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The new debt crisis and what to do about it

Policy proposals and political opportunities

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Executive Summary

Global debt levels have been surging constantly over the past decade, and the need to fight the COVID-19 crisis with running fiscal deficits and borrowing money has been a further shock to global economies. While central bank interventions have been keeping interest rates low in the global north, countries in the global south are particularly vulnerable to crisis because they owe large amounts of external debts. The risk of debt crisis is high and debt service costs are rising rapidly. Each dollar spent on debt service in low-income countries is a dollar that is not being spent on financing sustainable development, securing human rights and recovering from the COVID-19 crisis.

In March 2020, the United Nations Conference on Trade and Development (UNCTAD) estimated that debt cancellations to the tune of US$ 1 trillion would be needed to help developing countries to recover from the pandemic.[2] The international community has taken some steps towards addressing this problem. However, this

1 The author would like to thank Kristina Rehbein (erlassjahr.de) for her substantial comments and inputs.

2 https://unctad.org/news/un-calls-25-trillion-coronavirus-crisis-package-developing-countries

BRIEFING

has had marginal results in practice. The G20's Debt Service Suspension Initiative (DSSI), adopted in April 2020, has suspended – not cancelled – the rather token sum of US$ 5.7 billion in 2020. The G20's Common Framework on Debt Treatments beyond the DSSI, which was adopted in November 2020, had achieved nothing in terms of actual debt relief by June 2021. With that in mind, the questions of how to tackle ever more severe debt problems, and what debt architecture reforms are needed to do so, are both high on the agenda.

This paper briefly maps the current sovereign debt landscape as well as the inefficiencies in the current crisis management system and assesses some of the old and newer proposals to tackle debt crises. A key challenge is the absence of effective institutions for sovereign debt workouts in the international financial architecture. The issue is not new, but it resurfaces every time a larger wave of debt crisis strikes. A substantial number of policy proposals for debt workout mechanisms have been put forward by international institutions such as the International Monetary Fund (IMF) and the United Nations (UN), as well as by academics and civil society organizations (CSOs).

Additional challenges include how to improve debt transparency. The introduction of public bondholder registries has been suggested to make the ownership of bonds more transparent. This would facilitate debt restructuring processes and would improve accountability overall. Moreover, debt sustainability frameworks and assessment methods should be revised to better reflect the implications of a country's debt situation on its ability to fulfill its human rights obligations, which requires fiscal space. Multidimensional vulnerabilities – for example, to climate change and the natural disasters it causes – should also be taken into account.

Since the beginning of the COVID-19 crisis, a large number of new reform proposals have been suggested, and old proposals have been revived. International institutions such as the UN, the IMF and the G20 have discussed these measures in parallel, but the move from policy debate to reform in practice has still not happened. We finish this briefing by looking at the political calendar for the rest of 2021 and highlighting the political opportunities and key moments for reform.

1. The new wave of debt and debt crises

Around the world, debt stocks have reached levels that have never been seen before. In both developed and developing countries, public and private debt levels have been rising at a fast pace in recent years.

The COVID-19 crisis was a significant shock that had a major impact on debt levels. Governments responded to the pandemic with stimulus packages, scaled-up social protection, tax breaks and fiscal measures of all sorts. Funding these measures required running fiscal deficits and borrowing money. Furthermore, the global recession has lowered global Gross National Income (GNI) by an estimated 5.3 per cent in 2020.[3] Public Debt to GNI ratios, the key indicator for debt stocks, consequently jumped in 2020, due to a combination of higher government borrowing needs with lower gross national incomes.

In developed countries, central banks substantially scaled up their asset purchase programmes in the context of the pandemic.[4] Their interventions also secured an interest rate environment in which developed country governments could borrow at interest rates near zero, or sometimes even below zero. Public debt levels in developed countries are therefore considered unproblematic. The IMF's Board of Governors advised against an early phasing out of government stimulus in the crisis.[5]

The situation is more problematic in the global south, where external debt owed to foreign creditors and/or denominated in foreign currency is a more dominant form of debt. Domestic central banks cannot step in when debt service is due in a foreign currency, or only to the extent that 'hard' currency reserves are available, by exhausting their currency reserves. Generally, governments in developing countries borrow at higher costs, which makes funding public services or investments through borrowed money difficult. Even Public Development Banks – such as the World Bank, the European Investment Bank (EIB) or KfW – charge higher interest rates for their so-called concessional

3 https://sustainabledevelopment.un.org/content/documents/27610SG_SDG_Progress_report_2021.pdf
4 https://www.bis.org/publ/work934.pdf, p. 13–15.
5 https://www.imf.org/en/News/Articles/2021/04/08/communique-of-the-forty-third-meeting-of-the-imfc

loans than governments like those of Germany pay for market-based finance.[6] The IMF has also been criticized recently for the high surcharges that its borrowers have to pay, in spite of their difficult financial situation.[7]

It is highly problematic that an increasing share of debt is owed to private creditors, even in low-income countries, many of which are now being called "frontier markets" by private investors and the IMF, since they have recently started to borrow on international financial markets. Private creditors charge very high interest rates: fixed annual coupons paid on some bond series amount to more than 9 per cent in Angola and even more than 10 per cent in Ghana, in foreign currency (US dollars).

Private debt also lacks transparency: A recent research report by Eurodad tried to shed a light on 549 sovereign bonds issued by middle- and low-income countries and concluded that there were severe transparency deficits when it comes to the terms and clauses of bonds, and the participants in bond markets. The latter means that the holders of bonds and ultimate beneficiaries of payments are unknown, which causes a wide range of problems, including that it facilitates tax dodging, and makes convening creditors for a speedy, fair and comprehensive debt restructuring process difficult.[8]

Moreover, private capital is highly volatile – "footloose" in UNCTAD's terms.[9] Developing countries faced severe capital flight in the early days of the COVID-19 crisis – triggering debt-related decisions that aimed to ease liquidity constraints. The most prominent of these have been the G20's DSSI –agreed on in April 2020 – and, more recently, the IMF agreement to allocate additional Special Drawing Rights (SDR). An SDR issuance provides fresh finance in hard currency and thus can help countries facing a liquidity squeeze to avoid a default on their debt payments. Such measures help to avoid defaults for a while, but do not actually reduce debt levels. For countries facing a fundamental solvency problem, receiving SDRs could be counterproductive unless this goes hand in hand with debt restructuring, as it otherwise allows them to pay a few more instalments to their (private) creditors, while procrastinating over an unavoidable debt restructuring.

A key challenge in COVID-19 times is debt-servicing costs, which have been rising substantially due to the large volumes of expensive debts that many countries have racked up in recent years. Each US dollar or unit of fiscal revenue that is spent on debt service is not available for the investments needed to counter the COVID-19 crisis and achieve the Sustainable Development Goals (SDGs). CSOs working towards debt justice such as Eurodad have calculated that – in the midst of a severe health crisis – at least 62 countries spent more on debt service than on healthcare in 2020. In total, governments of developing countries have spent US$ 194 billion more on servicing external public debts in 2020 than they received in new transfers such as loans – more than the total value of Official Development Assistance (ODA) in the same period.[10] This means "debt" became a significant source of net resource transfer from poorer to richer countries, and thus a significant constraint for development financing and poverty eradication.

In light of high and rising debt service costs, it becomes increasingly difficult for governments to mobilize and protect the fiscal resources needed to fulfil their human rights obligations towards their citizens. This is especially the case in the area of economic and social rights, which require adequate public service provision. Despite requests by the UN Human Rights Council, there is little evidence that governments respect the "primacy of human rights over debt service".[11] A key challenge remains that financial obligations towards creditors are very explicit in loans contracts and bonds, while human rights spending needs are not explicitly quantified. The UN Human Rights Council has therefore requested human rights impact assessments, but these are not systematically conducted in heavily indebted countries.[12]

It should also be noted that private creditors and their lobby groups have a strong influence over the discourse. In the context of the DSSI and the G20 common framework, private creditors established the narrative that debt relief would not be in the in-

6 The interest rate for the World Bank's concessional facility – the International Development Association (IDA) – was 1.7 per cent in Q4 2020. KfW refused to disclose its payment terms when contacted for this research, citing "business confidentiality".

7 https://www.ft.com/content/cc82f5bf-36c6-454f-b7f0-a4a18576ff2b

8 https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/2307/attachments/original/1621949568/sovereign-bond-report-FINAL.pdf?1621949568

9 https://unctad.org/es/node/2276 or https://unctad.org/system/files/official-document/tdr2020overview_en.pdf

10 https://www.eurodad.org/2020_debt_crisis, p. 1–2.

11 https://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session20/A-HRC-20-23_en.pdf

12 https://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/DebtAndimpactassessments.aspx

terest of debtor countries while staying current on their debt service would prevent countries from losing their 'hard-won' market access. This effectively persuaded some governments and prevented eligible countries from participating in the initiatives and gaining additional fiscal space to finance the COVID-19 crisis response and secure human rights.[13]

Despite strongly deteriorating debt ratios and widespread concerns about a coronavirus-related systemic debt crisis, only six countries defaulted in 2020. Reasons for this include the fact that debt service suspension through the DSSI took some pressure off low-income countries, while sovereign debtors in all countries benefitted from the large volumes of liquidity created by central banks of the global north – a share of which was invested in developing country bonds, in search of high yields. However, many countries have also started to prioritize debt service in budget allocations over spending on essential services. In 2021, 154 countries are expected to implement austerity-related spending cuts.[14]

The number of countries facing payment problems is expected to rise quickly when central banks in the global north change the trajectory of their monetary policy, raise interest rates and phase out the asset-purchase programmes that have flooded financial markets with liquidity recently. The amount of maturing debt that developing countries need to roll over will rise significantly in the coming years (see Figure 1). This will be difficult to achieve when financial markets become less liquid and new debts generally become more expensive. In this context, it is key that national policy-makers and the international community take the necessary steps to weather the storm.

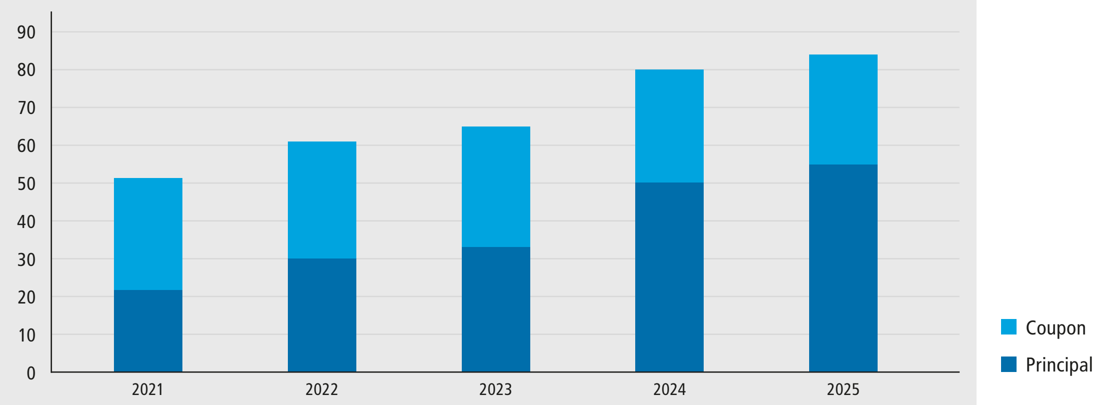
2. Debt cancellation – Existing approaches and challenges

Indebted countries' debt stock consists of different debt categories. A key criterion for distinction is to whom the debt is owed. Multilateral debt can be owed to the IMF or to the World Bank, or to any other of the 46 Multilateral Development Banks (MDBs).[15] Official bilateral debt can be owed to a "Western" government that is a member of the Paris Club, or to an "emerging" creditor – the largest one today is China. Private creditors can range from commercial banks to commodity traders and bondholders – the latter are extremely dispersed.

This creditor fragmentation becomes a problem when it turns out that it is impossible for a debtor to continue servicing debt. There is no space where the whole debt stock can be treated in one single, comprehensive process. An attempt to get debts cancelled thus requires setting a myriad of parallel processes in motion, which is especially problematic for countries with low administrative and negotiating capacities.

Figure 1

Repayment schedule of sovereign bonds of developing countries
(excluding China) – US$ billions (2021–2025)



Source: Eurodad calculations based on Relinitiv data.

13 Rehbein, K. and Kaiser, J. (2021): „Nie wieder einen Kredit – wie Gläubiger verschuldete Länder mit dem Ausschluss vom Kapitalmarkt bedrohen"; Perspective Economy and Finance: Friedrich-Ebert-Stiftung (forthcoming).

14 https://policydialogue.org/files/publications/papers/Global-Austerity-Alert-Ortiz-Cummins-2021-final.pdf

15 There are about 450 Public Development Banks worldwide, of which 46 are multilateral banks: https://afdshiny.shinyapps.io/developmentbanksdatabase/

Multilateral debt relief

Multilateral debts are difficult to restructure, because multilaterals claim a preferential creditor status, which de facto exempts them from debt treatments. There are only few historic examples where multilateral debt was cancelled, such as the Multilateral Debt Relief Initiative (MDRI).[16]

More recently, the IMF has set up the Catastrophe Containment and Relief Trust (CCRT) to finance debt service relief related to outstanding IMF loans. Since the beginning of the COVID-19 crisis, 29 IMF borrower countries became eligible for CCRT-funded relief. By April 2021, debt service worth SDR 519 million (about US$ 736 million or €626 million) has been cancelled.[17] The World Bank refused point blank to offer any debt relief – despite hefty criticism of the lack of private creditor participation in the DSSI by its President David Malpass.

Neither MDRI nor CCRT are really a net gain for the global south. The multilateral institutions expect that bilateral donors will cover the revenue lost by contributing to trust funds, which they do by making transfers to MDBs from their development budgets. That means that every dollar of ODA that goes to the funds is a dollar that is not transferred to developing countries as country programmable aid.

Proposals have been made to address this problem: For example, the IMF could sell a share of its gold reserves to finance the CCRT. The gold reserves are massively undervalued in the IMF's own account.[18] A second proposal is that the CCRT – or similar facilities to cover debt cancellation at other MDBs – could be funded through unused Special Drawing Rights (SDRs) held by the economically more powerful IMF member states.[19]

Bilateral debt relief

The treatment of bilateral debt has been left to the Paris Club for many decades. The Paris Club is an informal creditor body made up currently of 22 member countries convened by and in the French Ministry of Finance. While the Paris Club itself proudly communicates that it has reached 473 agreements for more than 100 countries for a total amount of US$ 589 billion since it was founded in 1956,[20] critics argue that this high number of repeat restructurings rather proves that the Paris Club is incapable of finding sustainable solutions to debt crises.[21]

Debtors negotiate with other creditors, especially emerging markets (often referred to as "Non-Paris-Club-creditors") such as China or Russia, which are outside the Paris Club. In recent years, the share of Paris Club members in countries' bilateral official debt has shrunk and therefore the influence of the Club has been reduced, while the share of Non-Paris Club creditors has risen dramatically. The discomfort by Western nations about this situation has led to negotiations in the G20 with non-Paris-Club creditors such as China about a joint approach. In November 2020, the G20 adopted the so-called "Common Framework for Debt Treatments beyond the DSSI".[22] By the time of writing, three countries had requested treatment – Chad, Ethiopia, and Zambia – and none had received debt relief through the Common Framework, which is why little can be said about its functioning or effectiveness at this stage, except that it does not provide a speedy solution to debt crisis either.

Private debt relief

Debt restructurings, including partial cancellation of debt owed to private creditors, are not uncommon. When private creditors lend to private debtors, insolvencies tend to go relatively smoothly, because insolvency laws set a clear and predictable legal framework for the parties, and insolvency courts or similar bodies can make binding decisions. Risk premiums, i.e. higher interest rates, charged on loans to less solvent debtors compensate creditor institutions for the occasional write-off when a debtor is declared bankrupt.[23]

The situation is different when it comes to private lending to sovereign debtors. Here, private creditors charge high risk premiums too: Developing

16 The MDRI was agreed in 2005 as an amendment to the Heavily Indebted Poor Countries (HIPC) initiative, and cancelled debt owed to the World Bank, the IMF, the African Development Bank and the Inter-American Development Bank.
17 https://ec.europa.eu/international-partnerships/news/global-recovery-eu-disburses-sdr-141-million-imfs-catastrophe-containment-and-relief-trust_fr
18 https://www.theguardian.com/business/2020/oct/11/campaigners-urge-imf-to-sell-gold-to-provide-debt-relief
19 https://www.theglobalist.com/coronavirus-covid19-pandemic-debt-relief-imf-world-bank-sdrs-ccrt/
20 https://clubdeparis.org/
21 https://www.eurodad.org/the_evolving_nature_of_developing_country_debt_and_solutions_for_change
22 https://clubdeparis.org/sites/default/files/annex_common_framework_for_debt_treatments_beyond_the_dssi.pdf
23 https://cpb-us-w2.wpmucdn.com/campuspress.yale.edu/dist/8/1581/files/2021/04/Panhecke-Bohoslavsky-Interest-Rates-Human-Rights.pdf

countries pay substantially higher interest rates for dollar or euro loans than the USA or Germany.[24] However, the process becomes chaotic when payment difficulties occur. There is no international insolvency law for sovereign debt, and no court for decision-making or enforcement. Loans and bonds contain a variety of contractual clauses that are supposed to facilitate debt restructurings, but national courts tend to interpret them differently. The system lacks legal certainty.

Economically, there is a perverse incentive for each individual creditor to hold out and become free-riders. A creditor that does not participate in a debt restructuring process might be lucky that the participation of other creditors has restored the debtors' payment capacity – enabling the debtor country to fully repay this particular loan. This collective action problem undermines full participation in debt restructurings, punishes first movers and thus delays debt crisis solutions because "waiting and seeing" becomes a rational choice for individual creditors. Furthermore, some bankers and fund managers face legal or reputational barriers to participating with their clients' money, unless it becomes clear that there is really no other choice. Voluntary participation of private creditors in sovereign debt restructurings is therefore unlikely to happen.

These issues surfaced again during 2020. When the G20 offered low-income countries the chance to suspend debt service on bilateral loans through the DSSI in April 2020, it included a call to private creditors to participate voluntarily. To date, there has been no participation at all. The Institute for International Finance developed a term sheet for private creditor participation, but it had no effect in practice.[25] The non-participation of private creditors has caused discontent among public financiers, who are aware that recipient countries use shares of their saved debt service and other funds they receive to bail out private creditors. World Bank President David Malpass and Germany's delegate Jakob von Weizsäcker – representing two of the world's largest development funders – were very explicit about this in the UN debates on "Financing for Development in the Era of COVID-19 and Beyond" in September 2020.[26]

While the G20's Common Framework is essentially just a tool to improve coordination among bilateral public creditors, it also claims to ensure equal private creditor participation. It requests "comparability of treatment" by debtors that request treatment of their bilateral debts, meaning that they are supposed to negotiate a reduction along similar lines to their private creditors. However, the Common Framework does not include any elements of support for debtors that enter into tough negotiations with private creditors and the plethora of specialized lawyers they employ.

Ensuring comparability of treatment has been a challenge in the past. In several cases, commercial creditors initiated litigation cases against HIPCs, for example, instead of agreeing to debt relief on terms comparable to their public counterparts.[27] The IMF admits that currently moral persuasion is the only instrument to encourage commercial creditors to participate in debt relief, which is in practice not always effective.[28] In order to stop the burden of seeking all creditors' participation falling solely on the debtors' shoulders, when they have no means to enforce participation, the African Development Bank also started to demand that G20 creditor governments take steps that facilitate the participation of private creditors, many of which are based in G20 countries.[29]

The only "stick" that the Common Framework includes is to make the disbursement of IMF loans conditional on entering into negotiations with private creditors. The intended impact is that the debtor runs out of currency and loses the ability to pay, which is supposed to convince private creditors to cave in. However, that currency is also needed to pay for imports of essential goods, such as medicines, so the effects might be fatal for the population. The country assessments by the UN's Independent Experts on External Debt and Human Rights show that governments are already often prioritizing the use of scarce public funds for debt service over the provision of essential services, thereby failing when it comes to their human rights obligations towards their citizens.[30]

24 https://cpb-us-w2.wpmucdn.com/campuspress.yale.edu/dist/8/1581/files/2021/04/Panhecke-Bohoslavsky-Interest-Rates-Human-Rights.pdf
25 https://www.iif.com/Portals/0/Files/content/Regulatory/Voluntary%20Private%20Sector%20Terms%20of%20Reference%20for%20DSSI_vf.pdf
26 https://www.un.org/en/coronavirus/meeting-of-finance-ministers
27 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 AIII16.
28 https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative
29 https://www.afdb.org/en/documents/african-economic-outlook-2021 .
30 https://www.ohchr.org/en/issues/development/iedebt/pages/iedebtindex.aspx

An additional problem for fair burden-sharing under the Common Framework is that each of the public creditors can decide for themselves if and how much debt cancellation they are prepared to give. All in all, the Common Framework lacks the necessary features to ensure a fair and comprehensive debt restructuring process, as principal deficits of the current debt management regime remain. The state of play is that the Common Framework so far has not delivered any debt relief, either from private creditors or from G20 or Paris Club creditors. Such deficits imply that there is further need for a new debate about the effectiveness of the current debt architecture for providing fair, sustainable and speedy solutions to sovereign debt crisis.

3. Reforming the debt architecture – Policy proposals

As effective institutions for debt restructuring are helpful when a company or individual becomes bankrupt, it seems straightforward that sovereign debt restructurings would also benefit from similar institutions. Concrete proposals for a more comprehensive rules-based mechanism have been made as early as the 1930s. With every new wave of crisis, the idea resurfaces:

After the crises in Asia in 1997 and Latin America in 2002

» In 2002, IMF staff came up with a proposal for a Sovereign Debt Restructuring Mechanism (SDRM),[31] after then Deputy Managing Director Anne Krueger launched a campaign to fill the "gaping hole" in the international financial architecture. Similar to insolvency law, the SDRM would provide legal protection for debtors and ensure that debt restructuring decisions were binding for all creditors.[32]

» The proposal for a Fair and Transparent Arbitration Procedure (FTAP), developed with academics such as Kunibert Raffer, was put forward as a counter-proposal by CSOs, which found that the SDRM proposal gave too much power to the IMF. The FTAP advocates a needs-based approach, insists that a debt restructuring must support the government in financing the essential needs of the population, with debt service being a residual expense.[33]

After the global financial crisis

» An expert group convened by UNCTAD released the Roadmap and Guide for Sovereign Debt Workouts in April 2015.[34] The expert group suggested setting up a Debt Workout Institution that could facilitate comprehensive restructurings of all debt categories in a single process.

» An ad hoc committee of the UN General Assembly (UNGA) intended to develop a Multilateral Legal Framework for Sovereign Debt Restructurings,[35] which resulted in the adoption of the Basic Principles for Sovereign Debt Restructuring Processes in 2015.[36] Similar to the SDRM, the UNGA attempted to create legal certainty, but the Basic Principles remain soft law that are lacking teeth in practice.

Before the COVID-19 crisis

» Just a few months before the COVID-19 pandemic broke out, CSOs adopted a collective position on sovereign debt workouts. The position maintains some flexibility in terms of the actual design of institutions, but defines a set of 10 principles to guide and frame policy-making in this area (see Box 1).

4. Reforming the debt architecture – Recent political processes

The outbreak of the COVID-19 crisis has created a new political dynamic around debt relief and debt architecture reforms. Debt was the most prominent issue at the UN's special initiative on Financing for Development in the Era of COVID-19 and Beyond, which started in May 2020. Two intergovernmental discussion groups developed policy options related to tackling "debt vulnerabilities" and improving "private creditors engagement", which eventually entered into a "Menu of Policy Options".[37] Among the ideas in the area of debt crisis resolution was

31 https://www.imf.org/external/pubs/ft/exrp/sdrm/eng/sdrm.pdf
32 https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp112601
33 http://thomas-fritz.org/file_download/19/FTAP-Thomas-Fritz-Philipp-Hersel-en.pdf, see also https://library.fes.de/pdf-files/iez/10263.pdf
34 https://unctad.org/system/files/official-document/gdsddf2015misc1_en.pdf
35 https://digitallibrary.un.org/record/780052?ln=es
36 https://digitallibrary.un.org/record/820120
37 https://www.un.org/en/coronavirus/financing-development and https://www.globalpolicy.org/en/publication/financing-sustainable-development-era-covid-19-and-beyond-analysis-and-assessment

Box 1

Principles for a sovereign debt workout mechanism

10 Key Civil Society Principles

1.
Creation of a body independent from creditors and debitors

2.
Process may be initiated by borrower and the institution of automatic stay will apply

3.
Initiation of the process should trigger a stay on creditor litigation and enforcement

4.
Comprehensive treatment of a country's debt stock in a single process

5.
Inclusive participation of all stakeholders

6.
Independent assessment of debt sustainability and the validity of individual claims

7.
Focused on debt sustainability that puts needs of population before debt service

8.
Respect for international human rights law and the realisation of international development commitments

9.
Transparency: negotiations and their outcomes must be made public

10.
Enforceability

Source: Eurodad et al.[38]

the proposal for an international Sovereign Debt Authority that is independent of creditor and debtor interests "with a view, ultimately, to advance a blueprint for a multilateral Sovereign Debt Workout Mechanism".[39] However, the high-level political discussions of decision-makers that followed in 2020 were insufficient to take this forward.

To create more political momentum, the UN Secretary-General António Guterres convened a "Meeting of Heads of State and Governments on the International Debt Architecture and Liquidity", as part of the Financing for Development in the Era of COVID-19 and Beyond initiative in March 2020. The event included impressive participation by political leaders from developed and developing countries alike.40 Bold statements emerged from the event, but no concrete reform steps were agreed. However, this indicates that awareness of the need for debt architecture reform is high on the political agenda.

To inform these debates, the UN Secretary-General has issued a thematic policy brief titled "Liquidity and Debt Solutions to Invest in the SDGs".41 However, the policy brief circumvents the political 'hot potato' that is a debt workout mechanism, and focuses on politically less ambitious incremental reform steps, such as:

» Improving debt transparency

» Promoting responsible lending and borrowing

» Making debt instruments state contingent, so that debt standstills kick in automatically

» Introducing vulture fund legislation in key financial centres.

It vaguely indicates that the G20's Common Framework could be a step towards a more universal and permanent framework for sovereign debt resolution,[42] suggests extending the Common Framework to other vulnerable countries, and discusses complementary initiatives beyond the Common Framework to facilitate debt and debt service relief.[43]

38 https://www.eurodad.org/debtworkout
39 https://www.un.org/sites/un2.un.org/files/financing_for_development_covid19_part_ii_hosg.pdf, p. 110.
40 http://webtv.un.org/watch/high-level-meeting-with-heads-of-state-and-government-on-the-international-debt-architecture-and-liquidity-financing-for-development-in-the-era-of-covid-19-and-beyond-initiative/6245248843001/
41 https://www.un.org/sites/un2.un.org/files/liquidity_and_debt_solutions_to_invest_in_the_sdgs.pdf
42 https://www.un.org/sites/un2.un.org/files/sg_policy_brief_on_liquidity_and_debt_solutions_march_2021.pdf, p. 11.
43 Ibid., p. 12.

Finally, the Secretary-General suggests "a global forum for sovereign debt resolution and coordination to build consensus for new norms and standards for debt transparency and management, considering options of mediation and arbitration in debt restructuring."[44] The Sovereign Debt Forum also became one of the hot issues of the 2021 UN Financing for Development (FfD) Forum in April. The zero draft – which was the basis for the intergovernmental negotiations – included the agreement to create such a Forum. However, it got taken out during the negotiation process, as some parties intervened, and FfD Forum outcomes require unanimous consensus by all 193 UN Member States.[45]

Parallel to the UN, other international bodies such as the IMF and the G20 also continue to discuss debt architecture reforms. At the IMF, however, these were overshadowed by the recent agreement to issue additional Special Drawing Rights worth US$ 650 billion. The G20, for the time being, hopes that the Common Framework is going to prove itself to be effective.

There is also a certain dynamic in the area of improving debt transparency. The introduction of public bondholder registries has been suggested to make public who is holding bonds, including in the context of the recent debt crisis in Argentina.[46] This would facilitate debt restructuring processes and improve accountability overall. A recent initiative by the private banks' Institute of International Finance – in response to a lending scandal in Mozambique involving private banks – eventually led to the so-called Organisation for Economic Co-operation and Development (OECD) debt transparency initiative.[47] However, this is very limited in scope, and has been heavily criticized by CSOs globally.[48]

Lastly, the discussion on better debt sustainability assessments (DSAs) and frameworks continues. There remains the need for debt sustainability assessments that better reflect the implications of a country's debt situation on its ability to fulfill its human rights obligations, which requires fiscal space that can be squeezed through high debt service costs.

A second dimension is how to better reflect multidimensional vulnerabilities in DSA, for example, to climate change and the natural disasters it causes. The IMF announced it would improve its debt sustainability analyses in this regard. However, the outcome of this process is uncertain at this stage. The UN Development Programme (UNDP) suggested a Multidimensional Vulnerability Index, with the view to define better eligibility criteria for access to concessional finance and debt relief.[49] Although vulnerability gained more traction in the political debate, it has not yet translated into concrete political changes, such as the expansion of the DSSI and the Common Framework to more countries.

5. Political opportunities ahead

Some of the dedicated political opportunities on the political calendar for 2021 have already passed without substantial progress in systemic debt architecture reforms. However, unresolved debt problems remain and they are an overarching and cross-cutting problem when it comes to financing sustainable development, as well as the recovery from the COVID-19 crisis. With each future debt default, the topic might resurface on the political agenda wherever these issues are being discussed.

Key opportunities in 2021 include:

The UN's High-Level Political Forum on Sustainable Development

The draft outcome document of the 2021 High-Level Political Forum for Sustainable Development (HLPF) has already been published and remains non-committal. However, as resolving debt problems is part of the SDG's means of implementation (SDG 17), political debates are likely to take place at the HLPF itself, and at the margins of the HLPF.

The EU's work on a Global Recovery Initiative

President of the European Commission Ursula von der Leyen announced the EU's support for a Global Recovery Initiative in her statement to the UN in May 2020. Part of this initiative is to explore to

44 https://www.un.org/sites/un2.un.org/files/sg_policy_brief_on_liquidity_and_debt_solutions_march_2021.pdf, p. 15.
45 https://www.globalpolicy.org/en/publication/broad-consensus-paltry-results
46 https://www.eurodad.org/report_from_the_expert_seminar
47 https://www.oecd.org/finance/OECD-Debt-Transparency-Initiative.htm
48 https://www.eurodad.org/letter_on_oecd_s_debt_transparency_initiative_dti
49 https://www.undp.org/publications/towards-multidimensional-vulnerability-index

what extent debt relief can contribute to creating fiscal space for financing the Agenda 2030 and the Paris Climate targets. In particular, the European Commission is exploring debt swaps as a channel for debt relief and is already conducting feasibility studies in this direction.

The debt architecture of the UN Independent Expert on Debt and Human Rights

The UN Independent Expert (IE) is currently drafting a report on "international debt architecture reform and human rights". A public call for submissions was released in May. By the deadline of 4 June, 32 inputs were received from Member States and other stakeholders.[50] The IE's reports can inform policy debates and public communication about the issue.

The G20 process

Debt issues have been a permanent agenda item on the G20 agenda since the beginning of the COVID-19 crisis, which led to the DSSI in April 2020, and the Common Framework in November 2020. At their meeting in April 2021, Finance Ministers agreed on a "final" extension of the DSSI until the end of the year. As the DSSI was an instrument that aimed to buy time until the total debt damage caused by the COVID-19 crisis has been assessed and until the Common Framework "has proven itself" as an effective instrument, particularly for involving private creditors in debt treatments, it is likely that the item will remain on the G20 agenda. However, even though the shortcomings of the Common Framework are becoming ever more visible and calls for finding solutions for excluded debt-distressed middle-income countries are growing, the G20 has adopted a "wait-and-see" approach. However, with each disorderly debt default that is not solved by the Common Framework, the pressure to complement the initiative may rise. In particular, a reaction may be expected in light of ending the DSSI at the end of the year. The milestones of the G20 process in 2021 in this regard, under the Italian presidency, are:

9–10 July, Venice: Meeting of Finance Ministers and Central Bank Deputies.

15–16 October, Washington: Meeting of Finance Ministers and Central Bank Governors

5–6 October, Rome: Civil 20 Summit

30–31 October, Rome: G20 Leaders Summit

UN General Assembly

The UN General Assembly (GA) has an active mandate to work on debt architecture reforms, through the Resolution 69/319 on the Basic Principles on Sovereign Debt Restructuring Processes, in which it "decides to continue to consider improved approaches to restructuring sovereign debt".[51] The next session of the GA starts from 14–30 September. Whether debt architecture reforms are high on the agenda depends on the initiative of one or a group of UN Member States. The GA's ad hoc committee, set up in 2014 to debate a multilateral legal framework for sovereign debt restructurings, is a key example – proving that this central UN body can strongly engage in debt architecture processes.[52]

UNCTAD XV Conference

The XVth session of the UNCTAD takes place from 3–7 October. The Conference will discuss the mandate and role for UNCTAD for the coming four years. It is likely that UNCTAD's recent debt architecture proposals – including on debt architecture – will feature on the agenda in one way or the other. It may also serve as space for supporting collective position-building among developing countries.

The IMF and World Bank Annual Meetings

The expiry of the DSSI may be a reason for the IMF and World Bank to discuss future steps at their Annual Meetings, which take place from 11-17 October, probably one last time virtually. The World Bank has refused to participate in debt relief exercises in the COVID-19 crisis. Instead, it committed to providing positive net flows, meaning the disbursement of more new loans to borrower countries than those repaid on old loans. This was possible in 2020 due to frontloading disbursements from its facilities, which are now depleted early. So, it will not be sustained until a solution is found. The IMF will need to decide how to continue with CCRT debt relief in future, and also how to prevent the newly issued SDRs from being wasted on bailing out private creditors. Whether more sub-

50 https://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/InternationalDebtArchitecture.aspx
51 https://undocs.org/en/A/RES/69/319
52 https://www.eurodad.org/unanddebtcrises

stantial debt architecture reforms will be discussed depends on how bad and systemic the debt crisis gets over the year, and also how much political pressure is building up.

UN Climate Change Conference

The 26th Conference of the Parties (COP) of the UN Framework Convention on Climate Change (UNFCCC) takes place in Glasgow from 1–12 November. The question of how to mobilize finance for climate change adaptation and mitigation is traditionally an agenda item. As rising debt service costs squeeze fiscal space for climate action, the COP is a chance to advocate for debt cancellation in general, and for specific instruments such as debt-for-climate swaps in particular. In many countries, the climate crisis was a key course for debt crises, due to the high costs of damages caused by natural disasters such as droughts, floods and hurricanes. This makes the debt issue also relevant to the "loss-and-damage" part of the UNFCCC negotiations, which looks for ways to distribute the costs of climate-related disasters fairly.[53]

Country initiatives and country coalitions

Initiatives by heavily indebted countries themselves may also be promising. Political initiatives by indebted countries – or coalitions of these countries – may complement international initiatives and build political momentum for debt architecture reform. Affected countries can and should defend their own interests with more force.

There have been several initiatives from individual countries, such as Pakistan,[54] to special groups of particularly vulnerable states for farther reaching steps, such as the opinion-forming and public articulation of finance ministers of the African Union[55] or the call for action of the alliance of small island states (AOSIS).[56] They provide the basis for larger ad hoc coalitions that can create the momentum for change. They deserve, as a matter of principle, all possible support from civil society. A moment in the global south for opinion-building processes may be, for instance, the Fifth UN Conference on the Least Developed Countries in Doha in January 2022.

6. Conclusion

The remainder of 2021 offers an important opportunity to make progress on two fronts: Countries in which fiscal space is already confined due to high debt service costs need immediate debt cancellation. The current political dynamic unleashed by the COVID-19 crisis must also be used to pursue fundamental debt architecture reforms that can help to prevent future debt crises, or make a speedier, fairer and more sustainable solution to debt crises possible where prevention has failed. The economic fallout of the COVID-19 crisis has hit many developing countries hard and any further delay will risk spiralling into further debt crises.

The outbreak of a larger systemic debt crisis has only be avoided so far because debt suspension on bilateral debt has provided some breathing space for low-income countries, while the massive injection of liquidity by rich countries' central banks has made it temporarily possible for middle-income countries to refinance extremely high – and, in some countries, most likely unsustainable debt levels.

Both policy measures are expected to come to an end in the near future. The termination of the DSSI in December 2021 has already been decided,[57] and the US central bank is already signalling that liquidity support will be phased out and US dollar interest rates will be raised.[58] For heavily indebted countries, this implies even stronger storms on the horizon, which makes it ever more urgent to fix the roof now.

53 For an in-depth assessment of debt and climate: https://www.brot-fuer-die-welt.de/downloads/analyse102-climate_change_dept_covid19/

54 https://embassyofpakistanusa.org/prime-minister-calls-for-a-global-initiative-on-debt-relief/

55 https://www.reuters.com/article/us-health-coronavirus-africa-idUSKBN21A2GK

56 https://www.aosis.org/wp-content/uploads/2021/04/200710-UN-Doc-A-74-943-Statement-on-Debt.pdf and https://www.aosis.org/release/small-island-states-call-for-a-systemic-debt-shake-up-at-imf-and-world-bank-meetings/

57 https://clubdeparis.org/en/communications/press-release/final-extension-of-the-debt-service-suspension-initiative-dssi-13-04

58 https://www.reuters.com/business/finance/fed-is-about-shift-gears-this-time-it-may-be-different-2021-06-17/

International advocacy calendar for the second half of 2021

Date	Political Opportunity	Location*
6 – 15 July	UN High-Level Political Forum on Sustainable Development	New York
9 – 10 July	G20 Finance Ministers Meeting	Venice
14 – 30 September	UN General Assembly	New York
3 – 7 October	UNCTAD XV Conference	Bridgetown
5 – 6 October	C20 Summit	Rome
11 – 17 October	IMF & World Bank Annual Meetings	Washington D.C.
15 – 16 October	G20 Finance Ministers Meeting	Washington D.C.
30 – 31 October	G20 Leaders Summit	Rome
1 – 12 November	UN Climate Change Conference	Glasgow

* Due to the COVID-19 pandemic, some events take place in virtual or hybrid formats

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