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Joint Statement

Action Needed for Debt Sustainability in Developing Countries

The C20 and L20 call on the 4th G20 Finance Ministers and Central Bank Governors Meeting on October 14, 2020 to take bold action to **urgently create new financial means and support for developing countries** in the form of issuing **IMF Special Drawing Rights and debt relief including cancellation** with participation of private creditors. As countries accumulate more debt to make it through the crisis, it is high time to establish **a global mechanism for debt restructuring** to avoid future debt crises and austerity harming people.

The global economy resorts to high debt accumulation to finance its needs. Falling incomes lead people into indebtedness. With tax evasion and avoidance running rampart and with regressive tax policies globally, governments have little other source of income than bonds. This must change.

On 30 March, UNCTAD called for a USD 2.5 trillion package for developing countries. In 2020 alone, developing countries would need to spend USD 814 billion just for their debt service. This comes in a time when all governments should be in position to finance their **recovery with resilience** with public investment in healthcare services, social protection, and job creation.

Half of lower-income countries were already at high risk of a debt crisis before the COVID-19 pandemic began. Many developing countries were already in an unsustainable path of public debt accumulation which got exacerbated by the crisis. The risk is especially concerning for vulnerable nations like low-income countries, fragile states, landlocked developing countries, and small island developing states (SIDS).

Many more countries will emerge from this crisis with unsustainable debts. A debt crisis would impede the global effort to contain the virus, deepen the recession, and increase distance with achieving the Agenda 2030 goals. **A debt crisis on top of the pandemic would be disastrous** for people, economic activity, multilateralism, and trust to institutions.

All countries must have the means to contain and treat COVID-19, finance their recovery, and choose their development paths with resilience and sustainability. To this end, the G20 Finance Minsters should:

- Widen participation in DSSI and shift attention to solvency risks including through debt service cancellation
- Agree a global arrangement for sovereign debt restructuring
- Provide new resources including issuing IMF Special Drawing Rights
- Increase debt transparency

Widen participation in DSSI and shift attention to solvency risks including through debt service cancellation

The DSSI is a time-bound suspension, and it can be a temporary solution in terms of liquidity, as it prevails debt risks for medium term debt sustainability. However, it excludes middle-income countries, it excludes multilateral and private creditors, and it only covers 3.65% of all the debt service payments. It does not provide debt restructuring or write-offs. Deferred official debt payments under DSSI will need to be repaid in full between 2022 and 2024, when the eligible countries have already around US$ 115 billion scheduled to be repaid from previous commitments.

The Ministers should

- extend the DSSI for at least four years;
- address overt and implied pressure from Credit Rating Agencies that has led many countries to avoid DSSI requests out of fear;
- widen eligibility criteria as to include middle-income developing countries with debt troubles;
- oblige private creditors participation, beyond the currently weak encouragement
- support the continuation of the IMF Catastrophe Containment and Relief Trust (CCRT) through 2022 and the expand it to include all PRGT concessional loan repayments.
- Help create and fund repayment cancellation mechanisms at the Multilateral Development Banks modelled on the IMF CCRT.

Agree a global arrangement for sovereign debt restructuring

The lack of a global debt restructuring mechanism and global rules about insolvency is a deep governance gap that has contributed to impoverishment and dependency. Debt sustainability frameworks should be redefined in line with recommendations of the UN Independent Expert on Foreign Debt. Debt sustainability programmes have prioritised austerity policies that have increased inequality and damaged people's sense of trust – especially when unaccountable corporations are bailed out with no conditionality.

The G20 Ministers should agree on a global mechanism for orderly debt work-out with:

- widened criteria for debt sustainability assessments and include Agenda 2030, the ILO Centenary Declaration, Paris Agreement on climate action, and human rights obligations
- consideration to the needs to finance social protection, healthcare and recovery
- a widened focus to better capture contingent liabilities, private external debt, domestic debt, and state-owned enterprise debt
- inclusion of debt owed to multilateral institutions, including the IMF, World Bank and Multilateral Development Banks
- inclusion of private creditors

Provide new financial resources including IMF Special Drawing Rights

The G20 Ministers should ensure that any emergency financing does not further compound debt vulnerabilities. We call the G20 Ministers to:

- initiate a new allocation of Special Drawing Rights, commensurate with the level of need among developing countries, including a mechanism (i.e. a Trust Fund) that allows the temporary transfer of unused SDRs from developed economies to countries in need,
- scale-up ODA commitments,
- expand eligibility criteria for concessional lending by international financial institutions,
- ensure that decisions on emergency financing do not discriminate against countries,
- allow lending quota limits to be exceeded by countries most in need

Other pressing issues that hurdled global debt sustainability include secrecy of debt accounts, irresponsible lending and borrowing, and the apparent failure of the current global arrangement for debt restructuring.

Increase debt transparency

Transparency of official debt needs to be improved by all actors involved. All loans to governments (of any income level) should be publicly disclosed before and when they are given and dialogue processes should underpin its legitimacy.

The G20 Ministers should

- ensure that a publicly accessible registry of loan and debt data is created and housed in a permanent institution, with the required ongoing funding
- establish national systems of dialogue to consult with parliaments, civil society, and trade unions and disclose loan details and enhance information openness criteria in the Operational Guidelines for Sustainable Financing
- mandate due diligence responsibilities for private lenders, including for avoiding bonds that create excessive governmental and corporate debt
- support the development and wider endorsement of a UN-led Global Consensus on Responsible Lending and Borrowing

To counter the shortcomings of the current ad-hoc procedures of debt restructuring, and given the changing debt landscape around the world: **the G20 should look beyond existing creditor-led processes to a more neutral, systematic, comprehensive and enforceable process for sovereign debt restructurings** to ensure timely and orderly debt crisis resolution and comprehensive creditor coordination as well as to prevent negative fiscal and social impacts of protracted debt crises.