2022

GLOBAL SOVEREIGN DEBT MONITOR

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GLOBAL SOVEREIGN DEBT MONITOR 2022

At a glance

In the context of the COVID-19 pandemic, the global debt situation has deteriorated. Countries in all regions of the world will emerge from the pandemic with unsustainable debt levels. While it was possible to avoid a massive sovereign default wave in 2021, in many cases, this was only possible through implementing rigorous austerity measures and taking on new debt.

The debt situation worldwide: 135 out of 148 countries surveyed in the Global South are critically indebted. This means that three more countries have been added to the list as compared with the forecast contained in our Global Sovereign Debt Monitor 2021.

→ **39 countries are particularly critically indebted,** more than three times as many as before the pandemic. Among them are countries in all income categories and world regions. More than half of the most critically indebted countries are excluded from current G20 debt relief measures.

→ **The G20 measures implemented so far have not enabled any substantial debt relief.** In many countries, debt service can therefore only be maintained at the expense of public services. Already back in 2021, public spending was cut in 83 low- and middle-income countries to enable them to continue with debt servicing.

→ **The massive expansion of multilateral crisis financing** allows private creditors to exit from debtor countries without having to take any losses themselves. In 2020, 58 low- and middle-income countries paid more in interest and principal to external private creditors than they received from them in new loans during the same period.

→ **Thus, instead of the crisis being swiftly resolved,** private claims are being passed on to public budgets. At the same time, the breathing space created by the G20's debt moratorium, the DSSI, and substantial liquidity support has not been used to make overdue reforms to the debt architecture.

Recommendations to the German federal government

The **German G7 Presidency in 2022** comes at an important time, in which decisive steps can still be taken to create sustainable solutions to the global debt crisis. Instead of waiting to see whether the G20 debt restructuring framework, the Common Framework, bears fruit in its current form, the German government should take the following measures:

→ As a member of the G7, the G20 and the International Monetary Fund (IMF), the German government should **increase political pressure to ensure the inclusion of private creditors in debt restructuring negotiations**. Within the G7, it should advocate legal safeguards for debt restructuring by initiating the creation of national legislation that makes it more difficult to undermine multilateral debt restructuring agreements, for example along the lines of the UK's Debt Relief (Developing Countries) Act 2010, intended to combat vulture funds.

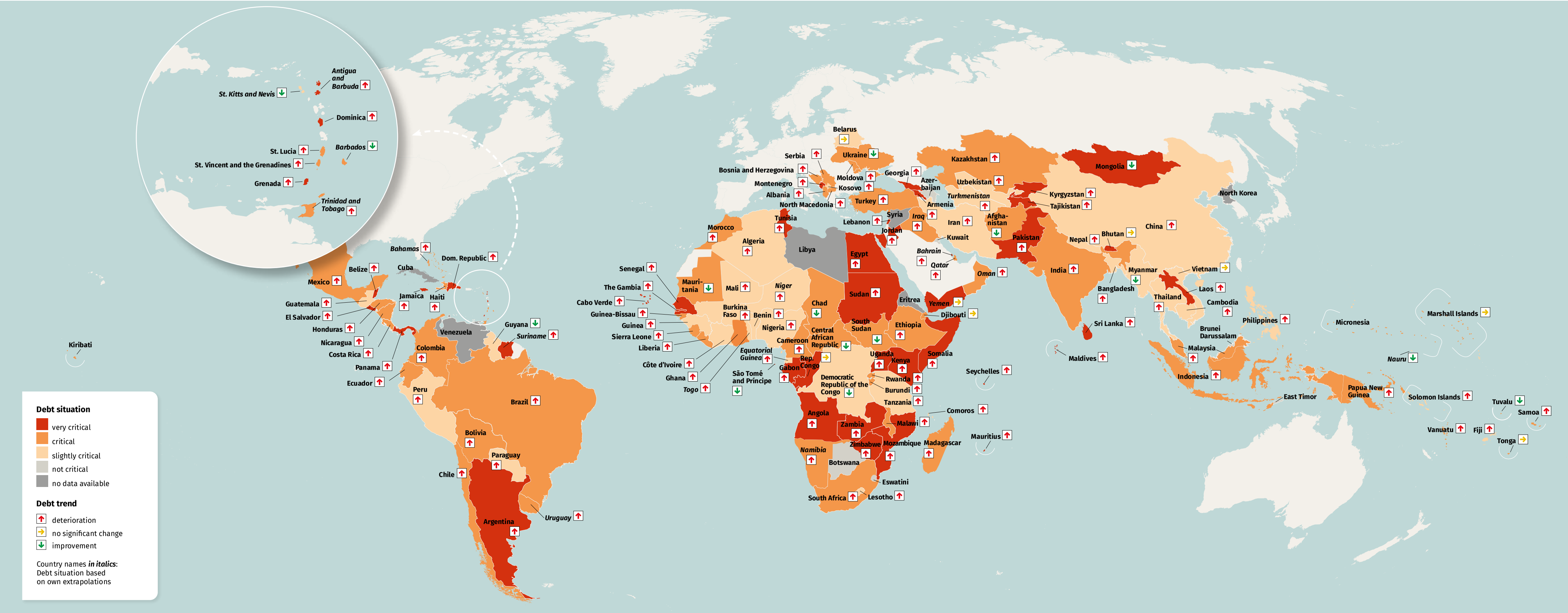
→ In debt restructuring negotiations, the German government should back the **option for debtor countries to be able to default on payments** in their dealings with uncooperative private creditors. This could be achieved, for example, through a clear signal from the IMF in favour of consistent application of its corresponding lending policy and through a public commitment by the G20 to provide financial and political support to debtors.

→ Within the framework of its G7 Presidency, Germany should specifically **seek dialogue with groups of states and governments that are also committed to fair and efficient debt relief procedures.** These include, for example, the Vulnerable Twenty (V20).

→ In addition, the German government should promptly address the intention, enshrined in the new coalition agreement, to **create a sovereign insolvency framework**, and proactively seek an intergovernmental negotiation process at UN level.

Global debt situation

Map showing the debt situation of critically indebted countries in the Global South as well as the debt trend



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Why Germany now has a particular responsibility

Pirmin Spiegel has been Chief Executive Officer and Chairman of the Board of MISEREOR since 2012. He studied theology and philosophy and was ordained as a priest in 1986.

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In many countries of the Global South, the impact of the COVID-19 pandemic has led to a dramatic deterioration in the healthcare situation. In addition, there have been major setbacks in all areas of development, especially in the fight against poverty and hunger. Despite isolated instances of progress, the fear is that, in the shadow of the pandemic, the number of deaths from starvation will continue to rise by millions, and child labour will increase.

Economically too, however, many countries still find themselves in very difficult circumstances, since the pandemic has induced a further worsening of the global debt crisis. Just as the coronavirus can only be defeated at global level, so we can only overcome the debt crisis with a global approach. And yet, despite the fact that the debt of many countries in the Global South has continued to rise, there has been no comprehensive debt relief for the countries concerned – not even with the measures taken to date by the G20 nations. And yet debt relief is so very important right now, constituting a precondition that must be fulfilled to enable countries to tackle the pandemic over the long term. Nor has the hope of a rapid economic recovery, still harboured a year ago, yet been fufilled for the Global South. On the contrary, the continuing rise in debt continues to jeopardize any sustained recovery. Indeed, many countries still face the challenge of funding comprehensive vaccination programmes, while at the same time having to deal with economic recession. Many nations still lack the fiscal leeway to cushion the economic and social consequences of the coronavirus crisis.

This year too, erlassjahr.de and MISEREOR are once again drawing attention to the continuing dire debt situation in the Global South. The number of critically indebted countries has again risen slightly, to 135 out of 148 countries surveyed. 13% more countries than forecast last year are in a particularly critical situation. In contrast to the years before the crisis, it is in the public sector where debt has increased disproportionately *('The global debt situation', p. 8)*.

Contrary to fears, however, a wave of sovereign defaults has not yet occurred, due to massive state intervention. Yet nevertheless, the assumption that a global debt crisis has been averted is deceptive. While emergency loans and debt service moratoriums have been able to provide short-term breathing space, in the long term the problems have been merely postponed into the future. Moreover, the absence of debt defaults does not mean that we are not already witnessing a devastating debt crisis, for in many countries of the Global South, default has only been prevented through rigorous austerity programmes at the expense of public spending on

With the new political climate in Berlin, the chances of a solution to the global debt crisis are better than ever.

basic welfare services. This new wave of austerity in the Global South is likely to have devastating effects many years into the future, not least because, even before the pandemic, public financing of urgently needed healthcare and welfare spending was in crisis *('Inadequate debt relief and austerity', p. 26)*.

A look at countries with very different underlying circumstances, such as Angola, Sri Lanka and Suriname, also shows that the sustainability of the public and external debt of countries in the Global South has further deteriorated, and in many countries unsustainable debt is endangering economic development *('No sovereign default = no sovereign debt crisis?', p. 20)*.

To overcome the debt crisis and, even more importantly, to avoid future renewed crises, political pressure needs to be increased so that comprehensive debt relief becomes possible for all highly indebted countries. In addition, international discussions on structural reforms of the global financial architecture must be intensified. In this context, we expressly support the proposals of the United Nations of September 2020 to establish a permanent and neutral body at intergovernmental level. This is the right place to negotiate a solution to the current debt problem, and could open up a more democratic perspective beyond the G20 Common Framework, giving the affected debtor countries themselves a voice in finding sustainable ways out of the debt trap *('Beyond the G20: the international reform debate in times of COVID-19', p. 34)*.

This year, the new German government has a particular responsibility to overcome the global debt crisis. With the new political climate in Berlin, the chances of a solution are better than ever, firstly because, in the coalition agreement, the government has explicitly committed to an initiative for a global sovereign debt restructuring mechanism that should also include private creditors, and secondly, because the German government, with its G7 Presidency in 2022, can be a key political driving force for initiating far-reaching multilateral debt relief initiatives. We expect the G7 under the German Presidency to provide a significant and progressive impetus both within the G7 itself and in the context of the international debt debate. As a result, we believe the indicators pointing to a change are more favourable than in previous years - and this would contribute to improving the life chances of millions of people in need worldwide *('A new opportunity to resolve the debt crisis', p. 48)*.

We hope for a fresh new tailwind in resolving the global debt crisis, and wish you a stimulating read.

Dr Nora Sausmikat und Pirmin Spiegel

The global debt situation

Currently, 135 countries in Asia, Africa, Latin America and Eastern Europe are critically indebted.

By Kristina Rehbein

Against the backdrop of the COVID-19 pandemic, the number of critically indebted countries in the Global South has risen slightly, from an already high level, to 135 out of 148 countries surveyed. This represents an additional three countries compared to last year's forecast. In addition, the already critical situation of a larger number of countries has worsened further, with 97 of the 135 countries in particularly critical categories, 13% more than forecast in the last Global Sovereign Debt Monitor. Hopes for a quick recovery have not been fulfilled, especially in the Global South. In contrast to the pre-crisis years, public sector debt has risen disproportionately.

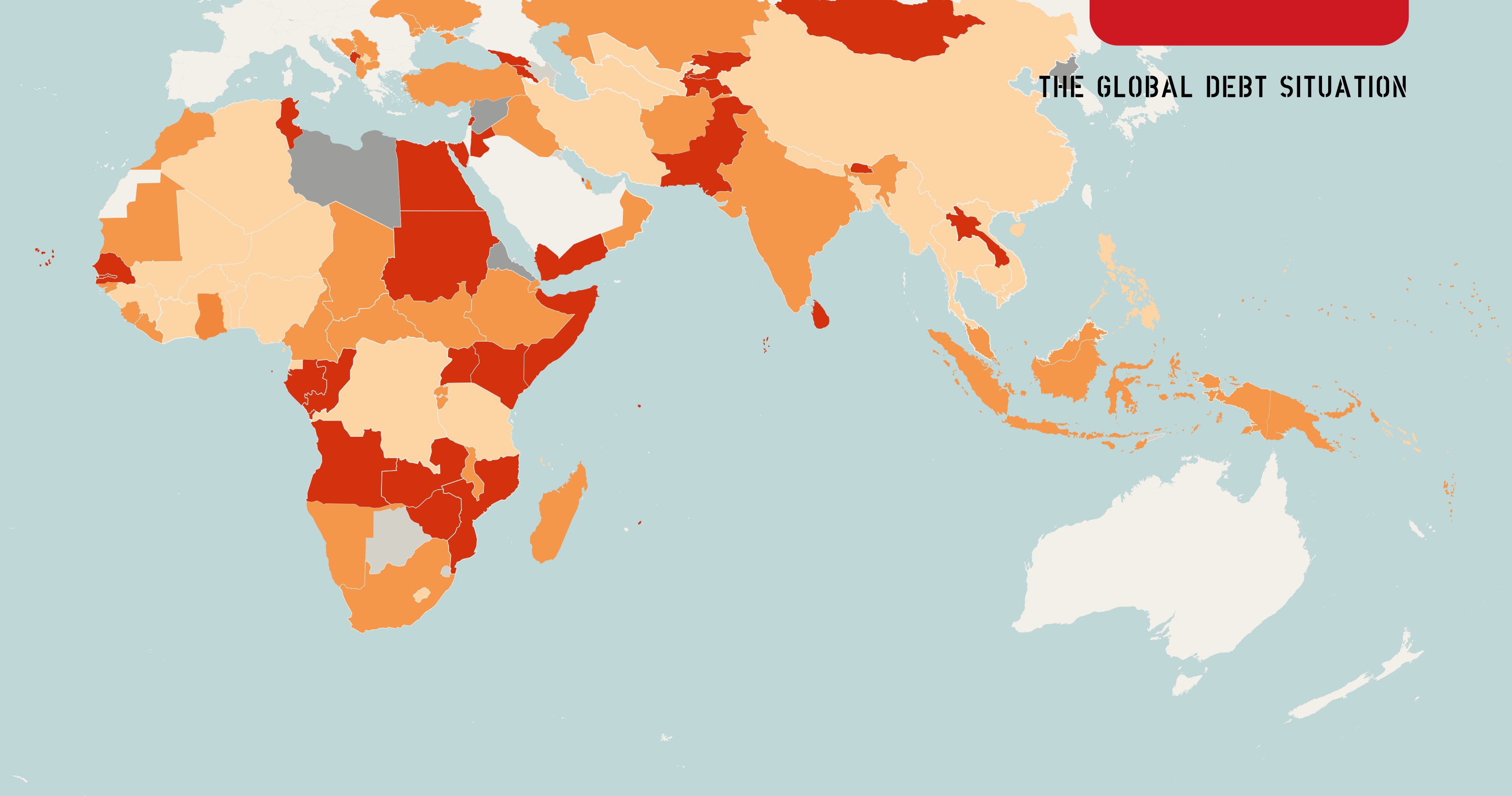
In the Global Sovereign Debt Monitor 2021, we decided for the first time to deviate from the previous methodology; instead of using actual figures from the latest available year – two years earlier, which meant the end of 2019 - we used forecasts for the end of 2020.[1] This was the only way to include the effects of the COVID-19 pandemic in our analysis. Now, the actual figures as of 31 December 2020 are available, and we can look at how the global 'crisis of the century' has actually affected countries in the Global South.

We describe the debt situation of countries using five indicators, each of which relates debt or debt service to an indicator of economic performance. Three indicators relate to a country's total public and private external debt, and two refer to total public debt, domestic and external *(see Figure 1 'Debt composition')*.

The analysis determines the risk of debt distress in two ways: firstly, based on the level of the respective indicators and the resulting breach of the three thresholds for each indicator, and secondly, in terms of trends for the last four years, i.e. 2017-2020. For the latter, we compare the number of improvements by 10% or more with the number of deteriorations by 10% or more, yielding a trend that is generally positive, negative or neutral.

Out of 233 countries and territories reported in the UN database, the following are not included in the analysis:

- 85 countries that are OECD members, members of the European Union or the European monetary area or dependent territories, or which have a comparable status,[2]
- six countries of the Global South without debt problems[3]
- seven countries with no usable data, most of which are in debt distress and in default and whose particular political circumstances limit data availability.[4]



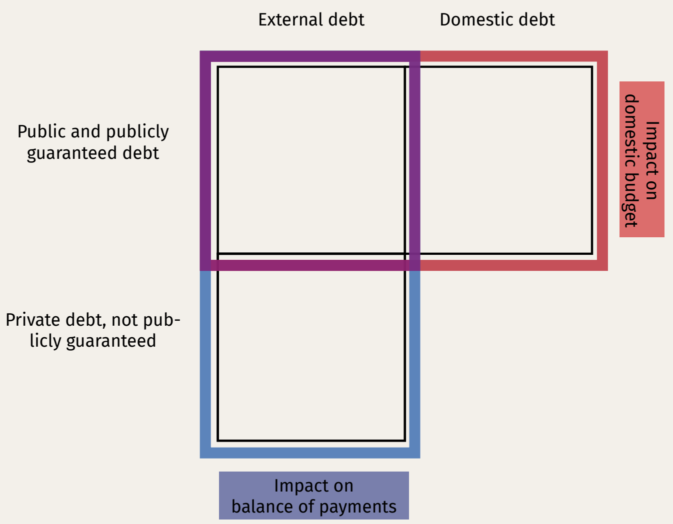
Comparison with the previous year's forecast

The comparison of actual figures with forecasts from the previous year shows a mixed picture. In 34 countries, the debt situation has evolved less dramatically than predicted in the previous year. However, in most countries, there are only slight deviations.

Only in six countries is the situation significantly better than expected.[5] For three of them (**Malaysia**, **Niger** and **Myanmar**), it is likely that the deviations are related to data availability. Thus, in only three country cases are there significant improvements in either the overall debt situation or individual indicators; in the small island state of **St. Kitts and Nevis**, the economic slump (and thus the denominator in the debt indicator) was not as severe as expected, at -14.4%.[6] In the case of **Mauritania**, the country's better performance was due to a sharp rise in the price of gold as an export commodity, and the rapid recovery in global market prices for iron ore, partly due to the robust recovery in China as a trading partner, so that government revenues de facto rose rather than fell. Mauritania also benefited from the G20 debt moratorium and thus lower debt service. In the case of **Peru**, the improvement on the forecast relates only to the debt service indicator, which fell from very critical to non-critical. In fact, the overall situation in Peru has worsened, and government revenues have fallen more than expected compared to the 2020 forecast. The -11.1% slump in the economy was also around 40% greater than expected.

In 48 countries, on the other hand, the actual change in debt indicators has turned out worse than expected, and indeed, in 16 countries, considerably worse.[7] Of these 16, seven are tourism-dependent small states in which the denominator in the debt indicator, i.e. economic growth and export revenues, fell significantly more than expected. In some countries, both numerator (debt level or debt service) and denominator deteriorated equally; in **Bolivia**, the economic slump of almost 9% was three times higher than expected. Export revenues and government revenues also declined significantly, partly because the mining sector came to a virtual standstill. To compensate for the slump, the Bolivian government took out additional loans. In **Gabon**, the increase in the public debt ratio is also due to longstanding but now validated domestic arrears, which have been included in the debt ratio.

Fig. 1: Debt composition



When we talk about a country's debt, this may refer to its total external debt, where the debtor can be either the government or private banks and companies *(blue area)*, or it may refer to total public debt, which the government may have raised either domestically or externally *(red area)*. Both overlap in the case of public external debt *(purple area)*.

COVID-19 has further exacerbated and entrenched the dynamic engendered by growing debt and worsening debt sustainability.

Critically indebted countries

Table 1 towards the end of this report lists 135 countries with a critical debt situation. This represents three more countries than in the Global Sovereign Debt Monitor 2021. Turkmenistan, Kosovo and Iran were still listed as non-critical in 2021, or no data was available concerning their debt situation. The actual change shows that these countries, under the impact of the pandemic, now have at least one indicator in the critical range.

Figure 2 shows how debt levels are distributed across world regions. A further deterioration in the debt situation can be observed in all regions analysed. While, in our Global Sovereign Debt Monitor 2020, 37% of countries were in the critical or very critical range, that figure is now 67%. The percentage of non-critically and slightly critically indebted countries has shrunk; while the total was 60% before the pandemic (16% non-critical, 44% slightly critical), it is now only 27% (3% non-critical, 24% slightly critical).[8]

Furthermore, in all regions, there are more countries whose indicators have deteriorated significantly since 2017 than countries with indicators that have remained the same or improved *(see Figure 3)*. The region of Latin America and the Caribbean is particularly affected, being one of the two regions, along with Asia and the Pacific, where the debt situation did not deteriorate to the same extent as in other regions before the pandemic.

Analysis reveals that the dynamic of rising debt and deteriorating debt sustainability, which was already observable before COVID-19, has either been further exacerbated or become further entrenched as a result of the pandemic. The health and economic crisis widened fiscal deficits, which many countries then had to cover principally with new debt. At the same time, the crisis has weakened the economic fundamentals of almost all countries worldwide. The Global Sovereign Debt Monitor 2022 shows that countries in all regions of the world will emerge from the COVID-19 pandemic with unsustainable debt levels that will hamper not only immediate recovery, but also medium and long-term recovery.

External debt development 2019-2020

Absolute external debt

The World Bank[9] reported the external debt of all low- and middle-income countries at a level of USD 8.687 trillion as of 31 December 2020, at the end of the first year of the pandemic. This is a nominal increase of USD 548 billion compared to the previous year. Overall, external debt thus increased by 5.3%, a similar proportionate rise to the previous two years. However, the increase in 2020 was mainly driven by the public sector; debt of private companies in debtor countries rose by just 3%, while that of the public sector increased by a remarkable 9%. In the previous year, the distribution was still about 50:50.

Excluding China from the analysis, long-term external debt of private companies and short-term external debt actually fell in 2020, while the increase in public sector debt remained roughly the same *(see Figure 4)*. The sharpest increase in debt was in the region of Sub-Saharan Africa.

Debt indicators

In 2020, all countries analysed worldwide had an average of 29% debt to GDP or 123% of debt to annual export revenues. This corresponds to an increase of around 11% and 16% respectively compared to the previous year. Excluding China, which was one of the few middle-income countries to initiate a robust recovery in 2020, the picture appears even worse, with debt to GDP up 14% compared to the previous year, and debt to export revenues up 22%.

Debt relative to export revenues has increased particularly sharply in North Africa/Middle East (from 116% to 184%) and Sub-Saharan Africa (from 156% to 205%). In terms of different country groups, small island developing states have seen an unprecedented deterioration, from 158% to 293%.[10]

The reason for the deterioration in debt indicators, apart from contracting additional loans and thus an increase in absolute debt levels, is mainly the huge economic slump caused by the pandemic. Gross national income of all countries of the Global South – with the exception of China – fell by about 9%, and indeed export revenues fell by even more, by about 15%.

Fig. 2: Critically indebted countries (by region and worldwide, in %)

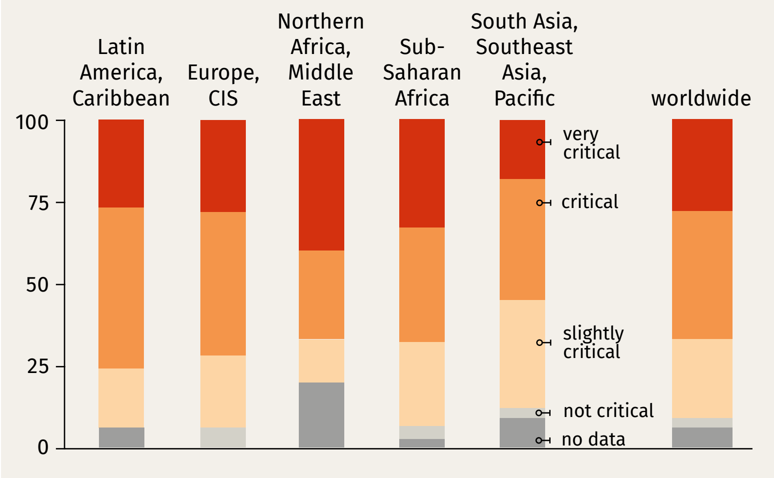


Fig. 3: Debt trend (by region and worldwide, in %)

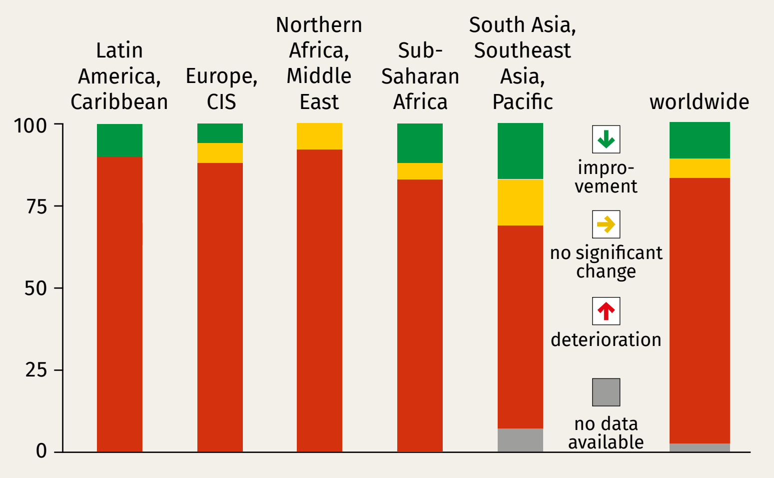
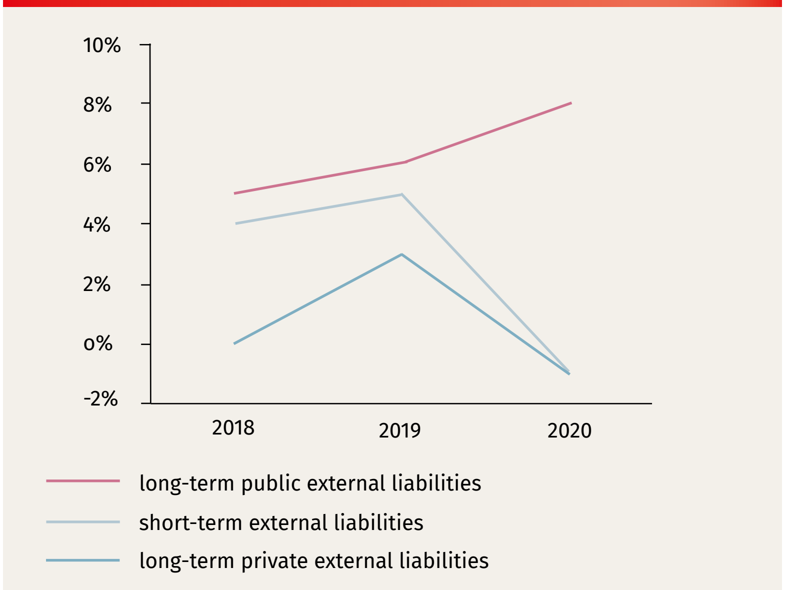


Fig. 4: Growth rate of public and private external debt of low- and middle-income countries (except China)



Source: own illustration on the basis of data from the World Bank International Debt Statistics.

Setting debt service against export revenues, this indicator rose to 17% for all countries in the Global South. The indicator is highest in Latin America and the Caribbean, with an increase to 30%, followed by Europe/CIS at 27%, and Sub-Saharan Africa at 22%. The first two regions are home to many middle-income countries that have to refinance their debt largely on international capital markets. These countries are being advised to return to austerity, also to strengthen the confidence of investors and lenders in the borrowing countries.[11]

To set this in a comparative context, the Heavily Indebted Poor Countries Initiative (HIPC) aimed for a maximum level of annual debt service of 15% of export revenues. Or, to add a second comparison: the London Debt Agreement, concluded in 1953, relieved Germany's debt to such an extent that the fledgling Federal Republic had to spend only a maximum of 3.4% of its annual export revenues on external debt service in subsequent years.

Creditor structure

The distribution of external debt among individual creditor groups only partially continues the trend of recent years *(see Figure 5)*:

- External debt is now divided between the public sector (about 55%) and private debtors (banks and companies) (about 45%).
- With regard to the public sector, multilateral debt is again the fastest growing segment for the first time in more than 20 years. Since 2008, this has consistently been debt to bondholders.
- Private debt owed to external creditors consists mainly of traditional bank loans. Bonds placed on the international capital markets, on the other hand, still play a subordinate role, although this is slowly growing.

Credit flows

To get an overall view of the role debt has played in the response to the COVID-19 crisis, it is instructive to look at (net) credit flows[12] to low- and middle-income countries in addition to debt levels. The evolution of the debt situation shows that public sector borrowing has played a major role in addressing the consequences of the pandemic.

However, access to external financing has been unevenly distributed. In the case of 44 countries, the ratio between repayments and new loans has worsened. Indeed, 35 countries paid more in external interest and principal repayments in 2020 than they were able to mobilize in the form of new loans. This affected seven large middle-income countries in particular.[13] Together, they paid out around USD 141 billion net to foreign countries in 2020.

Access to external financing has been unevenly distributed.

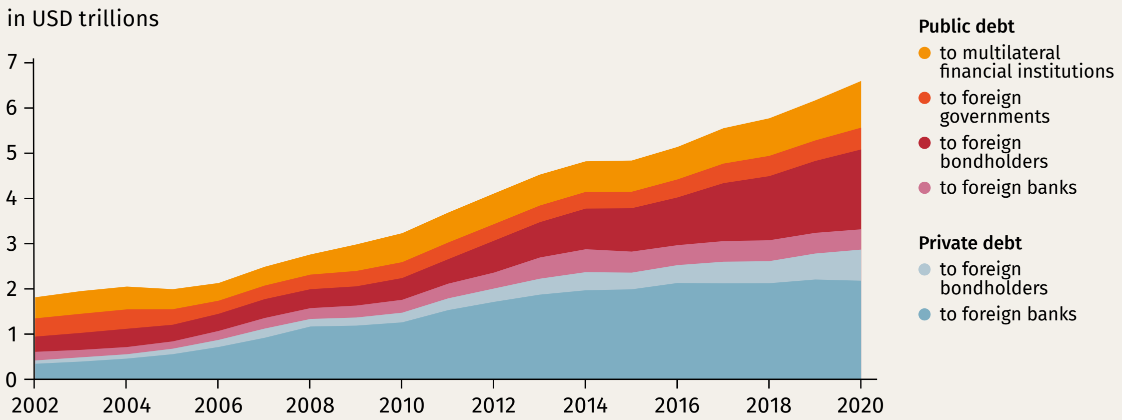
Conversely, if we look only at the lowest-income countries that qualify for the Debt Service Suspension Initiative (DSSI) and the G20's Common Framework for Debt Treatments beyond the DSSI, net credit flows have increased by about 38%. In 2020, net flows to this group of countries amounted to approximately USD 52 billion. One important reason for this has been the massive expansion of multilateral crisis financing, led by the International Monetary Fund (IMF) and the World Bank, which accounts for about 54% of net credit flows to DSSI countries.

This means that the increase in (long-term) debt of DSSI countries is more than twice as high compared to all countries of the Global South. The increase in public sector debt alone totals 14%, while that of all countries of the Global South combined is 9% *(see above)*.[14]

Two-thirds of long-term loans to countries in the Global South[15] are due to the expansion in multilateral crisis finance. Multilateral loan financing was twice as high in 2020 for all countries of the Global South compared to the previous year, and accounted for 90% of net public sector credit flows to countries of the Global South. These made up in particular for the collapse of private credit flows to some of these countries.

Lending by capital market investors remained at a similarly high level compared to the previous year, but was quite concentrated; around 48% of lending

Fig 5: Breakdown of public and private long-term external debt according to creditor category (2001–2020)



Source: own illustration on the basis of data from the World Bank International Debt Statistics.

flows went to China alone, whose economy recovered rapidly in 2020. Sub-Saharan Africa and South Asia made significantly more interest and principal payments to private creditors in 2020 than they received in new loans.

Commercial bank financing collapsed entirely in all regions of the world. At the same time, more money flowed out to commercial banks than was provided by them by way of new financing. While not particularly surprising, this is scandalous; a popular argument of private lenders such as Citi Bank[16] was that countries should continue to service their debt and not seek debt relief so they could maintain access to stable financial support from private creditors despite the deteriorating economic situation – an implicit threat that led many countries to respond accordingly. However, the statistics prove that, ultimately, they received neither debt relief nor bridge financing from their private creditors, while the latter continued to collect debt service payments.

Private creditors continue to collect debt service payments without participating in debt relief initiatives.

Development of public debt

Two indicators in the report deal with domestic and external public sector debt *(see also Figure 1)*. Although, following the global financial crisis, external debt, especially in the private sector, was the main driver of rising debt levels in countries of the Global South, the pandemic revealed the growing dependence on public borrowing. In other words, while, in boom times, the private sector is considered the engine of development, with the public sector playing at most a modest supporting role, in times of crisis it is the other way around.

Regionally, from 2019 to 2020, public debt as a share of GDP increased at between 13.5% (Sub-Saharan Africa) and nearly 30% (Europe/CIS) in all world regions.[17] Over the past decade, only 2014 and 2015, and only two regions (Sub-Saharan Africa and North Africa/Middle East), have seen changes of more than 10%.

Changes in the indicator setting debt against government revenue are particularly stark. This indicator has seen increases of at least 20% (Latin America/Caribbean), up to a maximum of 34% (North Africa/Middle East). In the prior ten-year period, changes of a similar magnitude – just as with the previous indicator – only occurred in relation to Sub-Saharan Africa and North Africa/Middle East, in connection with the commodity price collapse in 2014 and 2015.

Public debt to government revenue ratios are highest in Sub-Saharan Africa, at more than 365%, followed by Latin America/Caribbean at more than 300% – both unprecedented compared to historical debt data.[18] The increase is mainly explained by the result of recession, and the simultaneous increase in pandemic-related public spending, especially in the healthcare sector. The high level of debt in some regions means that, on the one hand, there is hardly any scope for further borrowing, while at the same time, fiscal leeway will be further restricted in the future by factors including high repayment obligations.

Countries in default

The Global Sovereign Debt Monitor 2021 showed that 21 countries were in partial default. Recently, however, the Bank of Canada, in cooperation with the Bank of England, has made available a comprehensive database on global arrears,[19] which marks a significant improvement on the previous data available. Based on this data, a total of 36 countries can be identified with arrears owed to foreign public or private creditors of more than 1% of GDP, 15 more than were reported in the last Global Sovereign Debt Monitor.

This significantly higher number of countries is not, however, due to a wave of sovereign defaults, as might be assumed at first glance. Rather, all of these countries were already partially in arrears before the pandemic, many for a number of years. The database does not clearly show the reason why payments were suspended or when payments fell into arrears. In fact, countries may have already reached an agreement with their creditors on restructuring. They are therefore not in immediate payment difficulties, yet the arrears are still listed in the database. Due to these uncertainties, we are not providing an overview of countries in default. The following provides a more detailed account of a number of cases, by way of example, in which default occurred not just on specific individual payments, perhaps just for minor reasons, but in which debt sustainability is also in doubt.

Fiscal leeway will be further restricted in the future by factors including high repayment obligations.

Since the last Global Sovereign Debt Monitor, **Suriname** and **Belize** have defaulted under the pressure of the pandemic. Suriname had to stop payments to its bondholders in November 2020 and subsequently launched debt restructuring negotiations *(see article 'No sovereign default = no sovereign debt crisis?', p. 20)*. Belize missed an interest payment to its bondholders in August 2021, but has been in restructuring negotiations since early summer.

Sudan is still listed as in default, but may soon be able to leave this group. This is because the country reached Decision Point in June 2021 and thus entry into the Heavily Indebted Poor Countries (HIPC) Initiative, through which the country has the possibility of comprehensive debt relief and thus the chance of a fresh start. However, given the deteriorating political situation since October 2021, which is delaying the HIPC implementation process, it is unclear when such debt relief will finally be granted.

Zambia, the first country to stop payments to investors against the backdrop of the COVID-19 pandemic, became the third country to request negotiations under the G20 Common Framework, in January 2021. However, the start of negotiations was delayed mainly by the presidential elections in August 2021 and an opaque mining deal with British-Swiss company Glencore. Negotiations with the IMF around the requisite adjustment programme have already begun. However, Zambia is a particularly challenging case for the Common Framework, given its highly fragmented, in part non-transparent creditor landscape, in which reciprocal blocking also occurs.

In 2020, **Argentina** agreed to reschedule around USD 80 billion of its debt owed to private foreign bondholders. Theoretically, the country could thus leave the list of states in default. However, it still owes the members of the Paris Club a final instalment of USD 1.9 billion from a 2014 debt restructuring agreement, an amount that has been due since mid 2019. De facto, therefore, Argentina is in default on this instalment. Nevertheless, the Paris Club has tacitly granted Argentina a moratorium until May 2022 and has therefore not publicly declared the country in default, thanks to well-meaning Paris Club members such as Germany. However, the Paris Club is imposing a hefty penalty interest rate of 9% in return, so that the debt has now grown to USD 2.4 billion, of which Germany accounts for one third. The moratorium expires in May 2022.

Outlook

Contrary to fears prevailing in the early summer of 2020 and our expectations as set out in the Global Sovereign Debt Monitor 2021, the anticipated wave of sovereign defaults has not materialized.[20] However, it would be illusory to assume that a global debt crisis has been sustainably averted since, as the current Global Sovereign Debt Monitor shows, the public and external debt of countries in the Global South has become less sustainable, while at the same time there has been no comprehensive debt relief.[21]

In addition, from 2023 onwards, the debt service burden will increase sharply, firstly because, for many countries, payments deferred by the DSSI will then become due, and secondly because, in a number of low- and middle-income countries, a sizeable volume of repayments to bondholders will become due.[22]

A possible shift away from loose monetary policy and an increase in global interest rates could also increase refinancing risks, especially for middle-income countries with already critical debt levels. In September 2021, the US Federal Reserve announced its intention to start tapering monthly bond purchases before the end of 2021. It is unclear whether, and when, any significant turnaround in interest rates will actually occur. In any event, there are a number of countries that would be acutely threatened by a deterioration in global financing conditions.[23]

It would be illusory to assume that a global debt crisis has been sustainably averted.

While forecasts suggest that the economies of countries in the Global North could soon recover to pre-crisis levels, the outlook is far more uncertain for many countries in the Global South. In commodity-exporting countries at least, the denominator in the debt indicator, e.g. export revenues, will recover from its collapse in the first year of the pandemic, boosted by increased commodity prices, meaning that the rise in corresponding debt indicators for these countries will probably be halted, or indeed the indicators may even fall again.

However, it is unclear whether they will be spared the 'scarring' the IMF considers likely and which will affect many countries of the Global South.[24] This refers to economic development remaining below pre-crisis levels over the medium term. Reasons for this, apart from the high level of debt, include the continuing low vaccination rate in low-income countries, and the simultaneous threat of new virus variants.

In addition, in most critically indebted countries of the Global South, it was impossible to sustain fiscal support programmes beyond 2020, and countries are beginning to tighten their belts again, i.e. to cut back on public sector spending to beat the crisis. Another reason for this is that the public sectors of critically indebted economies were generally weaker before the COVID 19 crisis than they were ahead of the global financial crisis. Accordingly, these countries have little capacity to provide the stimuli needed to overcome the recession on their own.

As a result, in the immediate future, a combination of austerity and new debt will continue to be the means of choice for combating the crisis in most countries of the Global South. Our country-level analyses, which show a clear preponderance of negative over positive trends in debt,[25] underline the assumption that, without comprehensive debt relief, there will be no significant improvement in the debt situation.

Even though the pandemic itself was an extraordinary phenomenon, sovereign debt crises are neither extraordinary nor rare. Forty years ago, Mexico's sovereign default triggered the so-called 'Third World debt crisis'. That crisis was characterized less by rapid recovery than by delay; when a number of other major Latin American states were compelled to follow Mexico in suspending their payments, for several years creditor governments opted to refinance the debt service owed to (private) creditors instead of leaving them to bear the losses incurred some time before. In 1989, this practice ended with the so-called 'Brady Plan'.

When, at about the same time, a number of lower-income countries were no longer able to fully service their debt to creditor governments in the North, creditors again opted to have the debt service owed to governments and banks in the Global North financed by the World Bank and the International Monetary Fund. Public crisis financing did not have the effect of overcoming the crisis, but rather largely shifted uncollectible private debt onto public budgets. A few years later, neither could these claims any longer be serviced. Many years after the crisis began, a debt write-off finally came through the HIPC Initiative, at a high price for all involved, due to both the delay and the socialization of the crisis costs.

Currently, this 'pre-HIPC scenario' is threatening to repeat itself. We are at the beginning of a new socialization process; multilateral donors are providing crisis financing on a large scale, while private creditors are not obliged to join in debt relief initiatives and can withdraw from debtor countries as long as debtor countries are still able to service their debt.

It is to be hoped that public decision-makers will learn from past mistakes and use the crisis, albeit belatedly, as an opportunity to initiate structural reform changes.

A combination of austerity and new debt will continue to be the means of choice for combating the crisis in most countries of the Global South.

Even though the pandemic itself was an extraordinary phenomenon, sovereign debt crises are neither extraordinary nor rare. (...) It is to be hoped that public decision-makers will learn from past mistakes and use the crisis, albeit belatedly, as an opportunity to initiate structural reform changes.

1 See 'A crisis analysis like no other' in erlassjahr.de and MISEREOR (2021): Global Sovereign Debt Monitor 2021, p. 9.

2 For example Russia, San Marino, Saudi Arabia, Singapore or the United Arab Emirates.

3 Azerbaijan, Brunei Darussalam, Botswana, Kuwait, Timor-Leste, Eswatini.

4 Cuba, Eritrea, Libya, North Korea, Palau, Syria, Venezuela.

5 Malaysia, Myanmar, Peru, St. Kitts and Nevis, Niger, Mauritania.

6 Forecasts anticipated a fall of 18.7% in 2020.

7 The 16 countries are Suriname, Namibia, Burundi, Dominica, Gabon, Iraq, Madagascar, Maldives, Qatar, Seychelles, Tajikistan, Uganda, Bolivia, Mauritius, Vanuatu, Zimbabwe. Here too, differing data availability plays a role in some instances, for example in the case of Zimbabwe.

8 Comparing forecasts contained in the Global Sovereign Debt Monitor 2021 with the actual situation presented here, it becomes apparent that the anticipated level, already 'critical', was still too optimistic; while 58% of the countries were expected to be in the 'critical' or 'very critical' range last year, this figure is now actually 67%. Only in Latin America and the Caribbean has the situation largely evolved as expected. In Europe/CIS and Sub-Saharan Africa, significantly more countries than expected are in the 'very critical' segment, while in the Asia/Pacific region, we mainly see a shift from 'slightly critical' to 'critical'.

9 This analysis is based on data, information and own calculations derived from data contained in the World Bank's International Debt Statistics, unless otherwise stated.

10 See UNCTAD Trade and Development Report 2021, p. 21. The country group refers not to a regional criterion, as used for example in Table 1 at the end of this report, or in Figures 2 and 3, but refers to a group of countries with similar geographical, economic and social characteristics.

11 See, for example, Reuters (30.09.2021): 'Poor country debt could worsen due to commodity prices, interest rates – Malpass'.

12 Net credit flows consist of new lending to a country, minus the outflow of debt service payments.

13 Argentina, Brazil, Russia, Mexico, South Africa, India and Turkey. Own calculations based on data from the World Bank International Debt Statistics.

14 However, there were significant variations across the group, from a small increase of 2% in Guyana to an increase of 36% in Uzbekistan. In a total of 17 DSSI beneficiary countries, debt levels increased by more than 20%.

15 With the exception of China.

16 See, for example, statements by Julie Monaco of Citi Bank at the virtual event 'Rethinking Debt: Financing the Future Amid Crisis' at the IMF and World Bank Spring Meetings in April 2021: "If commercial banks are forced to take a restructuring, this is going to have long-term implications for the country. (...) You're trading off immediate (debt) relief with long-term access (to private sector finance). (...) You don't want to cut off a country from the additional private sector funding that's going to be needed for them. You know, because as we know, there's trillions of dollars of gap that the private sector have to fill on helping these countries achieve their SDGs."

17 Calculations based on data from the IMF World Economic Outlook October 2021.

18 See UNCTAD (2021): 'Trade and Development Report 2021', p. 24.

19 Cf. Bank of Canada: 'BoC-BoE Sovereign Default Database 2021'.

20 For more background, see article *'Inadequate debt relief and austerity', p. 26 in this report*.

21 For more background, see article *'Inadequate debt relief and austerity', p. 26 in this report*.

22 See 'PPG bonds (AMT)' in International Debt Statistics.

23 Cf. the 'fragile fifteen' in Singh, K. (2021): 'Why Emerging Markets Must Remain Wary of a Taper Tantrum 2.0'.

24 Cf. IMF (2021): 'World Economic Outlook – Recovery During a Pandemic. Health Concerns, Supply Disruptions and Price Pressures', October 2021, in particular figure 1.15 – 3.

25 See also World Map and Table 1 contained in this report.

Box: Methodology – 'The global debt situation'

The Global Sovereign Debt Monitor analyses **two debt dimensions**:

→ the **debt situation**, i.e. the level of debt indicators as at the reporting date, 31 December 2020, and
→ the **trend**, i.e. the change in this debt situation over a period of four years (2017-2020).

The debt indicators used for the analysis are:

$\frac{\text{Public debt}}{\text{Gross domestic product (GDP)}}$	**Is the government more indebted, in terms of both domestic and external debt, than the productivity of the entire economy allows?** Public debt includes the explicit and implicit liabilities of the public sector – from central government to public enterprises. However, public debt also includes the debt of private companies for which the state has issued a guarantee.
$\frac{\text{Public debt}}{\text{Annual government revenues}}$	**Is the state so heavily indebted, in terms of both domestic and external debt, that its revenues can no longer guarantee ongoing debt service?**
$\frac{\text{External debt}}{\text{Gross domestic product}}$	**Does the entire economy have more payment obligations to foreign countries than its economic capacity allows?** External debt includes the liabilities of both the public and private sector of a country to foreign creditors. This indicator points to the overall economic burden, i.e. whether an economy produces enough goods and services to be able to service its debt.
$\frac{\text{External debt}}{\text{Annual export earnings}}$	**Is the external debt of the state, companies and individuals so high that exports cannot generate enough foreign currency to pay the debt?** In most cases, external debt cannot be repaid in local currency. Servicing the debt requires the generation of foreign exchange through exports, migrant remittances, foreign investment or new debt.
$\frac{\text{Debt service}}{\text{Annual export earnings}}$	**Is the current external debt service of the state, companies and individuals so high that exports cannot at present generate enough foreign exchange to repay interest and principal in the current year?** This indicator sets annual payments for principal and interest in relation to export earnings. It shows whether the annual debt service – irrespective of the total debt level – overstretches the current capacity of an economy in a given year.

There are three risk levels for each of the five indicators. The allocation of different colour shades to the respective values indicates the value classification *(see Table 1 at the end of this report)*. A value shaded red means that all three debt distress thresholds are exceeded, and the value is thus classified in the third and highest risk level. Values below the lowest limit are shaded grey.

Levels of risk of debt distress (in %)

	No risk of debt distress	First level	Second level	Highest level
Public debt / GNI or GDP	< 50	50-75	> 75-100	> 100
Public debt / Annual government revenues	< 200	200-300	> 300-400	> 400
External debt / GNI or GDP	< 40	40-60	> 60-80	> 80
External debt / Annual export earnings	< 150	150-225	> 225-300	> 300
Debt Service / Annual export earnings	< 15	15-22.5	> 22.5-30	> 30

Based on the relevant debt indicators, the **debt situation of a country** is ranked according to one of three categories: slightly critical, critical or very critical *(see world map at the front of this report)*. Table 1 *(at the end of this report)* lists all countries with at least one debt indicator exceeding at least the lower of the three thresholds *(see levels of risk of debt distress)* or for which the International Monetary Fund (IMF) currently attests at least a moderate risk of debt distress. Based on the three risk levels for each of the five debt indicators, a value of between 0 and 15 is yielded for each country. For example, if a country is in the highest risk category with all five debt indicators based on the above levels of debt distress risk, i.e. if it exceeds all three thresholds for all five debt indicators, it has a value of 15. By way of additional factor, the IMF's assessment of debt distress risk also forms part of the assessment. The categories are defined as follows:

- 0-4 → slightly critical
- 5-9 → critical
- 10-15 → very critical

For each individual debt indicator, the **trend** indicates whether there was a change of 10% or more in the four years from 2017 to 2020 *(see Table 1 at the end of this report)*. An aggregate debt trend has also been calculated for each country *(see world map at the front of this report)*. If more debt indicators have improved than deteriorated over a four-year period, the overall trend is shown as a fall. If more indicators have worsened than improved, the general debt level is said to have increased.

No sovereign default = no sovereign debt crisis?

An examination of individual crisis cases

By Kristina Rehbein

In the early summer of 2020, shortly after the start of the COVID-19 pandemic, global concerns about a systemic debt and financial crisis grew. Rating agencies feared a wave of defaulting states in the Global South, and reforming the financial architecture was at the centre of political discussion. It is true that there was no wave of sovereign defaults in 2021. However, the debt situation has worsened in many countries in the Global South, which threatens sustainable recovery.

The pandemic and its economic consequences are having differing impacts on the debt situation of countries in the Global South. Three countries are examined in more detail below: two were considered by financial experts to be safe candidates for partial default, while one slipped into sovereign bankruptcy. The focus is on the following questions: firstly, how was default averted in a specific country case? Secondly, if a default materialized, how was this handled? Thirdly, is it justifiable to link a debt crisis to payment default? Finally, what options do countries have for solving their debt problem?

Angola: bankruptcy just averted

After Zambia's sovereign default in November 2020, Angola was under discussion as the next bankruptcy candidate on the African continent. In January 2021, the World Bank expected Angola to apply for debt restructuring under the G20's Common Framework for Debt Treatments beyond the DSSI. The Angolan economy had already been in recession since 2016. On top of the structural weaknesses around oil production, the economy was hit hard by the collapse of prices on the global oil markets at the beginning of the pandemic, poorer access to global market financing, and several lockdowns. In 2020, public debt rose to more than 130% of GDP. The International Monetary Fund (IMF) considers a maximum of 70% to be sustainable, while the national debt sustainability threshold is 60%.

Angola requested a deferral of its debt service payments under the G20 debt moratorium, the DSSI, to which China, Angola's main bilateral creditor, had also committed as a G20 member. However, much of the debt owed to Chinese institutions, some USD 14.5 billion out of an estimated USD 20 billion, is held by the China Development Bank (CDB). This is considered by the Chinese government to be a commercial bank and thus a private creditor not covered by the DSSI. Then, however, it became known that the Angolan government had managed to reach an agreement outside the DSSI with its biggest Chinese creditors (the CDB, the Export-Import Bank of China and the Industrial and Commercial Bank of China) on a three-year payment-deferral basis. As a result, Angola will be granted debt service relief totalling around USD 8.6 billion until 2022, which corresponds to more than 50% of payments owed to external creditors over this period. Together with crisis financing from the IMF and the allocation of USD 1 billion in the form of IMF special drawing rights, Angola has thus

After Zambia's sovereign default in November 2020, Angola was under discussion as the next bankruptcy candidate on the African continent.

been able to avoid a default in the short term. At the end of 2021, the country also benefited from rising oil prices, which will further ease the fiscally strained situation.

In the medium term, however, Angola's debt situation remains critical, and the risk of a default is still high. The debt service payments deferred have not been cancelled, but must be resumed in full from 2023. Accordingly, over the medium term, the country will have to spend over 80% of government revenues on public debt service year after year and, from 2023 onwards, most of this will be owed to external creditors.[1] Consequently, there is no money left for spending in the social sector. At the same time, 17% of the population suffers from hunger and urgently needs state support. Spending on healthcare is also far below the minimum effort required to achieve the third of the 17 Sustainable Development Goals (SDGs) comprised in the 2030 Agenda; Angola would have to spend three times as much as it does now to reach the minimum requirement of 4.3% of GDP annually.[2]

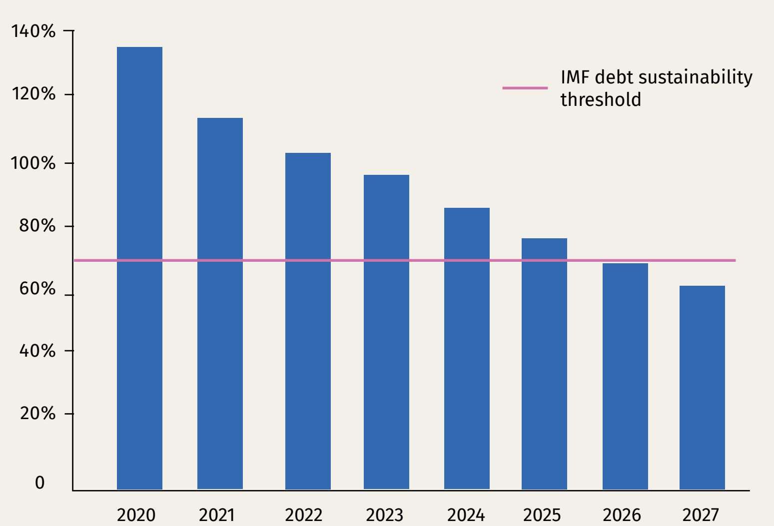
Even before the pandemic, the country's high level of external debt service payments posed a risk; between 2016 and 2019, Angola paid around USD 9 billion annually to its external creditors, averaging more than 40% of export revenues. Moreover, dependence on oil production, with its associated structural weaknesses, still remains, as does reliance on fluctuating global market prices. The IMF projects that Angola's public debt ratio will not fall below the sustainability threshold until 2027 *(see Figure 1)*.

According to the IMF, however, this will only happen if Angola maintains a tough austerity course and if oil prices, which have since risen, do not fall again. Still, there can be no guarantee that such an austerity course will actually lead to sustainable debt.

For the IMF, public debt is sustainable under these conditions. Thus, in Angola's case, debt sustainability is assessed purely from the perspective of immediate payment capacity, disregarding other factors such as rapidly overcoming the coronavirus pandemic, or the sustainability of the economic recovery. Consequently, the IMF praises Angola's austerity measures in 2020 and 2021 aimed at improving the debt situation, but what remains unsaid amid all this praise is how savings were made possible. Instead, for instance, of using revenues from higher oil prices in 2021 to secure the supply of COVID-19 vaccines and recruit additional staff in the healthcare sector, public investment was, on the contrary, severely curtailed; additional oil revenues were thus largely used to enable a balanced budget.

And yet, elsewhere, the IMF has repeatedly warned that a premature return to austerity would jeopardize the global recovery. The Fund has even argued in favour of countries maintaining loose fiscal policies for the time being.[3] Other institutions too, such as the United Nations Conference on Trade and Development (UNCTAD), warn that, in the absence of sufficient public-sector support (such as cheap financing or debt cancellation), countries have no choice but to tackle their high debt with

Fig. 1: Angola – Public debt-to-GDP



Source: own illustration on the basis of data in the IMF Country Report 21/140: 'Angola – Fifth Review under the Extended Arrangement under the Extended Fund Facility and Request for Modifications of Performance Criteria' from 22 July 2021, p. 36.

austerity. This not only jeopardizes global economic recovery, but also risks a 'lost decade of development'.[4]

All the same, in the IMF's debt sustainability analysis, there is no alternative scenario in which measures such as real debt cancellation could reduce the country's debt ratio to a sustainable level, even though Angola is a beneficiary country under the DSSI and has access to the G20 Common Framework. The declared aim of the DSSI was to gain time to be able to initiate further debt restructuring negotiations within the framework of the Common Framework in countries whose debt sustainability is in jeopardy. Nevertheless, for Angola, the IMF has not elaborated a scenario showing how partial debt relief could impact debt stabilization and economic recovery. This could enable a need for debt restructuring to be identified more quickly and, most of all, enable creation of an incentive to seek debt restructuring negotiations without delay.

This applies in particular with regard to the Common Framework, and should therefore also be of interest to the G20 and the implementing institutions such as the IMF. So far, the Framework has not been particularly attractive for debtor countries, partly due to fears of loss of reputation vis-à-vis creditors and investors. In June 2020, the Angolan government signalled that it did not consider any further steps necessary beyond a deferral of payments.

Sri Lanka: 'Muddling through' instead of social justice

The South Asian island nation of Sri Lanka was also considered by financial experts to be a sure candidate for the next sovereign default when a sovereign bond of USD 1 billion fell due for payment in July 2021. In 2020, the pandemic brought tourism, a key industry, to a virtual standstill. and it has not recovered since. The country's debt indicators are among the highest in the world, with a ratio of debt to government revenue of more than 1,000%. The debt service burden is high – and not only in the short term. Between 2020 and 2028, an average of USD 4.4 billion in external debt service payments will be due every year – with annual government revenues averaging only USD 7 billion.

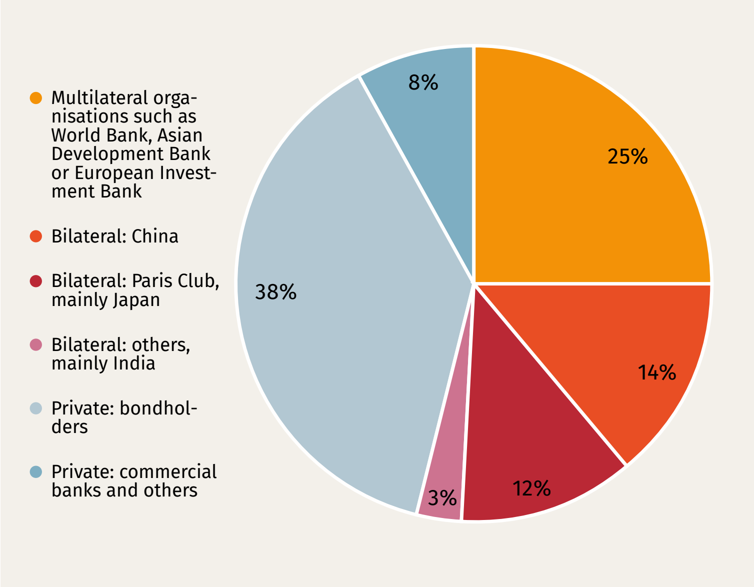
In July 2021, the country just about managed to avoid insolvency. This was achieved mainly through a currency swap[5] with the People's Bank of China in the amount of USD 1.5 billion, through various multilateral and bilateral loan agreements – for example with the China Development Bank and the Export-Import Bank of Korea – and through drawing down foreign exchange reserves.

However, averting default by prioritizing timely debt service has come at a high price. For example, the depletion of foreign exchange reserves has led to a shortage of foreign exchange for private commercial transactions, and Colombo has had to impose import restrictions on some goods. Many basic goods, including medical supplies, are no longer available, and the price of daily necessities is rising rapidly. Food production, which depends on foreign supplies of fertilizer, for example, is falling.[6] At the same time, according to media reports, more than 80% of public revenues service interest payments alone.[7] This leaves little scope for fighting the pandemic, or for more long-term development investments. The proportion of people living on less than USD 3.20 a day[8] rose from 9.2% to 11.7% in 2020 alone. More than 44% of people in Sri Lanka do not know whether they will be able to afford regular meals the next day.[9]

The country already had a debt problem before the pandemic. Fiscal scope has been persistently expanded by borrowing on mostly expensive terms; since 2011, the country's total external debt has more than doubled, partly due to borrowing for infrastructure reconstruction after the end of the civil war in 2009. Debt to bondholders has grown, especially since 2012, when Sri Lanka was upgraded from a low- to middle-income country, and access to cheap development loans became severely restricted. As early as in 2016, public debt servicing absorbed one third of public revenues. Even before the pandemic, it was always questionable whether Sri Lanka's foreign exchange reserves were sufficient to both service its debt on time and import essential goods. Time and again, however, the Sri Lankan government ultimately managed to refinance its debt service payments by raising funds at the last minute.

Yet a debt restructuring was never considered. Except for ad hoc rescheduling in May 2005 after the devastating tsunami at the end of 2004, the country has never negotiated debt relief. As a lower middle-income country, Sri Lanka fails to qualify for debt service relief from the G20 or IMF to deal with the consequences of the pandemic. Nor would Sri Lanka, as a country with extremely high debt indicators, have much to gain from a temporary suspension of payments as envisaged in the G20 DSSI. Instead, comprehensive debt restructuring involving all creditors would be required immediately. However, the country's creditor profile is complex *(see Figure 2)*, which makes debt restructuring immensely difficult in the absence of a coordinated and binding procedure.

Fig. 2: Sri Lanka – Creditor composition



Source: own illustration on the basis of data from the World Bank International Debt Statistics for the year 2020.

Accordingly, the Sri Lankan government sees little option but to maintain its reputation as a good debtor, i.e. one that is always reliable and pays on time, and to place the protection of its creditors' rights and their profit expectations above the expectations of its own people and its obligations towards them.

Sri Lanka needs a debt restructuring with the participation of all creditors.

Since this also depends on the questionable willingness of individual creditors to provide Sri Lanka with regular bailout financing, in September 2021, as a way out of the debt crisis, the Sri Lankan Energy Minister proposed intensification of hitherto unsuccessful efforts to exploit and export oil and gas in the Mannar Basin,[10] an option that would be disastrous from an environmental and climate policy perspective. Instead of this, creditors should share in the adjustment costs.

Suriname: Fight over commodity reserves puts a brake on debt relief

Suriname, a small country on the north-eastern coast of South America, was the second country in the world after Zambia to partially default in the context of the pandemic. In April 2020, the country's credit rating was downgraded by a number of rating agencies, and in November it finally had to suspend payments to its bondholders. The coronavirus-induced recession caused the economy, which depends on tourism and a few commodity exports, to slump by almost 16%. Accordingly, debt sustainability deteriorated, with the public debt to economic output ratio rising from an already high 85% in 2019 to 148% in 2020 *(see Figure 3)*.

The slump in growth, which significantly reduced government and export revenues, also coincided with a year of particularly high debt service obligations, with over 40% of government revenues being earmarked for debt servicing. The country's healthcare system was already weakened before the pandemic. Given its lack of resources, Suriname was largely dependent on external support in the fight against the pandemic.

The country's debt situation was also critical even before the pandemic: In 2015 and 2016, Suriname fell into a severe economic depression, partly as a result of the global drop in commodity prices. At the same time, a phase of high borrowing began in 2016. The country issued its first sovereign bond in October 2016, which met with high demand from investors despite enormous risks. A second bond followed in 2019. In addition, there were large infrastructure projects with China, now Suriname's third-largest creditor, as well as further loans from multilateral development banks such as the

Inter-American Development Bank. The country's debt profile changed dramatically, principally as a result of its entry into global financial markets, and debt service quadrupled from 2016.

As a middle-income country, Suriname is excluded from the DSSI, the Common Framework and the IMF's CCRT. In July 2020, the country succeeded in coming to an agreement with its bondholders on rescheduling of interest and principal payments for a six-month period. In October 2020, the Surinamese government announced the start of restructuring negotiations. Two months later, payments were again deferred until the end of March 2021, a concession that was provisionally extended in March 2021.

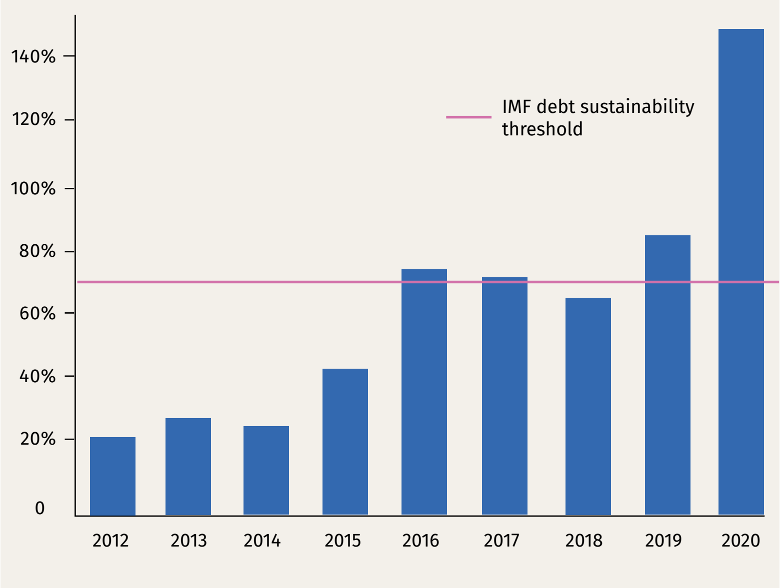
In the interim, Suriname has applied for an IMF program from 2021 to 2024, negotiations for which started in April 2021. The IMF has made clear that debt relief will be needed from both public and private creditors to restore debt sustainability. Suriname is one of the few critically indebted countries to which the IMF, since the beginning of the pandemic, has issued a clear debt restructuring recommendation. This is mainly because the country has already had to partially suspend payments.

In September 2021, the country's Paris Club creditors (France, Israel, Italy, the Netherlands and Sweden) indicated that they would negotiate with Suriname on its outstanding claims. As Suriname has no access to the Common Framework, it is unclear to what extent Chinese creditor institutions will also participate.

In June 2021, Suriname submitted a restructuring offer to its bondholders. The offer provides for a haircut of 70% on its two bonds with very high interest rates of 12.875% and 9.25%, thereby reducing debt from USD 786 million to USD 236 million. In addition, a haircut of 30% has been offered on the much cheaper public debt. However, a dispute has arisen with investors. Initially, the Surinamese government proposed that they share in the revenues from potential and as-yet-untapped raw material reserves. Then the IMF intervened and recommended that oil reserves that had not yet been sufficiently verified should be excluded from calculation of the debt restructuring framework.

Investors however fought back and cancelled the deferral, meaning that they were legally entitled to immediate resumption of debt servicing. Nonetheless, they were surely well aware of the investment risks involved in the lending; not only were these documented in detail in the bond offer documents, but they are also reflected in the high risk premium that Suriname pays on its bonds. The government bonds were thus always speculative investments. Investors who have already collected their risk premium can thus have no entitlement, at least from a moral perspective, to tap the country's national resources. At the time of going to print, and thus one year after the restructuring negotiations were announced, there is neither an agreement nor an IMF program. Whether investors will take legal action is unclear at this point.

Fig. 3: Suriname – Public debt-to-GDP



Source: own illustration on the basis of data from the IMF World Economic Outlook Database (October 2021), indicator 'General government gross debt in percent of GDP'.

The Surinamese government takes a relaxed view of the confrontation with its investors: "We have offered our proposals. They have responded that they do not agree with that, is that the end of the world? No. We are showing leadership, and we are continuing to negotiate."[11]

Conclusion

The pressure to act due to the consequences of the pandemic, and the creation of additional debt relief initiatives by the G20, have done nothing to change the way in which debt crises are fundamentally handled. Such handling continues to be characterized by delaying tactics, a lack of creditor coordination and the prioritization of short-term revenue expectations at the expense of social and economic stabilization. This is exemplified by the three country cases described above, Angola, Sri Lanka and Suriname.

Since the wave of sovereign defaults – and thus also restructuring negotiations – failed to materialize, the IMF and the G20 are not treating the current crisis as a systemic crisis. They therefore see no need to find wider-reaching answers[12] to the debt crisis in the Global South. Appearances, however, are deceptive. Even if countries have not been forced to stop servicing their debts, their economic recovery is still threatened. Debt relief negotiations would therefore be a sensible alternative.

Being a 'good debtor' should not be confused with maintaining short-term debt service at all costs at the expense of sustainable recovery. Debtor countries should not have to fear default and subsequent restructuring of their debt. Providing incentives for early debt restructuring negotiations and minimizing the stigma attached to such negotiations is a key task of the international community. This includes, as in the case of Suriname, supporting the debtor government in implementing a sustainable solution, even in the face of resistance.

1 See IMF Country Report 21/140: 'Angola – Fifth Review under the Extended Arrangement under the Extended Fund Facility and Request for Modifications of Performance Criteria' dated 22.07.2021. The debt sustainability analysis contained in the IMF report forms the basis for the following comments.

2 See SDG benchmark EURODAD (2020): 'Covid-19 and debt in the global south: Protecting the most vulnerable in times of crisis I'.

3 See, for example, IMF (2021): 'Fiscal Monitor Update, January 2021', p. 2: "Most countries are projected to experience lower fiscal deficits in 2021 as revenues rise and expenditures decline automatically with the recovery and temporary pandemic-related measures expire. However, without additional fiscal support beyond that included in 2021 budgetary plans, projected fiscal contractions this year could slow the recovery, whose pace and extent remain uncertain."

4 See, for example, UNCTAD (2020): 'Trade and Development Report 2020 – From Global Pandemic to Prosperity for All: Avoiding another lost decade'.

5 A bilateral currency swap is an exchange of currencies between two countries. Through the swap, in this case Sri Lanka gains short-term access to liquidity in the form of the Chinese currency renminbi, in exchange for its own Sri Lanka rupee, which is considered a soft currency, to the Chinese central bank. The central bank involved can lend the foreign currency to Sri Lankan institutions, which can use it to pay import bills from China, among other things. In addition, there is more room for manoeuvre with regard to the use of dollar-denominated reserves. See also erlassjahr.de background paper: 'Currency swaps as a rescue instrument' (to be published in 2022).

6 See Shiraz, N. and Thowfeek, R.: 'Opinion: Avoiding IMF won't help us avoid austerity', Lanka Business Online, 26.08.2021.

7 See Arnold, T. and Jones, M.: 'Analysis: Debt-hobbled Sri Lanka risks running out of options', Reuters, 03.08.2021.

8 Poverty line introduced by the World Bank in 2018 for lower middle-income countries.

9 See World Bank: 'The World Bank in Sri Lanka'.

10 See 'Sri Lanka turns to Mannar's basin and fossil fuels to pay off debt', Tamil Guardian, 19.09.2021.

11 See Ellsworth, B.: 'Suriname slams creditors for 'confrontational' attitude', Reuters, 23.06.2021.

12 See, for example, proposals made in the context of UN Financing for Development in the Era of COVID-19 and beyond, as well as the article '*Beyond the G20: the international reform debate in times of COVID-19', at p. 34 in this report*.

Inadequate debt relief and austerity

A critique of the international crisis response to the COVID-19 pandemic

By Malina Stutz

In 2020, the United Nations called for debt relief for low- and middle-income countries and for non-debt-creating financial assistance. Instead, multilateral financial institutions ramped up their lending on a large scale. The poorest of the population are paying the highest price for this. It is already becoming apparent that countries can only avoid default and debt restructuring negotiations by making further cuts in public and welfare services.

A global crisis like no other needs a global response like no other; this is how Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), characterized the situation at the beginning of the pandemic in April 2020.[1] In the same month, the United Nations called on the global community to follow up its declarations of solidarity with action. Thus, the UN Conference on Trade and Development (UNCTAD) called for USD 2.5 trillion in international support for low- and middle-income countries, broken down as follows:

- USD 1 trillion to be made available to countries of the Global South in the form of newly created **Special Drawing Rights**.[2]
- A further USD 1 trillion to be released through **debt relief**.
- The remaining USD 500 billion to be allocated as **grants** by countries of the Global North and multilateral financial institutions to low- and middle-income countries

The UN proposal therefore aimed to expand the leeway of countries in the Global South in the midst of the crisis through comprehensive non-debt-creating liquidity support. At the same time, sovereign debt was to be reduced to enable countries to stage a successful economic recovery after the pandemic.

But what did the crisis response actually look like in 2020 and 2021?

Special Drawing Rights

With the US administration under President Donald Trump having for a long time prevented any new allocation of Special Drawing Rights (SDRs), SDRs totalling USD 650 billion were finally created and allocated to the member states in August 2020. In line with IMF quotas, high-income countries received the bulk of the newly created funds, with SDRs worth around USD 275 billion going to low- and middle-income countries.

Although this allocation was very welcome, the target of USD 1 trillion set by the United Nations in this regard was still missed by approximately USD 725 billion.

In the light of this significantly lower volume, over 250 civil society organizations and academics are now calling on high-income countries to reallocate their own SDRs to low- and middle-income countries,[3] and this proposal has also been introduced into the debate by the IMF.[4] Some high-income countries such as Canada, the USA and France have already announced their intention to (partially) comply. However, it can be assumed that the countries will only on-lend SDRs in the form of loans.

What this means, however, is that the decisive advantage of SDRs is forfeited, namely that they do not increase the debt level of the recipient countries. Other high-income countries, such as Germany, have so far steadfastly refused to reallocate the funds at their disposal.[5]

Tab. 1: Chosen countries that benefitted the most from the debt relief initiative of the IMF

Country	Debt service relief by the IMF in million USD April 2020 - January 2022	Debt service relief by the IMF in relation to the total external debt service of the public sector 2020 and 2021
Liberia	52.33	77.53 %
Sierra Leone	65.37	65.95 %
Central African Rep.	14.46	57.44 %
Burundi	20.32	34.17 %
Guinea	73.87	26.75 %
Malawi	40.54	23.97 %
Rwanda	59.06	23.80 %
Comoros	4.29	22.74 %

Source: own calculation. Debt service relief of the IMF on the basis of data from IMF (2021): 'COVID-19 Financial Assistance and Debt Service Relief'. Details on the total external debt service on the basis of data from the World Bank International Debt Statistics.

Debt relief

Three measures were taken during the coronavirus pandemic. However, so far (as of November 2021), debt relief has only been granted within the framework of the IMF's debt relief initiative in the sum of approximately USD 850 million. This is less than 0.1% of the amount requested by the UN.

IMF debt relief (CCRT)

As part of the IMF's debt relief initiative, 31 low-income countries were granted relief on debt service that they would have had to pay between April 2020 and January 2022. The IMF was compensated for this by its high-income member countries increasing the Catastrophe Containment and Relief Trust (CCRT).

In eight beneficiary countries, cancelled payments accounted for more than 20% of public sector external debt service obligations in 2020 and 2021 *(see Table 1)*. In total, the initiative cancelled about USD 850 million in payments of interest and principal. From a global perspective, this is a tiny drop in the ocean; in 2020, the cancelled payments represented about 5% of the debt service paid to the IMF by all low- and middle-income countries and about 0.1% of the public debt service paid to all external creditors.[6]

G20 debt moratorium (DSSI)

Through the Debt Service Suspension Initiative (DSSI), the G20 countries and other Paris Club members offered 73 countries a temporary suspension of their debt service payments. In principle, only lower-income countries benefited from the DSSI; many critically indebted middle-income countries, which were also hit hard by the pandemic-induced economic slump, were unable to benefit from the initiative. Up to December 2020 alone, these 73 countries were promised deferrals totalling c. USD 20 billion.

The G20 and IMF hoped that public bilateral creditors would defer around USD 12 billion and private creditors another USD 8 billion.[7] Subsequently, the initiative was extended until the end of 2021.

Contrary to what had been announced, however, only USD 5.3 billion was deferred until the end of

2020, and another USD 5 billion until June 2021.[8] Firstly, only 46 of the potential 73 beneficiary countries actually made use of the moratorium.[9] Secondly, even these countries could only suspend an average of 23% of their debt service between May 2020 and June 2021.[10]

The latter is mainly due to two fundamental flaws in the design of the DSSI, namely that neither multilateral financial institutions nor private creditors were under a duty to participate in the moratorium. As was to be expected, repeated public appeals, especially to private creditors, to participate on a voluntary basis had no effect.

However, compared to the potential payment deferrals as calculated by the World Bank, even public bilateral creditors have only deferred just under half of the debt service owed to them *(see Table 2)*. China, which financed the lion's share of the initiative, at about USD 5.7 billion, has deferred about 45%, while the other G20 and Paris Club countries have deferred about 59% of the debt service they are owed, according to World Bank figures.

So far, it has not been possible to clarify for certain whether, and to what extent, public creditors have actually collected debt service payments from the participating countries, and whether the difference between the deferrals and the debt service owed is due to incorrect reporting by the World Bank.[11] In documenting possible deferrals under the DSSI, the G20 states have referred to data provided by the World Bank and have thus held out the prospect of more extensive deferrals than have been granted so far.

Tab. 2: Debt service payments of the 46 countries that applied for a moratorium in the context of the DSSI (May 2020 – June 2021)

Creditor	deferred payments (in billion USD)	received payments (in billion USD)	as percent of deferred payments
bilateral creditors	10.3	11	48 %
multilateral creditors	0.6 (cancelled*)	10.4	5 %
private creditors	0.024**	14.9	0.2 %
total	10.9	36.4	23 %

Source: Jubilee Debt Campaign (2021): 'How the G20 debt suspension initiative benefits private lenders'.

* relates to circa 600 of 850 million USD that the IMF cancelled between April 2020 and June 2021 in the context of the DSSI.
** An Italian bank deferred around 24 million USD of debt payments by Zambia.

The Common Framework of the G20 countries
Repayments on the debt deferred under the DSSI must be made from 2023, in addition to the interest and principal that will be due anyway. The fact is acknowledged by the G20 states that this will be impossible for many critically indebted countries. Since November 2020, they have therefore been offering the 73 DSSI-beneficiary countries the possibility of negotiating further treatment of outstanding debt in a case-by-case process within their Common Framework for Debt Treatments

The Common Framework does not even begin to address the power asymmetry between debtors and creditors.

beyond the DSSI. This should enable further restructuring before the expiry of the DSSI.

In the Global Sovereign Debt Monitor 2021, the then State Secretary in the Federal Ministry of Finance, Wolfgang Schmidt, stated that, "in April 2021 we will probably already be in the middle of implementation for the first countries"[12]. However, the new framework has not proven itself to date. Only three countries – Chad, Ethiopia and Zambia – have applied for debt restructuring under the Common Framework so far and, to date, binding agreements have not been reached in a single case.

In this context, the governments of the G20 countries have repeatedly emphasized the fact that the first cases had to be exemplary in order to encourage other countries to start negotiations.

Chad was initially seen as a case where creditor coordination should not pose too many difficulties and where it was therefore hoped that negotiations would be concluded quickly. This is because Chad is mostly indebted to public creditors; the only relevant private creditor is the UK-based arm of commodities giant Glencore. But in Chad's case, too, no agreement has been reached so far (as at November 2021). According to media reports, this is due to Glencore's refusal to join in the concessions granted by public creditors, since the commodities company had already restructured debt in 2015 and 2018. Since the beginning of October, it is now being reported that Glencore and Chad have entered into "constructive talks"[13].

Civil society actors have criticized the Common Framework from the outset as inadequate, since it does not even begin to address the fundamental power asymmetry between debtors and creditor institutions.[14] The course of the negotiations so far also shows that the problem of creditor coordination is not satisfactorily resolved by the Common Framework and that therefore, even in individual cases, no comprehensive debt restructuring can be expected in the near future.

Grants and other financial flows

According to preliminary data from the Organisation for Economic Co-operation and Development (OECD), in 2020 public bilateral creditors provided grants of around USD 155.8 billion.[15] In the same period, the World Bank Group's International Development Association (IDA) provided around USD 5.5 billion in grants to low-income countries. The third goal of the United Nations, to provide a total of USD 500 billion in grants, has thus also been missed by a wide margin.

Instead, extensive financing requirements were met primarily through new loans – in particular from multilateral financial institutions. In 2020, the IMF granted around USD 50 billion (net 43.7 billion)[16] in emergency loans. Between April 2020 and October 2021, the IMF pledged approximately USD 117 billion in lending. Multilateral development banks lent a further USD 111 billion (net 55 billion) in 2020, of which approximately USD 20 billion (net 10 billion) was on concessional terms.

These inflows succeeded in preventing a systemic wave of sovereign defaults, at least in the short term. At the same time, however, they increase the debt levels of the recipient countries and enable private creditors to withdraw from debt relief initiatives that continue to be non-binding, thereby avoiding participation in the costs of the crisis.

Indeed, although most governments, fearing the loss of their hard-earned market access, have avoided giving rise to even the slightest suspicion that they might seek debt restructuring with private creditors, net credit flows from private creditors were negative in many countries; 58 low- and middle-income countries paid more in interest and principal to external private creditors in 2020 than they received in new loans from them over the same period. The narrative propagated by private creditors, that forgoing debt restructuring negotiations would help maintain stable financial relations with private lenders, has therefore unsurprisingly turned out to be misleading.[17]

No leeway in the midst of the pandemic

As a result of inadequate international responses to the crisis, low- and middle-income countries were only able to afford a fraction of the public support available to high-income countries in 2020.[18] In addition, developing countries had to offset their additional spending with spending cuts in other essential areas. For example, in 2020, DSSI beneficiary countries spent an average of 0.2% less on education as a share of GDP than they had planned at the beginning of the year. Capital expenditure slumped by 1.1% of GDP.[19]

Due to these inadequate crisis responses, the number of people forced to live in extreme poverty increased by more than 100 million people in 2020 alone.[20] And according to estimates by the International Labour Organization (ILO), well over 4 billion people worldwide have no access to social security benefits, even in the midst of the crisis.[21]

The start of a new wave of austerity

To enable continued debt servicing, last year public primary expenditure was cut in 83 countries in the Global South. By 2023, this number is expected to rise to 115 countries,[22] representing 85% of all Global South countries for which data are available. These are not short-term spending cuts that 'merely' reverse the 2020 overspend. Rather, based on available data, the cuts are expected to continue until 2026, and public primary expenditure in 2026 will be below pre-pandemic spending levels in 80 countries.

The economic and social consequences of this new wave of austerity are likely to prove devastating – not least because, even before the coronavirus pandemic, public-health and social spending in many countries was at a very low level. However, contrary to the high-profile pronouncements of the IMF leadership, the financial institution remains conservative in its policy recommendations to individual countries; an analysis by Oxfam in March 2021 showed that 85% of the IMF's emergency finance in the context of the COVID-19 crisis was linked to the recommendation to cut public spending as soon as the pandemic subsided.[23]

The recommendation most frequently made by the IMF is to cut public sector salaries. In twelve low-income countries alone, this is estimated to have led to the loss of nearly 600,000 teachers and almost 400,000 nurses between 2016 and 2021.[24]

What is remarkable here is that there seems to be no clear logic behind the IMF's recommendations on when and to what extent cuts are legitimate and necessary. Rather, their recommendations are standard ones made both to countries where the public wage ratio is quite high (e.g. Zimbabwe, at 17.1%, or Liberia, at 10.1% of GDP) and to countries where only a very small share of GDP is spent on public salaries (e.g. Nepal, at 3.7%, Uganda, at 3.5%, or Nigeria, at 1.9%).[25]

Bailout of private creditors

According to its own statutes, the IMF is only allowed to grant loans if the borrowing country is highly likely to be able to make repayment. To ensure this, the IMF has three mechanisms at its disposal. Firstly, it can tie its loans to conditionalities; secondly, it can make the disbursement of funds dependent on other creditors also agreeing to provide new funds during the program period; thirdly, disbursement can be linked to the condition that existing liabilities are restructured, i.e. that other creditors agree to rescheduling or partial cancellation of their claims.

The economic and social consequences of the new wave of austerity are likely to prove devastating.

However, the IMF only makes extensive use of the first option. This is neither fair, as spending cuts and other adjustment measures shift the costs of the crisis onto the population of the debtor country, nor does it make economic sense, since instead

Photo: Robin Prime / Cancel The Debt Coalition

London, 9 March 2021: The international *Cancel the Debt Coalition*, a civil society alliance, demands debt cancellation from private creditors such as J. P. Morgan, HSBC and BlackRock.

of leading to an improvement, the required adjustment measures often lead to a further deterioration in the economy, and thus also the willingness of commercial creditors to provide loans.[26]

More pressure on creditors necessary

Instead, in cases where the debt burden of the applicant country is critical, the IMF should far more frequently make restructuring a condition of its own lending, i.e. it should put pressure on public and private creditors. In recent years, however, and also in the context of the emergency loans granted in response to the coronavirus crisis, the IMF has rarely made use of this option.[27] As a result, the rights of creditors to repayment are implicitly treated as sacrosanct, while the fundamental rights of the population are considered arbitrarily curtailable.

In order to prevent uncooperative creditors from blocking the entire lending process by refusing to restructure their claims, the IMF should also make more proactive use of another option available to it in combination with the demand for debt restructuring. The so-called Lending into Arrears Policy allows the IMF to make loans available even if the debtor country is in default with private or public creditors. The only determining criterion is that the debtor country must be willing, in the IMF's assessment, to negotiate reasonably with its creditors.

If private or bilateral public creditors are not willing to make sufficient concessions to restore the debt sustainability of a requesting country and thereby also secure the repayment of the emergency loans, the IMF should explicitly encourage debtor countries to suspend payments to these creditors and support the debtor country financially during the suspension of payments by disbursing its own assistance loans. Only in this way would it be possible to ensure that the loans extended by the IMF do not merely finance the bailout of other creditors. At the same time, an incentive would be created to bring creditors not keen on restructuring to come to the negotiating table.

Conclusion
In 2020, the United Nations called for large-scale financial assistance to be made available to low- and middle-income countries that does not generate new debt, and for outstanding debt to be cancelled on a large scale. Instead, multilateral financial institutions in particular extended loans on a large scale.

Although, at least in the short term, this has prevented a systemic wave of sovereign bankruptcies, this strategy carries at least two dangers. Firstly, necessary debt restructuring and debt relief will probably simply be postponed into the near future. If this proves to be the case over the coming years, private creditors will probably have already largely withdrawn from many critically indebted states. Instead of ensuring fair cost-sharing between different creditor groups at an early stage, public money would then once again have been used to bail out private creditors. Secondly, it is already becoming clear that countries can only avoid default and debt restructuring negotiations at the expense of their populations. The IMF also contributes to this by encouraging countries to make further cuts in public and welfare services in order to secure loan repayments, instead of making the reduction of creditor claims a condition of its loans.

The G20 countries should also explicitly motivate debtor countries to restructure their debt, provide them with financial support during debt restructuring and, in particular through legislative changes in countries of the Global North, assume responsibility for ensuring that private creditors participate in debt relief promptly and on an equal footing. The Common Framework has so far proved to be a toothless tiger in this respect. Contrary to all indications, continuing to hope that the Common Framework will 'settle in' after all, and therefore not taking any further proactive steps, is not justifiable in view of the already high human toll.

Countries will only be able to avoid default and debt restructuring negotiations at the expense of their populations.

1 Georgieva, K. (20.04.2020): 'A Crisis Like No Other Needs a Global Response Like No Other'.

2 SDRs are a currency that can be created by the IMF with the approval of its member countries and distributed to them according to their quota with the IMF. Unlike loans, member countries do not have to repay the SDRs provided to them. As with grants, SDRs therefore do not increase the debt of the recipient states.

3 Bretton Woods Project (30.09.2021): 'Open letter to G20 Finance Ministers, Central Bank Governors and the IMF: Civil society organizations call for principles for fair channeling of Special Drawing Rights'.

4 See, for example, Pazarbasioglu, C.; Ramakrishnan, U. (08.10.2021): 'Sharing the Recovery: SDR Channeling and a New Trust'.

5 On rechannelling possibilities see: Ellmers, B. (2021): 'Mit historischer Finanzspritze aus der Coronakrise'.

6 The data on IMF debt relief are not prepared on a monthly or annual basis, but only aggregated for the individual tranches. For the second tranche from October 2020 to April 2021, it has been assumed that the total cancellations of approximately USD 237 million were evenly distributed over the months, i.e. that approximately USD 99 million were cancelled between October and December 2020. If the entire USD 237 million were to be counted in 2020, the IMF would have forgiven about 6.8% of the debt service due to it under the CCRT in 2020.

7 See footnote 1.

8 IMF (2021): 'Joint IMF-WBG Staff Note: DSSI Fiscal Monitoring Update'.

9 With the Kyrgyz Republic and St. Vincent and the Grenadines, two more countries have since taken advantage of the initiative. For these countries, however, no data is yet available on the amounts rescheduled.

10 JubileeDebtCampaign (2021): 'How the G20 debt suspension initiative benefits private lenders'.

11 According to World Bank data, Senegal, for example, had to pay Germany approximately USD 32 million in debt service during the moratorium period, which was apparently not deferred. However, Germany itself does not report these claims as public claims; see also the article *'Germany as a creditor', p. 44 in this report*.

12 Schmidt, W.; Miranda, P. (2021): 'Fighting debt with yet more debt? A discussion with Wolfgang Schmidt (German Federal Ministry of Finance) and Patricia Miranda (LATINDADD).' in: erlassjahr.de / MISEREOR: Global Sovereign Debt Monitor 2021.

13 Reuters (16.10.2021): 'Glencore opens talks with Chad over debt restructuring'.

14 Stutz, M. (2021): 'Debt restructuring in times of corona: Group-based, coordinated, but ultimately purely symbolic?' in: erlassjahr.de/MISEREOR: Global Sovereign Debt Monitor 2021.

15 OECD (2021): 'COVID-19 spending helped to lift foreign aid to an all-time high in 2020. Detailed Note'.

16 Net lending here refers to new lending minus interest and principal payments. The IMF and World Bank often report so-called net financial flows, in which, however, they only deduct the repayments, not the interest payments, from the newly extended sums.

17 On how private financial institutions actively used this narrative in their lobbying, see: Van der Stichele, M. (2021): 'The IIF & debt relief'.

18 Between April 2020 and October 2021, the public sector in high-income countries spent an additional 11.7% of their own GDP on average to cushion the economic and social consequences of the coronavirus crisis at home. Middle-income countries were able to provide an average of 5.6% and low-income countries 3.1% of their gross domestic product (GDP) in aid to their own people and domestic economies. See: IMF (2021): 'Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic'.

19 See footnote 9.

20 The World Bank reported in January 2021 that an estimated 119-124 (228-236) million people were slipping below the poverty line of USD 1.90 (3.20) per day as a result of the pandemic. World Bank (2021): 'Updated estimates of the impact of COVID-19 on global poverty'. Azim Premji University in India reported in May 2021 that more than 230 million people in India alone had slipped below the national poverty line. Azim Premji University (2021): 'State of working India 2021'.

21 International Labour Organization (2021): 'World Social Protection Report 2020-2022'.

22 Own calculation based on data from the IMF's World Economic Outlook 2021. Primary expenditure is the public expenditure of the state that does not go into interest and principal payments.

23 Oxfam (2021): 'Adding Fuel to Fire - How IMF demands for austerity will drive up inequality worldwide'.

24 ActionAid (2021): 'The Public Versus Austerity - Why public sector wage bill constraints must end. Executive Summary'.

25 Ibid.

26 An IMF internal evaluation also concludes that achievement of program objectives was significantly more successful when debt restructuring was implemented at the start of lending in countries at risk of debt distress. IMF (2019): '2018 Review of Program Design and Conditionality'.

27 See JubileeDebtCampaign (2019): 'Preventing and resolving sovereign debt crises: Stop bailing out reckless lenders' and JubileeDebtCampaign (2020): 'IMF loans bailing out private lenders during the Covid-19 crisis'.

Beyond the G20: the international reform debate in times of COVID-19

How debt crises could be sustainably resolved

By Bodo Ellmers

Since the beginning of the COVID-19 pandemic, debt crises have been at the top of the United Nations agenda. At the highest level, heads of state and government have developed a comprehensive menu of innovative reform proposals. Their implementation would solve debt crises faster, more fairly and more sustainably. To move from rhetoric to implementation, more political pressure needs to be built.

The COVID-19 crisis was a wake-up call. It brought new momentum to international reform debates. After several years of activism triggered by the vulture fund litigation against Argentina around 2014/15, reforms had fallen into a prolonged slumber. As a result, of late there has not been enough innovation aimed at resolving debt crises - apart from changes to debt rescheduling clauses in bond contracts, the so-called Collective Action Clauses (CACs)[1].

The reform backlog has contributed to the ongoing deterioration of debt indicators in countries of the Global South since 2013, which reached record levels even before the COVID-19 shock. In many countries, the effects of the pandemic have led to a further steep rise in public and external debt *(see article 'The global debt situation', p. 8)*.

For developing countries, this results in a dual problem. Firstly, there is a risk of acute debt crises and defaults through a high and rising debt burden. Secondly, rising debt service payments absorb an ever larger share of government revenues, so that these are no longer available for other government remits, such as the provision of healthcare and education, or social security.

United Nations reforms

In the spring of 2020, the second of these aspects in particular led the United Nations to renew its focus on the issue of debt crisis resolution. In April, UN Secretary-General António Guterres published an alarming policy brief[2] in which he warned the global public that the global debt situation had become a major threat to the 2030 Agenda. He called on the international community to enact immediate reforms in the form of a three-pronged strategy: immediate debt moratoria to free up funds to fight the crisis, debt relief for countries that need it, and a structural reform of the international financial architecture.

In May 2020, Guterres invited heads of state and government to look for solutions within the framework of the UN special process 'Financing for Development in the Era of COVID-19 and Beyond'. German Chancellor Angela Merkel and EU Commission President Ursula von der Leyen also responded to the call. Over the summer of 2020, six thematic working groups met, two of which dealt exclusively with the topic of debt, and another with the closely-related topic of ensuring sufficient liquidity.[3] In the autumn, they presented an almost 200-page Menu of Options, a comprehensive catalogue of either existing or updated proposals, as well as new proposals, for the prevention and resolution of debt crises.[4]

In the area of debt moratoria, for example, it is recommended that the G20 debt moratorium, the DSSI, be extended for a longer period and to more groups of countries. On the issue of debt relief, various options are discussed, such as the involvement of multilateral creditors through trust funds, or the involvement of private creditors via different debt restructuring options, from debt conversions to so-called buy backs.[5]

In terms of debt architecture, the catalogue proposes establishment of a Sovereign Debt Forum or Sovereign Debt Authority, i.e. a permanent body and a neutral place where the resolution of debt crises can at least be discussed or possibly even organized. The Paris Club - as a cartel of the West's bilateral creditors - obviously cannot fill this gap. Even its expansion to the Common Framework, through the inclusion of China, did not constitute progress according to these criteria.

No sustainable reform processes without a mandate

The UN process was a so-called multi-stakeholder process in which, in addition to the UN and its member states, the International Monetary Fund (IMF) and the World Bank, non-governmental organizations (NGOs) and private sector lobby groups such as the Institute of International Finance were also involved. The Menu of Options was developed on the one hand by bringing together proposals from the various stakeholders, and on the other hand through taking account of political sensitivities.

The result of this is that, although radical options are listed, such as the proposal to make debt restructuring legally binding by means of a UN Security Council resolution, at the same time, some approaches have been 'softened', e.g. multilateral creditors are gently advised to guarantee positive net flows, i.e. to grant more new loans than their debtors pay back in debt service. This is because the World Bank has strongly resisted the involvement of multilateral creditors in new debt relief.

In September 2020, the Menu of Options was discussed at two high-level and well-attended virtual UN events, one at the level of finance ministers, another at the level of heads of state and government. Especially for developing countries, the debt issue was a central issue. However, the short speaking time did not permit discussion of detail, and the events themselves were not mandated to take decisions.

Radical reform proposals have been 'softened'

In 2021, the United Nations continued to attach the utmost importance to the topic of debt crises and, in March, again hosted a high-level event exclusively dedicated to 'debt and liquidity'. In preparation for the event, the UN Secretary-General presented another paper with policy options on the debt problem.[6] To the disappointment of all those working for a sustainable solution to debt crises, most heads of state and government devoted their three-minute speeches to the short-term liquidity dilemma, mostly calling for an extension of the DSSI and a special allocation of special drawing rights by the IMF.

The issue of how to deal with impending solvency crises, on the other hand, was neglected. Only a few speakers, such as Andrew Holness, Prime Minister of Jamaica, or Alberto Fernández, President of Argentina, called for reforms to the international financial architecture aimed at addressing glaring deficiencies in terms of fast, fair and sustainable debt restructuring.

Unfortunately, the entire UN special process lacked the mandate to take concrete decisions. The Financing for Development Forum of the UN Economic and Social Council (ECOSOC), held shortly afterwards, also brought little concrete progress. As a result, the policy proposals from the UN's Menu of Options are still awaiting implementation.

Since the beginning of the COVID-19 crisis, the UN has failed to present a concrete counter-proposal going beyond the DSSI and the Common Framework of the G20. This is one of the reasons why many governments still see no alternative to the DSSI and the Common Framework. Instead, the UN has focused on side issues and may well have lost sight of the big picture. For example, relatively extensive work has been undertaken on the negative influence of credit rating agencies, since the threat of downgrades has deterred many countries from participating in the DSSI. A report by the UN's independent expert on debt and human rights, Yuefen Li, represents an example of such work.[7] In addition, the UN Economic Commission for Africa (UNECA) has put forward a technically complex proposal for a liquidity facility, using swaps and guarantees by central banks from economically strong countries to reduce the high interest costs in weak countries. Civil society groups have criticized UNECA for working with PIMCO, a private investment company of the Allianz Group which is active in the bond business.[8]

Steps taken by the IMF

Neither has the IMF taken a clear line on the pandemic. Some conceptual work was undertaken on the debt crisis architecture, and warnings also came occasionally from the management, but both were rather timid. One of the IMF's dilemmas undoubtedly consisted in the fact that, during the crisis, it initially had to call for counter-cyclical fiscal policy, i.e. debt-financed spending increases, and emphasizing the debt problem would have been counterproductive.

However, with the help of the Catastrophe Containment and Relief Trust (CCRT), the IMF did implement the only 'real' debt relief initiative of the COVID crisis.[9] While the DSSI only deferred debt service payments, the CCRT counter-financed those debt service payments that IMF debtors would have had to make on their IMF loans in the period from April 2020 onwards *(see 'Inadequate debt relief and austerity', p. 26)*. As with the DSSI, only low-income countries can qualify for debt relief.

With the CCRT, the IMF did implement the only 'real' debt relief initiative.

The IMF's main contribution to the debate on reforming the international debt crisis architecture has been limited to a review of the options for engaging private creditors.[10] In a paper presented in October 2020, the IMF authors argue that there have been improvements in restructuring of private bonds as a result of the new CACs, which make it easier to enforce majority decisions by bondholders and thus speed up processes.

However, the IMF also identifies a number of new challenges in the paper. These include the large stock of quasi-sovereign debt that does not comprise CACs, e.g. in the case of debt of state-owned enterprises, or loans in general, which – unlike bonds – do not usually comprise CACs. Consequently, the IMF recommends that, in future, CACs should also be used for loan agreements and state-owned enterprises.

Very tentatively, the paper also makes recommendations that go beyond the contractual approach and extend to effective legal rules. Mostly, the paper recommends an extension of national anti-vulture fund laws, as already exist in some countries. In addition, a number of procedural improvements are recommended. For instance, greater transparency and better authorization procedures should prevent more and more debt in the Global South from being collateralized, e.g. by pledging revenues from commodity exports, as has happened in countries such as Chad.

A major omission from the report, as well as from the IMF's response in general, is the reluctance to flesh out multilateral proposals for resolving sovereign debt crises. This is surprising for an institution that, in the early 2000s, introduced the Sovereign Debt Restructuring Mechanism (SDRM), the most influential proposal to date in the reform debate, and for a body which generally considers itself as the leading centre of expertise on the subject. This reluctance could change, however, if a major new wave of insolvencies hits a large number of countries at the same time, and the participation of private creditors through the Common Framework does not go as planned.

Debt relief initiatives for countries in special situations

Most innovations since the beginning of the pandemic have addressed the debt crisis in low-income countries. However, other groups of countries are also experiencing payment difficulties. Small Island Developing States (SIDS) have been particularly hard hit by the COVID-19 crisis, with an almost complete loss of tourism revenue and a collapse in many commodity prices. SIDS are also hit harder than average by natural disasters, especially hurricanes.[11]

As a result of such problems, SIDS are the most indebted group of countries in the world. Already at the time of adoption of the Addis Ababa Action Agenda in 2015, there were calls for an urgent solution to the debt problems of small island states.[12]

The Alliance of Small Island States (AOSIS) argued during the pandemic in favour of a proposal for a sustainable solution to the SIDS debt crisis.[13] AOSIS calls for a holistic approach in which short, medium and long-term measures are interlinked.

In the short term, a combination of liquidity support and orderly suspension of debt servicing should prevent a disorderly wave of defaults. On this basis, liquidity should be provided by multilateral development banks, which should change their criteria for access to grants and concessional loans. Since most SIDS belong to middle-income countries, they only have access to relatively expensive loans granted on market terms, rather than to the low-interest loans from the International Development Association (IDA) of the World Bank Group. Their high financing costs are among the main reasons why they fell into the debt trap in the first place.

According to the AOSIS proposal, the suspension of debt service should be granted immediately for a full two years. Another difference from the DSSI is that the AOSIS proposal explicitly calls for the inclusion of debt owed to private creditors, whereas the DSSI only covers official bilateral loans. Only through the inclusion of this debt can those SIDS be helped whose debt to private creditors makes up the majority of public and external debt. Moreover, this is the only way to prevent savings from the concessions of public creditors from having to be used to bail out private creditors.

AOSIS calls for a holistic approach.

Over the medium to long term, according to AOSIS, SIDS need real debt relief through restructuring of old debt. However, the Alliance does not have an answer to the question of what form a multilateral mechanism might take. Initially, a whole toolbox of measures could be considered, including debt conversions in favour of social, healthcare or climate protection projects. SIDS expect advantages from debt-for-climate swaps in particular, as they are predestined for them due to their geographical location.

AOSIS stresses that the international community must recognize the particular multidimensional vulnerability of SIDS, and that it is misguided to consider only income as an access criterion, since this can only lead to SIDS being regularly overlooked in initiatives such as the recent DSSI, tailored to country groups. This is despite the fact that SIDS are particularly vulnerable to natural disasters, climate change and economic crises.

The COVID-19 crisis has thus also rekindled the discussion on the definition of vulnerability. For several decades, SIDS have been calling for an index to measure multidimensional vulnerability, and civil society has also taken up the issue. For example, erlassjahr.de and Brot für die Welt

Over the medium to long term, SIDS need real debt relief through restructuring of old debt.

(Bread for the World) have designed an index that adds together the threats from climate change and the pandemic.[14]

In 2020, the UN Secretary-General was asked to address the issue. His report from July 2021 recognizes the benefit of a universally-accepted index and defines a set of principles for such an index. Once operational, it could be used for a range of purposes, including determining the allocation of funds, developing policies and, last but not least, designing debt restructuring. However, the UN Secretary-General has also said that such an index would require the broad acceptance of member states, thus throwing the ball back into the court of the UN General Assembly, which now has the task of appointing a group of experts to develop an index by the end of 2022.[15]

In the future, such an index could help to ensure that debt relief initiatives are more needs-based than is the case with the DSSI and the Common Framework. Indeed, these initiatives were entirely aimed at low-income countries (LICs) and thus left out some of the most indebted countries.

Conclusion and outlook

The reform debate at the UN is important for giving a voice to the debtor countries themselves. The G20 initiatives since the beginning of the crisis have only dealt with the debt problem of third countries. Only low-income countries have access to the DSSI, the Common Framework and CCRT, but none of these countries are represented in the G20. The debate at the UN thus makes an important contribution to the more comprehensive discussion of debt problems, also in relation to the debt of other groups of countries, such as the small island states.

In this context, the UN is able to build on many years of preparatory work; back in 2012, for instance, a set of principles for responsible lending was developed within the UN framework. Furthermore, in 2015, the UN General Assembly agreed on principles for sovereign debt restructuring, advised by an expert group from UNCTAD, which had previously presented a roadmap for resolving debt crises.

A major advantage of UN processes is that they take an integral approach to debt crises and their impacts, i.e. incorporating the promotion of sustainable development, the fight against climate change and the assertion of universal human rights.

Tragically, political momentum in the pandemic was not sufficient to promote fundamental debt relief initiatives in general, and processes outside the G20 in particular. The breathing space created by the DSSI and, more importantly, the massive liquidity support provided by the central banks of the Global North and the IMF, has not been used for overdue reforms of the debt architecture. On the contrary, the debt burden has grown even more in the last two years, and the impacts of this will be extreme when so-called tapering begins, i.e. when central banks stop pumping new liquidity into the capital markets and raise interest rates.[16]

The debate in the United Nations makes an important contribution to the more comprehensive discussion of debt problems.

In order to initiate fundamental structural reforms of the debt architecture, it is important for sufficient international political pressure to be built up to force a moment of decision. Civil society organizations have called on the UN to convene a world summit on economic reconstruction and systemic reform in view of the global coronavirus crisis.[17] Politically, it would be helpful if the G7 were to speak out in favour of such a summit which, given sufficient pressure from activists, could take place under the German Presidency in 2022. Twenty years after the SDRM was hotly debated at the first UN Conference on Financing for Development in Monterrey in 2002, such a world summit could become an important milestone in the reform process.

The breathing space created by the DSSI and massive liquidity support has not been used for overdue reforms of the debt architecture.

A world summit on economic reconstruction could become an important milestone in the reform process.

1 CACs are designed to enable majority voting in the restructuring of bond debt and thus prevent a minority of uncooperative investors, often including specialized vulture funds, from sabotaging the process.

2 United Nations (17.04.2020): 'Debt and COVID-19. A Global Response in Solidarity'.

3 The first group dealt with the debt problem in general, the second focused on the issue of 'involving private creditors', see the initiative's website: https://www.un.org/en/coronavirus/financing-development.

4 Ibid, Part II.

5 With 'buy backs', public money is used to buy back debt of crisis countries far below their nominal value and then cancel it.

6 United Nations (2021): 'Liquidity and Debt Solutions to Invest in the SDGs. The Time to Act is Now'.

7 UN Human Rights Council (2020): 'Debt relief, debt crisis prevention and human rights. The role of credit rating agencies; Report of independent expert on debt and human rights'.

8 Munevar, D. (2021): 'Liquid illusions. Who really benefits from the Liquidity and Sustainability Facility?'

9 See IMF Press Release No 20/116 (27.03.2020): 'IMF Enhances Debt Relief Trust to Enable Support for Eligible Low-Income Countries in the Wake of the COVID-19 Pandemic.'

10 See IMF (2020): 'The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors - Recent Developments, Challenges, And Reform Options'.

11 See AOSIS (June 2020): 'AOSIS Statement on Debt'.

12 See United Nations (2015): 'Addis Ababa Action Agenda of the Third International Conference on Financing for Development', paragraph 93.

13 In addition to AOSIS, other debtor associations have also spoken out with concrete proposals, including, for example, the Vulnerable Twenty (V20) with its 'V20 Statement on Debt Restructuring Option for Climate-Vulnerable Nations' of 27.10.2021.

14 Brot für die Welt / erlassjahr.de (2021): 'Climate Change, Debt and COVID-19'.

15 United Nations (2021): 'Follow-up to and implementation of the SIDS Accelerated Modalities of Action (SAMOA) Pathway and the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. Report of the Secretary-General', pp. 14-18.

16 See Kavaljit Singh (2021): 'Why Emerging Markets Must Remain Wary of a Taper Tentrum 2.0', Briefing Paper No. 46.

17 Cf. Civil Society Financing for Development Group (n.d.): 'Time for a UN Economic Reconstruction Summit. Towards a New Global Economic Architecture that works for the People and the Planet'.

Yesterday debt, today development finance

Is debt conversion a way out of the crisis?

By Jürgen Kaiser

With the worsening global debt crisis both before and during the coronavirus pandemic, an instrument not seen for a long time, the conversion of debt into development financing, found its way back onto the development policy agenda. What contribution can these debt swaps make to the social development of an indebted country and to overcoming imminent or already existing over-indebtedness?

The idea sounds appealing; an indebted country agrees with its creditor not to pay the debt service owed, but instead to invest the funds in mutually agreed domestic development projects.

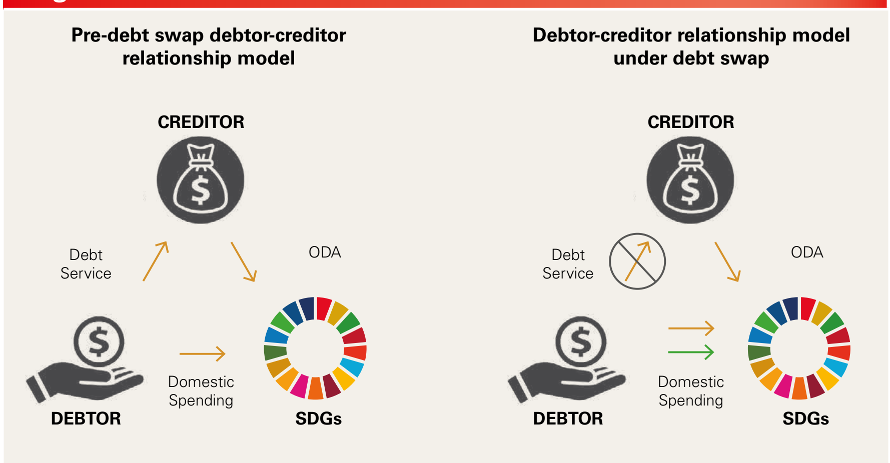
This kills at least two birds with one stone. Firstly, the debtor is freed from a debt burden that is no longer sustainable, by investing in social development at home an equivalent or lesser amount in domestic currency. Secondly, the creditor, in turn, replaces a debt which they might not have been able to collect in any event with an investment as part of their development cooperation. And, finally, direct control of the released funds ensures that they do not disappear into any hidden dark corners inside the debtor country, which may not be entirely free of corruption. Irrevocable debt relief will only be declared once the last instalment for the agreed development project has been paid.

Even for private creditors who have no stake in development finance, this process can be worthwhile, for instance if repayment is highly unlikely, or the debt write-off is tax-deductible. The private lender also gains an image boost through financing highly-visible environmental protection or development initiatives.

A short review

The idea of converting a debt that can no longer be paid into a different payment obligation and thus freeing the debtor from illiquidity or even insolvency is not new. The so-called Brady Plan dates back to 1989, and was a concept by which public debt to US banks would be converted into bonds guaranteed by the US government at a substantial discount. The new bonds were fully fungible, so that the creditor banks could hold or sell them to suit their own circumstances. The debtor thus significantly reduced its ongoing debt service, while the creditor exchanged receivables for more security.

Fig. 1: Standard debt conversion



Source: based on an illustration of the World Food Programme.

At around the same time, debt-for-equity swaps came into vogue. With these, an original bank loan was replaced by the transfer of ownership rights in previously public enterprises in the debtor country - an early form of privatization at the start of the neoliberal era. As a result, environmental and development organizations also took up the idea and advocated redirecting freed-up funds accordingly. This created an additional incentive for indebted governments to invest in the social development of their own population and/or in environmental protection.

Development ministries too were lured by the attraction of this twofold benefit.[1] In 1991, the US government implemented what remains, to this day, the largest ever debt-for-environment swap, in favour of the Polish Eco-Fund, thereby also securing influence over the country's politics during the transitional era of the early 1990s. Thereafter, environment-related debt conversions became the focus of a US program, although the program has not been used since 2016. With the increasingly dramatic nature of climate change, in 2021 these swaps have climbed back to the top of the political agenda.

Experience gained from a swap in favour of the Blue Economy strategy in the Seychelles subsequently became a model for further projects in small and climate-vulnerable states such as Belize. In the same year, and as part of its debt relief initiative to mark the 700th anniversary of the Swiss Confederation, Switzerland launched a series of counterpart funds.[2] The then German government in turn followed this model at the 1992 World Environment Conference in Rio de Janeiro, announcing the creation of a debt conversion facility within the federal budget. This initially served to finance environmental projects by converting repayments on German development aid.[3] Since then, the facility has been significantly expanded both in terms of mandate and financial endowment.

In the following years, the governments of Italy and Spain also created similar instruments within the framework of their respective national budgets. France, likewise, defined conversions within the framework of its 'C2D' programme[4] as an additional condition of cancelling the final 10% of claims on HIPC countries,[5] while other bilateral creditors voluntarily increased the mutilaterally agreed 90% waiver to 100% without further conditions.

In 2021, Debt-for-Environment-Swaps have climbed back to the top of the political agenda.

Increase in trilateral swaps

After a phase in which conversions were little more than a niche topic, debt conversion is now once again playing a bigger role in the debt debate. This is due to two developments:

- Increasing global over-indebtedness[6]
- The growing gap between the financial requirements of development and climate finance and the proportionately shrinking development budgets of traditional donor countries.

The combination of these two factors has led, among other things, to more and more multilateral development organizations attempting to mobilize funds via debt conversions. Instead of traditional bilateral swaps, they are now promoting trilateral swaps, in which the respective institution acts not only as an initiator and advisor, but above all as the executor of the agreed projects. The actors include the Global Fund to Fight AIDS, Tuberculosis and Malaria, the World Food Programme, the United Nations Development Programme, the International Committee of the Red Cross and the World Wide Fund for Nature.

The UN Economic Commission for Latin America and the Caribbean (ECLAC) publicizes the instruments without seeking to act as an implementing body itself.

A win-win situation and 'sunshine constellations'

However, the aforementioned motives of creditors and debtors to engage in debt conversion are not without contradiction. Wishing to compensate for a lack of development financing through debt conversion is similar to the notion of overcoming a debt crisis by expanding debt conversion; from a global perspective, this is a completely unrealistic prospect *(see below)*. Theoretically, however, in individual cases considerable relief can be achieved which, if implemented in the right place and technically sound, can certainly influence a specific policy area. The Polish Eco-Fund mentioned above is an example of this.

Some creditors also make a part of their claims available for debt conversions because they hope to be able to ensure more responsible use of released funds than might result from simple debt relief, either via their own control or control by one of the international organizations mentioned above. However, this is precisely what may induce a corruption-prone or less development-oriented government of a debtor country not to get involved in the first place.

On the debtor side, the creditor's interest in controlling the released funds is naturally an additional hurdle to agreeing on conversion; if it was seriously budgeted for in the debtor's budget at all, the forgiven debt service is not at the free disposal of the country's government, but is subject to just as intensive monitoring by the original creditor as fresh funds that the latter would have provided in the context of development cooperation.[7]

Debt conversions are only a win-win situation for all if a debtor government seriously interested in social progress encounters a creditor who, for its part, puts possible geopolitical or yield considerations behind an interest in development. Historically, debt conversions have mostly (but by no means exclusively) taken place in such 'sunshine constellations'. This, in turn, runs counter to the argument put forward by some proponents of the instrument that debt conversion offers the opportunity to implement debt relief for the benefit of poor and marginalized sectors of the population, even under governments hostile to development. Or rather, it necessitates the additional compulsion of civil society participation, which will be discussed in more detail in the last part of this paper.

What can debt conversions do – and what not?
Debt conversions are not an instrument for overcoming debt crises. They are too small, too slow and too ambiguous in terms of fiscal balance.

Countries that have no difficulties at all with their foreign debt are almost never interested in debt conversions, as they wish to avoid any – indeed even the slightest - impression of needing relief, in order not to jeopardize their access to the capital markets. The same applies to countries that are already insolvent and therefore cannot easily raise funds in domestic currency. The instrument is therefore mainly of interest to countries that have high debt indicators but are not yet on the brink of insolvency. Historically, debt conversions have mostly been in the single-digit or, at most, double-digit million range. In most countries that take up the instrument, it does not provide any relief effects that would come even close to making a difference to the sustainability or non-sustainability of total debt stock.

Debt conversions are not a quick fix - unlike ad hoc moratoria or the swift restructuring of debt. The time from the initial idea of developing a project to be financed with the relevant ministry, through reaching a consensus with the finance ministry of the debtor country and approaching one or more creditors through their embassies, to involvement of the development ministry, finance authorities and finally the relevant parliaments, is a process that rarely takes less than three years. A country in a serious debt crisis at the start of the conversion would be bankrupt before the conversion takes effect.

Debt conversions are not a quick fix.

On the debtor side, the time dimension is important from another point of view. A debt conversion usually means an acceleration of existing payment obligations. Ultimately, in most cases we are talking about long-term debt from development cooperation, which the creditor reduces to a maximum of two to three annual instalments in order to ensure meaningful implementation of a project. This can still be an attractive prospect for the debtor country, depending on how high the arrears are, and the expected benefits from settlement in domestic currency, as well as the benefits anticipated from the financed development project.

This becomes critical when a country is already on the verge of insolvency since, unlike with debt relief, which aims to postpone payment obligations as far into the future as possible, basically a debt conversion has the opposite effect. It is therefore all the more unattractive, the more acute a country's debt crisis already is.

Recommendations for reform

Debt conversions are not to be rejected per se, as long as they are understood as what they actually are: development finance instruments with a limited potential for debt relief. They leave money that is in the country where it is and are thus superior to an arrangement that first pays off contractual debt service, only to re-import it, perhaps as new development finance, with a considerable time lag and potentially high transaction costs. From this point of view, debt conversions should be discussed as instruments for development financing, and not as vehicles for debt crisis management.

Two principles should be taken into account in future projects, with the aim of ensuring that the impact of debt conversions is more efficient:

1. More attention should be paid to the creation of counterpart funds instead of simple project financing, particularly with a view to improved participation of civil society.[8]

2. All three currently active debt conversion programmes (Germany, Italy, Spain) define gross domestic product per capita as the first criterion determining whether a debtor country is eligible for a programme. This means that countries must be 'poor enough' to participate. However, conversions should be available to all indebted countries regardless of their per capita income. Alternative criteria for country selection should therefore be the existence of convertible debt in relation to the creditor, and the technical ability to carry out conversions.

[1] For more examples, see the overview in Moye, M. (2001): 'Overview of Debt Conversions. Debt Relief International', Publication No. 4; more recent and detailed: Buckley, R. (2011): 'Debt for Development Exchanges'.

[2] An evaluative interim assessment of the Swiss experience with the instrument can be found in SECO / Swiss Coalition / SDC (2001): 'Das Schweizer Entschuldungsprogramm 1991-2001. Über das bisher Erreichte. Perspektiven für die Zukunft.'

[3] Berensmann, K. (2007): 'Debt Swaps - ein geeignetes entwicklungspolitisches Instrument?', DIE Bonn. The German facility is critically discussed in the context of the conflicting interests of the various departments of the German government in: Kaiser, J. (2015): 'Die deutsche Schuldenumwandlungsfazilität - ein Lehrstück über mächtige und ohnmächtige Ministerien' in erlassjahr.de / MISEREOR: 'Schuldenreport 2015'.

[4] Debt relief and development agreements (Contrats de Désendettement et Développement, C2D); presentation in Ministère des Affaires Étrangères et du Développement (2016): 'Révue des C2D. Synthèse'. For a critical view, see Buckley, R.: (2015): 'Debt for Development Exchanges', pp. 81-85.

[5] Countries that benefited from the Heavily Indebted Poor Countries Initiative (HIPC) in the early 2000s.

[6] See article *'The global debt situation', p. 8.*

[7] In this respect, the instrument of debt conversion also runs counter to efforts made since the Financing for Development Conference in 2015 to entrust external funds within the framework of Integrated National Financing Frameworks (INFFs) to the sole responsibility of the recipient governments.

[8] The Swiss counterpart fund model was evaluated very positively from a development policy perspective in the early 1990s, but has nevertheless regrettably found few imitators. These include the German-Peruvian counterpart fund and the French C2D programme.

Germany as a creditor of the Global South

An incomplete picture without transparency

By Malina Stutz

Germany is the world's fourth most important public bilateral creditor. Measured against total debt of countries in the Global South, however, public claims play only a minor role, while private creditor claims are more significant. Yet, particularly in the case of bondholders, the most important private creditor group, it is largely impossible to determine who holds the claims. There is an urgent need for greater transparency in international debt management in order to gain a complete picture of the creditor landscape and Germany's political responsibility.

According to the Federal Ministry of Finance (BMF), last year German public claims on countries of the Global South continued to decline. As at 31 December 2020, the Federal Ministry of Finance reported outstanding claims totalling EUR 13.7 billion against 70 low- and middle-income countries *(see Table 2)*. Compared with the previous year, this represents a fall of 2.45%.

The majority of claims, EUR 9.7 billion, come from aid lending. This decreased by approximately 3.7% in the course of 2020. The remaining EUR 4 billion results from indemnified German export industry claims, which were state-guaranteed under Hermes cover.[1] This particular item of commercial debt increased slightly from 2019 to 2020, due principally to the fact that penalties are charged for countries in default, such as Cuba, Venezuela or Zimbabwe.

According to the World Bank, Germany is still the world's fourth most important public bilateral creditor after new mega creditor China and the traditional creditor states of Japan and France. However, figures published by the World Bank and the German Finance Ministry differ considerably; while the German Finance Ministry reports German public claims of EUR 13.7 billion *(see above)*, German claims reported by the World Bank are almost twice as high, at around EUR 26.9 billion.

In total, the World Bank lists German public claims against ten countries that do not appear at all in the Finance Ministry statistics.[2] In 19 other countries, the World Bank states the corresponding claims to be at least twice as high as the figures given by the German Finance Ministry.[3] In ten countries, on the other hand, the World Bank's figures are lower than those of the Finance Ministry.[4] The World Bank's reporting is based on data provided by debtor countries. It is impossible to establish for certain which side is in error.

Few debt conversions

The German Budget Act provides for the German government to waive up to EUR 150 million in debt repayments annually under the Debt Conversion Facility, an instrument of the Federal Ministry for Economic Cooperation and Development (BMZ), as long as the debtor country invests the funds thereby released in development and health-promotion measures or in environmental protection. However, the German government makes barely any use of this option; between 2015 and 2020, the conversion of EUR 900 million would have been possible, but only EUR 124 million was eventually converted. Due to rising debt indicators and the downgrading of high-middle income countries to lower-middle income status, for 2022 a total of 24 countries qualify for the German Debt Conversion Facility.[5]

The role of private German creditors

Measured against the total debt of countries in the Global South, however, public claims play only a very minor role. Public bilateral creditors together held about 13.8% of claims against the public sector in countries of the Global South in 2020. In contrast, 63.2% of claims were held by private actors.[6] Within the group of private creditors, a distinction may be made between bondholders and private commercial banks.[7] The claims of private commercial banks account for c. 12.8% of total claims, and those of bondholders c. 50.4%. The country of origin of such private commercial banks can be identified in at least half of cases.

German banks, for example, hold claims of at least EUR 8.29 billion against public debtors in the Global South. This puts them in eighth place worldwide *(see Table 1)*.

Tab. 1: Countries with the highest commercial banks claims

	Seat of the bank	Claims in billion Euro
1	Netherlands	58.99
2	USA	22.37
3	Great Britain	19.65
4	Austria	12.25
5	China	11.92
6	France	9.85
7	Singapore	9.29
8	**Germany**	**8.29**
9	Japan	4.67
10	Hong Kong	4.61
Unknown		*181.63*
Total commercial bank claims globally		368.61

Source: own illustration based on data from the World Bank International Debt Statistics.

However, there is a lack of transparency, especially in relation to the most important creditor group of countries in the Global South, the bondholders. Thus, with regard to at least half the outstanding claims on public debtors in the Global South, it is not possible to systematically determine who holds these claims. The evaluation of data by information provider Refinitiv, which is not publicly available, recently shed at least a little light on the situation.[8] Both the investment banks that coordinate the issuing process and the banks and investment companies that hold the bonds were successfully identified for just under a quarter of the bonds of countries in the Global South.

Measured against total debt, public claims play only a very minor role.

With more than 80% of the bonds surveyed, the issuing process was coordinated by ten banks, all of which are headquartered in the USA, the UK, Switzerland or the EU. Deutsche Bank is the second most important player worldwide after US investment bank Citigroup. In the issuing process, the banks are tasked with advising the issuing states on structuring of the bonds (size, currency, interest rate, maturity, legal regulations) and identifying potential bond purchasers. The banks' payment is usually expressed in percentage points of the bond issue amount and usually varies between 0.05% and 0.225% (for a USD 1 billion sovereign bond issue, this is equivalent to between USD 0.5 million and 2.25 million).[9]

There also exists a strong geographical concentration in terms of bondholder residency. Investment companies domiciled in the USA hold around two thirds of allocable bonds. Another 29% are distributed among companies domiciled in five Western European countries (the UK, Switzerland, Germany, France and the Netherlands). Investment companies and banks domiciled in Germany hold USD 5.3 billion, or about 3% of bonds, the holders of which could be identified.

However, the question of geographical and thus also political allocation is not the only decisive factor. This is exemplified by investment company PIMCO, which is the second largest bondholder for countries in the Global South, after BlackRock. Although PIMCO is based in the USA, it is a 97% subsidiary of German insurance group Allianz.

The Organisation for Economic Co-operation and Development (OECD) announced in 2020 that it would ensure greater transparency in international lending, and took the first steps towards this in 2021. However, it is problematic that the OECD's transparency initiative is based on the voluntary principles of the Institute for International Finance and therefore only asks private creditors to disclose their own claims on an optional basis.

More helpful would be the creation of a global, publicly accessible debt register of all sovereign debt. The Global Sovereign Debt Monitor 2019 already called for entry in such a register to be a requirement in order for claims to be recognized in debt restructuring negotiations and before national courts.[10]

Conclusion

Three findings emerge from this analysis. Firstly, taking account of public claims alone does not come even close to providing a complete picture of the creditor landscape and Germany's political responsibility. Germany's dwindling share of public claims in the total debt of countries in the Global South is misleading in this respect. Secondly, the available data suggest that the 'traditional' donor states of the West remain centre stage when private claims are also taken into account. Thirdly, the immense discrepancies between German public claims reported by the Finance Ministry on the one hand and those reported by the World Bank on the other, as well as the obscure area of private claims, underline the need for greater transparency in international debt management - not only on the part of debtors, but especially on the part of creditors.

Greater transparency is needed in international debt management – not only on the part of debtors, but especially on the part of creditors.

1 German export companies and credit institutions have the option of providing government cover for loans to countries in the Global South through export credit insurance. If the importer fails to pay, the German government steps in and the claims are transferred from the private sector to the German government.

2 Bangladesh, Ethiopia, Grenada, Mauritania, Mauritius, Mexico, Senegal, Turkey, Uganda and Yemen.

3 Colombia, Nigeria, Brazil, Indonesia, Bosnia and Herzegovina, Morocco, Bulgaria, Georgia, Tunisia, South Africa, Montenegro, Armenia, Ukraine, Kosovo, Jordan, Peru, Egypt, India and Northern Macedonia.

4 Argentina, Sudan, China, Zimbabwe, Côte d'Ivoire, Cambodia, Syria, Algeria, Guatemala and Mongolia.

5 The qualifying countries are marked * in Table 2.

6 The remaining 23% are held by multilateral creditors.

7 For the sake of simplicity, other private lenders such as commodity traders are included in the group of private commercial banks.

8 See Munevar, D. (2021): 'Sleep now in the fire - Sovereign Bonds and the Covid-19 Debt Crisis'.

9 See Van der Wansem, P. (2019): 'Issuing International Bonds - A Guidance Note'.

10 Jubilee Debt Campaign (2019): 'Transparency of loans to governments - The public's right to know about their debts' and Jones, T. (2019): 'Licht ins Dunkel bringen! Mehr Transparenz in der internationalen Kreditvergabe', in: erlassjahr.de / MISEREOR: 'Schuldenreport 2019'.

Tab. 2: Claims of the German public sector and their share of total public debt in low- and middle income-countries according to data from the German federal finance ministry in 2020

Country	Financial development cooperation (in million Euros)	Commercial claims (in million Euros)	Share of German claims in total debt
Egypt*	1,796	1	1.81%
Albania	112	-	2.27%
Algeria	2	-	0.08%
Argentina	18	576	0.42%
Armenia	95	-	1.82%
Azerbaijan	61	-	0.51%
Bolivia*	58	-	0.56%
Bosnia a. Herzegovina	8	9	0.34%
Brazil	48	-	0.03%
Bulgaria	8	-	0.07%
China	1,052	-	0.30%
Costa Rica	9	-	0.08%
Côte d'Ivoire*	69	-	0.36%
Dominican Republic	20	-	0.07%
Ecuador	17	0	0.05%
El Salvador*	86	-	0.91%
Eswatini	3	-	0.49%
Georgia	134	-	1.83%
Ghana*	219	-	1.01%
Guatemala	51	-	0.53%
Honduras*	48	-	0.62%
India*	1,447	-	0.87%
Indonesia*	406	-	0.19%
Iraq	-	623	n.a.
Jamaica	8	-	0.09%
Yemen	-	-	0.00%
Jordan	192	-	1.15%
Cambodia	-	1	0.01%
Cameroon*	23	4	0.25%
Kazakhstan	8	-	0.04%
Kenya*	212	-	0.72%
Kyrgyzstan*	68	5	2.02%
Colombia	21	-	0.03%
Kosovo	11	-	1.80%
Croatia	3	-	n.a.
Cuba	–	68	n.a.
Lebanon	13	–	0.05%
Morocco*	279	–	0.70%
Mauritius	0	-	0.00%
Moldova	5	6	0.54%
Mongolia*	90	–	1.06%
Montenegro	5	12	0.41%
Myanmar*	83	516	5.42%
Namibia	46	–	n.a.
Nicaragua*	32	–	0.61%
Nigeria*	11	–	0.04%
North Korea	-	561	n.a.
North Macedonia	29	-	0.64%
Pakistan*	886	138	1.40%
Palestine	10	–	n.a.
Papua New Guinea*	5	–	0.11%
Paraguay	8	–	0.09%
Peru	170	–	0.70%
Philippines	100	–	0.21%
Romania	6	–	0.01%
Serbia	154	111	1.67%
Seychelles	3	–	n.a.
Zimbabwe*	478	327	19.05%
Sri Lanka*	191	-	0.59%
South Africa	54	–	0.06%
Sudan	-	425	2.97%
Syria	141	230	10.71%
Tajikistan*	17	–	0.59%
Thailand	7	–	0.02%
Tunisia*	156	-	0.66%
Ukraine*	29	46	0.17%
Uruguay	1	–	n.a.
Uzbekistan*	120	–	0.81%
Venezuela	-	345	0.57%
Vietnam	268	–	0.61%
Total	**9,712**	**4,004**	

n.a. = no data on total debt available
* country that is qualified for the German debt conversion facility in 2022.
If the claims in the table are shown as zero, they are claims of less than one million euros rounded up.

Source: BMF (2021): 'Forderungen des Bundes gegenüber Entwicklungsländern per 31.12.2020'. The share of German claims in total debt is calculated with data from World Bank International Debt Statistics 2021.

A new opportunity to resolve the debt crisis

Prospects for the German G7 Presidency 2022

By Dr Klaus Schilder

At the beginning of the year, the new German government assumed the Presidency of the G7. Even though the group has lost political importance in recent years, it remains an important forum in which the course can be set internationally for a sustainable solution to the global debt crisis - similar to the G8 in 1999. Civil society therefore calls on the G7 countries under the German Presidency to formulate answers to the threat posed by the increasing levels of national debt in countries of the Global South.

"They all want the same thing: debt relief for the poorest countries!": with this statement at the G8 summit in June 1999, the then Social Democratic Federal Chancellor Gerhard Schröder sought to align himself with the vast civil society protest movement. However, debt-relief initiative erlassjahr2000 was not satisfied with this. Together with over 35,000 activists, erlassjahr demanded the creation of a Fair and Transparent Arbitration Process (FTAP) for critically indebted countries in order to prevent future debt crises. However, the creation of such a process was not actively pursued.

Nevertheless, the then socialist/green German government played an important role in accelerating the Heavily Indebted Poor Countries Initiative (HIPC Initiative), finally extending it to create an effective debt relief initiative.

The Cologne Debt Relief Initiative resulted in heavily indebted poor countries having a large part of their debt cancelled in order to boost their growth in a sustainable way. However, other highly indebted countries failed to benefit from this initiative, partly because they turned it down, and partly because they did not qualify.

In 2002, in Kananaskis, Canada, the G7 declared that 26 HIPC countries would receive debt relief amounting to USD 40 billion, corresponding to about two thirds of their total debt burden. Three years later, the G8 Gleneagles Summit led to creation of the Multilateral Debt Relief Initiative (MDRI), from which all HIPC countries could benefit.

Debt relief remained an issue for the G7 countries in the years following the HIPC and MDRI initiatives, albeit with diminishing importance in the face of a stronger focus on contributions to sustainable development in the context of the 2030 Agenda. More than 20 years later, and in the midst of an ongoing health and economic crisis, the call for a new 'debt relief year' is more relevant than ever.

However, the role of the G7 is different today; after the 2008 financial crisis, the G20 with its broader membership, has largely replaced the G7 on economic and financial policy issues.

Photo: erlassjahr.de

G8 summit 1999 in Cologne: German chancellor Gerhard Schröder (centre) receives several million signatures for fair debt relief. The most prominent representative of the movement is the band singer Bono (front). Jürgen Kaiser (right most) participated on behalf of the German Jubilee2000 movement.

The G20 is even less driven by common political interests than the G7 in overcoming the current debt crisis.

G8 debt relief initiative historically unique

For many civil society organizations, including erlassjahr.de, handing over the baton for shaping the global financial architecture to the G20 seemed to have two advantages; on the one hand, the enlarged circle of governments representing a majority of the world's population promised greater assertiveness of debt policy decisions, while on the other hand, the inclusion of emerging countries from the Global South made the political process appear more inclusive and thus more legitimate.

In reality, however, the G20 is even less driven by common political interests than the G7 in overcoming the current debt crisis. A political constellation as favourable as the one at the end of the 1990s, when the G8 worked together to solve the intractable debt crisis of low-income countries, seems difficult to repeat in view of conflicting geopolitical interests within the G20.

While, ahead of the Cologne Debt Relief Initiative, the G8 was able to agree on substantial relief within a small round of industrialized countries with similar interests, in 2020 the G20, instead of adopting a new debt relief initiative, opted merely for a debt moratorium through the Debt Service Suspension Initiative (DSSI), which did not entail any real debt relief for the countries concerned, but merely postponed payments into the future *(see 'Inadequate debt relief and austerity', p. 26)*.

From the outset, the G7's approach to the DSSI was inconsistent. While, on the one hand, it only half-heartedly promoted the participation of private creditors, it conspicuously criticized G20 member China,[1] which declared the claims of the state-controlled China Development Bank to be private claims and thus evaded participation in the DSSI.

In contrast to the situation twenty years ago, the G7 countries no longer play a central role as (public) creditors today *(see also 'Germany as a creditor of the Global South', p. 44)*; at the same time, however, they have not been able to bring themselves to make the G20 debt moratorium more effective in relation to private creditors domiciled in their jurisdictions.

G7 – An important role as a driving force

While it is true that the G7 now largely lacks the political power to enact far-reaching multilateral debt relief initiatives and grant global debt relief, nevertheless, it has an important role to play in initiating debt relief reforms now, at the beginning of a global debt crisis, rather than following a long delay, before numerous sovereign defaults occur from 2023 onwards.

The G7 Finance Ministers supported the decision of their G20 counterparts to establish a common framework for future debt restructuring (the G20 Common Framework for Debt Treatments beyond the DSSI), which was aimed at committing all private creditors to grant concessions on the same scale as the public creditors involved. Specifically, they declared that "the [common] framework should ensure fair burden sharing among all official bilateral creditors and debt relief by private creditors at least as favourable as that provided by official bilateral creditors"[2].

The G20 Finance Ministers adopted the Common Framework in November 2020. However, the differing political interests of the West and China – the expansion of the DSSI to more countries on the one hand, and the inclusion of multilateral development banks on the other - only allowed agreement to be reached on the lowest common denominator.

The results of the British G7 Summit held in St. Ives in June 2021 also reflect the subordinate role of the G7 to the G20. From a civil society perspective, the Cornwall summit was a missed opportunity, characterized by vague promises regarding international debt governance: The G7 neither endorsed enlargement of the group of countries eligible under the Common Framework, nor did it call for successful conclusion to debt restructuring negotiations under the umbrella of the Common Framework.

An understanding was only possible at the level of the lowest common denominator.

Similarly, also with regard to the inclusion of private creditors, the G7 stuck to its formula of at least equally favourable debt treatment, yet without making their inclusion obligatory through legislative steps. Here, even without a consensus within the G20, the G7 would have an independent, important role: to create an incentive for the participation of private creditors in debt restructuring, or to make non-participation less lucrative through national legislation in the G7 countries.

As recently as in February 2021, British Finance Minister Rishi Sunak spoke out in favour of comprehensive participation by private creditors in debt relief initiatives and "called on private creditors to play their part in ensuring that the debts of the poorest countries can be dealt with in a sustainable manner, paving the way for a truly global recovery"[4]. Although the G7 did not want to force private creditors to participate, nevertheless, in June 2021, the G7 Finance Ministers convened a working group on the private sector to look at improving the terms of loan agreements.

This move could lead to loan agreements facilitating debt restructuring for poorer countries in the future. However, it will not alleviate the current debt crisis in the Global South. Based on past experience, it is to be expected that all G7 recommendations for private creditors will continue to be voluntary, which means that private lenders can simply ignore them when enforcing repayment claims.

Improving the terms of loan agreements could facilitate debt restructuring.

Positive prospects under the 'traffic-light' coalition government

What expectations can now be linked to Germany's G7 Presidency? If the new German government has its way, the chances of an improvement in international debt management are good. erlassjahr.de and MISEREOR expressly welcome the fact that the new German government intends to work for the creation of an international sovereign insolvency procedure. As the coalition agreement specifically states: "Our goal is a new international debt management consensus. We support an initiative for a codified international sovereign insolvency procedure that includes all creditors and implements debt relief for particularly vulnerable groups of countries."[5]

Thus, all government parties are implementing similar declarations of intent from their respective election manifestos. In its manifesto, the SPD had argued in favour of such an international sovereign insolvency procedure in almost precisely the same wording.[6] In the election campaign, the Greens also called for comprehensive debt relief involving private creditors, and spoke out in favour of more far-

Photo: Zak Suffee / Jubilee Debt Campaign

G7 in St. Ives, 2021: Activists protest at Cornwall beach close to the meeting venue. The G7 summit took place under British presidency under the theme ‚Building Back Better'.

reaching systemic reforms, such as the creation of an international, transparent and independent debt restructuring procedure under the umbrella of the United Nations.[7] And in its election manifesto, even the FDP advocated an orderly sovereign insolvency procedure with the participation of private creditors, thus explicitly recognizing the joint responsibility of private creditors for responsible lending and the fair resolution of debt crises.[8]

Impetus from the German G7 Presidency

With its promise to create a sovereign insolvency procedure, the new German government has sent an important signal for an ambitious international solution to the debt crisis. It should now use its political influence in the circle of the G7 states under the German Presidency to ensure that the G7 also makes the same commitment.

Even if the geopolitical importance of the G7 has diminished, and the group cannot unilaterally initiate a successful debt relief initiative as it did in 1999 and subsequent years, the G7 states can provide an important impetus under the German presidency - both within their own group and in the context of the G20. The German G7 presidency in 2022 also falls in an important time window immediately after the end of the Debt Service Suspension Initiative (DSSI) and shortly before countries are required to resume their payments from 2023 and, as a result, the debt situation of some countries worsens further.

In 2022, the G7 countries can set an important new impetus under the German Presidency.

In this context, the G7 Finance Ministers under the German Presidency should explicitly recognize that the debt relief measures taken so far do not go far enough and that many countries need further debt relief.

Furthermore, G7 states can jointly promote a sovereign insolvency procedure within the G20; a united stance on this would create an important impetus within the G20. The German government in particular has the opportunity to play a catalytic role within the G7 and the G20 through its Presidency, just as Switzerland and the World Bank did with the HIPC initiative. This year, therefore, Germany could build on the historic debt relief initiative of 1999 and the positive role of the then socialist/green federal government.

It would therefore be welcome if Germany advocated the formation of a 'coalition of the willing' within the G7 which, in addition to the medium-term goal of sovereign insolvency proceedings, would also bring debt relief initiatives at regional level into the discussion. For example, a joint initiative with the Alliance of Small Island States (AOSIS), for the island states in the Caribbean and the Pacific that are particularly threatened by climate change and which were excluded from previous initiatives, would be conceivable.

Furthermore, the G7 under the German Presidency should further increase political pressure for the inclusion of private creditors in debt restructuring negotiations. This includes legislative steps to secure the participation of private creditors in debt restructuring. Here, the G7 countries can also act independently of an agreement within the G20. To ensure stronger legal safeguards for debt restructuring, the G7 private sector working group could draft a model law on the participation of private creditors within their own jurisdictions. Furthermore, the G7 should pledge to support highly indebted countries in the Global South in their negotiations with private creditors using all available means.

Finally, the German G7 Presidency should continue to work on implementation of fair and transparent lending practices, for example by publishing its own loan agreements, in line with the decisions made by G7 Finance Ministers in June 2021.[9]

The chances of a change of course in debt crisis management appear better in 2022 than they did in previous years - provided that the new German federal government displays the necessary courage to implement its promises, also outside the international political arena. Civil society will exert pressure aimed at ensuring that the political declaration of intent to establish a sovereign insolvency procedure is swiftly followed by action.

Civil society will exert pressure aimed at ensuring that the political declaration of intent to establish a sovereign insolvency procedure is swiftly followed by action.

1. See U.S. Department of the Treasury press release (25.09.2020): 'G7 Finance Ministers' Statement on the Debt Service Suspension Initiative and Debt Relief for Vulnerable Countries'.
2. Ibid.
3. See Jubilee Debt Campaign (13.06.2021): 'The G7 ducks the challenge of the debt crisis'.
4. G7 (12.02.2021): 'Chancellor Prioritises Climate Change and Urged Support for Vulnerable Countries in First UK G7 Finance Meeting'.
5. SPD / Greens / FDP (24.11.2021): 'Mehr Fortschritt wagen - Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit.' Coalition agreement 2021-2025 of the SPD, Bündnis 90/Die Grünen and FDP.
6. SPD (2021): 'Aus Respekt vor Deiner Zukunft – Das Zukunftsprogramm der SPD'. Election programme of the SPD.
7. Bündnis90/Die Grünen (2021): 'Deutschland - Alles ist drin'. Bundestag election programme 2021, Bündnis90/Die Grünen.
8. FDP (2021): 'Nie gab es mehr zu tun'. Election programme of the FDP.
9. G7 (05.06.2021): 'G7 Finance Ministers and Central Bank Governors' Communiqué'.

LIST OF ABBREVIATIONS

AOSIS	Alliance of Small Island States
GDP	gross domestic product
BMF	(German) Federal Ministry of Finance
BMZ	(German) Federal Ministry for Economic Cooperation and Development
C2D	Contrats de Désendettement et Développement (Debt Relief and Development Agreements)
CAC	Collective Action Clause
CCF	Central Credit Facility
CCRT	Catastrophe Containment and Relief Trust
DSSI	Debt Service Suspension Initiative
ECLAC	Economic Commission for Latin America and the Caribbean
ECOSOC	Economic and Social Council of the United Nations
EURODAD	European Network on Debt and Development
G20	Group of 20
G7	Group of 7
G8	Group of 8
CIS	Commonwealth of Independent States
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
ILO	International Labour Organization
INFF	Integrated National Financing Framework
IMF	International Monetary Fund
n.a.	no data available
KfW	Kreditanstalt für Wiederaufbau
LIC	low-income country
MDRI	Multilateral Debt Relief Initiative
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PRGT	Poverty Reduction and Growth Trust
SDGs	Sustainable Development Goals
SDRM	Sovereign Debt Restructuring Mechanism
SIDS	Small Island Developing States
SDR	Special Drawing Rights
UCT	Upper Credit Tranche
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UN	United Nations
V20	Vulnerable Twenty

Tab. 1: Countries at risk of over-indebtedness worldwide

countries by region / indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
South Asia, Southeast Asia, Pacific											
Afghanistan*	7.5	—	28.7	—	15.2	—	176.9	—	2.7	▼	
Bangladesh*	*38.9*	▲	*397.1*	▲	20.0	▲	173.7	▲	9.9	▲	
Bhutan*	120.7	—	409.3	—	130.7	▲	351.5	—	7.1	▼	
Cambodia*	*34.2*	▲	*142.0*	—	72.3	▲	87.5	▲	7.4	▲	
China	66.3	▲	261.7	▲	16.1	▲	79.0	▲	9.2	▲	
Fiji*	70.8	▲	347.0	▲	36.9	▲	117.4	▲	21.3	▲	
India	89.6	▲	489.8	▲	21.7	▲	111.2	▲	15.0	▲	
Indonesia	36.6	▲	296.2	▲	40.5	▲	227.6	▲	36.7	▲	
Kiribati*	n.a.		n.a.		n.a.		n.a.		n.a.		
Laos*	68.2	▲	533.6	▲	94.9	—	262.3	—	15.8	▲	
Malaysia	67.4	▲	334.1	▲	69.3	—	115.7	▲	14.5	—	
Maldives*	146.0	▲	536.2	▲	90.5	▲	189.7	▲	15.9	▲	
Marshall Islands*	27.5	—	40.6	—	29.9		112.0		10.9		
Micronesia*	16.5		23.8		16.1		67.1		6.7		
Mongolia*	91.3	—	327.2	▲	241.6	▼	420.7	—	23.8	▼	
Myanmar*	39.3	—	245.0	▲	18.1	—	56.6	▼	2.5	▼	
Nauru	59.3	▼	35.7	▼	n.a.		n.a.		n.a.		
Nepal*	42.2	▲	190.8	▲	23.2	▲	344.2	▲	12.0	▲	
Pakistan*	92.8	▲	614.6	▲	42.1	▲	390.5	▲	52.3	▲	
Papua New Guinea*	49.2	▲	*329.5*	▲	77.7	—	191.8	▲	14.1	▼	
Philippines	51.7	▲	250.3	▲	25.3	▲	108.9	▲	10.2	▼	
Solomon Islands*	14.0	▲	42.2	▲	27.0	—	88.4	▲	1.9	▼	
Samoa*	46.5	—	121.3	▼	55.8	—	347.8	▲	18.7	▲	
Sri Lanka	101.0	▲	*1,103.7*	▲	71.8	▲	424.2	▲	39.3	▲	
Thailand	49.6	▲	240.9	▲	41.9	▲	75.9	▲	6.3	▲	
Tonga*	43.3	—	98.7	—	38.9	—	129.8	—	4.0	—	
Tuvalu*	14.3	▲	10.8	—	5.5	▼	5.7	▼	1.3	▼	
Vanuatu*	50.1	—	113.3	▼	50.6	—	229.2	▲	21.1	▲	
Vietnam	46.3	—	249.8	—	48.7	—	43.1	—	5.6	—	
Sub-Saharan Africa											
Angola*	135.1	▲	643.3	▲	117.2	▲	312.4	▲	39.2	▲	
Benin*	*46.1*	▲	*321.2*	▲	33.9	▲	*168.3*	▲	*9.0*	▲	
Burkina Faso*	46.5	▲	235.3	▲	27.0	▲	*102.5*	▲	*3.7*	—	
Burundi*	67.0	▲	295.4	▲	21.9	—	*382.0*	▲	*23.8*	▲	
Cabo Verde*	158.1	▲	596.0	▲	124.3	▲	467.5	▲	13.3	▲	
Cameroon*	45.8	▲	347.0	▲	35.4	▲	221.3	▲	19.9	▲	
Central African Republic*	*44.1*	▼	*202.7*	▼	39.7	▲	*258.9*		4.4		
Chad*	*47.9*	—	*228.7*	▼	36.7	▲	*122.2*	—	*3.8*	▼	
Comoros*	22.3	▲	122.1	▲	24.5	▲	385.1	▲	10.4	▲	
Congo, Demokratic Republic*	15.2	▼	155.0	—	12.6	—	43.4	—	2.3	▼	
Congo, Republic*	101.0	—	455.0	—	63.2	▼	115.1	—	12.0	▲	
Côte d'Ivoire*	49.8	▲	332.0	▲	42.1	▲	150.7	▲	8.3	▼	
Djibouti*	40.9	▼	194.2	—	81.4	—	71.3	▲	1.7	—	
Equatorial Guinea	48.9	▲	344.4	▲	15.3	▲	51.3	▲	n.a.		
Ethiopia*	55.4	—	473.5	▲	28.4	▼	392.9	—	25.8	▲	
Gabon	77.4	▲	439.8	▲	61.2	▲	176.9	▲	27.6	▲	
Gambia, The*	77.2	▼	558.0	▲	41.5	—	411.2	▲	17.3	—	
Ghana*	78.9	▲	611.6	▲	49.5	▲	153.7	▲	23.2	▲	

Tab. 1 continued: Countries at risk of over-indebtedness worldwide

countries by region / indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
Guinea*	43.4	—	339.1	▲	29.1	▲	46.2	—	1.5	▼	
Guinea-Bissau*	79.3	▲	483.5	▲	55.3	▲	384.0	▲	9.7	▲	
Kenya*	68.7	▲	397.1	▲	58.7	▲	587.0	▲	213.7	▲	
Lesotho*	50.4	▲	88.1	—	50.1	▲	76.6	▲	5.3	▲	
Liberia*	61.8	▲	201.4	▲	57.2	▲	229.7	—	11.0	▲	
Madagascar*	46.0	▲	377.3	▲	73.3	▲	400.5	▲	25.9	▲	
Malawi*	54.7	▲	371.3	▲	25.0	—	261.6	▲	9.2	▲	
Mali*	47.4	▲	228.9	▲	36.3	▲	131.7	—	5.3	▲	
Mauritania*	59.2	—	266.1	—	73.7	—	193.4	▼	9.9	▼	
Mauritius	96.9	▲	449.4	▲	155.7	▲	704.9	▲	26.3	▲	
Mozambique*	128.5	▲	457.7	▲	154.4	▲	458.2	▲	34.1	▲	
Namibia	65.3	▲	211.2	▲	81.7	▲	249.1	▲	n.a.		
Niger*	45.0	▲	256.2	—	34.9	▲	n.a.		n.a.		
Nigeria*	35.0	▲	553.7	▲	16.9	▲	169.5	▲	13.3	▲	
Rwanda*	71.3	▲	302.1	▲	81.1	▲	422.4	▲	14.6	▲	
São Tomé and Príncipe*	81.4	—	288.7	▼	61.8	▼	522.3	▲	4.3	—	
Senegal*	68.7	▲	342.7	—	75.4	▲	390.7	▲	29.8	▲	
Seychelles	100.8	▲	276.8	▲	446.7	▲	466.5	▲	n.a.		
Sierra Leone*	73.7	—	381.9	▼	56.8	▲	400.4	▲	20.3	▲	
Somalia*	n.a.		n.a.		95.4	▲	n.a.		n.a.		
South Africa	69.4	▲	275.9	▲	57.7	▲	169.9	—	28.6	▲	
South Sudan*	58.0	—	183.5	—	46.9		75.9		8.3		
Sudan	273.0	▲	5,687.5	▲	247.1	▲	1,669.6	▲	8.3	▲	
Tanzania*	38.8	—	253.6	—	41.3	—	294.6	▲	14.6	▲	
Togo*	60.3	—	371.2	—	33.5	▲	153.8	▲	6.4	▲	
Uganda*	50.2	▲	343.8	▲	46.8	▲	304.3	▲	39.3	▲	
Zambia*	128.7	▲	676.3	▲	159.8	▲	349.7	▲	47.2	▲	**
Zimbabwe	86.1	▲	528.2	▲	77.2	▲	241.7	—	18.6	▲	
Latin America, Caribbean											
Antigua and Barbuda	101.3	—	496.7	▲	n.a.		n.a.		n.a.		
Argentina	102.8	▲	307.1	▲	68.1	▲	371.1	▲	41.1	▼	
Bahamas	75.2	▲	407.0	▲	n.a.		n.a.		n.a.		
Barbados	156.8	—	491.5	▼	n.a.		n.a.		n.a.		
Belize	123.3	▲	426.8	▲	95.1	▲	211.3	▲	11.0	—	
Bolivia	78.8	▲	311.6	▲	42.6	▲	201.5	▲	15.4	▲	
Brazil	98.9	▲	336.4	▲	38.8	▲	211.7	—	50.6	▲	
Chile	32.5	▲	163.3	▲	82.7	▲	261.9	▲	n.a.		
Colombia	65.4	▲	246.7	▲	58.3	▲	357.1	▲	50.0	▲	
Costa Rica	67.5	▲	484.6	▲	53.9	▲	155.4	▲	14.8	—	
Dominica*	108.7	▲	249.4	▲	68.0	▲	292.3	▲	23.7	▲	
Dominican Republic	71.1	▲	500.7	▲	59.3	▲	299.9	▲	45.0	▲	
Ecuador	61.2	▲	205.6	▲	58.6	▲	251.4	▲	41.6	▲	
El Salvador	89.2	▲	363.6	▲	78.6	—	284.2	▲	80.1	▲	
Grenada*	71.3	—	249.2	—	71.1	▲	295.1	▲	20.8	▲	
Guatemala	31.5	▲	294.4	▲	33.0	—	179.1	—	21.6	▼	
Guyana*	47.3	—	226.0	▲	35.3	—	47.4	▼	2.7	▼	
Haiti*	21.3	▲	285.2	▲	17.2	▲	195.1	▲	2.4	▲	
Honduras*	54.9	▲	204.9	▲	49.6	▲	171.3	▲	23.7	▲	
Jamaica	107.4	—	368.5	—	136.1	▲	486.1	▲	50.5	▲	

Tab. 1 continued: Countries at risk of over-indebtedness worldwide

countries by region \ indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
Mexico	61.0	▲	264.1	▲	43.1	—	106.6	—	25.8	▲	
Nicaragua*	47.9	▲	178.6	▲	98.3	▲	223.8	▲	22.5	▲	
Panama	64.0	▲	512.0	▲	220.2	▲	503.9	▲	31.3	▲	
Paraguay	36.7	▲	197.8	▲	57.9	▲	165.3	▲	6.0	▼	
Peru	35.4	▲	196.7	▲	43.1	▲	191.9	▲	13.5	▼	
St. Kitts and Nevis	61.1	—	181.7	▼	13.6		39.2		n.a.		
St. Lucia*	92.1	▲	432.8	▲	45.7	▲	150.4	▲	9.2	▲	
St. Vincent and the Grenadines*	86.9	▲	281.6	▲	60.3	▲	281.8	▲	24.8	▲	
Suriname	148.2	▲	804.6	▲	n.a.		n.a.		n.a.		
Trinidad and Tobago	79.6	▲	349.1	▲	n.a.		n.a.		n.a.		
Uruguay	68.1	▲	242.3	▲	n.a.		n.a.		n.a.		
Northern Africa, Middle East											
Algeria	*55.6*	▲	*176.5*	▲	3.7	—	20.1	▲	0.7	▲	
Bahrain	129.7	▲	747.0	▲	n.a.		n.a.		n.a.		
Egypt	90.0	▼	502.8	—	37.4	—	323.7	▲	53.4	▲	
Iraq	84.2	▲	269.1	▲	n.a.		n.a.		n.a.		
Iran	*39.5*	—	*443.8*	▲	2.8	▲	14.3	▲	0.9	▲	
Jordan	88.0	▲	386.0	▲	87.3	▲	337.4	▲	27.6	▲	
Lebanon	150.4	—	939.5	▲	212.0	▲	*1,346.8*	▲	*252.0*	▲	
Morocco	75.4	▲	265.2	—	59.1	▲	171.4	▲	13.5	▲	
Oman	81.2	▲	259.4	▲	114.7		220.9		n.a.		
Qatar	72.1	▲	201.5	▲	n.a.		n.a.		n.a.		
Tunisia	89.7	▲	325.1	—	107.4	▲	247.3	▲	19.6	▲	
Yemen*	84.2	—	1,287.8	▼	*37.8*	▲	n.a.		n.a.		
Europe, CIS											
Albania	77.6	—	292.8	▲	74.7	—	281.9	▲	29.8	▲	
Armenia	63.5	▲	251.4	—	105.2	▲	310.1	▲	34.9	▲	
Belarus	48.0	—	134.1	—	73.7	—	112.2	—	11.3	—	
Bosnia and Herzegovina	36.7	—	88.3	—	71.8	—	197.7	▲	23.1	▲	
Georgia	60.0	▲	239.0	▲	132.7	▲	291.3	▲	35.3	▲	
Kazakhstan	26.3	▲	150.3	▲	105.2	—	302.9	—	56.9	▲	
Kyrgyzstan*	68.0	▲	219.4	▲	117.4	—	353.8	▲	25.6	▲	
Kosovo*	24.1	▲	94.6	▲	40.0	▲	154.0	▲	19.0	▲	
Moldova*	*34.8*	—	*114.6*	—	*71.2*	—	*260.6*	▲	*21.9*	▲	
Montenegro	107.2	▲	247.3	▲	200.5	▲	620.9	▲	102.5	▲	
North Macedonia	51.3	▲	179.3	▲	89.9	▲	144.5	—	15.8	▲	
Serbia	58.4	—	141.4	—	86.2	—	169.9	▲	23.9	—	
Tajikistan*	51.3	—	203.2	▲	*85.0*	▲	*498.6*	▲	*67.0*	▲	
Turkey	39.5	▲	135.3	▲	61.3	▲	207.5	—	41.4	—	
Turkmenistan	32,2	▲	241,7	▲	n.a.		n.a.		n.a.		
Ukraine	60.8	▼	152.1	▼	82.2	▼	214.2	▲	29.5	▲	
Uzbekistan*	37.8	▲	142.1	▲	56.0	▲	199.7	▲	20.7	▲	

[1] ▲ increase by more than 10 per cent; ▼ decrease by more than 10 per cent; — stagnation (change of less than 10 per cent)

[2] ☐ low risk of debt distress; ☐ moderate risk of debt distress; ☐ high risk of debt distress; ☐ debt distress;
☐ no risk assessment by IMF and World Bank; risk assessments older than 2019 were not included.

n.a. = no data available

** The latest IMF risk assessment does not reflect the actual situation. Country is currently in debt distress..

* Countries qualified for the G20 Common Framework.

Sources: World Bank International Debt Statistics 2022 and IMF debt sustainability analyses for individual countries until November 2021; for data on public debt indicators in individual countries the IMF World Economic Outlook October 2021. Data *in italics*: own calculations.

MISEREOR
IHR HILFSWERK

MISEREOR, the Catholic organization for development cooperation in Germany, campaigns for justice and education and against hunger, sickness, marginalization and breaches of human rights and their causes. Together with local partners, MISEREOR supports people irrespective of their belief and culture. Since MISEREOR was established in 1958, over 112,000 projects have been sponsored in Africa and the Middle East, Asia and Oceania, Latin America and the Caribbean.

MISEREOR encourages individual initiative

MISEREOR projects foster help with self-help, so that people do not end up depending permanently on support. For this reason, MISEREOR's project partners work to assist small-scale farmers, for example, or provide young people with training in future-oriented jobs, and support small businesses.

MISEREOR relies on partnerships

In its project activities, MISEREOR relies entirely on its local partners. These organizations, communities and self-help groups know the local situation best and enjoy local people's trust. Together with the local people, our partners develop activities at local level, receiving advice and financial support from MISEREOR.

MISEREOR challenges the conscience of those in power

MISEREOR does not just fight poverty, hunger and injustice, but also their causes. As a political lobbying organization for the disadvantaged, MISEREOR is critical of the prevailing global economic model, insists on more determined action against climate change, and denounces unjust social structures in the countries of the Global South.

MISEREOR depends on the commitment of many people

MISEREOR stands for active solidarity with those living in poverty. Committed individuals and groups, as well as parishes and institutions, organize solidarity marches, Lenten fasts and pilgrimages, support small-scale farmers by buying fairly-traded products, and promote development projects by making donations or gifts or leaving legacies.

www.misereor.org

erlassjahr.de
Entwicklung braucht Entschuldung

The German debt relief alliance 'erlassjahr.de– Entwicklung braucht Entschuldung e. V.' campaigns for a world where more importance is attached to the living conditions of people in indebted countries than to the servicing of sovereign debt.
erlassjahr.de is currently supported by more than 500 organizations from the church, politics and civil society across Germany, and forms part of a worldwide network of national and regional debt relief initiatives.

erlassjahr.de seeks to create a world in which:

→ in future debt crises, lower-income countries can receive debt relief in a fair and transparent process – instead of continuing repeatedly to be at the mercy of their creditors and dependent on their goodwill;

→ foreign debt, which has arisen in breach of international legal standards and which prevents the achievement of internationally agreed development goals, is cancelled;

→ standards of responsible lending and borrowing are developed and applied in order to codify the shared responsibility of creditors and debtors.

Common action

Campaigning for fair debt relief would not be possible without the support of our co-sponsoring organizations and many committed individuals.

Together, we are helping to achieve a fair solution to sovereign debt crises.

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