisis, using thresholds of debt service/revenue and debt service to expenditure, as well as assessments of SDG and climate adaptation financing shortfalls. They could also push for application of an automatic standstill procedure for each debtor as it decides it wants to receive more comprehensive debt relief.

5.2.4. Principle 4: Including All Creditors on Equal Terms but with Multiple Modalities

One major problem with some past debt relief mechanisms (with the exception of the HIPC Initiative and the Brady Plan) is that they have not necessarily included all creditors on equal terms. The key problematic creditors have been commercial, multilateral and domestic creditors. In the current context, some authors have stressed the complexity of getting "new creditors" such as China and bondholders to participate fully in debt relief. As already indicated in Section 3.2, these creditors are not quite as important as some have indicated – but their participation is still vital, as is that of domestic and multilateral creditors if debt relief is to open up sufficient fiscal space for the SDGs. So this section looks at each type of creditor in turn to see how and why their participation is possible. It emphasizes that all should be expected to provide relief on equal terms, but that if they are to be convinced to do so, multiple modalities are needed – what has been called a "menu of options".

Commercial creditors. Some have argued that because the main commercial creditors are now bondholders not banks, their participation in relief is more complex than before. It is useful to remember that long before international bank loans were being restructured, international bonds were being regularly restructured from the 18th century onwards, often with the creditors providing as much relief if not more than comparable official creditors.[96]

In addition, as described in Chapter 4, the international community used five methods to convince commercial creditors to participate in earlier debt relief, which could be used again:

- **Regulatory incentives** pushing lenders to provision against bad loans. At the time of the previous developing country debt crises, there were relatively few regulatory tools available to push commercial creditors to participate, except the blunt one of insisting that they put aside provisions to cover any losses incurred. The global financial soundness and stability regulations introduced after the financial crisis would provide ample scope for supervisory authorities to require commercial lenders to write off part or all of the debts they are owed, as well as having to meet higher capital requirements for any "at risk" unrestructured debt, or reducing capital requirements for debts which are less "at risk" after restructuring;[97]
- The Brady, IDA buyback and HIPC deals were all strongly encouraged by the fact that the creditors could claim **tax relief** on any losses incurred as a result of write-offs. The same would be true of any write-offs incurred now, without any new laws being introduced. If combined with regulatory and legal "sticks", these would provide a strong architecture incentivizing commercial creditors to participate;
- **Guarantees.** In the case of the Brady Plan, the US Treasury underwrote the new bonds which were issued to replace existing bonds and bank debts, thereby ensuring that they had a much higher payment probability and therefore a much higher credit rating than the instruments they replaced. This could if necessary be done once again. [98]
- **Legal pressure**. As discussed in more detail in Section 5.2.5, for the cases of extremist holdout commercial creditors in relation to HIPC relief, various key OECD governments introduced laws obliging them to provide relief on comparable terms with other creditors. There is no reason why this could not be done again, and in the case of bondholders it would mainly need to apply in jurisdictions where they are issued (UK, US, Europe).
- **"Moral suasion".** Especially at the time of the Brady Initiative, a huge amount of political pressure was exerted on commercial lenders, also including reminders of regulatory penalties and tax incentives, so that they came to see that they would be worse off if the high debt burdens of developing countries continued unresolved.

The other "problem" frequently raised about participation of commercial creditors is that it could undermine country access to financial markets. This has already been discussed in Chapter 4 and Section 5.2.1, with all the evidence showing that orderly and rapid relief leads to improved credit ratings, reduced lending rates, and a gradual sustained return of access to financial markets. On the other hand, delay and non-participation in debt relief, producing protracted falls in credit ratings, increases in spreads, and eventual default, as have been seen in Argentina over the last decade, are much more likely to undermine a country's reputation and complicate its access to financial markets for a longer period. Honest commercial analysts of bond markets are saying exactly this about the current debt crisis., worrying that protracted high debt stocks and service are pushing spreads up to levels where default is inevitable across a wide range of countries.[99]

In relation to **China**, to read much of the financial press and many academic analysts one would think that China is deliberately and secretly causing a debt crisis in developing countries, in order then to confiscate their assets and land for itself when they default on the debt, and would not provide debt relief. Nothing could be further from the truth, for four reasons :

1. China has been lending to developing countries on concessional terms (and providing large amounts of grants) since 1960. It is not a new creditor – what is new is a large amount of non-concessional lending by Chinese official lenders and (often state-owned) commercial banks. A considerable proportion of these loans were provided through "soft windows" of these banks, on very concessional terms in light of the low levels of debt sustainability of many low-income countries.[100] However, the majority was not – and in some cases, debtor governments agreed with China that the infrastructure projects being funded would have such high returns that they could afford virtually commercial terms.
2. China has in the past regularly provided debt relief when countries have needed it. It played a key role agreeing the UNCTAD "retroactive terms adjustment" debt cancellation for Least Developed Countries in the 1970s, following which it cancelled more than US$1 billion.[101] It also played a full part in providing relief comparable to the HIPC Initiative relief (except for countries which were recognizing Taiwan instead of China), including cancelling 100% of debt stock at completion point, totalling US$376 million.[102] It went much further

in cancelling additional concessional debts for countries which did not participate in HIPC such as Cambodia and Lao, and for other Least Developed Countries, so that total Chinese debt cancellation had reached US$10 billion by 2005; and cancellation was repeated in 2018.[103] In recent years, especially following the commodity price collapses of 2015-16, it has begun to restructure non-concessional debts, reaching agreements with at least 15 countries[104]. It has preferred to decide on these relief initiatives at its own pace, but the ultimate outcomes have usually been broadly similar to global initiatives.[105]

3. It is true that there are clauses in many of its lending agreements which "collateralise" the loans, specifying repayment in commodities or by seizure of assets in the event of default. However, these are not very different in their content (and confidentiality/secrecy) from clauses included in most OECD export credit agency and development bank lending. The question is whether these clauses have been applied when countries default. There have been no cases where China has insisted on applying such clauses[106]. Much-publicised deals which involved providing extra private new money in return for "privatization" of projects (such as for Myanmar and Sri Lanka) were for countries which were not requesting debt relief from any of their creditors.
4. In regard to transparency, the amounts (commitments and disbursements) and terms of Chinese loans to developing countries from its main official non-concessional lending agencies known as "state policy banks" (Eximbank and China Development Bank) are available on their websites much more transparently than is true of many other creditor countries (albeit in Chinese). The terms of loans by Chinese commercial banks such as ICBC and BOC are not public (but then nor are those of commercial banks from OECD countries). In addition, the loan documents themselves are not made public – but nor are those of most OECD bilateral and commercial lenders.[107] Indeed in some agreements, where borrowing countries have not objected, China has insisted on inserting specific clauses which prohibit disclosure of loan terms to other official or private creditors.

Most recently in 2020-21, China has for the first time begun participating officially in joint decisions by major creditor countries on provision of bilateral debt relief. It has joined in providing DSSI relief for eligible countries, is participating with its "official agencies" in the G20 Common Framework for more comprehensive debt relief, and looks set to do provide more comprehensive debt relief for countries like Zambia in that context.[108] Three issues are complicating progress[109]

- **China's decision-making role.** As discussed above, China has generally reached its own conclusions that debtor countries need relief, and taken decisions on debt relief bilaterally, albeit listening to and taking part in global discussions. It is vital (given that China is now the most important bilateral creditor of developing countries) that it continue to be treated as an equal partner of major OECD economies (as it is in the Common Framework) and given a clear and strong decision-making role on debt relief, as well as (similar to Paris Club creditors being given options to choose from in how it provides relief to individual countries. In addition, it is vital that its objections to multilateral institutions being excluded from providing debt relief (and only asked to provide new financing) are taken seriously, especially as they are shared by many global South debtor countries.
- **Status of Chinese "commercial banks"".** Objections have been raised to the fact that the China Development Bank and Chinese "commercial banks" such as the Industrial and Commercial Bank of China and the Bank of China (which are mostly state-owned[110]) have not been providing relief under DSSI or the Common Framework. The easiest way to resolve this issue will be to ensure that all commercial creditors worldwide participate in debt relief.
- **Potential setting of precedents** for writing off much greater amounts of money currently owed by, for example, Chinese construction companies, to the same banks, for projects implemented in China. As one interviewee put it "China is gradually working out how to deal with a very large amount of bad debts, of which debts owed by other countries are only a small fraction."

As emphasized in Section 3.2, it will be impossible for a large number of the countries currently in debt crisis to resolve their debt problems without debt relief being provided by **multilateral creditors**, particularly the World Bank. The IMF has already been providing relief in terms of subsidizing interest rates on new loans down to zero, and more recently of cancelling debt service through the CCRT. However, this has not been matched by the multilateral development banks, which appear to have retreated into their pre-1995 position that multilateral debt is "preferred debt" and cannot be restructured without severely undermining the financial stability and the credit ratings of the MDBs, and therefore their ability to provide future financing for development. This argument is as spurious as it was 25 years ago. As was pointed out then and is even more true now (according to multiple IDA and ADF Deputies and other experts interviewed for this study), the multilateral development banks all have balance sheets, capital structures, reserves and provisions as well as interactions with the financial markets which would allow them to maintain their credit ratings and financing capacity if they provided debt relief, and indeed (as was the case under HIPC and MDRI) debt relief could be an extremely efficient way for them to get new money rapidly to debt-distressed countries.[111] Box 2 provides an analysis – drawing frequently on the MDB's own publications – of why debt relief is a highly effective way to use multilateral and bilateral funding. Of course, multilateral debt might need to retain a degree of "preferred" status as it did under the HIPC Initiative, so that it was included only where countries need it to make their debts sustainable, but this would be easy to design as under HIPC.

Recent analysis by the Boston University GDP Center has shown that there is a large number of mostly small countries who owe most of their forthcoming service to multilateral organisations (especially the IMF and the Multilateral Development Banks): 21 countries owe more than 50% of the debt service they will pay in 2024-2028 to the MDBs.[112] It therefore seems unavoidable that multilateral institutions should begin to explore how they will provide relief to these countries as it becomes needed over the next few years, without a major hit on their balance sheets, and how this relief can be paid for within the discussions around the replenishment mechanisms for their hard and soft windows. ***Nordic countries could lead on this issue by commissioning an independent study of how much relief might be needed, for which countries, from which institutions and windows and how this could be paid for.***

Finally, as with the other types of "problematic" debt examined in this section, **domestic** debt has frequently been restructured in many countries in the past. This paper (which focusses mainly on external debt) is not the place to discuss all of these options in detail. However, the IMF has recently conducted an analysis[113] which shows - in line with this paper - that domestic debt restructurings may need to become more frequent in future in order to restore sustainability. It quite rightly points out the unique characteristics of domestic debt restructuring, in that debtor countries have considerable flexibility in restructuring domestic debt, including through changes in domestic laws, and that there is no necessary knock-on effect on a country's access to external financial markets. However, it also warns of risks arising for the whole domestic economy from the fact that banks and pension funds often hold high shares of government domestic debt in their portfolios. It indicates that a range of domestic debt restructuring measures may be needed, including liquidity support, regulatory measures, recapitalization, and the establishment of a financial sector stability fund. However, it largely ignores the many experiences of domestic debt restructuring which have happened through developing countries replacing existing bonds with new ones, turning arrears into long-term bonds, and using SDRs, IMF loans or donor loans and grants to pay down domestic debt stocks. DRI's analysis in 2002 of previous experiences indicated that all of these are very high-return investments for external finance when domestic interest costs are high[114] - which is probably why some countries are already using their recently received SDRs in this way. ***Nordic countries could also lead on this issue by commissioning an independent study analysing how domestic debt can be successfully reduced without damaging domestic financial markets and exacerbating inequality within countries, and by insisting that the issue of domestic debt should be prominent in the outcome of the FFD Conference.*** [115]

One final issue applies to all the categories of debt mentioned above for potential restructuring, as well as debts owed to other bilateral government agencies. In past debt relief mechanisms, it has almost always been necessary (due to differences in regulations, tax laws, operating procedures etc in different creditor countries and institutions) to provide creditors with a "menu of options" of different ways to provide relief. A very short list of such options would include: debt stock cancellation; debt service cancellation; interest rate reduction; longer grace and maturity periods; refinancing with grants or cheaper loans; debt "swaps" where debt is swapped for another much more concessional debt; debt "conversions" (where the proceeds would be used for spending on other priorities such as the SDGs or climate adaptation rather than debt service[116]); and debt buybacks. Regardless of the mechanism chosen, it will be vital that each option provides the same proportion of debt relief, contributing equally to countries reaching the SDGs or fighting climate change.

BOX 3 – WHY IS DEBT RELIEF A HIGHLY EFFECTIVE USE OF AID ?

Another question often asked is why the donor community should spend scarce resources (its own aid, or contributions to multilateral organisations, or newly issued SDRs) on debt relief rather than direct aid to a country. The answer is that debt relief is a highly effective form of development cooperation, especially if it frees up immediate fiscal space in the debtor country for spending on the SDGs and promotes renewed public and private investment leading to faster growth (which, for example the HIPC and MDRI initiatives certainly did[117]).
If judged by Global Partnership for Effective Development Cooperation criteria agreed among donors (including Nordic governments), and developing country partners in Busan in 2011[118], it:

- focusses on **long-term sustainable results**, in terms of disbursing rapidly and predictably over a long period, and for clear social sector results, rather than in small fragmented projects;
- promotes **country ownership**, by funding programmes and projects included in the government development plan and which use its planning, financial and evaluation procedures; and
- as delivered under the HIPC Initiative, is **transparent and accountable** in being spent on social sectors and other key priorities such as domestic debt reduction.

Indeed, as HIPC Finance Ministers and like-minded donors used to say during the 1990s and 2000s, "debt relief is the best form of budget support, which has been proven to be the best aid".
Of course, since around 2010, some donor governments have become disillusioned with budget support due to concerns around broader policies being adopted by debtor governments on human rights, about the "fungibility" of debt relief and budget support (i.e. that they might appear to be being spent on social sectors but actually frees up space for spending on defence etc) and about problems with transparency, accountability and corruption in budget support use. However, all of these objections have been proven to be much more true for other forms of aid, were dealt with effectively in the past via the best "budget support groups" or development partner coordination forums, and can be dealt with even better as transparency and accountability is reinforced in the new initiative proposed in this report (see Sections 4.2.6 and 4.2.7 below).

On the other hand, Northern civil society organisations and debtor governments strongly support the use of aid for debt relief, but object to "diversion" of aid to pay off old debts, which they say should instead be written off by the creditors without a cost to the aid budget, because they have been in arrears for a long time, or because the debtor clearly cannot afford to pay them. This solution of accounting write-offs is one which has long been used by the US government, which writes down loans gradually to zero as they fall into arrears, and similar treatment of loans of Denmark to Sudan is currently being advocated by Action Aid Denmark and Oxfam IBIS.[119]

Unfortunately, recent changes to DAC accounting for ODA mean donors are being encouraged to make less concessional loans to countries because their grant element can be recorded as ODA, and to report debt relief on these loans (i.e. its present value equivalent) as ODA as well.[120] From the point of view of aid effectiveness, this will mean that debt relief may free up less fiscal space in debtor countries than appears at first sight. However, especially if provided to countries which have not fallen into lengthy default and arrears, it will still provide much more fiscal space on a more rapid and predictable basis than other types of development assistance.

5.2.5. Principle 5: Providing Protection Against Holdouts/Lawsuits[121]

One of the lessons of past debt relief initiatives, as discussed in Chapter 3, is that whatever type of debt relief mechanism is introduced, and whatever "carrots" or "sticks" (see 4.2.4) are used, there will always be "holdouts" – creditors which refuse to participate in the debt restructuring. Some will do this for reasons of the carrots or sticks not being strong enough, and might be enticed if (as discussed in the previous section) these are strengthened. But there are bound to be creditors which have little or no intention of participating, and for which such "soft law" solutions will not work.

It is important to realise that:

- such holdouts often account for a **significant proportion of debt** and, as they have a tendency to claim penalty interest on arrears as well as exorbitant legal fees, their claims are often 3-4 times the original face value of the debt. In the case of the HIPC Initiative, holdouts accounted for 10% of outstanding commercial debt (25% if interest and fees are added). They also accounted for 13-15% of national GDP and 65-75% of budget revenue in the worst-affected countries.
- The holdouts are **not just commercial creditors**. During the HIPC Initiative, creditors such as parastatals in Eastern-European countries such as Bulgaria, Romania and Serbia (especially if they were in the course of

nearing bankruptcy or being privatized) were among the most rapacious. But governments also often sued other governments, especially if they had bad bilateral relations (eg Burundi sued Uganda; and Cote d'Ivoire sued Burkina Faso) or were fragile states (Iraq and Libya sued many debtors).[122]

- Holdout **commercial creditors are of two types**. Those who were original holders of the debt (banks, suppliers or bondholders), and had already written it off in their books, could usually be convinced to accept an out of court settlement well below the face value of the debt. But those which had deliberately purchased debts in the secondary markets (from other commercial or bilateral creditors) or had invested in syndicated loans or bonds to make a high return, insisted on litigating for a high return, and therefore were known as "vulture creditors" or "vulture funds" because they would almost always demand between 2 and 5 times the debt face value.

Many inadequate solutions to this problem have been tried, such as pari passu clauses in loan contracts. These are clauses which say that any creditor can receive payment on the same terms as others (and they are now being replicated and strengthened by collective action clauses in bond contracts). But they are at best partial solutions because they do not and cannot apply to all types of creditors including governments. They are also only temporary sticking plasters, because if a creditor still wants to litigate, and finds a favourable judge, it can get a judgement in court; or it can try threatening litigation, often accompanied with bribery or physical menaces, to get paid out of court.

The only comprehensive and legally enforceable solutions to holdout behaviour are those introduced by the Governments of the UK, Belgium and France, which have been colloquially known as "vulture fund" laws. The UK law – the UK Debt Relief (Developing Countries) Act of April 2010 - in which this author was involved was not at all complex to draft, and took Treasury lawyers only around 3 months. It specified that no creditor would be able to receive from a court judgment any higher proportion of the face value of the debt than the proportion received by other creditors (typically around 10%). This removed at a stroke any incentive for vulture funds to sue in UK courts, and there has been no HIPC-related lawsuit since then. What was more difficult was getting "pro-business" (i.e. pro-creditor) conservatives to vote for it, especially given a huge amount of lobbying by the vulture funds themselves. Fortunately, the outgoing Labour government of Gordon Brown got the legislation 95% passed, and the incoming Cameron government decided that it would support the legislation enough to get a majority of the Parliament to push it over the legal finishing line. Between 2010 and 2013, similar legislation was passed in Jersey, Guernsey and the Isle of Man, to avoid vulture funds taking their claims to offshore UK courts, as well as in Australia.[123]

The Belgian law was passed in July 2015, in response to Belgian courts being dragged into a dispute between Argentina and various investment funds which were holding US$1.5 billion of its debt and refusing to participate in debt restructuring.[124] It is much less flexible and easy to apply than the UK law, in that it requires a judge to determine that a creditor is acting as a vulture before it can deny it judgment against the debtor. However, it does contain some positive elements, such as denying the vulture any payment higher than what it paid for a debt on the secondary market; and preventing any international arbitration decisions which go against the debtor and award higher payments from being enforced in Belgian courts. A French law passed in 2016 took a similar route, but contained two important loopholes which made it much less useful. : 1) it defined vulture activity and relevant debt countries in a list, meaning that in principle that list would need to be updated regularly in law; and 2) it refused to apply the law retroactively, which meant that any creditor buying debt before 2016 could not automatically be considered a vulture.[125] So it is clear that future laws should follow the UK model, perhaps adding the extra clauses in the Belgian law which are advantageous for the debtor.

Going forward, there is a vital need for legislation to be passed in the remaining major jurisdictions from which such creditors come – notably for commercial creditors, EU countries other than France and Belgium (especially Spain for Latin American countries) and the United States. It will be important that such legislation follow the UK legislation in terms of barring any settlement which exceeds the payment due to other creditors, rather than requiring proof of "vulture fund behaviour" by a creditor (eg purchase of a debt in the secondary market), so as to include original creditors. It is also essential to ensure that such laws apply to all types of creditors and instruments (including non-debt liabilities such as collateralized trade credits and PPPs).

Additional laws could also be passed to protect payments systems from being used by holdout creditors to seize debtor assets while they are in transit, as Belgium has done for the Euroclear system. Similar laws could be needed in three other major jurisdictions headquartering payments systems: the US, UK and Singapore.[126]

During 2023-24, efforts to pass new anti-holdout laws have been accelerated and made much more progress, almost passing in 2023 in New York State where most loans and bonds are issued,[127] and looking likely to pass soon in 2024.[6] In addition, there is a strong head of steam behind proposals to introduce updated laws in the UK, because London is the other main jurisdiction where loans and bonds are issued, as well as for a German law to cover the Frankfurt Eurobond market, and potentially thereafter a Europe-wide law covering all the major European financial markets.[7]

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6 See Jubilee USA, New York Senate Legislation Passes to Curb Vulture Fund Behaviour, June 7, 2024.

7 See Erlassjahr February 2023, The Potential of National Legislation for the Fair Resolution of Global Debt Crises. The German legislation has been moving forward in 2024 according to communications received by the author from German legislators and Erlassjahr. Discussions are also reported to the author by the European parliament, and the author is involved in helping to draft updated potential legislation for the UK.

Norway and other Nordic countries could advocate such laws for different jurisdictions and especially for example collectively agreed laws in the European Union. However, because of the risk of creditors launching lawsuits in debtor jurisdictions and then bribing officials or judges to decide in their favour, such laws also need to apply in all jurisdictions, but passing them in many developing countries could be a long and tortuous process. So, ***the simplest way legally to prevent such lawsuits worldwide would be to include such legislative language in one section of the corrupt/predatory lending amendment to UNCAC which is suggested as a potential top priority initiative in section 4.2.7 below.*** Language along the lines of the UK vulture fund law would prevent any creditor from getting paid more than other creditors, after any debt reduction had been agreed by major creditors.

5.2.6. Principle 6: Maximising Transparency and Accountability Before and After Lending

One core principle at the centre of any debt reduction mechanism, must be that of transparency. However, as all global studies of transparency have concluded, there is little point in transparency unless it is accompanied by accountability: so the principle is transparency and accountability.[128]

Transparency by debtors is a clear message which comes from the donor and creditor community, anxious about loans which may have been lent and borrowed non-transparently and on which they do not want to provide relief (for example in Mozambique and Chad);[129] from commercial and private sector creditors and rating agencies in having full disclosure of liabilities to allow them to assess creditworthiness of borrowers; and from multilateral creditors in terms of ensuring full compliance with IMF loan conditionalities and non-concessional borrowing restrictions, and with the World Bank's Sustainable Development Financing Policy. It also (and more importantly) comes through from parliaments, stakeholder groups and civil society in developing countries themselves.[130] But in concrete terms, what should debtor transparency and accountability mean?[131]

1) Most of the current "transparency by debtors" initiatives are to help them **report data to the international community**, whether multilateral organisations such as the IMF, World Bank, Paris Club or UN; ratings agencies; or other bilateral and commercial creditors and donors. These include the IMF's Debt Transparency Guidelines[132] and the World Bank's Debt Transparency Report[133]. These initiatives, combined with debt-related conditionalities in policy-based loans from the IMF and World Bank, have made some progress in recent years – but remain insufficient, unless one believes that external conditionality and data compilation can solve the problem of irresponsible borrowing (when all the evidence shows that it cannot (see 4.2.6). One might even ask if such reporting to external stakeholders is the priority, given that almost everything one could wish to know in regard to loans is already reported to IMF missions and reflected in the IMF/World Bank LIC-DSAs in terms of increasingly comprehensive coverage of debt data (going beyond loans and central government, to other actual or contingent liabilities and all publicly guaranteed loans) and frank discussions about problematic projects and their financing. Domestic debt is often cited as a key gap, but most governments these days publish regular reports on domestic debt portfolios, and the aggregate numbers are also in LIC-DSAs. As a result, in regard to the types of numbers creditors need, there are three priorities: i) debtors authorizing more detailed data to be published internationally; ii) the IMF and World Bank publishing more detailed debt data in each of their country-specific debt sustainability analyses (especially for Market-Accessing Countries where the current DSAs generally do not include even clear debt service ratios, or a breakdown of creditors between external and domestic); and iii) international agencies such as the World Bank accelerating their publishing of global debt statistics and broadening them to include domestic debt (as is already happening). All stakeholders would then have access to the data, increasing transparency on country debt burdens and key creditors. ***Nordic governments could push for the IMF and World Bank to publish more detailed debt data in their debt sustainability analyses, and for the World Bank to speed up its domestic debt database.***

2) Nevertheless, there remain important transparency actions for debtor governments to take:
    - Almost all now have in place debt computerized debt recording and reporting systems (notably those of the Commonwealth Secretariat and UNCTAD) which allow them to compile and report very accurate data,[134] and most do so internally within government.
    - Around two-thirds of them also already have in place debt transparency laws and regulations which guarantee publication of debt data and debt management developments at national level through regular monthly and quarterly debt bulletins and annual reports (put in place with support from Comsec, UNCTAD, DFI and regional organisations such as CEMLA, MEFMI, Pole-Dette and WAIFEM; and more recently the IMF and World Bank).
    - Around 50% have debt management committees in place which could allow them to publish their own 3 to 5-year debt management strategies to match their national development plans, as well as annual debt sustainability analyses, borrowing plans and reports on the implementation of the strategy.[135] However, while around 90% have produced medium-term debt strategies, only 38% have published them; similarly, 75% have prepared DSAs, but only 55% publish them. On the other, and largely down to prior efforts by Comsec and UNCTAD; 85% of LIDCs publish statistical bulletins regularly.[136]
    - However, all countries now need to update their systems to take account of changes in borrowing channels in their own countries, and of global financial instruments newly being used in their countries. They need legal measures to oblige state-owned enterprises and other decentralized bodies (such as states, districts and municipalities) to report all loans publicly and via the Finance Ministry or debt management agency; and for measures which expand the coverage of transparency to all types of liabilities (including trade-related financing and PPPs). They also need to update their institutional

regulations to ensure that the coordination powers of a national debt management committee cover all borrowers and all liabilities.[137] And they need to learn to use fully the abilities of their computerised debt management systems, in order to fulfil the needs of debt reporting "to the public" as well as internally.

Many Nordic+ countries already invest considerable sums in debt recording systems and debt reporting via their financial support for the UNCTAD DMFAS programme and regional debt management capacity-building organisations such as MEFMI. They need to scale this investment up dramatically, and broaden it to building government capacity to provide greater transparency and accountability to domestic stakeholders in line with their demands and needs (see below).

1) However, the most fundamental part of transparency and accountability by debtor governments needs to be **accountability to their own parliaments and citizens**.[138] This process needs to:
    - **start well before the budget,** with governments preliminarily identifying potential financing sources as soon as they agree medium-term development plans; establishing "debt and investment" committees where they "match" development projects and programmes with sustainably-repayable financing; and preparing lists of projects and financing which will be implemented in each (preferably multi-year) budget cycle. They should also during the budget preparation process ensure such plans are compatible both with "debt sustainability" and with their Medium-Term Debt Strategies, both of which are prepared with the IMF and World Bank;[139]
    - Continue **during the budgetary process**, with debtor governments making their debt sustainability assessments (adjusted as described in 4.2.2 above), their medium-term debt strategies and borrowing plans, transparent to their parliaments and citizens as annexes to the budget. They should also annex to the budget a complete list of planned loans and other liabilities, listing creditor, project, sector/purpose/beneficiaries and location,[140] present value of the revenue return expected on the project, and financial terms and conditions and present value of the liability. These aspects would allow parliamentarians and civil society to judge transparently whether the project is financially worthwhile and likely to generate sufficient resources for its own repayment. In line with the new formulation of the DSA analyses and the need to maximise productivity of spending (see 4.2.2), the project's likely return should be considered in the widest possible sense – i.e. whether it will contribute to growth and revenue generation by protecting against climate change, or reinforcing human capital – rather than just the immediate economic/revenue return from infrastructure. Such a process would make clear that the more expensive sources of financing should not be allocated to general recurrent budget spending, and allow a much closer "matching of projects and their financing" to ensure that debts are more likely to stay sustainable.
    - After project and financing approval in principle, parliament and citizens should **continue budget monitoring,** keeping a regular eye on final mobilization of financing, and the physical and financial implementation of projects (including the procurement process), to ensure that the actual cost of financing and project returns live up to those in the national plan and budget. This process could be strongly linked to existing CSO budget monitoring initiatives.
    - And at the end of the cycle, internal and external audit institutions must conduct **"performance audits"** (i.e. auditing the performance of debt management offices against their strategy and borrowing plan goals, not just for whether the DMO spent its budget correctly); and parliamentary public accounts committees and finance committees in mid-year budget reviews must be given full powers to hold governments accountable for all types of liabilities and the productivity of project results.

Some Nordic+ governments already invest considerable sums in developing country-based CSO debt accountability coalitions such as Afrodad and LATINDADD, as well as in national level debt accountability organisations, and in citizen budget monitoring initiatives. They could scale up this funding considerably, as well as investing much more funding in parliamentary budget and debt monitoring initiatives, to ensure that parliaments are strongly demanding such accountability; and in support to internal and external auditing units via INTOSAI and similar regional organisations, as well as to the judiciary in countries on how to interpret legal issues surrounding debt. [141]

However, for transparency and accountability to have maximum impact on making new liabilities and debt reduction sustainable, one key set of balancing measures is essential. **Transparency and accountability must apply equally to creditors and donors (including those involved in creating non-debt liabilities such as PPPs).** and with the same degree of "compulsion" or encouragement as it does for debtors. What progress has there been on these issues ? Very little.

Current initiatives for creditor transparency are much weaker than those for debtor transparency, resulting in much lower levels of transparency. To take three examples:

a) Efforts by **the Paris Club** to establish a voluntary database of loans owed to each of their creditor members by each debtor have stopped at the aggregate total levels,[142] and efforts to disaggregate further to show each loan owed to each creditor (and its terms, conditions, sectors, amounts, present value etc) are moving forward only very slowly. Most individual Paris Club members which are continuing to lend (such as AFD, KfW and JIBC) also do not publish these full details on their websites. And nor do most bilateral development financing institutions (institutions providing money to the private sector with government guarantees), citing spurious commercial confidentiality concerns. Ironically, given the amount of media coverage of "lack of transparency" by China, the two main Chinese lenders, China Eximbank and China Development Bank, do publish comprehensive lists of amounts, terms and sectors of each loan on their websites (albeit in Chinese).[143] *Nordic* *governments have historically been more transparent about all bilateral grants, loans and projects, including in some cases those by their DFIs, receiving top marks from assessments such as Publish What You Fund. They could therefore credibly push for it to be a condition of Paris Club membership that all lending agencies of a country publish loan-by-loan details on their websites and in a joint Paris Club database, and offer to be the first to share their data with such a database.*

b) Efforts by the Institute for International Finance in cooperation with the OECD Debt Transparency Initiative to establish a "**voluntary register" of international commercial loans,** populated by inputs from commercial lenders, have so far been an almost complete failure.[144] One international organization staff member close to the process said that the last time they looked, "the only loans reported were the crooked CSFB loans to Mozambique, about which 10 times more is already public as a result of the anti-corruption court cases". There is currently no incentive except moral suasion for commercial creditors to publish loan details. *Nordic governments could push for such a register to be made compulsory, both as part of measures to regulate commercial loans to developing countries (via which bank and financial institution regulators already receive loan-by-loan details to guide their risk assessments), and as a condition for receiving benefits from ant debt restructuring process. They could be leaders in that process by obliging all Nordic commercial lenders to publish loan-by-loan data.*

c) There is virtually no transparency or accountability for more complicated types of financial liabilities such as **commercial collateralized loans or public-private partnerships**.

Progress on accountability by creditors to their own domestic stakeholders (to governments and regulators for commercial creditors; and to parliaments, auditors and civil society for all lenders) remains glacially slow. As discussed below in 4.2.7, some lenders have strong procedures in place to try to ensure that their programmes and projects produce the maximum returns for sustainable development, and that the cost of the financing is exceeded by the likely returns on the investment, but many do not. Commercial lenders mainly do not even consider these issues when making lending decisions. Most (but not all) OECD government and multilateral agencies apply principles of alignment with IMF non-concessional borrowing ceilings or with LIC-DSA/IDA SDFP risk categories, but many other plurilateral and bilateral lenders do not. And apart from the creditor debt audit conducted by Norway, this author is not aware of any systematic published reviews by any creditor institution into the degree to which its loan terms have matched project returns and/or contributed to debtor countries being able to keep their debts sustainable. *Nordic governments could again build on their existing official loan transparency and Norway's agreement to hold itself partly accountable through debt audit and cancellation, by ensuring that all their development financing institutions and commercial lenders are held similarly accountable, through regulatory measures forcing them to provision against bad loans, which would also encourage them to participate fully in debt reduction.*

5.2.7. Principle 7: Ensuring Ex Ante Future Responsible Borrowing and Lending

Another vital element of any initiative must be to come as close as possible to ensuring future responsible borrowing and lending, and to permanently ending corrupt, predatory and odious debt.

First, to avoid any doubt on definitions of these types of debt:

- corrupt debt is debt which was contracted corruptly on either side (by lender or borrower);
- predatory debt is debt which (narrow definition) involves usurious terms which a creditor knows a borrower cannot afford, or deliberate lack of transparency to the borrower (including for example to national parliaments if required by law), as well as debts lent for purposes which were not promoting national development (eg not included in national development plans); and
- odious debt combines these concepts together with debt lent or contracted by illegitimate regimes or for odious purposes such as military activities, activities or equipment which violate human rights, or activities which violate or damage environmental or social rights.

These issues are particularly important in this proposal, because it is made in two very widely known contexts: on the negative side, of the recent experiences of "odious" debt which was corruptly and predatorily-lent and borrowed in Mozambique (and a history of many similar loans to other countries over many decades;[145] and on the positive side, Norway's long history of opposing, auditing and cancelling what it assessed to be its own loans which had contributed little to national development, and for which it accepted co-responsibility.[146]

But is it possible to end these types of debts ? There has been a long history of trying to end them by agreeing on responsible lending and borrowing principles, which has included (in order of their dates of approval) the OECD Sustainable Lending Principles for Official Export Credits (2008)[147]; the UNCTAD Responsible Borrowing and Lending Principles (2012)[148]; and the UN Basic Principles on Debt Restructuring Processes (2015)[149]. Each of these have elements of excellent content, and almost all interviewees for this report agree that it would be useful in principle to rise above institutional interests and processes, and bring them together into one comprehensive (covering all liabilities) and detailed set of principles for responsible lending/borrowing and debt restructuring.

However, malign creditors and debtors have continued to try arranging such deals, so that in many lending and borrowing countries, all these sets of principles continue to be more honoured in their breach than in their observance.[150] In other words, there are many agencies which pay lip service to them but continue to lend or borrow in irresponsible ways. As one example, fifteen years ago, Development Finance International was asked by the UK Treasury to help it work out how the UK Export Credit Agency (then ECGD, now UK Export Finance) could adopt and implement responsible lending and borrowing. It conducted a survey of other countries' best practices and how they could be applied in the UK. The survey found that Norway and Sweden had in place, and Switzerland was planning to introduce, best practice legal directives or guidelines using which finance and development ministries could ex ante prevent their export credit agencies from engaging in irresponsible or odious lending. The UK later introduced such guidelines and has been relatively assiduously following them in, for example, the OECD Export Credit Working Group, refusing to fund projects which are held to be in breach of these guidelines. However, on the other hand, Denmark for example did not have such guidelines in place 15 years ago, and only just recently introduced them. In addition, according to several OECD country officials interviewed for this study, the assiduousness with which some countries such as Sweden have implemented these guidelines may have waned over the last decade.

Moreover, the guidelines are also no longer "fit for current purpose" in two particular senses: 1) of covering all types of public sector lending or investing agencies, including development financing institutions (DFIs) and sovereign wealth funds or pension funds; and 2) of including firm guidelines on fighting the climate emergency (for example by prohibiting investment in fossil fuels).[151] So one key measure which Nordic or Nordic+ governments could take as part of this initiative, is to agree binding responsible lending guidelines for all their development financing and lending institutions, which are updated to take into account the issues of fighting the climate emergency (and preferably fighting the emergency of extreme inequality across the globe). Put more positively, this could consist of a series of filters which demonstrated that all development finance is actively and as a core goal reducing income and wealth inequality (including gender and racial inequality), as well as fighting global heating.[152] Such an initiative could be a priority for Nordic+ and even a majority of EU countries, to ensure that they encourage all future financial flows to be SDG-promoting ex ante.

However, even with binding guidelines, the worst creditors and debtors will still abuse them, and identifying and sanctioning them ex post is a very cumbersome, expensive and inadequate solution. The best way to prevent such loans by all lenders and borrowers is to prevent corrupt loans from happening ex ante, by making corrupt loans "unenforceable" in courts i.e. unrepayable ex post. Such measures could also have the advantage of blocking most "predatory" or "odious" debt, because debt with usurious terms, of dubious development contribution or contracted untransparently, is often accompanied and facilitated by corruption.

Fortunately, some countries already have very strong anti-corruption laws on their books. This also applies to two of the major jurisdictions in which there have historically been relatively high levels of lender corruption – the UK and the US. The US government already has in place one of the stronger anti-corruption laws on the planet, which had led to successful judgments against the main perpetrators of the Mozambican corrupt loans on both the lender and borrower ends of the transaction. The UK government also has a strong law on the books from 2010, which has not been fully enforced in its courts.[153]

This effort is currently being broadened out in legal terms to make **"predatory" loans** unenforceable. Such laws already exist at federal and state level in the US, and in many other countries: one based on the narrower definition of predatory lending has been on the federal books in the US for example since 1698.[154] It also involves protecting debtor assets from being used to enforce/repay predatory loans, which could be a powerful blow against "bad" collateralized loans: laws to this effect known as HOEPA to protect against housing repossessions were introduced in the US in 1994, and strengthened in 2010 and 2013 after the global financial crisis.[155] And thirdly, it involves holding the senior executives of institutions on both sides responsible, if it can be proved that they knew about the transaction and did not attempt to stop it. All three of these elements are aspects of the Mozambican loans which anti-corruption teams are currently trying to get a decision on in US courts in order to strengthen the penalties suffered on both sides.

A broader definition of predatory loans would include loans which were deliberately contracted by either party in full knowledge that they would not contribute to national development, somewhat equivalent to one of the definitions of "odious" debt. This is already implicitly covered by the UNCAC and US/UK laws, in that it prohibits "the entry of liabilities with incorrect identification of their objects", and prevents loopholes such as tax deductibility of any expenses incurred.

Given these precedents, how would we move forward on fighting corrupt and predatory loans ? Fortunately, on corruption, in addition to national anti-corruption laws, there already exists a global instrument which could provide a basis to build on, in the form of the UN Convention Against Corruption (UNCAC).[156] Virtually all (188)[157] of the UN member states have already acceded to and ratified this Convention, as a result of which it now has legal force in all their jurisdictions. The UNCAC provides legal language which allows all countries to have a common framework, definitions and methods for fighting corruption across the world and therefore has been extremely useful in providing a platform for reducing corruption across the world. It has, for example, facilitated cooperation between the Mozambican, South African and US authorities on arresting and prosecuting the perpetrators of the recent corrupt loans to Mozambique.

The key proposal in this report is therefore that ***Nordic+ governments should push for a protocol to be added to the UNCAC,*** to ensure that UNCAC explicitly covers corrupt and predatory behaviour in lending, borrowing, or debt restructuring. It would cover all assets and liabilities and related transactions (including PPPs and other contingent liabilities) of governments and private sector, as well as debt restructuring operations. It would use detailed legal language taken from the existing strongest national laws against corrupt and predatory debt (eg those of the UK and US) and from the strongest laws against predatory behaviour in debt restructuring (eg the UK vulture creditor law). Global legal experts consulted for this study have agreed that this would be a highly effective way to proceed, and have offered their services to assist with the drafting of such an amendment.[158]

Nordic governments could push for such a proposal to be included in the FFD conference outcome document. In addition, pending agreement on this after the FFD conference via UNCAC processes, which might take 2 years to agree and 2 more to enter into force, they could encourage national jurisdictions in the main creditor and debtor countries to amend their laws to cover these issues, and those which have such laws but have not yet enforced them (eg the UK) to bring test cases (by government or citizens as necessary) in order to ensure that they are correctly interpreted and fully enforced.

Such measures would have a major ex ante effect on reducing corrupt and predatory loans and other liability-creating financial transactions before they take place, especially if widely publicized, and accompanied by the transparency measures discussed above, by making it clear to potential lenders and borrowers that their loans could not be enforced and they were likely to face high legal penalties. It would for example have been highly unlikely that a creditor would engage in the Mozambican corrupt loans if such a global convention had already existed. It would also be unlikely that any government could block such a UNCAC amendment or refuse such national laws, unless it wished to be seen as advocating corruption in lending. Of course, there might be continue to be some such loans which would escape the laws if both lender and borrower jurisdictions did not enforce their laws, and there continued to be no transparency or accountability in either country to allow parliaments or civil society to demand such enforcement. But because of the major signal it would send to reduce corruption in lending, this aspect of the proposal has proved to be one of the most popular, with every one of 53 interviewees consulted so far for this project supporting it.

5.2.8. Principle 8: Providing a Sustainable and Comprehensive Supporting Architecture

At the moment there is no sustainable and comprehensive institutional architecture to support a debt relief mechanism, resulting in a considerable degree of fragmentation of decision-making by creditors, as well as domination of discussions and decisions by creditor perspectives rather than debtor needs. This gap in the architecture is dramatically undermining the effectiveness of current debt relief mechanisms, especially by delaying agreements and making them fall short of SDG financing needs,

Much of the debate about improving the architecture has revolved around whether the process should be run by the United Nations or another organization. From a legitimacy point of view, especially given that the UN is supposed to be the supreme global decision-making organisation, in which all countries (and notably G77+China) have one voice each in the process, it would ultimately be preferable to move coordination of all Financing for Sustainable Development issues including debt into UN auspices, and therefore this has been the proposal made by the G77 and several Nordic countries (notably Norway) since the 1970s. However, there is no consensus behind such a proposal for the time being, just as it has previously been impossible to generate a consensus behind a UN Economic Security Council with enhanced powers compared to ECOSOC, which was the German proposal of the 1990s and 2000s.[159]

On the other hand, over the last two decades, some (notably G7 countries with large voting shares in the IMF, and IMF management) have proposed a process in which the IMF would play the leading role (a Sovereign Debt Reduction Mechanism), and have again failed to generate a consensus. Still others, avoiding the UN-IMF dichotomy, have suggested a Fair and Transparent Arbitration Procedure, independent from creditors and debtors, and run by an independent body (and in some versions of the proposal receiving technical inputs from various UN agencies including IMF and World Bank).[160]

In the absence of consensus on more fundamental reform, we therefore are faced with an ad hoc situation where the current structure endorsed by the G20 builds on foundations in place since the 1970s. This involves a Common Framework designed by the G20, for which the secretariat is the Paris Club in terms of official bilateral creditors (newly extending beyond Paris Club members); the IMF and World Bank play important roles in assessing debt relief needs and supporting the new framework with new financing and conditionality; and the IIF has an informal coordinating role in regard to commercial creditors. The Common Framework is supported by a more consultative body known as the Global Sovereign Debt Round Table, which is co-chaired by the G20 Presidency, the IMF and the World Bank, and involves a wider range of creditors (commercial and multilateral as well as bilateral), as well as G20 countries and those debtors which are applying for debt relief.[161] This representation therefore results in a severe imbalance of country representation, with a far lower share of countries from the global South represented than would be the case in any UN context, or compared to countries from the global North.

This report intends to build on the Common Framework, but with major reinforcements which will increase its legitimacy and improve its functioning dramatically, by providing a stronger coordinating role for the UN – but also allowing each organization to play the role for which it is best suited. So, inspired by similar precedents for technical level-action on other Financing for Sustainable Development (FSD) issues such as tax and effective development cooperation, this report makes a practical proposal: to broaden the GSDR into an **Inter-Agency Task Force, co-chaired by the G20, the United Nations, the IMF and the World Bank, which would act as a "clearing house" for future sovereign debt relief.** This proposal is an updated version of one for an "Inter-Agency Task Force" similar to that used on tax and other issues, which was tested with virtually all the interviewees contacted for this project (and therefore with all the institutions involved), and seems generally to meet with a consensus as the best way to pursue closer coordination on debt relief and related new financing issues pending more fundamental reform.

What would be the roles of different agencies in such a task force ? Indicatively, and based on the technical support needs for different aspects of the mechanisms discussed in earlier sections, they could look as follows (in alphabetical order):

- the Commonwealth Secretariat could support dialogue among Commonwealth Finance Ministers about implementing the new mechanism, with a focus on Small States as co-convenor of the Small States Forum. It could also provide capacity-building support to enhance domestic and international transparency and reporting via CS-DRMS and Meridian systems and accompanying legal and institutional support (cooperating with DFI for non-Commonwealth users);
- the G20 would continue to provide overall leadership in political decision-making on the mechanism, and take further decisions on how to improve it (preferably with an increasing role for the UN over time), with the G7, G24 and regional institutions such as the AU, ASEAN etc feeding their views into its deliberations.
- the IMF could (as it has long done for Paris Club and HIPC Initiatives) advise on the rapid introduction of standstills for debtors, provide input on the macroeconomic sustainability of debt and on the costing of the SDGs and the contribution debt relief and new financing could make to their financing. It could also (as under HIPC) help to maximise participation in debt relief by bilateral and commercial creditors; and provide diagnosis of debt transparency needs (both domestic and international);
- the OECD could continue to reinforce its principles around responsible lending by its members, working in close cooperation with UNCTAD; and enhance its leading role in the process of commercial creditor transparency through the online register;
- the Paris Club could continue to provide Secretariat support on the coordination of bilateral creditor debt relief beyond its existing members, as under the Common Framework, especially in advising creditor governments on the technical details of debt relief provision;
- Regional Capacity-Building Organisations such as MEFMI and WAIFEM could work in cooperation with Comsec, DFI, UNCTAD and other institutions to provide
- Regional Development Banks could provide enhanced funding for capacity-building within debtor governments on loan negotiation and debt restructuring (as the African Legal Support facility is already doing in Africa) and on computerized debt management systems (as all of the regional developments are already doing);
- UNCTAD could support dialogue among countries about the new mechanism, with a focus on LLDCs via the OHRLLS; provide inputs on the growth effects of new borrowing, and on making sustainability compatible with SDG spending. It could also provide support to enhancing transparency and reporting through its CS-DRMS and Meridian systems and their accompanying legal and institutional support;
- UNDP could provide more support to countries on comprehensive costings of the SDGs as the basis for providing new finance and debt relief, including as part of the INFF processes.
- UNDESA's Financing for Sustainable Development Office (as with the INFF) could chair deliberations of the Task Force in terms of advancing the process of global debt relief and producing joint recommendations for specific countries, and present progress reports to (and get feedback from) ECOSOC HLPF and FFD meetings, as well as UNGA SDG Summits.
- UNODC/UNCAC could provide support on preventing "corrupt" or "predatory" new lending or debt restructuring as part of amendments to the UN Convention Against Corruption.
- UN specialized agencies such as FAO, ILO, UNAIDS, UNESCO, WHO could, in line with their roles as lead agencies on the different SDGs, and in coordination with UNDP and the IMF, prepare more detailed sectoral costings to support national SDG plans.
- the World Bank could (like the IMF) provide input on the macroeconomic sustainability of debt and (as it did under HIPC) help to maximise participation in debt relief by multilateral and plurilateral creditors, and support global transparency initiatives including via the DRS.
- Organisations coordinating parliamentarians (eg Inter-Parliamentary Union, Association des Parlementaires Francophones) and civil society organisations (eg Eurodad, Afrodad, LATINDADD) could make inputs into overall policy and country-related discussions via the Task Force (and at a more senior level into the G20 consultative processes), as well as providing capacity-building support to national partners on responsible borrowing and lending, debt relief, transparency and accountability.

It would also be essential that in any revised mechanism, there be much more balanced representation of countries from the global North and South, reflecting better the number of countries with severe debt burdens which have not yet applied for debt relief. In terms of how to broaden membership, for example, representatives of the countries with the top 30 highest debt burdens (shown in Figure 7 above) could be invited to participate. Nordic countries could advocate this as an urgent reform.

There is one obvious gap in this architecture: coordination of commercial lenders. Strengthening this part of the architecture will require firm political decisions to make commercial creditors participate in debt relief and lend responsibly, resulting in the creation of a "London Club equivalent" structure for coordination. Given the strong role envisaged for regulation in the architecture for commercial creditors, and the fact that such creditors are increasingly coming from non-OECD as well as OECD countries, and the fact that they involve a range of institutions going way beyond banks. the Financial Stability Board might be best placed to coordinate such discussions as an independent actor, or at least to advise a process of such coordination led by the Institute for International Finance.

What could the roles of Nordic governments be here ? The first step would be to push strongly for this closer coordination and for the resulting stronger architecture needed to implement new debt relief mechanisms. Once this has been agreed in principle, most of the costs of such coordination could be absorbed from the existing budgets of the various organisations. However, there would be several UN agencies (and the Commonwealth) and regional organisations which would require more funding to be able to implement their share of the work (as described in other sections of this chapter). In addition, Nordic+ countries might want to consider funding the UNDESA FSDO for the additional time it would need to spend doing the coordination, and for any costs of publications in multiple languages or of organizing face-to-face meetings of the Task Force; and funding the participation of a much wider range of global South countries in the revised mechanism.

5.2.9. Principle 9: Enhancing Country Leadership through Capacity-Building Support

In order to maximise their benefits from debt relief and ensure the highest quality new financing, (especially low-income) developing countries will require dramatic scaling up of capacity-building support. Such a statement might seem surprising given the amount some donors (notably Norway) are already investing in various programmes. So this section looks in turn at what debtors are currently saying are their needs, comparing it with what is currently on offer to identify top priority gaps which Nordic and other donors could fill.

What exactly are debtors' needs ? We could look at this in a top-down "diagnostics" way related to global best practices on laws and procedures, as epitomised by OECD countries, as does the World Bank's Debt Management Performance Assessment (DeMPA) tool used to guide donor support via the Debt Management Facility; or as the IMF does in relation to debt statistics through its global standard-setting procedures and assessments of data quality.

However, this report has focussed on resolving the current debt crisis and preventing future ones, which is fundamentally an issue about ***support to policy formulation and implementation.*** No amount of lower-level technical support will succeed if it is not immediately relevant to these high-level priorities, and therefore taken forward at top-level by debtor government policymakers.

In addition, DFI and its past donors (Canada, Denmark, Ireland, the Netherlands, Sweden, Switzerland and the UK[162]) have always preferred to ***listen direct to the countries*** (and especially LIDCs which have less capacity) expressing their capacity-building needs, rather than to potential providers of assistance. In that way one, funders can be sure that any support is responding to country priorities and will therefore be debtor-led and owned, and sustained over the longer-term.

To this end, the Organisation International de la Francophonie (OIF) organised a conference in Kigali in December 2019, attended by heads of Debt Management Offices and advisors of Finance Ministers, which asked the key question: ***what are your top priority capacity-building needs to keep your debts sustainable, or (for countries with unsustainable debt burdens) to return them to sustainability ?*** Sixteen LIDCs[163] conducted their own preliminary needs assessment using systematic questionnaires, having seen presentations by all the major actual and potential providers of support. The needs emerging from this assessment, in order of priority, were:

1. **Negotiation of new external financing**. Within this area priority was given to assessing the cost and quality of new financing and accompanying projects, and to negotiating and mobilising new finance (especially from newer sources like Chinese commercial institutions, or via new instruments such as public-private partnerships or collateralised debt).
2. **Renegotiation of external and domestic debt**. Within this area priority was given by most countries to renegotiation of external debt, especially to less traditional sources such as OECD export credit agencies and Chinese commercial lenders; and of new types of liabilities such as PPPs and collateralised debt). However, an almost equal number of countries requested assistance on the renegotiation of domestic debt to reduce service burdens.
3. **Transparency and accountability of debt.** Within this area top priority was given to reporting to and being held accountable by domestic stakeholders such as parliaments, supreme audit institutions and civil society; to broadening the definition of debt to include all public sector liabilities such as collateralised trade deals and public-private partnerships; and to the legal and institutional changes, and the computerised recording and reporting systems needed to support such accountability.
4. **Analysis of external and domestic debt sustainability.** In this area a strong demand was made to focus on overall public debt and liabilities as opposed to just external debt; and to focus analysis on debt service payment burdens of these liabilities, as well as revenue diverted to pay the costs of PPPs, and the diversion of funds away from SDG spending); and
5. **Issuance of domestic debt.** This was the lowest priority area covered by the conference, except for some countries which have not yet developed domestic debt markets.

This assessment has since been confirmed, but with even more emphasis on needs related to debt restructuring, by Finance Ministers representing 30 LIDCs[164]; as well as online webinars organised by CEMAC and MEFMI with senior officials from member states.[165], and discussions with many Southern policymakers in Africa, Asia and Latin America during 2020-21[166]. It has also been confirmed by providers of assistance such as ALSF and Cleary Gottlieb Steen (on legal issues related to external loan and PPP negotiation and renegotiation); Comsec and UNCTAD (on transparency and recording issues); MEFMI and WAIFEM[167] (from annual needs assessments conducted with member states); and ODI and CABRI from conferences held with debt management offices in 2020-21.

Compared with these needs, what is currently on offer ? The main debt management programmes being implemented are:

- **The African Legal Support Facility (ALSF)** based in the African Development Bank, provides legal and financial advisory assistance on negotiating contracts and debt renegotiation. It tends to provide short-term technical assistance but has increasingly been trying to reinforce the capacity-building aspects of its assistance. It would need a dramatic scaling up of its resources to cope with widespread debt restructuring across many countries;
- **the Commonwealth Secretariat Debt Management Programme**[168] provides advisory and capacity-building support on a wide range of debt management issues to its 54 members countries. It focusses above all on the provision of and support to Public Debt Management Systems for debt recording, reporting and analysis (CS-DRMS and Meridian). However, it also plays a strong role on legal and institutional reforms to strengthen debt management, on related initiatives to assure data quality (DQAF – jointly with UNCTAD) and to promote transparency and accountability via improved domestic and global reporting. Its financing for deepening this highly valued service is severely constrained.
- **Debt Relief International**[169] (the organisation writing this report) used to provide capacity-building support to HIPCs on debt relief and new financing strategy and policy, decentralising this programme to MEFMI/WAIFEM in 2012. It has continued to support around 25 countries, including MEFMI member states with MEFMI, and is currently advising the government of Somalia on its HIPC debt relief. It has supported UNDP in Integrated National Financing Framework analysis for 6 countries, including detailed analysis of debt and new borrowing policy elements. It is the distributor of the Meridian system for non-Commonwealth countries, has provided support on transparency and accountability to more than 30 countries in the last ten years, was technical secretariat for the OIF Finance Ministers work on debt in 2017-19, and continues to conduct studies analysing debt burdens and identifying capacity-building needs.
- **the International Monetary Fund** provides a wide range of assistance, mainly of a diagnostic and technical assistance (i.e. doing the work for countries) type, across a range of issues including debt strategy and sustainability (MTDS, LIC- and MAC-DSF), domestic debt market development, bond issuance, ad hoc support in scrutinising loan contracts and renegotiation proposals, transparency and data quality assessments, and SDG costing. It is at the forefront of much analytical and methodological development and global standard-setting, but has eschewed "downstream activities" involving extensive in-country capacity-building.
- **MEFMI**[170] **and WAIFEM**[171] continue to provide comprehensive debt management capacity-building assistance to their member states, based on comprehensive regular assessments by the countries themselves of their priority needs. They have indicated that their member states could do with much more intensive support on external loan and PPP negotiation, and on external and domestic debt renegotiation, as well as on domestic transparency and accountability, and that they require considerably more funding to be able to deliver these programmes with their member states and themselves in the lead.
- **the UNCTAD Debt Management and Financial Analysis Service**[172] provides a wide range of advisory and capacity-building support on debt management to around 60 countries. Though its programme focusses on the distribution of and support to the DMFAS debt recording, reporting and analysis system, its support goes way beyond this, notably in terms of supporting countries on institutional and legal reforms, on data quality assessment via the joint DQAF initiative with the Comsec, and on promoting transparency and accountability via improved domestic and global reporting. Its funding for these broader initiatives on transparency and accountability is constrained.
- **the World Bank Debt Management Facility**[173] is its main programme for providing debt management assistance to LIDCs. When the DMF was created in Oslo in 2008, it was agreed that the DMF would focus on "upstream" activity i.e. diagnosis via the DeMPA, legal changes and regional training on the computerised key strategy tools of the MTDS and LIC-DSF, and that a separate programme would be created to fund downstream activities by organisations such as Comsec, MEFMI, UNCTAD and WAIFEM with more experience in these areas. Nevertheless, in the current DMF phase, there has been some mission creep into downstream areas on which the Bank has little experience compared to Comsec and UNCTAD, notably on "transparency" through such tools as public debt bulletins and reports.
- **Other multilateral and bilateral institutions** fund individual debt management projects for particular countries. This is particularly true for the regional development banks (AfDB, AsDB and IADB), but also for bilateral donors such as the UK and France where this is a top priority for a particular country. Generally, these projects are part of a broader multi-donor programme to support Public Financial Management. After a decade of declining support in this area (in which for example many bilateral donors moved away from funding any country-specific support), funding is moving upwards again, but remains woefully short for the types of downstream activities needed to build long-term sustainable country capacity.

Given this landscape, how should such support be delivered ? Nordic+ governments already have been at the forefront of providing support to developing countries on domestic revenue mobilisation (DRM). They have rightly chosen to split this into three types:

- diagnosis, analysis and technical assistance conducted by the IMF and World Bank;
- capacity-building support conducted by other global organisations including the Centre de Rencontres et d'Études des Dirigeants des Administrations Fiscales (CREDAF), Commonwealth Association of Tax Administrators (CATA), International Centre for Tax and Development (ICTD), United Nations Development

Programme (UNDP) and OECD, as well as regional organisations such as the African Tax Administrator's Forum (ATAF), Inter-American Center of Tax Administrations (CIAT) and West African Tax Administration Forum (WATAF); and
- support to stakeholders via the Tax Justice Network, International Budget Partnership, Oxfam International, LATINDADD and other CSOs.

This division of labour provides an excellent template for future capacity-building support on debt.

As a first principle, there should be a clear division of labour based on the one established in Oslo in 2008. The IMF and World Bank should continue to focus on "upstream" activities such as diagnosis, training in the use of their debt sustainability and cost/risk analytical tools, and identification of capacity-building support needs, which is generally reasonably well funded from current donor DMF and IMF Trust Funds. On the other hand, the organisations with more experience of providing "downstream" in country capacity-building support such as the African Legal Support Facility, the UNCTAD DMFAS and Commonwealth Secretariat Meridian programmes, Debt Relief International and regional capacity-building organisations such as MEFMI, are all short of funding to provide the full range of support across negotiation of new financing, debt renegotiation, transparency and accountability. ***Nordic+ governments should therefore focus any increases in funding on these "downstream" activities on assisting countries to build capacity on negotiation, renegotiation and accountability, which are the top priorities of LIDCs.***

In the past, as with the HIPC Debt Strategy and Analysis Capacity-Building Programme (and currently with the African Legal Support Facility and the IDA Debt Reduction Facility), such support needs to be provided at arm's length and not directly by any creditor to avoid conflict of interest. It would also be essential that all such support be delivered in a capacity-building way i.e. where leadership is given to national authorities and skills are fully transferred to national staff; and that as much as possible be delivered by organisations which have a strong record in building capacity in these areas (such as Comsec, DRI or UNCTAD) and in close partnership with regional capacity-building organisations such as the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and the West African Institute for Financial and Economic Management (WAIFEM). ***Nordic governments should therefore urgently fund new capacity-building programmes which provide support in subject areas not covered by existing programmes, especially negotiation of new financing, and renegotiation of external and domestic debt, using proven capacity-building methods and via institutions with a strong record of downstream capacity-building success.***

In addition to these needs of the executive arms of governments, there is a need for **sharp increases in capacity-building support to other stakeholders** who hold the executive accountable, including:

- parliaments, where support could be channelled via the Inter-Parliamentary Union, the Commonwealth Parliamentary Association or the Association des Parlementaires Francophones
- supreme audit institutions, where support could be provided via INTOSAI; and especially.
- civil society organisations, where support could be provided via APMDD in Asia, Afrodad in Africa, Eurodad in Europe and Central Asia, and Latindadd in Asia.

Compared to the amounts of support currently being provided to the executive arms of government, all of these stakeholders are starved of resources for the type of serious in-depth capacity-building they will need in order to ensure that governments are fully transparent on their debt management, as well as to hold them accountable in line with domestic legislation. As with developing country governments, it is also vital that support to such stakeholders is channelled via organisations which represent them rather than via their governments. ***Nordic countries could make financial support to non-executive stakeholder groups to work in these areas a top priority in their future capacity-building support*.**

5.2.10. Principle 10: Accompanying Debt Relief with High-Quality New Concessional Finance

Comprehensive, rapid and orderly debt relief can make a major contribution to financing the SDGs, but will not be enough on its own. This will be true for virtually all countries, because of the scale of financing needed to attain the SDGs. However, it will be particularly true for countries which either do not need or do not opt for debt relief. As shown in Section 2.4, the countries which do not need debt relief would fall into two groups: i) 10 IDA-eligible countries which have kept their debt burdens very low, in most cases due to lack of access to international capital markets; and ii) 20 IBRD borrowers which have relatively low debt burdens and would not require debt reduction. To these might be added a considerable number of countries which do not opt for debt relief, because they prefer to retain their market access: a high proportion of the remaining 19 countries which have constant access to international markets, and some of the 25 other countries with continuing though less frequent access to markets (though for these countries some very detailed analysis would need to underlie their decisions). As discussed in more detail below, especially for these last two groups of 44 countries, major additional measures would need to be taken to reduce the costs of their new borrowing. Almost all of the 74 countries would ideally need major efforts to mobilise additional new external and domestic financing, if they are to reach the SDGs.

Looking across a range of lower-income developing countries (LIDCs and lower-income emerging markets[174]), at their financing needs for a group of "core" SDGs (including education, health, water, energy and roads, but excluding climate adaptation and social protection), the IMF has suggested that on average lower-income developing countries would need to spend around 14% of GDP more than they are currently spending.[175] Others have suggested that including the other SDGs (notably climate adaptation) would raise this to around 20% of GDP for lower-income countries and 5% for other middle income countries, and calculated that this would mean around US$2 trillion a year.

Such levels of financing may sound astronomical and unattainable but, to put them in context, they are tiny compared to the size of the world economy (US$103.3 trillion a year[176]) or OECD country domestic responses to COVID (US$11.7 trillion), and the same as global arms spending (US$2 trillion a year).[177] Nevertheless they seem very high compared to current global DAC ODA flows of US$161 billion in 2020 (and an estimated additional US$20 billion of concessional South-South cooperation).

Debt relief could make a massive contribution to this financing. On average across all developing countries which might be eligible for and want debt relief, the debt service burden might be reduced by comprehensive debt relief from 14% to 4% of GDP, especially over the next 5 years, providing around half the amount needed. It will also (as indicated in Box 3 above) provide a stable (though gradually declining) amount of budget financing through to 2030 and beyond). More detailed studies recently conducted by DFI for UNAIDS and for the School Feeding Coalition, indicate that comprehensive debt relief will be essential in many countries (together with tax revenue increases and increased aid flows) to close the financing gaps for Ending AIDS as a Public Health Threat, and will also be essential to mobilizing sufficient money to provide providing universal free school meals.[178]

Where would the other 10% of GDP come from ? There are potentially three main sources, all of them creating the minimum amount of debt to keep debts sustainable:

- **Domestic Budget Financing Efforts:** the IMF has recently suggested that by combining revenue mobilisation efforts with greater efficiency in spending and more effective management of public assets eg in state-owned enterprises, LIDCs could themselves generate about 5.5% of GDP more by 2030. DFI's own research on tax policies to recover from COVID has suggested various ways in which such revenue could be raised equitably (solidarity taxes, increases in top rates of personal and corporate income taxes, fairer taxation of unearned income and wealth (matching that of income), reducing tax exemptions, combating tax dodging more effectively.[179] Obviously such increases would kick in only gradually, making debt relief one of the key initial sources of financing. tax revenue in developing countries and developed countries.

- **External Budget Financing Efforts.** Domestic revenue mobilisation must be complemented by external financing for the public sector in developing countries, from two main sources:
    - Additional **multilateral funding** sources of three types:
        - The recent issuance of $650 billion of **IMF Special Drawing Rights** was equivalent to only around 0.65% of global GDP, with lower-income countries receiving amounts equivalent to 0.8% of their GDP. However, G20 economies reallocating a currently proposed US$100 billion (20% of their allocation) to lower-income countries will provide them with an extra 4% of their GDP. Ideally this amount would be doubled to provide 8% of GDP. In addition, such issuances and reallocations could be made every 2 years until the end of the decade, allowing countries to boost spending by 2% a year.
        - **IMF gold sales.** The IMF gold reserves are currently around US$165 billion. In 2010 after the global financial crisis, the IMF sold around on eighth of its then reserves, partly to fund financing for low-income countries via the Poverty Reduction and Growth Trust (PRGT). It could do so once again, providing an additional endowment of US$20 billion for the PRGT or RST, equivalent to around 0.8% of eligible countries' GDP.
        - **Use of MDB earnings/provisions/reserves**. As discussed during the recent IDA-20 replenishment, the multilateral development banks' balance sheets have never been stronger and their borrowing capacity never greater. Outside analysts estimated that IDA-20 could leverage US$80 billion (or 3.2% of IDA eligible countries' GDP) using the IDA-19 level of US$23.5 billion of donor funding. IDA management adopted a more cautious approach to leveraging, so that the recent US$93 billion replenishment, though 13% higher in nominal terms than IDA-19, is US$7-15 billion short of potential.[180] Nevertheless it does represent additional non-donor funding of 2.8% of GDP.
    - Additional development cooperation funding from bilateral sources.
        - There is no getting away from the fact that additional concessional funding from governments will be needed to offset the impact of the pandemic, build more robust health, social protection and education systems to protect against future pandemics and reduce inequality, and fight the climate emergency. Many European governments have been realising this and there had been some relatively sharp recent increases in ODA flows from Germany (which had reached 0.7% of GDP and France – though as a result of COVID and the impact of the "cost of living crisis" on budgets and domestic political coalitions, these efforts are now being slowed. If all DAC donors reached 0.7% of GNI (up from the current 0.32%), DAC ODA would rise by US$191 billion or 7% of LIDC GDP. To objections that doubling ODA is "not affordable", we have seen that additional spending 10 times greater has been possible to fight COVID domestically. If OECD countries also make greater efforts to raise revenue in progressive ways to recover from COVID, they too could increase tax collection by 1% of their GDP with relatively little effort, and allocate around half of that to promoting global development and global public goods.

Needless to say, additional financing is not just about amounts. Equally vital will be i) which countries receive the funding, ii) the financial terms on which such financing is provided, and iii) the policy and procedural conditions attached to the financing.

In terms of **country recipients**, it is important to note that a large amount of aid never reaches developing countries budgets at all – only 38% of current ODA is what is known as "country programmable aid"[181]. there has been a recent trend by some donors to channel more of their aid funds to wealthier developing countries, rather than following the recommendations of multiple global meetings to concentrate them on Least Developed Countries and lower-income countries. As a result, the shares of these groups in overall ODA have fallen consistently in recent years, while those of upper-middle income countries have risen to US$18 billion or 11% of ODA in 2019.[182] In other words, to use IMF terminology about developing country budgets, many DAC donors have huge scope to make their aid "more efficient" in reducing poverty and inequality and achieving the SDGs via lower-income developing countries' budgets, which half of their aid is currently not doing.

In addition, there are a considerable number of countries – mostly the climate vulnerable ones - which already have high debt burdens, and yet have little or no access to concessional financing because they have income levels too high to qualify for such finance. Multilateral institutions need to reform their eligibility and allocation systems to ensure that these "vulnerable" countries get a fair share of concessional finance, and bilateral donors need to focus more concessional funding on SIDS and LLDCs.

Secondly, on **financial terms**, to avoid building up a new debt crisis post- or even during debt relief, it is vital that these new types of finance are provided as grants or highly concessional loans. Ideally, for example, SDRs would be provided on "SDR terms" (which are currently an interest rate of 0.05%, given that they do not need to be repaid) – and if this is not possible their interest rates should be 0.5% or less, and their lending grace and maturity should far exceed current IMF loan terms and be more like those of IDA – at least providing a grace period which takes us well beyond the date of 2020 set for the SDGs. In addition, if the MDBs are going to "channel" SDRs (and in considering how to spend their own replenishments) much greater emphasis should be given to grants than loans, and to concessional rather than non-concessional loans. It would seem appropriate for example, for all countries receiving debt relief to receive only grants until 2030. And DAC lenders as well as other South-South lenders will need to be reining in their less concessional loans to lower-income countries (which have proliferated in recent years) and confining them to the projects which are most certain to have high returns in terms of budget revenue to repay them, as well as SDG results.

Another aspect of new lending which is becoming more standard (already being used by the Agence Française de Développement, the Canadian government, the World Bank and some commercial lenders is the use of **contingency clauses**, which would allow a debtor's level of debt service payments to be adjusted down automatically in the event of any unexpected economic shock. Ideally such contingency clauses should be included in all debt restructurings as well as new loans, as they were under HIPC through the "topping up" mechanism. Though welcome, such clauses do not reduce the debt problem: they just postpone the debt service for a short period, with no guarantee that the debtor country will grow fast enough to be able to pay the additional deferred burden down the road. Indeed, given the growing frequency and severity of climate-elated disasters, and the effects of sea level rise and drought across climate related countries in the Global South, they are a recipe for piling up more and more unsustainable debt. ***They should be urgently replaced by cancellation of the same debt service, as also recommended to the recent SIDS conference in Antigua in May 2024.[8] Nordic countries could advocate this measure as an easy and relatively low cost "quick win" which the G20 could adopt during 2023.***

One other very important aspect of any "debt relief" architecture for developing countries, especially those access financial markets on a constant or continuous basis, will be to make major efforts to bring down the cost of new borrowing in financial markets for developing countries. Multiple analyses have been done over the last two decades showing that the risk premia demanded of developing countries on bond spreads, bank loans and other types of commercial financing are not justified by any objective analysis of their economic circumstances or of political or other risk. The UNECA has made a proposal for establishing a facility to guarantee secondary market operations of developing country bonds in order to bring down spreads and enhance liquidity for African countries – a Liquidity and Sustainability Facility.[183] However, building on this, there should be no reason why multilateral development banks and bilateral development financing institutions could not use their considerable guarantee power to guarantee developing country bonds and in return ensure that the spreads on them are reduced sharply. This was done in the case of Ghana by the World Bank, but only in extreme circumstances in order to ensure that a Eurobond could be issued to refinance massive service falling due on an existing one, and at an interest rate higher than the original bond. The same could be said of public-private infrastructure projects, where official cofinancing should be being used as leverage to bring down rates of return demanded by private financiers on the grounds of largely fictitious (given that an MDB or DFI is providing large amounts of cofinancing) creditworthiness concerns. In other words, all forms of official guarantees and cofinancing should have as one of their top priorities to bring down the costs of new financing for developing countries, thereby saving them billions of dollars a year to spend on the SDGs.

8 I am most grateful to Gail Hurley, my colleague at DFI, for raising this idea in discussion with me, and advocating it in a RESI paper containing proposals to relieve the debt of Small Island Developing States. For details, see https://odi.org/en/publications/breaking-the-cycle-of-debt-in-small-island-developing-states/

However, avoiding recurring debt crises will also require some multilateral and bilateral institutions to rethink their "mantra" about the benefits of "blended finance". It was after all, as discussed in Chapter 2, this "mantra" and the encouragement for developing countries to access markets regardless of their high financing costs (as shown most egregiously with PPPs and international bonds) – given a lack of cheaper public financing - which got most of the current highly indebted countries into their problem. In addition, there is little to no evidence that most "blended" finance mobilises significant additional private sector money: and the strongest evidence for SDG results is in partnerships between private foundations and INGOs and donor governments, NOT between donors and private enterprises. If blended finance is to have a useful role in future, it should be one focused above all on bringing down the cost of private financing substantially, for example through the types of bond guarantees discussed above.

In terms of **conditionality,** the discussions in earlier sections of the types of conditionality needed to avoid future debt crises indicate that conditionality should focus strongly on transparency and accountability on debt (with the top focus on accountability to domestic stakeholders), as well as on measures which avoid "predatory" or corrupt lending. Beyond this, lessons from previous debt relief initiatives (and from the IFIs' own reviews of conditionality) show us that it should be as streamlined as possible and not proliferate into excessively micro-managing measures with little obvious direct impact on poverty reduction or resilience and sustainability.[184] Instead, it should focus on overall SDG spending allocations and measures to reduce poverty and inequality, as well as measures to increase resilience and sustainability relating to climate, pandemics and other external disasters. Ideally for SDRs (which have historically been unconditional financing) a large proportion would be provided with minimum conditionality, only on transparency of spending on the SDGs and other key priorities, as has been done with the current SDR allocation.

In terms of efficiency in filling the financing gaps for the SDGs, it is important to bear in mind the **procedural conditions** which make some MDBs relatively slow and cumbersome at disbursing money compared to the IMF. If these are to be overcome, much more of their money will need to go via flexible and fast-disbursing crisis prevention and response windows, or development policy windows, and much less via traditional projects which take years to design, commit and disburse.

Finally, it should be obvious from this report that no IMF or World Bank programmes should contain plans for spending cuts in SDG-related areas or for medium-term austerity. Instead, the IMF and World Bank (and broader development partner community) should commit at country level to multi-year **SDG Acceleration Compacts in order to help fulfil the UN Secretary General's request for an SDG Stimulus**, involving greater efforts by countries to mobilise domestic revenue and make spending more efficient, complemented by greater international financing through debt relief, DRM and external concessional resources. Only with these comprehensive mutual compacts can most developing countries stand any chance of attaining the SDGs.

6 A BRIEF ROADMAP FOR ENDING THE CURRENT DEBT CRISIS

The previous section of this chapter contains a series of suggestions for actions which Nordic and other like-minded governments could take to i) provide much improved debt relief to end the current crisis; and ii) prevent the occurrence of future crises by changing the international financial architecture and providing more concessional finance. This final section looks briefly at how and when such measures could be implemented for each of the 10 principles discussed above.

There are three potential processes via which Nordic governments could act during 2024 and 2025:

1) **The Group of 20**. During 2024 and 2025, the G20 is being chaired by Brazil and South Africa respectively. Both of these nations have declared as key priorities for their presidencies their wishes to change the international financial architecture, particularly regarding debt issues, but also more broadly in relation to tax, SDRs and new financial models for the Multilateral Development Banks. The G20 (and in particular its international financial architecture working group) therefore provides a key forum for discussing urgent measures to reform the architecture, especially given that Norway is being invited to the G20 as a guest by Brazil in 2024. On the other hand, it is important to realise that due to broader geopolitical disputes around Russia's invasion of Ukraine and Israel's invasion of Gaza, decision-making in the G20 on all issues is very difficult; and in addition, due to the fiscal concerns of many G20 creditor countries post-COVID and the cost of living crisis, their appetite for expensive debt relief measures is for the time being limited, and therefore low-cost incremental measures may need to be the focus during 2024, building on them to achieve more fundamental steps in 2025. The key measures recommended in this chapter which would seem amenable to discussion in G20 are:
   - Moving from catastrophe clauses which postpone debt service to ones which cancel it.
   - Deciding that all countries which need debt relief (regardless of their income level) should receive it via a coordinated forum involving all official creditors, similar to the G20 Common Framework established for lower income countries.
   - Finalising technical discussions and agreed definitions/procedures for debt standstills and assessing comparability of treatment by all creditors, through discussions in the G20-chaired Global Sovereign Debt Roundtable.
   - Agreeing that the IMF/World Bank review of the LIC-DSF due in 2025 (and its immediate "update" of the LIC-DSF to cover climate due in October 2024), should comprehensively assess not just the additional financing needs arising from the climate and inequality crises, but also the potential sources of additional concessional financing and the potential positive effects on growth and revenue through multipliers arising from anti-crisis spending, in order to provide more borrowing space without debts becoming unsustainable;
   - Encouraging relevant G20 member countries to introduce anti-holdout laws, and to take other regulatory and guarantee/tax measures to ensure participation by all commercial creditors.
   - Agreeing that there should be an urgent independent study of the degree of likely near-future need for debt relief from the IMF and Multilateral Development Banks, and of the costs and potential financing mechanisms for such relief, to be presented to and discussed by IDA and ADF deputies and the Boards of the institutions during 2024 and 2025.
   - Agreeing to an urgent comprehensive study of best practices in relieving domestic debt burdens and their potential for financing the SDG Stimulus, for presentation to Ministers in 2025.
   - Agreeing that the IFA working group will urgently examine ways to reduce borrowing costs for global South countries, including cost-reducing guarantees of bonds and PPPs by MDBs and bilateral funding agencies, increases in concessional funding, changes in MIC eligibility for concessional funding, and reforms to credit rating agency assessments.

1) **The United Nations Fourth International Conference on Financing for Development (FfD)**, to be held in Spain in June-July 2025. This will be prepared through a series of semi-annual preparatory conferences and expert group meetings being held during 2024-25. As with the last such conference, there will doubtless be tensions on fundamental restructurings of the global financial architecture between countries of the global North and those of the majority Global South, especially if there are proposals to transfer all debt discussions away from organisations such as the Global Sovereign Debt Roundtable, the Paris Club, IMF and World Bank, and to the UN. Nevertheless, this will be the key forum in which discussions will take place on the overall architecture, in particular:
   - the suggestions for reforming GSDR with UN co-chairmanship and broader membership by debt-distressed G77 countries, made in Section 5.2.8.
   - proposing that a new protocol be introduced in UNCAC, dealing with predatory lending, borrowing and restructuring, to drastically reduce the likelihood of such practices.

In addition, if for whatever reason the suggestions made in 1) above are not taken up by the G20, there is no reason why the preparatory meetings and FfD conference cannot recommend the same measures either to the G20, or to be taken by UN agencies or other groups of like-minded governments. Indeed ideally, for the sake of representativeness and legitimacy, these suggestions would be made in the UN process regardless of whether they are taken up by the G20.

1) **Independent Nordic-led initiatives.** Finally, there are two types of initiatives Nordic and other like-minded countries could take for themselves, without awaiting international consensus. These mainly revolve around urgent capacity-building for executive government and non-executive stakeholders in developing countries, discussed in Section 5.2.9. In terms of content, the top priorities would be:
    - Capacity for government leaders and officials to negotiate new financing (especially on relatively new financing sources and instruments), and debt relief on both external and domestic debts.
    - Capacity for the executive branch of government and other stakeholders to work together to improve accountability of debt policy to domestic stakeholders.
    - Capacity for countries to undertake their own participatory debt sustainability analyses involving government officials as well as other domestic stakeholders.
    - Capacity to improve the ability of debtor countries to be more transparent in their debt statistics and reporting, via support to the globally leading programmes for debt recording, reporting and monitoring run by the UNCTAD's DMFAS and Commonwealth Secretariat's Meridian.

    In a changed global context since the 1990s, it will be vital that these capacity-building initiatives are co-governed and co-financed by global South beneficiary countries, and implemented by or in partnership with organisations based in the South or genuinely representative of Global North and South, such as inter-parliamentary networks (IPU), INTOSAI for auditors, AFRODAD, ANDD, APMDD, EURODAD and LATINDADD, MEFMI, WAIFEM; or where such networks do not exist, by Southern-based non-creditor organisations such as the UN Regional Economic Commissions. In addition, it will be vital that they are implemented mainly by South-South peer learning and mutual exchange of information on best practices, rather than technical assistance based on OECD or IFI models.

Finally, should global forums fail to commission key studies designed to move forward the processes of debt relief and new financing, Nordic and like-minded donors could commission the studies mentioned above on catastrophe clauses to ***cancel*** debt, debt relief by multilaterals, detailed measures to ensure commercial creditor participation, relieving domestic debt burdens, and reducing borrowing costs.

With this combination of measures, pursued through these different channels, Nordic and other like-minded governments could make a major difference to the international architecture and relieve the current global debt crisis, vastly improving prospects for financing the SDG Stimulus and Agenda 2030.

ANNEX 1: DEBT AND SPENDING DATA SOURCES FOR THE REPORT

1. **Debt Data Sources**

The debt data in this report are taken from two debt databases:

- **On debt service, an entirely new database compiled for this report, known as Debt Service Watch,** presenting data on external and domestic debt service for 139 of the 140 countries which borrow from the World Bank. It covers the period 2018-24 as well as forecasts through to 2030, and compares it with their budget revenues, total expenditures and expenditures on key global development sectors (education, health, social protection and climate). It sources its data from national budget and debt management documents or, where these are not available, from IMF country reports, especially LIC-DSA and SRDSA analyses in Article IV documents, which are the most up-to-date and comprehensive data available globally.[9]
- **On debt stock, the IMF World Economic Outlook (WEO)** database[185] which contains general government debt-to-GDP ratios for all IMF member countries, as well as historical data and forecasts to 2026, but does not provide debt service or creditor breakdowns.
- The **World Bank International Debt Statistics** database[186] has been used where LIC DSAs and country budget documents do not give detailed external creditor breakdowns. It contains historical and current data on external creditor breakdowns for all World Bank borrowers, but is less timely than LIC DSAs (ending in 2020) and covers only external debt.

Due to different timings of collection, changes in exchange rates etc, data from different sources do not necessarily match precisely. Nevertheless, they have been combined in this report, especially for debt service for Market-Accessing Countries, where no one comprehensive up-to-date dataset exists.

1. Budget Data Sources

Again, it was necessary to use various sources for spending data. In order of timeliness and reliability:

- Revenue data are taken from IMF Article IV or programme documents available on the IMF website.
- The ***Government Spending Watch*** database maintained by DFI[187] is the most accurate and up-to-date spending database for 78 countries including almost all LIDCs (LICs and LMICs) and a few UMICs (such as Latin American countries and South Africa. It takes data direct from primary sources (country budget documents), contains data on spending for key sectors (education, health and social protection) as well as for debt service and defence spending, and is currently updated to 2023/4.
- For the remaining 66 countries, especially non-LIDCs, spending data are taken from the ***Commitment to Reducing Inequality (CRII) database*** also maintained by DFI.[188] In some cases these also come from primary sources for 2023 or 2024. However, in many others, they are from secondary sources (international and regional organisations and are several years older depending on frequency of surveys by organisations and regularity of country reporting.
- For ***climate spending***, data are taken from country NDC reports submitted to COP 28, analysed by DFI for the Debt Service Watch database, with annual amounts for 2023 and forecast for future years.

9 For more details of ***Debt Service Watch***, its methodology and 2023 findings, see https://www.development-finance.org/en/news/831-11-october-the-worst-debt-crisis-ever-shocking-new-debt-service-numbers. Its 2024 findings are reported preliminarily in Chapter 2 and will be published fully in September 2024.

ANNEX 2: INTERVIEWS – LISTS OF QUESTIONS AND INTERVIEWEES

I) GENERIC LIST OF INTERVIEW QUESTIONS

A. NATURE OF THE DEBT CRISIS *(to be omitted if the organisation has produced recent analysis)*

1. How serious do you think the current developing country debt crisis is, compared to the HIPC crisis ?
2. To what degree has the COVID-19 pandemic exacerbated this crisis ?
3. How do you think the developing country debt burden should be measured ? Debt or PV to GDP ? Debt Service to Exports ? Debt Service to Revenue ? Debt Service to Social Spending ? Public or just external ?
4. For your point of view, which countries or group of countries (eg region, income level, special status such as SIDS) are worst affected by the current crisis ?
5. Who are the key creditors to whom most of the debt is owed ?

B. PREVIOUS AND CURRENTLY PROPOSED SOLUTIONS

1. Are traditional debt restructuring mechanisms (Paris Club, Bilateral Cancellations/Conversions) adequate to deal with the current crisis ?
2. Are recently introduced additional mechanisms (DSSI, IMF service cancellation, G20 Common Framework) adequate to deal with the crisis ?
3. Would a structure similar to HIPC/MDRI Initiatives be adequate to deal with the current crisis ?
4. Do you support/are you aware of the ideas promoted by the UNECA and AU Finance Ministers ?[189]
5. Do you support/are you aware of the ideas contained in the UN FFD Working Group Outcomes and UN Secretary-General Recommendations ?[190]
6. Do you support/are you aware of proposals made by global CSOs for sovereign debt resolution ?[191]
7. Do you believe that debt relief should be provided based on: 1) what creditors are willing to provide; 2) calculations of the economic "sustainability" of debt; 3) calculations of the resources needed for countries to reach the 2030 Sustainable Development Goals ? Please explain your choice
8. Which developing countries do you think should receive additional debt relief beyond traditional mechanisms (I e cancellation and reduction) – LICs; PRGT eligible countries; LICs and vulnerable (eg SIDS, climate vulnerable) MICs; all LICs and MICs with high debt burdens ?
9. Which creditors do you think should provide relief ? Just bilateral creditors ? Commercial creditors ? Multilateral creditors ? Domestic creditors ? If you think it should go beyond current participating creditors, how can we best ensure that the extra creditors participate ?
10. What 2 key steps would you suggest to best ensure future responsible lending by creditors and borrowing by debtors to avoid a repetition of this crisis ?
11. How useful are debt audits and examinations/identifications of "odious debt" to resolving the crisis?
12. Taking all these suggestions into account, what do you think will be the most likely evolution of global debt relief procedures and terms over the next few years ?
13. What do you think has been the most valuable role of Nordic governments in providing and pushing for debt relief over the recent decades ?
14. What role do you think Nordic governments should play in pushing for stronger action ?

II) ORGANISATIONS INTERVIEWED (country name = government official interviewed)

AFRODAD, APMDD, Barbados, Boston University, Canada, CEMAC, Centre for Global Development, Columbia University (2), Commonwealth Secretariat (2), Debt Justice UK, Denmark, Development Reimagined, Diakonia Sweden, Erlassjahr (2), EURODAD (2), European Commission, France, G24, Germany, Georgetown University, IMF (2), Jubilee USA, LATINDADD, MEFMI (2), Norway, Overseas Development Institute, Oxfam Denmark and United States, Paris Club, Save the Children Norway, SLUG, SOAS London University, SOMO, Sweden, Switzerland, UNCTAD, UNDESA, UNDP, UNECA, United Kingdom, United States, University of Pretoria, World Bank (2), Zambia.

ENDNOTES

1 For details of climate and debt service spending in 42 countries, *The Worst Ever Global Debt Crisis: Putting Climate Adaptation Spending Out Of Reach*, https://www.development-finance.org/en/news/832-debt-service-watch
2 See https://www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf
3 https://repositorio.cepal.org/server/api/core/bitstreams/a4d76467-4802-421e-bb51-207cdb91bccf/content
4 See https://consultations.worldbank.org/content/dam/sites/consultations/doc/2023/Development-Committee-paper-2023.pdf
5 See UNSG and Prime Ministers of Barbados and Antigua speeches at recent SIDS conference, and its declaration at sdgs.un.org/sites/default/files/2024-05/Final%20-%20Call%20to%20Action%2C%20as%20at%2022%20May.pdf, and USG Winnie Byanyima's press statement at IMF Spring Meetings at https://www.unaids.org/en/resources/presscentre/pressreleaseandstatementarchive/2024/april/20240416_spring-meetings
6 https://assets.nationbuilder.com/eurodad/pages/3194/attachments/original/1696845336/BOGOTA_DECLARATION_07.10.pdf?1696845336
7 We are most grateful to the interviewees for having spared the time from their busy schedules, and to Maria Holloway at DFI for having organised the initial interview schedule in a very short period.
8 See for example https://www.weforum.org/agenda/2023/01/polycrisis-global-risks-report-cost-of-living/. The term was most recently coined by Adam Tooze – see https://www.youtube.com/watch?v=y5coEWMNcrk
9 The adjusted figures are taken from the most reputable global estimation conducted by the Institute for Health Metrics and Evaluation (IHME), available at https://covid19.healthdata.org/global?view=cumulative-deaths&tab=trend
10 See www.inequalityindex.org
11 The GDP growth figures are taken from *IMF World Economic Outlook* October 2017, available at https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021 Low-Income Developing Countries (LIDCs) are a group of 44 countries defined by the IMF – for more details see the Statistical Appendix of the World Economic Outlook.
12 See for example, https://www.imf.org/en/Topics/Inequality/introduction-to-inequality
13 See the *World Inequality Report 2022*, available at https://wir2022.wid.world/
14 See F. Grigoli and A. Robles. (2017). *Inequality Overhang*. IMF working paper 17/76. https://www.imf.org/en/Publications/WP/Issues/2017/03/28/Inequality-Overhang-44774
15 See C. Lakner, M. Negre and E.B. Prydz (2014). Twinning the Goals: How Can Promoting Shared Prosperity Help to Reduce Global Poverty? World Bank Policy Research Working Paper 7106, available at https://openknowledge.worldbank.org/bitstream/handle/10986/20611/WPS7106.pdf?sequence=1&isAllowed=y
16 See G. Cugat and F. Narita. (2020, October 29). *How COVID-19 Will Increase Inequality in Emerging Markets and Developing Economies*. IMF blog. https://blogs.imf.org/2020/10/29/how-covid-19-will-increase-inequality-in-emerging-markets-and-developing-economies/
17 See C. Lakner, N. Yonzan, D. Gerszon Mahler, R.A. Castaneda Aguilar and H. Wu. (2021, January 11). *Updated estimates of the impact of COVID-19 on global poverty: Looking back at 2020 and the outlook for 2021*. World Bank Data Blog. https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-looking-back-2020-and-outlook-2021
18 N. Yonzan, C. Lakner, D. Gerszon Mahler, R.A. Castaneda Aguilar and H. Wu. (2020, November 9). *The impact of COVID-19 on global poverty under worsening growth and inequality*. World Bank Data Blog. https://blogs.worldbank.org/opendata/impact-covid-19-global-poverty-under-worsening-growth-and-inequality
19 See the joint DFI/Oxfam *2021 West Africa Commitment to Reducing Inequality Report: Fighting Austerity and the Pandemic*, available at https://www.reports.inequalityindex.org/wp-content/uploads/2021/10/2021-West-Africa-CRII-Fighting-austerity-and-pandemic-.pdf ; and the 2020 Commitment to Reducing Inequality Report, available at https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621061/rr-fighting-inequality-covid-19-cri-index-081020-en.pdf
20 See for example the Synthesis Report of the Sixth IPCC Assessment Report, at https://www.ipcc.ch/ar6-syr/
21 See, for example, https://www.un.org/en/climatechange/raising-ambition/climate-finance#:~:text=Financing%20Climate%20Action%20Financial%20resources%20and%20sound%20investments,these%20investments%2C%20however%2C%20dramatically%20outweigh%20any%20upfront%20costs.
22 See for example https://climatejusticealliance.org/just-transition/, http://jtalliance.org/, and https://www.justtransitionfund.org/
23 IMF World Economic Outlook Update June 2021.
24 See planned spending for 2021 estimated from NDC reports compiled for 34 countries by the Jubilee Debt Campaign at https://jubileedebt.org.uk/wp-content/uploads/2021/10/Lower-income-countries-spending-on-adaptation_10.21.pdf
25 See the 2020 *Commitment to Reducing Inequality* report at www.inequalityindex.org. For more detailed numbers on what all IDA-eligible countries are spending on these SDGs, see www.governmentspendingwatch.org
26 See https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries
27 This report does not examine debt burdens compared to exports. For more than 20 years developing countries themselves have been saying that in an era of flexible exchange rates, they are virtually never short of foreign exchange to pay their public debts: rather the scale of the burden must be judged against their budget revenue ie the public sector's ability to pay its debts. See for example the declarations of the HIPC Finance Ministers during 2000-2010 (www.development-finance.org), or those of OIF Finance Ministers (www.francophonie.org) or the G24 (www.g24.org) since then.
28 See M. Martin and A. Johnson, *When Are Lower-Income Countries Debts Sustainable ?,* background paper for UK Commission for Africa, 2005. mimeo
29 See C.F. Gueye, M. Vaugeois, M. Martin and A. Johnson (2007), Negotiating Debt Reduction in the HIPC Initiative and Beyond, HIPC CBP Publication No.12, Debt Relief International.
30 See reference in note v above.
31 See reference in note vi above.
32 For a detailed discussion of these various regional targets, see Martin, M, (2019), *Developments in Commonwealth Debt since the Global Financial Crisis*, report to Commonwealth Finance Ministers, October.
33 All data in this paragraph are taken from the IMF World Economic Outlook database for October 2023, available at https://www.

imf.org/en/Publications/WEO/weo-database/2023/October

34 See for example, https://www.imf.org/en/Publications/WP/Issues/2023/04/04/Are-We-Heading-for-Another-Debt-Crisis-in-Low-Income-Countries-Debt-Vulnerabilities-Today-531792

35 See Martin, M, *Les Partenariats public-privés dans les pays en développement*, étude pour le réseau des Ministres des Finances des PFR Francophones, octobre 2017. These were also the conclusions reached by debt and PPP managers of 24 countries at a meeting in Cotonou in November 2017.

36 For repeated statements of this view, see the Ministerial Declarations of HIPCs, Commonwealth HIPCs and Francophone LIDCs during 2000-2019, available at www.development-finance.org.

37 Of course in many countries these desirable types of spending may also be being crowded out by military or security spending, or by other "SDG-related spending" which **may** be (but is not always) having a positive effect on growth and equity, such as water, roads, agriculture or housing, This report does not present comparisons with debt service for these types of spending because the non-debt spending is virtually never available disaggregated in ways which allow one to see whether programmes are actually impacting on key SDG indicators such as hunger , or access to water and energy which "leaves no one behind".

38 For details of climate and debt service spendi in 42 countries, *The Worst Ever Global Debt Crisis: Putting Climate Adaptation Spending Out Of Reach*, https://www.development-finance.org/en/news/832-debt-service-watch

39 See World Bank *International Debt Statistics*, Box O.1, pages 8-9.

40 The issues of how to ensure that all countries which objectively need relief are protected from perverse incentives which make them hesitate to apply for it are dealt with in section 5.2.1

41 Economic historians will refer to international debt crisis resolutions in the 18th and 19th centuries – in which bondholders in particular were as "generous" in providing relief as the terms of the German 1952-53 Agreement. However, these resolutions mostly followed defaults which were catastrophic for all parties, and are therefore not considered here as positive developments or models.

42 Note that Germany stopped repaying in 1931 following the Hoover Moratorium

43 It also included debts owed by German banks and private companies, in order to ensure that the whole economy was able to revive.

44 The thresholds vary between 10% and 21% according to the countries' debt management capacity. See https://www.imf.org/external/pubs/ft/dsa/lic.htm

45 For excellent summaries see https://www.cadtm.org/The-Debt-Reduction-Germany; https://jubileedebt.org.uk/report/europe-cancelled-germanys-debt-1953. For longer analyses see Kaiser, J. (2003). *Debts are not destiny! On the fiftieth anniversary of the London Debt Agreement*. Erlassjahr.de and https://www.researchgate.net/publication/307410566_The_Economic_Consequences_of_the_1953_London_Debt_Agreement

46 There were various other concessional rescheduling agreements during the postwar period (eg Indonesia in 1953), Turkey in 1959, Ghana in 1974) but, though they enhanced coordination among creditors, they did not represent major breakthroughs in the terms of debt relief which were provided, so they are not discussed in detail here. For a brief analysis of these, see *The Emerging of the Multilateral Forum for Debt Restructuring: the Paris Club*, UNCTAD Discussion Paper 192, November 2008, available at https://unctad.org/system/files/official-document/osgdp20087_en.pdf

47 See https://clubdeparis.org/en/communications/page/historical-development

48 Several non-OECD countries also participated or observed during the 1980s, notably Brazil, Israel, Kuwait, Saudi Arabia, South Africa and the UAE; and following the fall of the iron Curtain, Brazil and Russia have become permanent members, many non-OECD creditors (Abu Dhabi, Argentina, India, Kuwait, Mexico, Morocco, People's Bank of China, South Africa, Trinidad and Tobago and Turkey) have participated in Club meetings on an ad hoc basis, and India and many former Eastern European countries have observed Club meetings in recent years.

49 For a detailed analysis of the Paris Club in this period and until 1991, see chapter 2 of Martin, Matthew (1991), *No Winners: The Crumbling Façade of Africa's Debt Negotiations*, Palgrave MacMillan. See also Martin, Matthew and Vilanova, Juan-Carlos (2001), *The Paris Club*, Debt Relief International HIPC Capacity-Building Programme publication no.3, London.

50 For a detailed analysis of debt negotiations and their transaction costs, see Martin, Matthew (1991).

51 For a comprehensive analysis of the role of the London Club and of other for a bringing together commercial creditors, see Chapters 3 and 4 of Martin, Matthew (1991), *No Winners,* op.cit.

52 For the full text, see Resolution 165 (S-IX), *Debt and Development Problems of Developing Countries*, of the Trade and Development Board at its Ninth Special Session, 494th Meeting, 11th March, UNCTAD, Geneva 1978.

53 For discussion of the impact of this resolution, see Martin, Matthew, op.cit, pp.146-147

54 For a more detailed description of cancellations in this period, see Martin, op,cit, pp.294-295.

55 For a comprehensive discussion of these operations in Africa, see Martin, op.cit., pp.306-310.

56 The most widespread use of this technique was by WWF and other Environmental organisations in debt for nature swaps (see https://www.cbd.int/doc/external/wwf/wwf-commercial-swaps-en.pdf, but UNICEF and other social development organisations also engaged in such swaps (See) . For a full and comprehensive analysis of the advantages and disadvantages of such operations, see Moye, Melissa (2002), *Overview of Debt Conversions*, Debt Relief International HIPC Capacity-Building Programme publication no.4, London.

57 For analysis of the lessons of this plan, see Heinrich Boll Stiftung (2021), *Debt Relief by Private Creditors: Lessons from the Brady Plan*, https://drgr.org/files/2021/10/Background-Paper-7-DRGR.pd f

58 For an early analysis of the lessons of this initiative, see Martin, op.cit., pages 310-313. For a later analysis from a debtor country point of view, see Gueye, Vaugeois, Martin and Johnson (2007), *Negotiating Debt Reduction in the HIPC Initiative and Beyond*, Debt Relief International HIPC-CBP Publication No.11.

59 For a detailed discussion of these initiatives, see Martin and Vilanova, *The Paris Club*, op.cit.

60 For an excellent analysis of this and its negative effects, see SAPRI (Structural Adjustment Participatory Review Initiative). 2002. "The Policy Roots of Economic Crisis and Poverty." Washington, D.C. Available online at www.saprin.org/SAPRIN_Findings.pdf

61 Additional relief was provided via a process called "topping up". For details, see Boz 1 of Gueye et al 2007, op.cit.,

62 See the cases of Guyana and Uganda in https://www.worldbank.org/en/topic/debt/brief/hipc. For broader analysis of these anti-poverty spending gains, see https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/08/06/Heavily-Indebted-Poor-Countries-HIPC-Initiative-and-Multilateral-Debt-Relief-Initiative-MDRI-48566

63 For details of this approach, see https://clubdeparis.org/en/communications/page/evian-approach
64 See US Congressional Research Service at https://sgp.fas.org/crs/misc/RS21482.pdf
65 For details, see the full communique at https://www.imf.org/external/np/sec/pr/2009/pdf/g20_040209.pdf
66 On the CCRT history, see https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/49/Catastrophe-Containment-and-Relief-Trust. On the current list of countries assisted and amounts received, see https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#CCRT
67 Though it should be noted that the IMF has given more limited debt relief to all PRGT-eligible countries since 2015, by setting the interest rates in new loans at 0%.
68 For more detailed discussion of the design and principles of these initiatives, see the 2020 Annual Report of the Paris Club, available at https://clubdeparis.org/en/communications/press-release/publication-of-the-2020-annual-report-of-the-paris-club-15-07-2021
69 For a description of the outcomes of the meetings regarding the IMF, see the IMFC communique at https://www.imf.org/en/News/Articles/2021/10/14/communique-of-the-forty-fourth-meeting-of-the-imfc
70 For strong references to and evidence of such austerity, see the forthcoming regional Commitment to Reducing Inequality Index (CRII) reports
71 See https://consultations.worldbank.org/content/dam/sites/consultations/doc/2023/Development-Committee-paper-2023.pdf
72 https://assets.nationbuilder.com/eurodad/pages/3194/attachments/original/1696845336/BOGOTA_DECLARATION_07.10.pdf?1696845336
73 For a very similar but technical analysis of the advances and failings of the DSSI, see World Bank, *International Debt Statistics* (IDS) 2022 edition, available at https://openknowledge.worldbank.org/handle/10986/36289
74 For details country by country, please see https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative
75 Those marked with a * in the list below are included explicitly in the Norwegian government coalition agreement. The remainder are based either on extending and operationalising existing initiatives by Nordic governments, or on principles which interviewees have insisted rightly are essential to make the mechanism work fully.
76 As discussed in more detail in 4,7 below, corrupt debts are loans lent or borrowed corruptly; odious debt is debt which did not benefit the citizens of the borrowing country or indeed may have been used for military or other purchases to oppress them; and predatory debt is the broadest definition, covering the previous two issues of corruption and odiousness, as well as debts which were deliberately contracted knowing they would be of little benefit to citizens, bypassing normal loan approval procedures, and on usurious terms.
77 I am most grateful to Donald Kaberuka for insisting on this point – that debt relief is one of the best solutions, but not the only solution, to the financing of the SDGs. For the same point expressed even better, see Anna Gelpern's magisterial testimony to the US House of Representatives Committee on Financial Services in May 2021, at https://perma.cc/Y5VX-G4E7
78 For much more detail on this issue, see Martin, Matthew (2024), How to Ensure Debt Sustainability Accelerates Sustainable Development, report to Friedrich Ebert Stiftung and Jubilee USA, June, at https://ny.fes.de/article/how-to-ensure-debt-sustainability-accelerates-sustainable-development.html
79 See for example https://www.emta.org/em-background/the-brady-plan/
80 See https://www.whitecase.com/publications/insight/latin-america-focus/sovereign-debt
81 On this period, see Martin, Matthew, "Neither Phoenix nor Icarus: Negotiating Economic Reform in Ghana and Zambia, 1983-8", in Callaghy, Tom and Ravenhill, John (1990), *Hemmed In: Responses to Africa's Economic Dilemma* (Columbia University Press, New York).
82 On the very successful impact of such operations in relatively rapidly restoring access to private sector trade credit and investment inflows, see M. Malik et al for London Economics (1996), *Costs and Benefits Associated with Commercial Debt Buyback Operations in SSA*, report to UKODA, July, mimeo.
83 See Bhinda, N., Griffith-Jones, S., Leape, J, and Martin, M. (1999), *Private Capital Flows to Africa: Perception and Reality,* FONDAD, available at http://www.fondad.org/publications/FlowsToAfrica.html
84 The current author led the first attempt to link debt sustainability and very detailed (then MDG or rather national development plan) costing needs, in Bolivia in 2007, with funding from GTZ, and led the initial stages of the Benin and Cameroon INFF projects during which estimated costings (as well as for Benin the IMF and UNDP costings) were used.
85 See https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444
86 https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076. For a summary presentation of the study, the case studies and their conclusions, see https://www.imf.org/en/topics/sdg/sdg-financing
87 See for example https://www.imf.org/en/Publications/WP/Issues/2021/04/29/Pakistan-Spending-Needs-for-Reaching-Sustainable-Development-Goals-SDGs-50285
88 On this, see Martin, Matthew and Kripke, Gawain (2023), *A Call to Action to Save SDG10*, policy paper for Development Finance International/Oxfam International/Pathfinders/UNAIDS, available at https://www.development-finance.org/files/SDG10_policy_brief_English.pdf
89 For far more details on this, see Martin (2024) in footnote 77.
90 On these studies, see Martin (2024) cited in footnote 77.
91 SDSN and DFI have pioneered this work at global level. DFI has also pioneered this work on potential financing sources at national level as part of the UNDP-financed INFFs for Benin and Cameroon.
92 Information received from the IMF and World Bank during the writing of Martin (2024).
93 For the GDP Center's excellent work on climate, see https://www.bu.edu/gdp/2024/04/14/defaulting-on-development-and-climate-debt-sustainability-and-the-race-for-the-2030-agenda-and-paris-agreement/
94 The study built on lessons from DRI's 25 years of experience helping countries with debt and poverty reduction strategies, using econometric analysis of 77 IDA borrowers, a 12-country survey, and case studies of Ghana and Rwanda.
95 For much more detail on this, see the Peterson Institute for International Economics blog by Anna Gelpern, Sean Hagan and Adrian Mazarei at https://www.piie.com/blogs/realtime-economic-issues-watch/debt-standstills-can-help-vulnerable-

governments-manage-covid#:~:text=Implementing%20a%20standstill%20would%20require%20coordination%20among%20diverse,These%20creditors%20have%20very%20different%20priorities%20and%20constraints

96 See, for example, Suter, C and Stamm, H (1992), Coping with Global Debt Crises: Debt Settlements 1820 to 1986", *Comparative Studies in Society and History*, 34/3 (October): 645-78.

97 For similar proposals, see van der Stichele, Myriam, *The IIF and Debt Relief*, SOMO, October 2021, page 61.

98 For a strong statement of this proposal, see Volz et l, *Debt Relief for a Green and Inclusive Recovery*, Heinrich Boell Foundation/ Boston GDP Center/SOAS Centre for Sustainable Finance, 2021

99 For realistic expressions of bond market opinion see https://www.bondvigilantes.com/insights/2020/12/emerging-markets-outlook-seven-themes-for-2021; https://www.bondvigilantes.com/insights/2021/04/a-rare-type-of-bear; and https://www.bondvigilantes.com/insights/2020/12/emerging-markets-outlook-seven-themes-for-2021

100 For a magisterial analysis of China's aid to Africa, see Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa*, Oxford University Press, 2009

101 On this, see Martin, M, The Crumbling Façade of African Debt Negotiations, MacMillan 1991

102 On this amount, see https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/08/06/Heavily-Indebted-Poor-Countries-HIPC-Initiative-and-Multilateral-Debt-Relief-Initiative-MDRI-48566, Table AIII15. For an analysis of the types of debt relief terms provided see Gueye et al, Negotiating Debt Reduction in the HIPC Initiative and Beyond; HIPC CBP Publication No.11, Debt Relief International, February 2007, Chapter 4.

103 See www.brookings.edu/blog/africa-in-focus/2020/04/20/china-and-africas-debt-yes-to-relief-no-to-blanket-forgiveness/#:~:text=Forgiving%20zero-interest%20loans%20for%20poor%20and%20least-developed%20countries,150%20such%20loans%20owed%20by%2032%20African%20countries

104 Angola, Benin, Cameroon, Chad, Congo Republic, Ethiopia, the Gambia, Ghana, Mozambique, Myanmar, Niger, Seychelles, Sri Lanka, Sudan and Zimbabwe.

105 For an excellent analysis of Chinese debt relief pre-COVID, see https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/60353345259d4448e01a37d8/1614099270470/WP+39+-+Acker%2C+Brautigam%2C+Huang+-+Debt+Relief.pdf

106 The oft-cited cases of Sri Lanka and Myanmar have been analysed in detail by the SAIS China-Africa Initiative and found to have nothing to do with invoking such clauses.

107 For similar views and an analysis of whether Chinese debt is really massively under-reported, see https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/61774f9037cd225dc2cdf4d7/1635209104652/V5+%28FINAL%29+-10-25-+Briefing+Paper+6+-+Brautigam+and+Huang+-+AidData.pdf

108 For an excellent analysis of Chinese debt relief during COVID, see http://www.sais-cari.org/debt-relief

109 For more on these, as well as analysis of Africa's debt to China, see https://www.africaunconstrained.com/options-for-reimagining-africas-debt-system/

110 On these banks, see https://en.wikipedia.org/wiki/Industrial_and_Commercial_Bank_of_China; and https://en.wikipedia.org/wiki/Bank_of_China

111 For earlier analysis of these issues, see Mistry, Percy, *Multilateral Debt: An Emerging Crisis*, FONDAD, 1994; and Martin, Matthew, Assessing the HIPC Initiative in Teunissen, Jan Joost and Akkerman, Age, eds., *HIPC Debt Relief: Myths and Reality*, FONDAD, 2004.

112 On this see the excellent analysis in https://www.bu.edu/gdp/2024/02/02/now-or-never-mobilizing-capital-for-climate-and-conservation-in-a-debt-constrained-world/

113 See https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/11/30/Issues-in-Restructuring-of-Domestic-Sovereign-Debt-510371

114 See Martin, M, and Johnson, A., *Key Issues in Analysing Domestic Debt Sustainability*, HIPC CBP Publication 5, 2002

115 For more on these issues, see the LATINDADD webinar on domestic debt held on 13 June 2024, their accompanying report at https://latindadd.org/informes/domestic-public-debt/, and the forthcoming briefing from DFI, *Why We Have to Reduce Domestic Debt to Reach the SDGs – and How To Do It*, September 2024, which will be available at www.development-finance.org

116 Debt conversions have recently been very prominently discussed by the UN, World Bank and especially a report by the Heinrich Boell Foundation – see https://boell.org/sites/default/files/2021-07/E-PAPER%20-%20Debt%20Relief%20for%20a%20Green%20and%20Inclusive%20Recovery.pdf?dimension1=division_ip. However, that latter report emphasises that debt conversions must provide genuine debt relief for projects which are debtor country priorities, and not just involve the diversion of money which would have been used for debt service payments, to pay for projects promoted by a creditor. For an excellent in-depth analysis of the pros and cons of debt conversions, see Moye, Melissa, *Overview of Debt Conversions*, HIPC CBP Publication No.4, 2000.

117 For an excellent video presentation of these benefits in Guyana and Uganda, see https://www.worldbank.org/en/topic/debt/brief/hipc . See also African Development Bank (2009), *Debt Relief Initiatives, Development Assistance and Service Delivery in Africa*, for a much more detailed analysis of these advantages.

118 The current author was advisor to developing country negotiators of GPEDC agreements in Paris and Accra.

119 Source: raised by Action Aid Denmark and Oxfam Denmark in interviews for this study.

120 For excellent analysis of latest developments, see https://aidwatch.concordeurope.org/2021-report/ , pages 13-15.

121 This section draws heavily on Chapter 7, "Lawsuits", of *Negotiating Debt Reduction in the HIPC Initiative and Beyond;* HIPC CBP Publication No.11, Debt Relief International, February 2007, and on a DRI advisory report for the UK Treasury in 2009 on legislation to prevent holdouts. See also https://thecommonwealth.org/sites/default/files/key_reform_pdfs/Stop%20Vulture%20Fund%20Lawsuits%20EB.pdf.

122 For more details, *see Negotiating Debt Reduction in the HIPC Initiative and Beyond*, cited in note 104.

123 For references and links on these additional laws, see https://en.wikipedia.org/wiki/Vulture_fund

124 For summaries of the Belgian law see https://www.eurodad.org/new_anti_vulture_fund_legislation_in_belgium

125 For analysis of the French law, see http://www.cadtm.org/Fonds-vautours-La-France-reagit

126 See the G30 report on debt architecture, *Sovereign Debt and Financing for Recovery after the COVID-19 Shock: Next Steps to Build a Better Architecture*, at https://group30.org/publications/detail/4915

127 See https://public-accountability.org/report/pain-and-profit-in-sovereign-debt/#:~:text=In%20the%20past%20few%20

decades%2C%20New%20York%20State,as%20much%20money%20as%20possible%20from%20struggling%20countries
128 For the most recent discussion of these issues, see the DFI Scoping Study for the International Budget Partnership: Martin, Matthew; Maurel, Jose and Hurley, Gail (2024), ***Promoting Public Debt Accountability at the Country Level***, June.
129 An issue raised strongly in IMF and World Bank Board Papers for these countries at the time of the problems.
130 Issue raised by AFRODAD, LATINDADD and IPU in interviews conducted for this study.
131 Most of this section draws strongly on a DFI report for the UK former-DFID entitled *Ensuring Debt Sustainability in Developing Countries Through Productive Expenditure, dated 8 July 2016,* available on request from DFI.
132 https://www.imf.org/en/Topics/sovereign-debt
133 https://www.worldbank.org/en/topic/debt/publication/report-debt-transparency-in-developing-economies
134 The two best-performing widespread systems are those of the Commonwealth Secretariat (Meridian, formerly CS-DRMS), which is used by more than 60 countries – for more details see https://thecommonwealth.org/public-debt-management-programme ; and of UNCTAD (DMFAS) which is used in 58 countries - for more details see https://unctad.org/dmfas/
135 For an excellent example of this, built on assistance from the Commonwealth Secretariat, DFI and the now defunct Pole-Dette at BEAC, see Cameroon's annually-revised *Three-Year Debt Strategy and Financing Plan*, at http://www.caa.cm/index.php/en/10-public-debt/755-document-de-strategie-d-endettement-public-et-de-gestion-de-la-dette-publique-2021-2023. The broader public debt sections of the CAA website are also exemplary for debt reporting.
136 Statistics from World Bank DMF Ten-Year Retrospective report, at https://documents1.worldbank.org/curated/en/387981607701888048/pdf/Debt-Management-Facility-10-Year-Retrospective-2008-2018.pdf . It is important to note that all numbers may be somewhat inflated because only yes or no answers were considered – don't know or more detailed answers were not.
137 One of the best of these is Vietnam to which UNCTAD has provided assistance on debt recording and reporting internal to government for over a decade and DFI provided assistance on finalising their new public debt management transparency laws and regulations during 2017-18. For details of best practices on debt reporting to the public in developing countries, see *Public Debt Reporting in Vietnam: Improving Transparency and Accountability,* May 2018, mimeo (available on request from DFI).
138 For much more detail on best practice in achieving accountability to domestic stakeholders in the global South, see the DFI Scoping Study for the International Budget Partnership: Martin, Matthew; Maurel, Jose and Hurley, Gail (2024), ***Promoting Public Debt Accountability at the Country Level***, June.
139 For an excellent example of best practice in this area, see DFID REPORT and RWA PRESENTATION TO OIF SEMINAR.
140 In principle these aspects will usually be already presented in the budget or the national development plan, so there may not be a need for them to be repeated in budgetary discussions of debt.
141 For much more detail on what could be done and funded, see Martin, Maurel and Hurley, cited in note 137
142 See https://clubdeparis.org/en/communications/press-release/the-paris-club-releases-comprehensive-data-on-its-claims-as-of-31-5
143 The information arising from these pages and other sources can also now be found publicly available at https://www.bu.edu/gdp/chinese-loans-to-africa-database/
144 For a description of the principles underlying such voluntary reporting, see https://www.iif.com/Publications/ID/3387/Voluntary-Principles-For-Debt-Transparency . For information on the OECD Debt Transparency Initiative see https://www.oecd.org/finance/oecd-debt-transparency-initiative.htm
145 See for example https://jubileedebt.org.uk/tag/odious-debt;
146 On the Norwegian example, see https://slettgjelda.no/rapporter/why-norway-took-creditor-responsibility
147 https://www.oecd.org/general/oecdcountriesagreesustainablelendingprinciplesforofficialexportcredits.htm
148 See https://unctad.org/topic/debt-and-finance/Sovereign-Lending-and-Borrowing#:~:text=The%20UNCTAD%20Principles%20on%20Promoting%20Responsible%20Sovereign%20Lending,applicability%20to%20realm%20of%20sovereign%20debt%20crisis%20prevention.
149 See https://digitallibrary.un.org/record/804641
150 I am most grateful to officials from various OECD governments for updating me on the latest developments in this area and making suggestions for how enforcement of the principles could work.
151 See Action Aid Denmark 2021, https://www.ms.dk/sites/default/files/publikationer//klimalederskab_ms._marts_2021.pdf , which has recently borne fruit in a decision by the Danish government to stop its Export Credit Agency funding fossil fuel projects in developing countries.
152 I am most grateful to Anne Sipilainen, former Under Secretary for Development Cooperation and current Finnish Ambassador to Germany (+49 30 505 030 embassy switchboard) for discussing this in relation to Finnish development cooperation back in 2015, and it was subsequently introduced as an action plan policy for climate-smart foreign policy see https://um.fi/action-plan-for-foreign-policy-on-climate-change . Anna Ryott, the former head of Swedfund, was particularly involved in trying to promote a common Nordic+ set of responsible lending principles for DFIs in 2014-16, but it is not clear whether these have been fully adopted by all Nordic or Nordic+ governments.
153 I am most grateful to the Commonwealth Secretary General, Baroness Patricia Scotland, who was previously the UK Attorney-General who steered this law through parliament, for this information; and to Shari Spiegel of the UNFSDO and Anna Gelpern of Georgetown University for taking me through the legal complexities and practical possibilities of dealing with corrupt, predatory and odious debt. the case of Mozambican debt.
154 See https://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=3088&context=facpub for a fascinating review of how this came to be
155 See for example https://www.alllaw.com/articles/nolo/foreclosure/predatory-lending-practices.html for a simple explanation of how such laws apply in the US to home ownership loans and foreclosure practices.
156 For the full legal text of the UNCAC, see https://treaties.un.org/doc/Treaties/2003/12/20031209%2002-50%20PM/Ch_XVIII_14p.pdf
157 The exceptions are Eritrea, North Korea and Suriname. Some countries have only "acceded" to UNCAC, but this has the same legal force as ratification – see ask.un.org/faq/14594#:~:text=Accession%20usually%20occurs%20after%20the%20treaty%20has%20entered,involved%20depend%20on%20the%20provisions%20of%20the%20treaty
158 This report does not go into the details of what such an article would contain, as that would be left to a legally-driven and

negotiated process of drafting.
159 See https://archive.globalpolicy.org/social-and-economic-policy/social-and-economic-policy-at-the-un/reform-of-ecosoc-and-the-social-and-economic-policy-process-at-the-un/47509.html
160 For an extremely useful overview of such proposals, see Kayser, Jurgen, "Taking Stock of Proposals for More Ordered Workouts", in Herman, Ocampo and Spiegel, eds., *Overcoming Developing Country Debt Crises*, Oxford University Press, 2010.
161 For more on the GSDR, see https://www.worldbank.org/en/topic/debt/brief/the-global-sovereign-debt-roundtable-gsdr
162 Norway was involved in early discussions on funding the HIPC Capacity-Building Programme but eventually decided to fund various UN processes instead.
163 The countries involved were Benin, Burkina Faso, Cameroun, Central African Republic, Chad, Congo, DR Congo, The Gambia, Ghana, Guinea, Haiti, Madagascar, Mozambique, Rwanda, Senegal and Togo.
164 The additional countries compared to note 80 are Burundi, Cambodia, Comoros, Cote d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Mauritania, Niger, Sao Tome and Principe, Vanuatu and Viet Nam.
165 The member states covered by MEFMI are Angola, Botswana, Burundi, Eswatini, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe.
166 Since 2018, this author has consulted directly with officials from Afghanistan, Bolivia, Ethiopia, Guyana, Honduras, Liberia, Maldives, Mongolia, Nepal, Nicaragua, Nigeria, Papua New Guinea, Sierra Leone, Somalia, South Sudan, Sudan, Timor-Leste and eight member countries of the Eastern Caribbean Central Bank (ECCB)
167 WAIFEM member states are the Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.
168 For more details see https://thecommonwealth.org/public-debt-management-programme
169 For more details see https://www.development-finance.org
170 For more details, see https://mefmi.org/programmes/debt-management/
171 For more details see http://waifem-cbp.org/Debt%20Management.html
172 For more details see https://unctad.org/dmfas/HomePage
173 For more details see https://www.worldbank.org/en/topic/debt/brief/debt-management-facility
174 The IMF "Low-Income Developing Countries" category includes 59 countries,
175 https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/12/11/Macroeconomic-Developments-and-Prospects-in-Low-Income-Developing-Countries-2019-48872
176 Data from IMF World Economic Outlook October 2021 database forecast for end-2021.
177 For a powerful statement of how small current efforts are in comparison to the world economy, see Jeffrey Sachs speaking to the UN Food Systems Pre-Summit for the 2021 G20. "The world economy is US$100 trillion a year. All I know is long division. Divide by US$100 trillion and you will see whether you are talking about something significant or not". https://www.jeffsachs.org/recorded-lectures/5jf86pp5lxch35e6z3nct6xnmb8zy5
178 For details, see Hurley, Gail and Martin, Matthew (2024a), *Financing the End of AIDS as a Public Health Threat*, reports to UNAIDS, forthcoming September 2024, and Hurley, Gail and Martin, Matthew (2024b), *Debt Swaps for School Meals,* report to Sustainable Financing Initiative (SFI) for School Health & Nutrition, forthcoming September 2024.
179 See Matthew Martin with David Waddock, *Funding the Post-COVID Recovery: The Role of Progressive Tax Policies*, research report to Pathfinders Initiative on Inequality, March 2021.
180 For an excellent analysis of this issue, see https://www.cgdev.org/publication/ida-20-donors-must-go-big-and-ida-must-too
181 For the latest 2019 OECD data on country programmable aid (US$56.4 billion), see https://stats.oecd.org/Index.aspx?DataSetCode=CPA. This compares with US$157 billion of ODA in 2019 – see https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf#:~:text=In%202020%2C%20official%20development%20assistance%20%28ODA%29%20by%20member,equities%20to%20private%20companies%20operating%20in%20ODA-eligible%20countries.
182 https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf#:~:text=In%202020%2C%20official%20development%20assistance%20%28ODA%29%20by%20member,equities%20to%20private%20companies%20operating%20in%20ODA-eligible%20countries.
183 See https://www.uneca.org/?q=events/launch-of-the-liquidity-and-sustainability-facility
184 For recent reliable assessments of the degree to which the IFIs are failing to achieve this, see IEO, IEG, Eurodad assessments.
185 Available at https://www.imf.org/en/Publications/WEO/weo-database/2021/October
186 Available at https://www.worldbank.org/en/programs/debt-statistics/publications
187 Available at https://www.governmentspendingwatch.org/spending-data
188 Summary data available at www.inequalityindex.org. Detailed data available on request from DFI.
189 see https://www.bloombergquint.com/global-economics/africa-eyes-own-brady-plan-as-debt-relief-proposal-takes-shape
190 see https://www.un.org/sites/un2.un.org/files/liquidity_and_debt_solutions_to_invest_in_the_sdgs.pdf
191 d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/523/attachments/original/1590689165/We_can_work_it_out.pdf?1590689165

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