2023

GLOBAL SOVEREIGN DEBT MONITOR

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GLOBAL SOVEREIGN DEBT MONITOR 2023

At a glance

Despite the slight recovery of the global economic situation in 2021 before the beginning of the Ukraine war, **the debt situation in the majority of countries in the Global South remains tense**. While policy-makers are calling for the improvement of debt relief procedures, the interests of different creditor groups are blocking speedy progress.

The debt situation worldwide: In 136 out of 152 countries surveyed in the Global South the debt situation is critical. In 40 it is even very critical. Projections show that the situation will further deteriorate as a result of the Ukraine war and the global rise in interest rates.

→ While 37% of the countries in the Global South were **critically or very critically indebted** before the outbreak of the COVID-19 pandemic, this share now amounts to 64%. **Particularly affected are the regions of Latin America and the Caribbean and Sub-Saharan Africa.** Around three quarters of the countries surveyed in these regions are in a critical or very critical situation.

→ **G7 and EU states, including Germany, have a special political responsibility** towards the group of very critically indebted countries, as 58% of outstanding claims can be directly or indirectly attributed to them.

→ **Fiscal scope for development investments is lacking:** in 2023, the estimated debt service of low- and middle-income countries is at its highest level since the late 1990s.

→ **Critically indebted countries generally avoid entering into debt restructuring negotiations** – despite their economic situation, which in some cases is dramatic. This is also due to the policies of the International Monetary Fund: instead of recommending debt restructuring, it is sugar-coating the situation through optimistic economic forecasts and fiscal austerity recommendations.

Recommendations to the German Federal Government

In its coalition agreement, the German Federal Government committed to support the **creation of a sovereign insolvency process**. To live up to its self-declared aim and to enhance the attraction of debt restructuring for countries in the Global South, erlassjahr.de and Misereor suggest the following steps:

The German Federal Government should:

→ **support indebted countries with enforcing binding equal treatment of all creditors.** One way to achieve this would entail establishing legislative measures in Germany and other countries in the Global North, which would also ensure mandatory involvement of private creditors in particular.

→ **advocate for compromises with China within the Paris Club.** For instance, the Paris Club nations could concede to China's demand to also include multilateral claims in debt restructuring processes, thus moving China to participate appropriately itself. This could dissolve mutual blockades.

→ **enable an automatic debt moratorium for climate-vulnerable countries and countries in debt restructuring negotiations.** Together with partners, the German Federal Government could politically and legally legitimise debt service suspensions and propose to establish an international institution which debtor nations could approach to organise a comprehensive moratorium.

Creating a sovereign insolvency process must remain a binding objective of the German Federal Government. The **six reform steps** suggested in this Global Sovereign Debt Monitor *(p. 48)* can prepare the ground for this at the national and international levels. The German Federal Government should take the preparations for the **Fourth International Conference on Financing for Development in 2025** as an opportunity to work with its partners to spark incentives for an international sovereign insolvency process.

Global debt situation

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

St. Kitts and Nevis
Antigua and Barbuda
Dominica
St. Lucia
Barbados
St. Vincent and the Grenadines
Grenada
Trinidad and Tobago
Kiribati
Bahamas
Dom. Republic
Belize
Cuba
Mexico
Jamaica
Haiti
Guatemala
El Salvador
Honduras
Nicaragua
Costa Rica
Panama
Ecuador
Venezuela
Colombia
Guyana
Suriname
Peru
Brazil
Bolivia
Paraguay
Chile
Argentina
Uruguay
Senegal
The Gambia
Cabo Verde
Guinea-Bissau
Guinea
Sierra Leone
Liberia
Côte d'Ivoire
Ghana
Togo
Morocco
Algeria
Mauritania
Mali
Burkina Faso
Benin
Niger
Nigeria
Equatorial Guinea
São Tomé and Príncipe
Cameroon
Gabon
Rep. Congo
Chad
Central African Republic
Tunisia
Libya
Egypt
Sudan
South Sudan
Eritrea
Ethiopia
Djibouti
Uganda
Kenya
Somalia
Democratic Republic of the Congo
Rwanda
Burundi
Tanzania
Angola
Zambia
Malawi
Zimbabwe
Mozambique
Madagascar
Namibia
Botswana
Eswatini
South Africa
Lesotho
Comoros
Seychelles
Mauritius
Belarus
Serbia
Ukraine
Bosnia and Herzegovina
Montenegro
Albania
North Macedonia
Moldova
Kosovo
Turkey
Georgia
Azer-baijan
Armenia
Lebanon
Palestine
Syria
Iraq
Jordan
Saudi Arabia
Bahrain
Qatar
Kuwait
Iran
United Arab Emirates
Oman
Yemen
Russia
Kazakhstan
Uzbekistan
Turkmenistan
Kyrgyzstan
Tajikistan
Afgha-nistan
Pakistan
India
Nepal
Bhutan
Bangladesh
Sri Lanka
Maldives
Mongolia
China
North Korea
Myanmar
Thailand
Laos
Vietnam
Cambodia
Philippines
Malaysia
Brunei Darussalam
Indonesia
Timor-Leste
Papua New Guinea
Palau
Micronesia
Marshall Islands
Nauru
Solomon Islands
Tuvalu
Samoa
Vanuatu
Fiji
Tonga

Debt situation
- very critical
- critical
- slightly critical
- non-critical
- no data available

Debt trend
- deterioration
- no significant change
- improvement

Country names in italics: Debt situation based on own extrapolations

Data as of 31/12/2021

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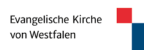

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FOREWORD

It's time to stop waiting and start taking action

What Germany needs to do now to solve the debt crisis in the Global South

photo: Mellenthin/Misereor

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photo: David-Simon Groß/KKM

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After the dramatic impacts of the COVID-19 pandemic, the global economy experienced a slight recovery before the outbreak of the Ukraine war in 2021. The upswing, however, was not uniform and despite a slight easing of the global economic situation, in many countries of the Global South the debt crisis remains dramatic. Critically indebted countries in particular are hardly able to finance basic social services such as health care, education or water services. In addition, the livelihoods of millions of people are threatened by food and energy prices that have increased around the world as a consequence of the war in Ukraine. The pandemic, war, climate change and related crises have culminated in a permanent polycrisis, which is hitting poor people lacking financial resilience particularly hard.

The analysis of the global debt situation by erlassjahr.de and Misereor in this Global Sovereign Debt Monitor shows that the risk of debt distress continues to be high in many countries of the Global South. With 136 out of 152 countries surveyed, the number of critically indebted countries is nearly as high as it was in 2020, the culmination of the COVID-19 pandemic. Back then, 135 out of 148 countries surveyed were critically indebted. In 40 countries, including Ghana and Sri Lanka, the current debt situation is very critical *(see 'The global debt situation', p. 8)*.

Speedy and joint political action of all creditors – be they national governments, multilateral institutions or private financial actors – is needed to deal with the global debt crisis in a forward-looking manner. To date, however, no concerted action has been taken to tackle the debt crisis and involve all creditors. The article 'Creditors worldwide' *(p. 20)* provides a comprehensive overview of the most important creditors of countries in the Global South. Germany's role as a creditor also needs to be considered in this context, as it is still the world's fourth-largest bilateral official creditor. Like the other G7 and EU nations, it shares responsibility for finding solutions for the debt problem.

One of the countries whose debt crisis has severely deteriorated over the past year is Ukraine. Russia's brutal war of aggression is claiming more and more lives and has brought Ukraine's economy to the brink of collapse. Since the beginning of the war, the country has received commitments for new loans worth USD 41.7 billion (as of end of January 2023) – and more are to follow. The enormous debt burden will hinder reconstruction in Ukraine. Debt cancellations will be necessary. Germany and other international creditors should face this reality and agree early on on a common strategy for dealing with the country's debt in future *(see 'Ukraine: Fight now – pay later', p. 38)*.

Now is the time for political action. The people in the Global South should not have to wait any longer!

In the case of many heavily indebted countries, the creditors have made severe austerity demands, leading to increased inequality and heavy cutbacks in social services. Moreover, these austerity measures distract attention from the fact that debt restructuring in heavily indebted countries would be a much more effective solution for bringing the country back on the path of sustainable development *(see 'Dare to take more responsibility', p. 30)*.

Law suits by creditors are not only risky for debtor nations; they also jeopardise ongoing multilateral debt restructuring negotiations. Hence, they hinder the quick defusing of the debt crisis. When private creditors insist on having their claims repaid in full, while these payments are ultimately financed by debt relief granted by official creditors, this behaviour is profoundly anti-social. To achieve a fair solution for the debt crisis, the German Federal Government must finally take the initiative and implement effective legislative measures to stop private creditors' current practice of taking legal action *(see 'The power of legislation', p. 44)*.

A year ago, we expressed our hope that the chances of the solution for the global debt crisis would increase with the new German Federal Government and that it would work towards a political initiative to create an international sovereign insolvency process involving all creditors, as agreed in its coalition agreement. The coalition has not yet delivered on this promise. Instead, it continues to insist on tiny reform steps and piecemeal improvements of the Common Framework, the debt relief framework adopted by the G20.

erlassjahr.de and Misereor present six concrete political reform steps to show that more ambitious measures towards achieving a systemic solution of the debt crisis are possible. These steps are based on the 'Principles on Sovereign Debt Restructuring Processes' adopted by the UN General Assembly in 2015. We are convinced that these reform steps can help keep the errors of the past from being repeated in future debt restructuring processes and strengthen existing processes. It is important to us to stress that the measures we have suggested would considerably reduce the power imbalance in the negotiations between debtors and creditors, which is a key requirement for a fair and just solution of the debt crisis *(see 'From the Common Framework to a sovereign insolvency process?', p. 48)*.

Now is the time for political action. Now is the time for the German Federal Government to finally live up to its promises. The people in the Global South should not have to wait any longer!

We wish you a stimulating read.

Petra Aschoff and Pirmin Spiegel

The global debt situation

Currently, 40 countries in the Global South are very critically indebted.

By Malina Stutz

Despite a slight global economic recovery in 2021, the debt of countries in the Global South remains at a very critical level. In 136 out of 152 countries surveyed the debt situation is critical. In 40 it is even very critical. Debt service payments owed to external creditors are at their highest level since the late 1990s. Due in part to the huge cash outflow brought about by debt service payments, many countries do not have the financial resources they need for social services. Fifty-five countries paid higher amounts of interest and principal to external creditors in 2019 and 2021 than they spent on domestic healthcare.

We describe the debt situation of countries using five indicators, each of which relates the debt stock 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', p. 10)*.

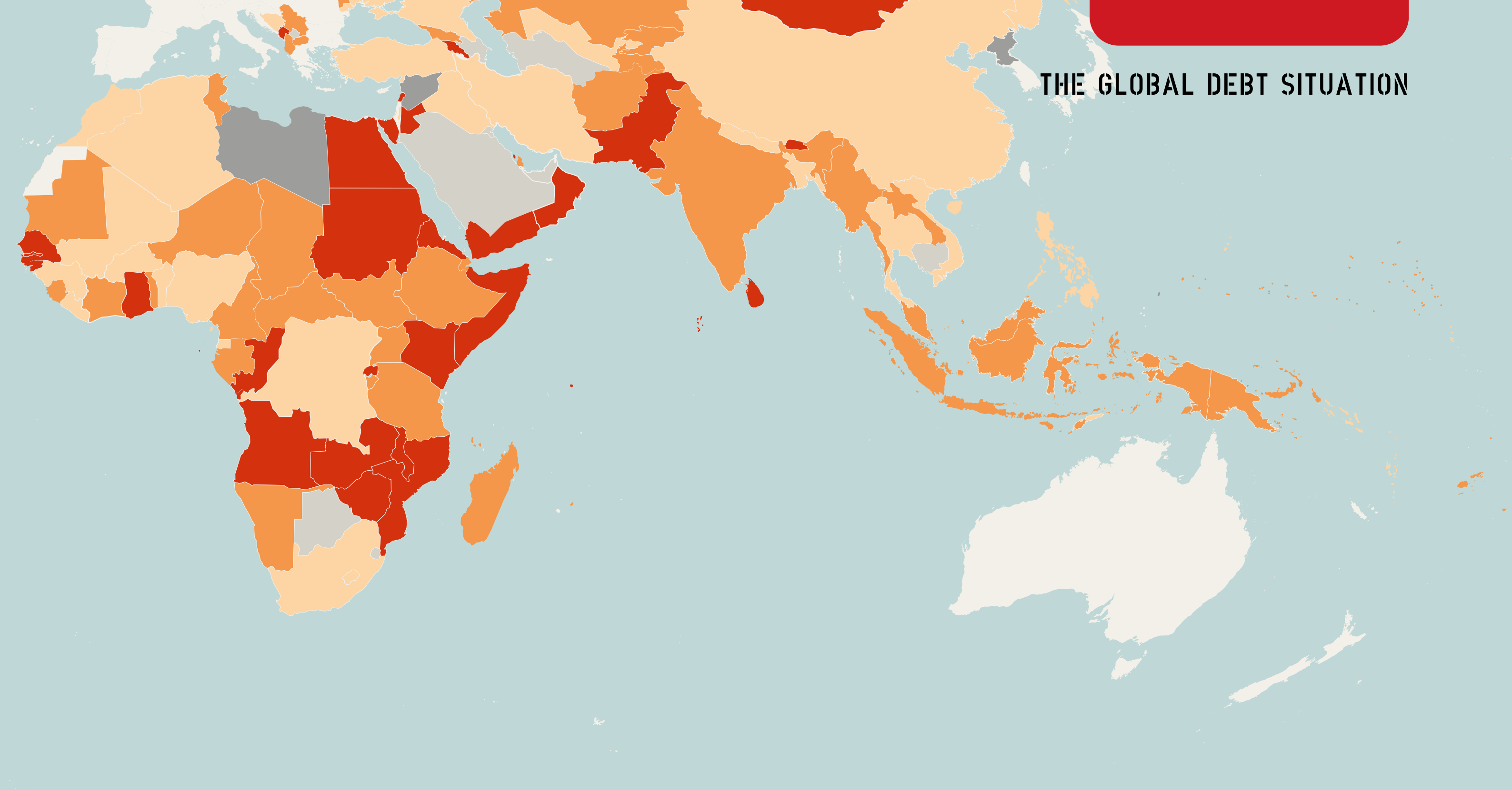
All data is based on the reporting date, 31 December 2021. The analysis therefore describes the debt situation even before the start of Russia's war of aggression against Ukraine and the associated global economic disruptions. The effects of the global turnaround in interest rates which started in March 2022, originating in the USA, are also not yet reflected in this analysis. It is therefore likely that the debt situation in many countries is even worse. This is particularly true for Ukraine, whose debt situation is assessed as only "slightly critical" based on data from the end of 2021 *(see article 'Ukraine: Fight now – pay later', from p. 38)*.

Our analysis determines the risk of debt distress in two ways: firstly, based on the level of the five indicators or the breach of the respective thresholds *(see box on methodology, pp. 18-19)*, and secondly, in terms of trends over the last three years, meaning 2018-2020. Here, we compare the number of improvements by at least 10% with the number of deteriorations by at least 10% in order to calculate a generally positive, negative or neutral trend.

Critically indebted countries

Of the 152 countries surveyed, 136 are in a debt situation that is at least slightly critical. They are listed in Table 1 at the end of this Global Sovereign Debt Monitor. The debt situation of 11 countries is considered to be non-critical.[1] No reliable data was available concerning the debt situation of five countries.[2]

While 37% of the countries in the Global South were in a critical or very critical situation before the outbreak of the COVID-19 pandemic, this proportion rose to 67% in 2020 and remained at a very high level of 64% in 2021 *(see Figure 2)*. The slight easing of the global economic situation in 2021 – during which the global gross domestic product grew by over 6% – has therefore not improved the debt situation in countries of the Global South.



Country selection

In our annual analysis, we focus exclusively on the debt situation in the Global South – for two reasons: on the one hand, we would like to show to what extent a high debt burden limits and hinders independent development opportunities of countries in the Global South. On the other hand, we assess the debt situation on the basis of specific indicators and threshold values whose significance is at least questionable for countries in the Global North – especially for so-called hard currency countries. Countries like Japan, the USA or even Germany have other (monetary) policy options for keeping high debt levels sustainable than countries such as Zambia, Sri Lanka or Argentina.[3]

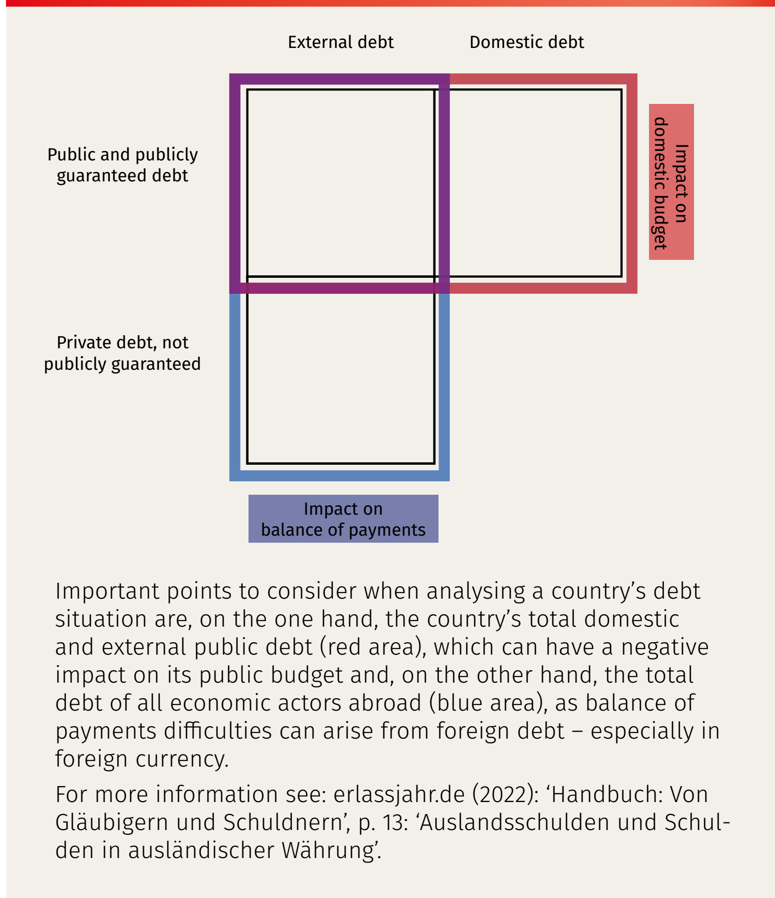
Separating nations into countries of the **Global South** and countries of the **Global North** or of hard and soft currency countries necessarily leads to blurriness and ambiguity. In order to arrive at a description that is as comprehensible and uniform as possible in the future, we have, in contrast to previous years, included in the present analysis all countries that have been categorised by the International Monetary Fund (IMF) as an 'emerging market' or 'developing country'.[4] In addition, there are two countries (**Cuba** and **North Korea**) that are not included in the IMF's categorisation but which can also not be classified as a hard currency country or as belonging to the Global North. Since we used the IMF categories, we also considered Eastern European countries and South-Eastern European countries as well as **Russia** as part of the 'Global South' in this Global Sovereign Debt Monitor – in contrast to the usual definition of the 'Global South'. We have only excluded countries of the European Union, as they can access other sources of financing when they risk debt distress and other institutions play a decisive role in debt restructuring negotiations in their case.[5]

Although we are critical of the terminology and classifications used by the IMF, we have decided to use the IMF's classification as the basis for our own analysis for the following reasons:

- The IMF's classification is primarily based on three criteria: the level of per capita income, export diversification and the degree of integration into the global financial system. We see these criteria as suitable for pointing out specific vulnerabilities that arise in countries of the Global South in a critical debt situation.[6]
- The IMF's classification is the most comprehensive categorisation we know of. If we were to use the United Nations Human Development Index instead, for example, countries such as Argentina, Chile or Turkey would be excluded from the analysis. This would be problematic from our point of view, as these states – regardless of whether they are currently affected by a debt crisis or not – are potentially confronted with problems of a high debt situation, which we see as specific to countries in the Global South.[7]

Consequently, we have included four more countries and territories in our analysis compared to the previous year: the **Palestinian territories**, **Russia**, **Saudi Arabia** and the **United Arab Emirates**.

Fig. 1: Debt composition



Important points to consider when analysing a country's debt situation are, on the one hand, the country's total domestic and external public debt (red area), which can have a negative impact on its public budget and, on the other hand, the total debt of all economic actors abroad (blue area), as balance of payments difficulties can arise from foreign debt – especially in foreign currency.

For more information see: erlassjahr.de (2022): 'Handbuch: Von Gläubigern und Schuldnern', p. 13: 'Auslandsschulden und Schulden in ausländischer Währung'.

In Latin America and the Caribbean, as well as in sub-Saharan Africa, three quarters of the countries surveyed are in a critical or very critical situation.

While **East Timor** was still listed as non-critical in 2022, it is now on the list of critically indebted countries. Four countries (**Eritrea**, **Palestinian territories**, **Russia**, **Venezuela**) that are listed as critically indebted countries in this Global Sovereign Debt Monitor were either not yet included in the previous year's analysis or no data was available on their debt situation. In four countries (**Cambodia**, **Kosovo**, **Nauru** and **Turkmenistan**), on the other hand, the debt situation has improved from a slightly critical to a non-critical level.

Forty countries are in a particularly critical debt situation *(see world map at the beginning of this Global Sovereign Debt Monitor)*.[8] The debt situation of 33 countries was already considered to be particularly critical in the Global Sovereign Debt Monitor 2022. In five countries (**Ghana**, **Guinea-Bissau**, **Malawi**, **Oman**, **Rwanda**) the situation has worsened from a critical to a very critical level. No data was available last year for the two very critically indebted countries of Eritrea and Venezuela. The debt situation of ten countries that were still listed as very critical in the Global Sovereign Debt Monitor 2022 has improved slightly. However, all ten countries remain in a critical situation.[9]

Figure 2 shows how debt levels are distributed across world regions. Particularly affected are the regions of Latin America and the Caribbean as well as sub-Saharan Africa, where around three quarters of the countries surveyed are in a critical or very critical situation. In both regions, the debt situation has improved from a critical level in 2020 to a slightly critical level in 2021 in only two countries per region (**Ecuador** and **Honduras**, and **Liberia** and

South Africa). At the same time, the situation in five sub-Saharan African states (**Comoros**, **Côte d'Ivoire**, **Niger**, **Tanzania**, **Togo**) has deteriorated from only slightly critical to critical.

In South Asia, Southeast Asia and the Pacific, almost 60% of states are in a critical or very critical state. Compared to the previous year, only **Vanuatu's** debt situation improved from critical to slightly critical in this region. At the same time, the situation in the two states of **Fiji** and **Myanmar** has deteriorated and is critical.

In North Africa and the Middle East, the debt situation seems to have eased somewhat compared to the Global Sovereign Debt Monitor 2022. While almost 70% of the states in this region were still critically or very critically indebted in 2020, this proportion fell to below 50% in 2021. However, this seemingly positive development is due only in part to a slight improvement in the debt situation from critical to only slightly critical in two states (**Iraq**, **Morocco**). In fact, it is because three of the only slightly critically or non-critically indebted states were not represented in the analysis of the Global Sovereign Debt Monitor 2022 for methodological reasons (**Palestinian territories**, **United Arab Emirates**, **Saudi Arabia**). Therefore, no significant easing of the debt situation occurred in this region in 2021 either.

The only region where the debt situation eased slightly in 2021 is Europe and Central Asia. While around three quarters of the countries were still critically or very critically indebted in the Global Sovereign Debt Monitor 2022, this proportion has fallen to around 50% in the Global Sovereign Debt Monitor 2023. In five countries (**Bosnia and Herzegovina**, **Kosovo**, **Turkey**, **Turkmenistan**, **Ukraine**), the debt situation in 2021 (temporarily) improved and was slightly critical or non-critical. In some states, however, this development is likely to be already outdated. **Ukraine's** debt situation, for example, was considered to be slightly critical at the end of 2021. However, the start of the war in February 2022 changed the country's debt situation so dramatically that this classification is no longer meaningful *(see article 'Ukraine: Fight now – pay later', p. 38)*. In **Turkey**, too, where the lira has continued to depreciate significantly since the end of 2021, the debt situation is likely to have worsened again over the past year.

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

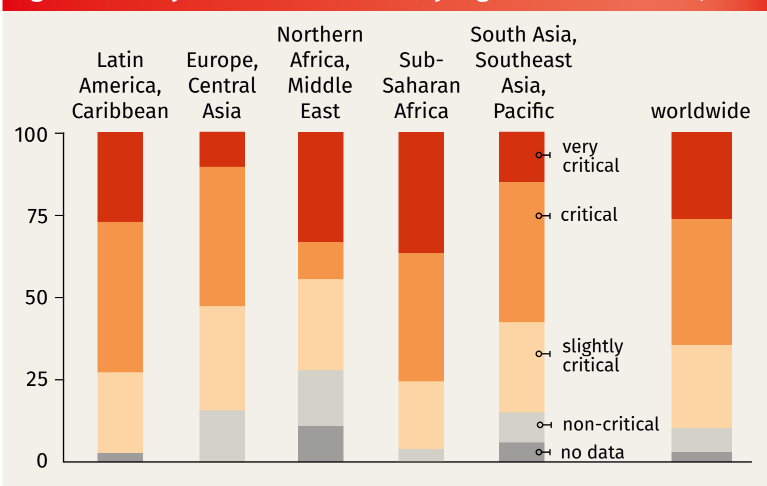
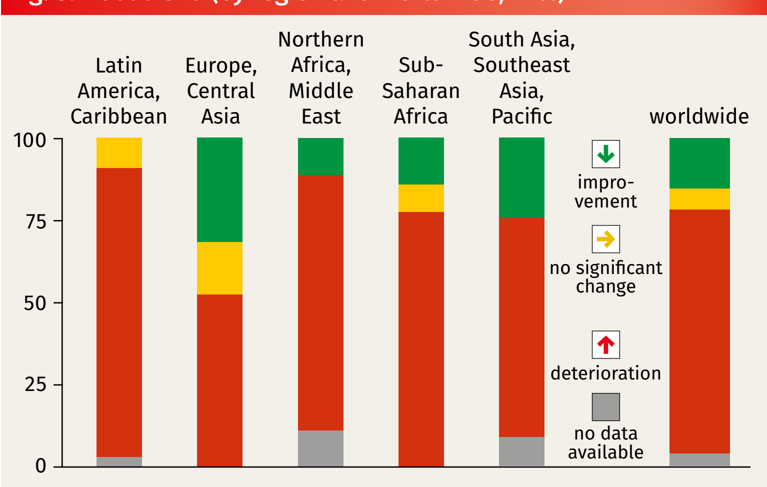


Fig. 3: Debt trend (by region and worldwide, in %)



Source: own illustration and own analysis using the methodology described on pp. 18-19. Data based on the World Bank's International Debt Statistics, IMF data and data from national finance ministries and central banks.

In all regions surveyed, there are more countries whose indicators have deteriorated significantly since 2018 than countries with indicators that have remained the same or improved *(see Figure 3)*. This continues the trend of previous years.

In sub-Saharan Africa, the debt situation has worsened by at least 10% regarding the majority of indicators since 2018 in 38 countries – corresponding to 78% of the countries surveyed. In North Africa and the Middle East, a negative trend can also be

observed in 78% of the states – that is 14 countries. In South Asia, Southeast Asia and the Pacific, the same trend can be observed for 22 countries, or 67% of the countries. Only in Europe and Central Asia are the negative and positive or neutral trends more or less balanced. In the latter region, a negative trend was observed in 10 countries (53%) between 2018 and 2021.

The Latin America and Caribbean region is also particularly hard-hit according to this view. The situation did not improve in a single country in this region between 2018 and 2021, while it deteriorated significantly in 29 countries and remained the same in only three.

Development of public debt

Two indicators in the Global Sovereign Debt Monitor concern domestic and external public debt *(see Figure 1)*. With the outbreak of the COVID-19 pandemic in 2020 and the resulting global economic recession, the mean public debt of low- and middle-income countries jumped by 11 percentage points to around 66% of GDP in 2020.[10] In 2021, only a slight easing of three percentage points was achieved on average, leaving the public debt ratio still eight percentage points above the already high level of 2019 and more than 20 percentage points above the level of ten years ago.

While the mean value is particularly precise, it can be strongly influenced by individual outliers with particularly high – or low – debt values. As a measure of central tendency, the median is less susceptible to such outliers. For this analysis, it therefore makes sense to analyse the development of the median in addition to the mean value. The median also sharply increased by nine percentage points to around 59% in 2020 and did not change significantly in the following year. Consequently, 2021 did not lead to an easing of the public debt situation for the majority of countries.

The public debt ratio rose particularly sharply in **Malawi**, for example, which is very critically indebted: both from 2019 to 2020 and from 2020 to 2021, the East African country's public debt increased by almost ten percentage points of GDP.
The second indicator we consider in the annual debt analysis is the ratio between public debt and government revenue. This indicator also increased by more than 100 percentage points on average in 2020 to around 386% in 2020. The median rose by 46 percentage points to 266% in the same year. On average, the ratio fell by around 66 percentage points in 2021, remaining very significantly above the 2019 level. The median remained at 266% in 2021. It is therefore also true for this indicator that 2021 did not lead to a more relaxed situation for the majority of countries.

The negative debt trend also continues in 2021.

Development of external debt

Absolute external debt

The external debt of all low- and middle-income countries reported by the World Bank amounted to a level of USD 9.022 trillion as of 31 December 2021.[11] This is a nominal increase of USD 482 billion compared to the previous year.[12] Overall, external debt thus increased by 5.64%. As in 2019 and 2020, nominal debt has grown at an even slower pace than in previous years. Between 2010 and 2015 in particular, nominal external debt in countries of the Global South rose particularly sharply, by an average of almost 13% per year. During periods of low interest rates and ailing economies in the Global North, investors had a strong interest in lending at comparatively high interest rates to the Global South. With the commodity price collapse in 2015, lending temporarily collapsed and did not return to the level of the early 2010s in the following years. In other words, debt has been built up significantly over the past decade – especially the first half – and now the upcoming payday is hitting many countries in the midst of multiple crises.

Unlike in 2020, when at least nominal external public debt rose sharply once again due to the growing spending demands during the COVID-19 pandemic, in 2021 external public debt increased comparatively little, by 3.7%. From a fiscal policy perspective, this may be welcome given the already high public debt ratios. However, in the absence of alternative non-debt-generating financing options and high repayment obligations, this also means that public funds for social services will become even scarcer *(see section: 'Debt crisis impedes sustainable development', p. 15)*.

Relative external debt

At the end of 2021, the mean external debt of all low- and middle-income countries as a share of the total economic output of this group of countries was 63.4%, with a median value of 52.1% *(see Table 2)*. The external debt ratio thus remained at a high level comparable to that of the pre-crisis year 2020, and at the end of 2021 both the mean and median debt ratio continued to be around nine percentage points above the already high level of 2019, and more than 20 percentage points above that of 2010.

This development applies to both low- and middle-income countries. Neither low- nor middle-income countries could reach the already high level of the mean and median external debt of 2019 again in 2021. The external debt ratio has also evolved quite dramatically over the last decade for both low- and middle-income countries.

In low-income countries, mean public debt increased from 35.9 to 62.8% and median public debt rose from 28.7 to 41.5% between 2010 and 2021. In middle-income countries, mean public debt increased from 43.6 to 63.6% and median public debt rose from 36.3 to 54.2% between 2010 and 2021.

In the International Debt Report, which the World Bank publishes annually at the same time as its annual International Debt Statistics (IDS), the development of the external public debt ratio is explained differently at two points: firstly, the authors mention that the external debt ratio returned to the 2019 level in 2021.[13] Secondly, they consider the development of the external debt ratio of low-income countries over the last ten years to be particularly worrying, while for middle-income countries they have noted only a moderate increase in the external debt ratio since 2010.[14]

The World Bank arrives at this result – which differs from the result of our analysis – because it does not analyse the development of the mean or the median debt level, but rather compares the total external debt of all low-income or all middle-income countries with the total economic output of the corresponding group of countries *(see Table 2)*. However, such an aggregated analysis underestimates the debt situation of individual countries and does not take into account the fact that economically strong countries pull the average down substantially if they do not have a high external debt.[15] This bias can be ruled out if we look at the median or mean value of the external debt indicators.

The external debt ratio has risen dramatically over the last decade.

Development of debt service payments

The debt level indicators, whose developments were explained in the previous section, do not provide information on how high the interest rates on the loans taken out are and when their repayment is

Tab. 2: Development of external debt-to-GDP ratio

	2010			2019			2020			2021		
	Aggregated value	Mean	Median	Aggregated value	Mean	Median	Aggregated value	Mean	Median	Aggregated value	Mean	Median
All low- and middle-income countries	21.4	42.0	31.5	26.3	54.4	43.8	28.5	64.4	52.9	25.7	63.4	52.1
Low-income countries	17.1	35.9	28.7	48.5	52.6	32.3	52.5	60.3	37.7	48.5	62.8	41.5
Middle-income countries	21.6	43.6	36.3	26.0	54.9	46.4	28.2	65.4	56.9	25.4	63.6	54.2

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

due. Debt service, which indicates how much a government has to pay out in interest and principal each year, is therefore an important additional indicator for finding out how much a government is already burdened by a high debt ratio.

Over the past decade, total external debt service of low- and middle-income countries has increased by about 126%, from about USD 486 billion in 2010 to USD 1.098 trillion in 2021. If we consider only public interest and principal, there is even an increase of 141%. In 2010, the interest and principal that the public sector had to pay to external creditors amounted to around USD 168 billion; in 2021, it amounted to USD 405 billion *(see Figure 4)*.

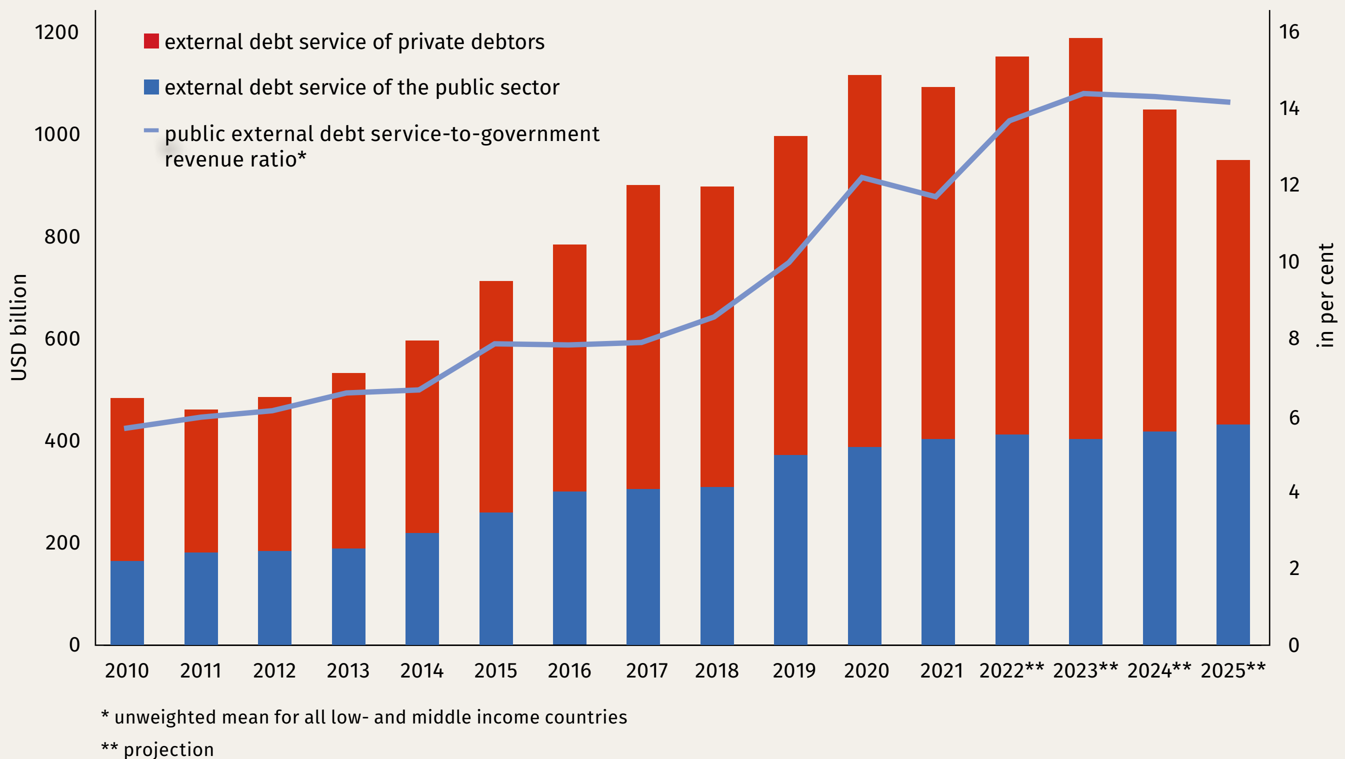
Debt service has not only increased in nominal terms. Rather, economic development and the development of government revenue in particular could not keep up with the evolution of debt service. As a result, mean public debt service as a percentage of government revenue also more than doubled from an average of 5.7% in 2010 to 11.7% in 2021 – while median public debt has increased from 4.1% to 8.0%.[16]

It is particularly problematic that public debt service payments are expected to continue to rise in nominal terms and as a share of government revenue until 2023, according to the World Bank and IMF. In 2023, the median payment of interest and principal as a percentage of government revenue is already expected to amount to 12.3%, while the mean for the payment figure is predicted to be 14.5% *(see Fig. 4)*. This is the highest value in this century. The last time debt service payments were at a comparably high level was in 1998 – a year before the revision of the debt relief initiative for heavily indebted poor (HIPC) countries, known as the HIPC Initiative. The mean value is also above the value (14%) that the IMF describes as sustainable for low-income countries.[17]

The last time debt service payments by low- and middle-income countries were at a comparable level to today was in 1998.

The countries whose debt situation we describe as very critical in this Global Sovereign Debt Monitor already had to pay an average of more than 20% of their government revenue to foreign creditors for interest and principal in 2021.

Fig. 4: External debt service of all low- and middle-income countries 2010 to 2025



Source: own calculation based on data from the World Bank's International Debt Statistics and the IMF's World Economic Outlook.

Global interest rate turnaround and refinancing options

Since March 2022, the US Federal Reserve has continuously raised the key interest rates. This has repercussions for the whole world: currencies are rapidly losing value in relation to the US dollar, global inflation – outside the USA – is rising and it is becoming increasingly difficult to implement refinancing schemes for countries in the Global South. The price at which government bonds of countries in the Global South are traded on secondary markets has plummeted for the majority of countries since March 2022 and has not recovered at the time this report went to press in February 2023. This is problematic because the price at which bonds are traded and the resulting bond yield are a measure of the conditions at which countries in the Global South can take out new loans. The lower the price, the higher the bond yield and the higher the interest rate states have to pay to issue new bonds.

An assessment of the current trading prices of government bonds for 40 at least slightly critically indebted states for which data are available paints a frightening picture:[18] in 45% of the cases (18 countries), the bond yield is already above 10% – a mark that financial experts often interpret as meaning that countries have already lost access to refinancing on the capital market. In the very critically indebted countries, it is already over 60%. Consequently, according to this definition, 10 countries of this group no longer have access to the capital market. In the other very critically indebted countries, the bond yield averages around 7.6%. This means that these states would have to pay an estimated interest rate of around 7.6% to take out new loans. Especially in already critically indebted countries, the debt crisis is further exacerbated by such high interest rates.

The global interest rate turnaround also affects countries whose debt situation has not yet been assessed as very critical in this Global Sovereign Debt Monitor. Eight countries (**Bolivia**, **Cameroon**, **Ecuador**, **Iraq**, **Nigeria**, **Russia**, **Tunisia**, **Ukraine**) have also already lost capital market access according to this definition. In the case of **Ukraine** and **Russia**, this is likely to be explained not primarily by the global interest rate turnaround, but rather by Russia's war of aggression against Ukraine. For **Honduras** and **Turkey**, too, borrowing on the capital market, where they would have to pay an estimated interest rate of over 8%, is no longer a sustainable option.[19]

Debt crisis impedes sustainable development

Around 42% of the world's population lives in critically or very critically indebted countries in the Global South. The proportion of extremely poor people in these countries is incomparably higher: 90% of the world's extremely poor and around three quarters of the world's undernourished people live in countries of the Global South that are critically or very critically indebted.[20] More than a quarter of their population lives below the extended poverty line of USD 3.65 per day.[21]

Countries in the Global South whose debt situation is rated at least slightly critical spend an average of USD 370 per capita and year on healthcare.[22] For countries with non-critical debts, the expenditure amounts to around USD 1,016 per capita. Germany spends around USD 5,238 per capita and year on healthcare. The insufficient health expenditure in critically indebted countries is also a consequence of the enormous outflow of funds due to debt service: fifty-five states paid on average higher amounts of interest and principal payments to foreign creditors between 2019 and 2021 than they spent on healthcare at home. Particularly affected are the states whose debt situation is classified as very critical in this Global Sovereign Debt Monitor: in three quarters of these states, debt service obligations exceeded health expenditure. On average, these countries have to pay well over twice as much in interest and principal to foreign creditors than they spend on healthcare for their population.[23]

In three quarters of the very critically indebted countries, debt service obligations exceeded health expenditure.

Further deterioration of the social situation

Back in 2021, when many countries were still reeling from the economic impacts of the COVID-19 crisis, the domestic public expenditure-to-GDP ratio fell by an average of 3.1 percentage points in more than 100 countries of the Global South compared to the previous year.[24] Based on IMF data, this trend is expected to continue until 2025.

In very critically indebted countries, domestic public expenditure is even projected to fall below pre-

pandemic levels on average between 2022 and 2025, and to be around 0.7 percentage points lower as a share of GDP than in the period from 2010 to 2019. Comprehensive analyses of the planned budget developments show that less will be spent on social services and socially sensitive areas in particular.[25] To achieve the Sustainable Development Goals in countries of the Global South, more public expenditure on social services is urgently needed. But in reality, the opposite is happening: instead of expanding expenditure on social services, it is declining as a share of GDP – due in part to rising debt service payments.

Outlook

At the beginning of 2023, the question of how to break out of the debt spiral is more urgent than ever for many countries in the Global South: the debt values that increased sharply in the wake of the COVID-19 crisis in 2020 have remained at a comparably high level in the majority of countries in 2021. The global economic upheavals resulting from the war in Ukraine and the interest rate turnaround which had its origin in the USA are putting further pressure on many countries.

Under these circumstances, refinancing – that is, repaying previously incurred debt by taking out new loans – is no longer a sustainable option for the majority of states in the Global South. Many countries have already lost access to the capital market and where private lenders are still willing to grant new loans, they usually charge such high interest rates that they further exacerbate the debt crisis. At best, therefore, we can currently speak of a further postponement of the crisis. Only comprehensive debt relief can lead us out of this impasse.

Granting sufficient and comprehensive relief is also central to meeting the most pressing challenges of this decade. The year 2023 marks the halfway point in the implementation of the 2030 Agenda. However, in recent years it has become increasingly unlikely that the Sustainable Development Goals can be achieved. A financially sound and solid state is necessary for the phase-out of fossil energies and the fight against climate change. But instead of learning from past mistakes, this crisis is once again showing that debt relief is being granted too little and too late – mistakes that we can no longer afford in view of the many current challenges. A change of course in international debt relief policy is therefore imperative in 2023: debt relief must be granted quickly and extensively to critically indebted states – and all creditors must share in the costs of the crisis.

A change of course in international debt relief policy is imperative in 2023.

[1] Azerbaijan, Botswana, Brunei Darussalam, Cambodia, Eswatini, Kosovo, Kuwait, Nauru, Saudi Arabia, Turkmenistan and the United Arab Emirates.

[2] Cuba, Libya, North Korea, Palau and Syria.

[3] We are aware that the countries in the so-called 'Global South' do not form a homogeneous group, that the level of the debt indicators we examine does not have the same significance in all countries and that political and economic contexts must also be taken into account. In this respect, the analysis carried out here is particularly meaningful on an aggregate level and in comparison to previous years. In order to adequately assess the situation in an individual country, on the other hand, a qualitative case-by-case analysis is needed, which is beyond the scope of this paper.

[4] The IMF's classification is based on the categories 'developing country', 'emerging market' and 'advanced economy'.

[5] The European Stability Mechanism (ESM) deserves particular mention. The ESM is an intergovernmental organisation legally independent of the European Union. However, pursuant to Art. 44 and Art. 2, membership is in principle open to all member states of the EU, see Treaty establishing the ESM. Due to the exclusion of EU states, five countries (Bulgaria, Croatia, Hungary, Poland and Romania) classified by the IMF as 'emerging markets', as well as Aruba as part of the Kingdom of the Netherlands, are excluded from the analysis.

[6] We consider these three indicators to be more suitable for pointing out specific debt problems of countries in the Global South than indicators such as average life expectancy or educational attainment, which are used to determine the Human Development Index.

[7] These include vulnerability to price fluctuations for individual goods on world markets, dependence on the monetary policy and economic situation of countries in the Global North, the limited possibility of borrowing in a country's own currency, the volatility of one's own currency and the resulting limited national economic and monetary policy scope of action for keeping high debt levels sustainable.

[8] Angola, Antigua and Barbuda, Argentina, Armenia, Bahrain, Belize, Bhutan, Cabo Verde, Congo, Egypt, El Salvador, Eritrea, Gambia, Ghana, Grenada, Guinea-Bissau, Jamaica, Jordan, Kenya, Lebanon, Malawi, Maldives, Mongolia, Montenegro, Mozambique, Oman, Pakistan, Panama, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Somalia, Sri Lanka, Sudan, Suriname, Venezuela, Yemen, Zambia, Zimbabwe.

[9] Dominica, Dominican Republic, Gabon, Georgia, Kyrgyzstan, Laos, Mauritius, Tajikistan, Tunisia, Uganda.

[10] Here, as in the following analysis, the unweighted arithmetic average is used as the mean value. This means that all countries are counted equally, meaning that the figures are not overly influenced by larger countries.

[11] Here we take into account both short-term and long-term and private and external public debt, but exclude special drawing rights from the analysis as they do not generate debt at a net level.

[12] In the Global Sovereign Debt Monitor 2022, we reported an outstanding external debt of USD 8.687 trillion as of 31 December 2020. In this year's International Debt Statistics (IDS) the external debt amounts to USD 8.540 trillion as of 31 December 2020. Sometimes debt data for previous years are also adjusted retroactively in the IDS. In our annual analysis, we always refer to the most recent data from the IDS.

[13] World Bank (2022): 'International Debt Statistics 2022: Updated International Debt Statistics', p. 5 .

[14] Ibid.

[15] The average value can be strongly influenced by individual outliers with a particularly high or particularly low debt ratio. It does not matter whether the economies are large or small. An analysis of aggregated debt in relation to the aggregated economic output of a group of countries, on the other hand, is dominated by the states in which economic output and/or debt is highest in nominal terms.

[16] For the five indicators we use to determine a country's debt situation, we look only at the ratio of total public and private external debt service to export revenues, which is an important indicator of potential balance of payments problems. The ratio of public debt service to government revenue, on the other hand, is an important indicator of budgetary problems. We have not included this indicator in the analysis of the debt situation, as we lack reliable data on public domestic debt service. However, due to the current explosive nature of the burden on public budgets, which results from the public sector's payment obligations to foreign creditors, we at least provide an analysis of the external public debt service as a share of government revenue. The analysis is our own calculation based on data from the World Bank's International Debt Statistics and the IMF's World Economic Outlook.

[17] See IMF (2018): 'The Debt Sustainability Framework for Low-Income Countries'.

[18] Due to a lack of data transparency and of publicly available sources that would allow a systematic assessment of all outstanding bond claims, an estimate was made here based on freely accessible trading prices. The figures for estimated bond yields refer to the average bond yield of bonds denominated in US dollars.

[19] In fact, a higher than average number of government bonds from low- and middle-income countries were placed in January 2023. Among the issuers is Turkey, which pays interest of around 10% on new loans. See Do Rosario, J. (13/01/2023): 'Analysis: Investors snap up record $39 bln emerging market sovereign bond splurge'.

[20] In defining extreme poverty, we refer to the limit of USD 2.15 used by the World Bank and the United Nations and other institutions.

[21] The poverty lines are values adjusted for purchasing power. This means that the USD 2.15 or USD 3.65 is not worth much more in low-income countries. Rather, they serve as a comparative value and indicate how many people there are who have very little money at their disposal and can only buy the daily amount of goods that would cost USD 2.15 or USD 3.65 in the USA.

[22] Data based on World Bank, Health, Nutrition and Population Statistics (2022). Health expenditure data refer to the most recent data available at the time this report went to press, but in many cases do not yet include the additional expenditure spent in response to the COVID-19 pandemic. The data are adjusted for purchasing power.

[23] The figures refer to the debt service payments reported by the World Bank. In individual cases, it is not possible to determine whether the payments were actually made in full. The high debt service obligations of Eritrea and Sudan are not taken into account, as it can be assumed that these states have not paid the majority of the debt service.

[24] Own calculation based on data from the IMF's World Economic Outlook (October 2022).

[25] See Ortiz, I. / Cummins, M. (2022): 'End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25'.

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 2021, and
→ the **trend**, i.e. the change in this debt situation over a period of three years (2018-2021).

The debt indicators used for the analysis are:

Indicator	Description
Public debt / Annual gross domestic product (GDP)	**Is the government more indebted, in terms of both domestic and external debt, than the capacity 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.
Public debt / 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?**
External debt / Annual gross domestic product	**Does the entire economy have more payment obligations to foreign countries than its 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.
External debt / 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.
External debt service / 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 / Annual GNI or GDP	< 50	50-75	> 75-100	> 100
Public debt / Annual government revenues	< 200	200-300	> 300-400	> 400
External debt / Annual GNI or GDP	< 40	40-60	> 60-80	> 80
External debt / Annual export earnings	< 150	150-225	> 225-300	> 300
External 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 four categories: non-critical, slightly critical, critical or very critical *(see world map on the inside front cover)*. Table 1 *(on the inside back cover)* 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 four 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. The categories are defined as follows:

0 → non-critical
1-4 → slightly critical
5-9 → critical
10-15 → very critical

By way of additional factor, the IMF's assessment of debt distress risk also forms part of the assessment.

For each individual debt indicator, the **trend** indicates whether there was a change of 10 per cent or more in the three years from 2018 to 2021 *(see Table 1)*. An aggregate debt trend has also been calculated for each country *(see world map)*. If more debt indicators have improved than deteriorated over a three-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.

Creditors worldwide

An analysis of the creditor landscape and political responsibility for debt relief

By Malina Stutz

For every debtor there is a creditor, for every debt a claim for payment. Claims against countries of the Global South are predominantly held by private creditors. Multilateral financial institutions such as the International Monetary Fund (IMF) and the World Bank are the second-largest group of creditors. By contrast, the claims of public creditors play only a subordinate role at the global level today, but in individual countries they remain relevant. The primary political responsibility for facilitating debt relief in crisis situations continues to rest with the G7 and the EU member states in most cases.

If one were to ask who is responsible for securing sufficient levels of debt relief in the debt crisis of a particular country, the answer would be that the creditor who holds a corresponding claim against the country bears primary responsibility. The first part of this article will, therefore, analyse the creditor landscape at both the aggregated and country-specific levels. However, the political responsibility for providing sufficient debt relief is determined not by the identity of the individual creditor alone. In the case of multilateral creditors such as the IMF and the World Bank, responsibility can be traced instead to the member states of these institutions, divided proportionally according to the voting rights of the respective countries.

Securing the participation of private creditors in debt relief, on the other hand, is the responsibility of the countries in which the private creditors reside, or according to whose laws the claims were issued. For this reason, the second part of this article will investigate which countries and groups of countries bear the most responsibility for creating the conditions for coordinated and comprehensive debt relief, and how this responsibility is borne out at the level of individual critically indebted states.

Composition of the creditors

At the end of 2021, the majority of the outstanding claims made against public debtors in low- and middle-income countries were held by private creditors *(see Figure 1a)*.[1] A distinction can be made within the group of private creditors between bondholders on the one hand, and private banks and other private creditors on the other. The claims of bondholders, as well as investment funds and insurance companies, make up 47% of the total external public debt of low- and middle-income countries.[2] The claims of private commercial banks and other private creditors such as mining companies make up approximately 14%.

The second-most important group of creditors for the countries of the Global South are multilateral financial institutions such as the IMF, the World Bank, and other multilateral development banks and development funds. These multilateral creditors together hold about 26% of all claims against low- and middle-income countries.

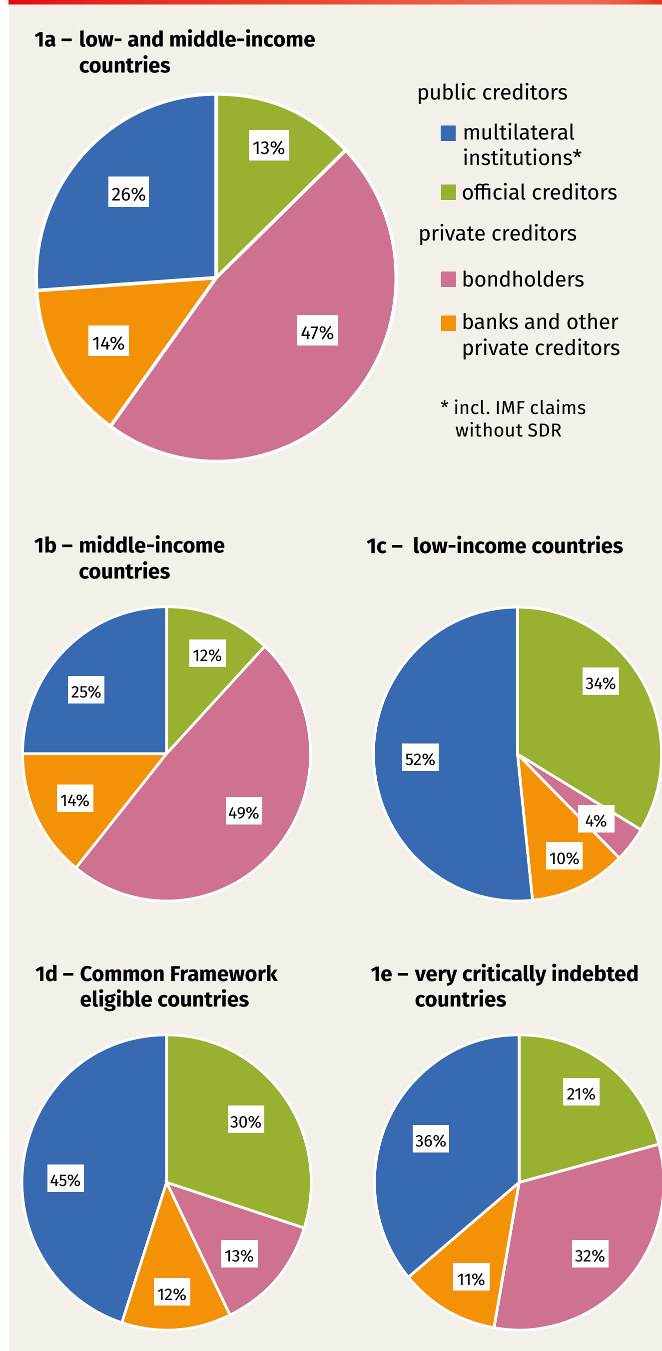
The claims issued by bilateral official creditors, including **China**, **Germany** or **Japan**, together make up about 13% of total public external debt.

Admittedly, the composition of the creditors varies greatly from country to country, being influenced strongly by the level of income of the indebted countries. In middle-income countries, almost two-thirds of all outstanding claims are issued by private creditors *(see Figure 1b)*. In low-income countries, the situation looks different: here, the share of loans from private creditors is only about 15%, because the risk of giving loans to these countries is often too high for the private creditors *(see Figure 1c)*. By far the most important group of creditors for low-income countries are multilateral financial institutions, which together hold more than half of the claims. Bilateral official creditors also play a comparatively important role, making up 34% of the outstanding claims.

For those countries that are eligible to apply for debt restructuring negotiations as part of the G20 Common Framework, the composition of creditors is similar to that of the low-income countries, except that private creditors hold a somewhat larger proportion of the total claims *(see Figure 1d)*. This is not surprising, since the G20 states have decided to look to the income level of the states – and not their debt situation – as the criterion for eligibility. As a result, only a few countries with lower-middle income are currently eligible to apply for debt restructuring negotiations under the Common Framework.

When we look at those countries whose debt situation is seen in this report as very critical, we see an approximately similar constellation of creditors to that of all the low- and middle-income countries, although both multilateral and bilateral official lenders constitute a somewhat larger proportion of the total claims. However, private creditors remain the most important group of creditors at 43% of the claims *(see Figure 1e)*.

Fig. 1: Share of different creditor groups in external public debt in 2021 of



Source: own illustration based on data from the World Bank International Debt Statistics (2022).

Private creditors

Private creditors focus heavily on loans to the middle-income countries *(see Figure 1b)*: over the half of their claims relate to five countries: **China**, **Mexico**, **Indonesia**, **Russia** and **Brazil** while a further 20% are linked to **Turkey**, **India**, **South Africa**, **Argentina** and **Colombia**.

Despite this high concentration on only a few countries, private creditors are the most important group of creditors compared to official bilateral and multilateral creditors in 32 middle-income countries whose debt situation is assessed in this report as slightly critical *(see Table 2 'Shares of the various groups of creditors' [online] and Box 1, p. 27)*.[3] These 32 countries make up almost 30% of the countries for which data are available. Ten of the 32 countries (**Angola**, **Argentina**, **El Salvador**, **Ghana**, **Jamaica**, **Jordan**, **Lebanon**, **Montenegro**, **Sri Lanka** and **Zambia**) are very critically indebted *(see Table 1, p. 28)*. In 41 further critically indebted[4] countries, private creditors hold at least 10% of outstanding claims.

From a financial perspective, taking out loans with private creditors is less attractive for indebted countries than borrowing from bilateral or multilateral official sources: on average, low- and middle-income countries pay 5% interest on outstanding government bonds.[5] In 2021, very critically indebted countries such as **Angola** or **Pakistan** were already paying as much as around 9% on funds newly borrowed on the international capital market. However, the funds borrowed from official creditors on more favourable terms are not enough to overcome the funding shortfalls in countries of the Global South, leaving these countries with no choice other than to accumulate more debt with private creditors.[6]

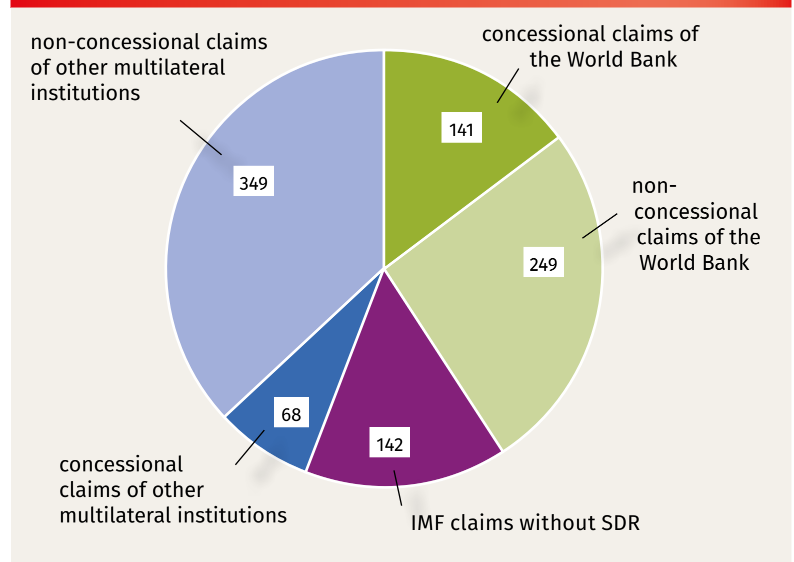
Multilateral creditors

In terms of multilateral creditors, a distinction can be made between the IMF and the multilateral development banks. The IMF holds approximately USD 142 billion or about 15% of the multilateral claims against low- and middle-income countries.[7] The World Bank International Debt Statistics lists 46 multilateral development banks and funds. That said, their loans are highly concentrated: of all the multilateral development banks, the World Bank is by far the most important lending institution, covering approximately 48% of claims. Other multilateral institutions follow at a significant distance, including the Asian Development Bank (ADB) at 16%, and the Inter-American Development Bank (IADB) at 11%. At an even more significant distance follows the African Development Bank (AfDB), at 5%, and the European Investment Bank (EIB), which holds 4% of claims.

In 60 critically indebted countries, thus, in almost half of all critically indebted countries for which data are available, multilateral creditors are the most important group of creditors. Of these, 14 countries are very critically indebted *(see Table 1)*. In 44 critically indebted countries, the claims of multilateral creditors make up even more than 50% *(see Table 2 [online])*.

Especially when compared with the conditions imposed by private creditors, borrowing from multilateral institutions is a significantly more favourable funding option for indebted countries. The average interest rate is around 1.7%, and at an average of 23 years, the loan period is long, making this a very attractive option for low- and middle-income countries.[8] That said, the conditions vary considerably among the 46 multilateral institutions. For example, the Organisation of Arab Petroleum Exporting Countries or the Fondo Latinamericano de Reservas demand interest of more than 5% and thus even more than bondholders. The African Export-Import Bank and the Central American Bank for Economic Integration, which rank tenth and eleventh on the list of the most important multilateral institutions, demand average interest of over 3.5% and are, therefore, generally more expensive than, for example, public loans from China.

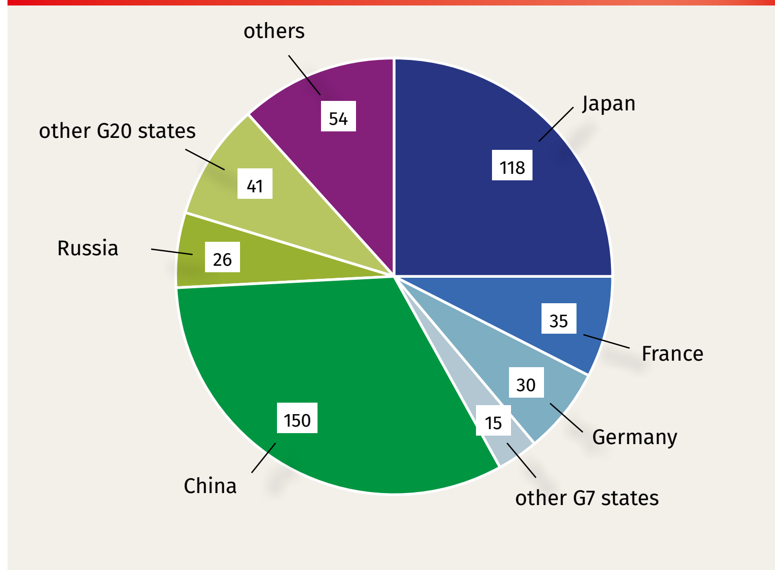
Fig. 2: The claims of multilateral creditors against low- and middle-income countries in 2021 in USD billion



Source: own illustration based on data from the World Bank International Debt Statistics (2022).

This makes it clear that borrowing from multilateral creditors does not automatically mean gaining especially affordable loans. Overall, only about one-quarter of loans by multilateral banks and funds meet the criteria allowing them to be ranked as concessional claims *(see Figure 2)*, and even the International Development Organisation (IDA)[9], which is one of the most inexpensive multilateral development banks, demands 1.4% interest on average, which is still almost double the interest that Japan, the second-most important creditor, demands. For this reason, the exclusion of all multilateral claims from every case of negotiations on debt restructuring, a practice defended staunchly by the G7 states in particular, cannot be justified – at least, not with a generalised reference to the supposedly very favourable conditions of multilateral loans.

Fig. 3: Debt repayment claims of bilateral creditors against low- and middle-income countries in 2021 in USD billion



Source: own illustration based on data from the World Bank International Debt Statistics (2022).

Bilateral creditors

China is today the most important official creditor, holding claims of almost USD 150 billion, according to the World Bank *(see Figure 3)*. The only comparable lending volume is that of **Japan**. With outstanding claims of close to USD 200 billion, the G7 states hold somewhat more than 40% of the bilateral public claims with relation to all low- and middle-income countries.

According to information of the World Bank, **Germany** is the fourth-most important official creditor, with claims of around USD 30 billion against 69 low- and middle-income countries *(see Table 2 [online] and Box 1, p. 27 – also with regard to the following figures in this section)*.[10] Apart from China, **Russia** and **Saudi Arabia**, with claims of USD 26 billion and USD 16 billion respectively, are important bilateral creditor states within the group of the G20. Beyond these, **Kuwait**, with USD 12 billion in outstanding claims, and the **United Arab Emirates**, with USD 9 billion, have risen to become regionally important bilateral creditors.

The conditions under which bilateral creditors provide loans vary greatly between the various creditor states. The very inexpensive lending practice of Japan is particularly striking. Japan provides loans at an interest rate of 0.8% on average and with a loan period of 31 years. Outstanding claims of other G7 and EU member states, on the other hand, in particular those of the Netherlands and the USA, accrue interest at a significantly higher rate.[11] However, it is the relatively expensive Chinese loans, given at an interest rate of 3.2% on average, that carry the most weight because of the large volume of loans provided. This means that although loans from China are still significantly less expensive for indebted countries than borrowing from private creditors, China demands interest at a rate almost four times higher than that demanded by the second-most important public bilateral creditor, Japan.

Such an analysis of the loan conditions imposed on outstanding claims, however, provides only a partial reflection of individual countries' commitment to development.[12] The analysis is nevertheless interesting because it reveals that in the case of debt restructuring negotiations, any attempt to treat bilateral public creditors equally must take into account the fact that outstanding claims of various public bilateral creditors accrue widely differing interest rates. In other words, this difficulty does not arise only when multilateral claims are taken into account in restructuring negotiations.

Bilateral official creditors are the most important group of creditors in 21 critically indebted countries. Nine of these countries are very critically indebted.

In five countries, the dependency of the debtor country on a single creditor state is particularly high:[13] **Bhutan** is especially dependent on **India** and **Haiti** on **Venezuela**, while three countries – **Djibouti**, **Laos** and **Tonga** – are especially dependent on **China**. Overall, China is the most important official creditor relative to other governments in 56 critically indebted countries.

In terms of the total external debt of these countries, and in addition to the three countries named above, China predominantly holds claims of relevant magnitude against six very critically indebted states (**Congo**, the **Maldives**, **Mongolia**, **Pakistan**, **Zambia** and **Zimbabwe**) and another 11 critically indebted countries.[14] In two more cases, India is the most important official creditor. It is primarily the level of **India's** share with **Iran** that bears weight. **Russia** is the most important official bilateral creditor in two countries (**Belarus** and **Afghanistan**) and holds claims of relevant amounts in both cases. **Saudi Arabia** is the most important official bilateral creditor in six countries and holds claims of relevant amounts, above all against the very critically indebted **Yemen**.

Japan is the most important official bilateral creditor in 19 critically indebted countries, holding claims of relevant volume in particular against **Iraq**, **Myanmar** and **Vietnam**. **France** is the most important official bilateral creditor in eight critically indebted countries, among them the former French colonies **Algeria**, **Burkina Faso**, **Mauritius** and **Tunisia**. In terms of the total external debt of these countries, the proportion of the French claims is of particular importance in Mauritius, where it constitutes around 22%.

According to World Bank data, **Germany** is the most important official bilateral creditor in five critically indebted countries (**Albania**, **Armenia**, **Georgia**, **Morocco** and **Peru**). In terms of the total debt of these countries, however, the proportion of the German claims is not very high, constituting only 1 to 7%. For Peru, private creditors instead are the most important creditors; for the remaining four countries, it is multilateral creditors. Despite this, Germany could play a politically significant role, not least because of its position as most important official bilateral creditor, especially for the very critically indebted state of Armenia, should it come to debt restructuring negotiations.[15]

Additionally, there are official bilateral creditors who, although they do not belong to the most important creditor countries, are nevertheless of particular relevance to individual debtor countries. One case is **Angola**, which – followed closely by **Portugal**, the former colonial power – is the most important creditor country of the very critically indebted island state of **São Tomé and Príncipe**.

Political responsibility in debt crises

The above examination of the creditor landscape partially answers the question of who is responsible for facilitating debt relief, at least to some degree, in the case of debt crises. In the case of bilateral official claims, it is the respective national governments and/or parliaments, depending on the political system. Yet the analysis of direct creditors is not enough in itself to determine conclusively who holds political responsibility for securing sustainable and comprehensive debt relief, especially when outstanding claims are held by multilateral and private creditors.

It is, therefore, the member states who ultimately determine, and hold responsibility for, the politics of multilateral institutions. Moreover, in terms of private creditors, it is the countries in which they are based, or according to whose laws bond claims were issued, that have the regulatory and legal possibilities to secure the cooperative and equal participation of private creditors in cases of debt relief negotiations. These countries thus bear political responsibility for making full use of such possibilities.

It is relevant to analyse this extended type of responsibility as it is borne by individual countries, especially because private and multilateral creditors – as shown above – are the most important creditors for countries of the Global South in the majority of cases, both at an aggregated level and at the level of individual countries. What's more, public discourse in Germany is heavily dominated

by the desire to make China solely responsible for solving the current debt crisis. Even though China, as the most important official creditor, does indeed play an important role today in the resolution of debt crises in the Global South, it is only possible to lose sight of the responsibility of Western countries if we stop at an analysis of the direct creditor landscape as such and fail to ask ourselves who, in the case of private or multilateral claims, bears the political responsibility for restructuring these claims in a crisis.

For an analysis of the political responsibility of individual countries and groups of countries, therefore, outstanding claims[16] will be attributed to the responsibility of individual countries and groups of countries as follows:

- The respective creditor country is 100% responsible for **bilateral official claims**.
- **Multilateral claims** will be attributed to the member states of each of the multilateral institutions according to their respective voting rights.
- Responsibility for ensuring the restructuring and cancelling of the **claims of private banks and other private creditors** will be attributed to the country in which the private creditor is based.[17]
- The responsibility for ensuring the restructuring and cancellation of **bond claims** is attributed to the country according to whose laws the bonds were issued.[18]

At the aggregated level, such an analysis shows that 70% of outstanding claims against low- and middle-income countries fall in the area of joint responsibility of the G7 countries and the EU member states. This means that the G7 countries and the EU member states bear the primary responsibility for creating the conditions that would ensure the coordinated and comprehensive restructuring of these claims in crises. China and the other G20 countries are each responsible for 6% of the outstanding claims against low- and middle-income countries *(see Figure 4)*.

Two factors explain why the G7 countries and EU member states bear the greater share of political responsibility: Firstly, as the most important shareholders of the largest multilateral creditors, they are responsible for the majority of the outstanding multilateral claims. In the IMF and the World Bank, the G7 countries and the EU member states share more than half of the voting rights, and in the four most important multilateral lending institutions after them, the ADB, IADB, AfDB and EIB, the weight of their votes – 45, 49, 34 and 100% respectively – is considerable. Secondly, these countries are primarily responsible for securing the participation of private creditors in debt relief: approximately 38% of the banks and other private creditors, such as mining companies, are based in the member states of the G7 and the EU. However, the greatest share of bond claims is the 97% that was issued according to British or US law, and whose restructuring is therefore attributed to the responsibility of the G7 states.[19]

If we look only at the 40 countries identified in the debt report as being very critically indebted, the proportion of claims for which China and other G20 countries bear responsibility for their restructuring is higher, at 14 and 9% respectively *(see Figure 5)*.[20] This is because the bilateral official loans supplied in relevant proportion by China and other G20 countries are more relevant for the group of very critically indebted states, while bond claims for the restructuring of which the Western countries are responsible play a somewhat lesser role *(see also Figures 1a and 1d)*. Also in this regard, the proportion of claims for which the member states of the G7 and EU are responsible for ensuring their successful restructuring – 58% – is too high.

It must also be noted that attributing political responsibility for multilateral claims according to the above-mentioned principle of voting weight probably even underestimates the political relevance of the main shareholders: so far, the G7 countries, more than any other, have insisted that under no circumstances should multilateral claims be taken into account in the restructuring of debt. Should the G7 countries reach an internal agreement to include multilateral claims, it is

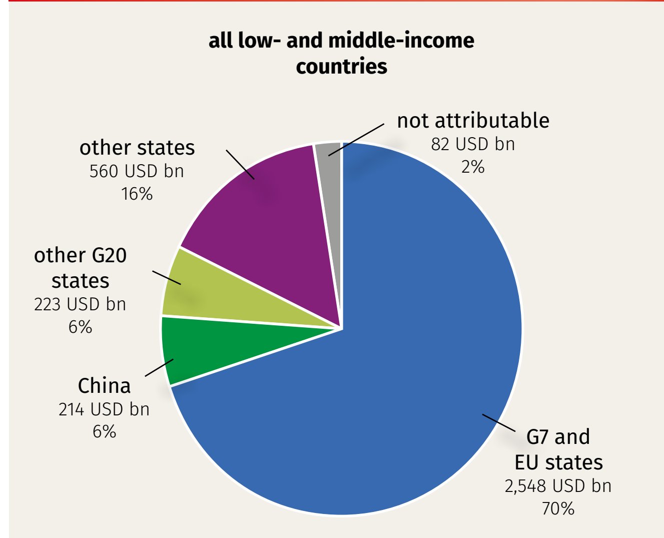
unlikely that other shareholders of the multilateral institutions would prevent this. The member states of the G7 and the EU hold over half of the voting rights in the IMF and the World Bank.

The following picture emerges when we look at the distribution of political responsibility on the level of the individual critically indebted countries: in 52 of the 107 critically indebted countries for which data are available, the member states of the G7 and the EU can be deemed primarily responsible for the resolution of debt crises. In these 52 states, of which 14 are very critically indebted, the member states of the G7 and the EU make up the most important group of countries and are politically responsible for a share of claims that is at least twice as high as that of the next most important group of countries.

In a further 47 critically indebted countries, the primary political responsibility cannot be clearly attributed to any one group of countries because the proportion of claims of the most important group of countries is not at least twice as high as that of the second-most important group of countries. And yet: in 26 of these 47 countries, the member states of the G7 and the EU are still politically responsible for the largest share, and in 17 countries the second-largest share. In 43 countries, the member states of the G7 and the EU, together with other countries, bear primary responsibility for the resolution of the debt crisis *(see Table 2 [online])*.

Only in the case of 12 critically indebted countries – including the very critically indebted countries of **Bhutan**, **Gambia**, **Sudan** and **Yemen** – do countries outside the G7 and the EU bear the primary political responsibility. In 5 of these 12 countries (**Democratic Republic of the Congo**, **Djibouti**, **Guinea**, **Laos** and **Tonga**), Chinese bilateral claims are decisive, while in one country each it is Russian bilateral claims (**Belarus**), Indian bilateral claims (**Bhutan**) or public bilateral claims from Venezuela (**Haiti**). In the four remaining countries (**Comoros**, **Gambia**, **Sudan** and **Yemen**), other states outside the group of the G7 and the EU are jointly responsible for solving potential problems of over-indebtedness.

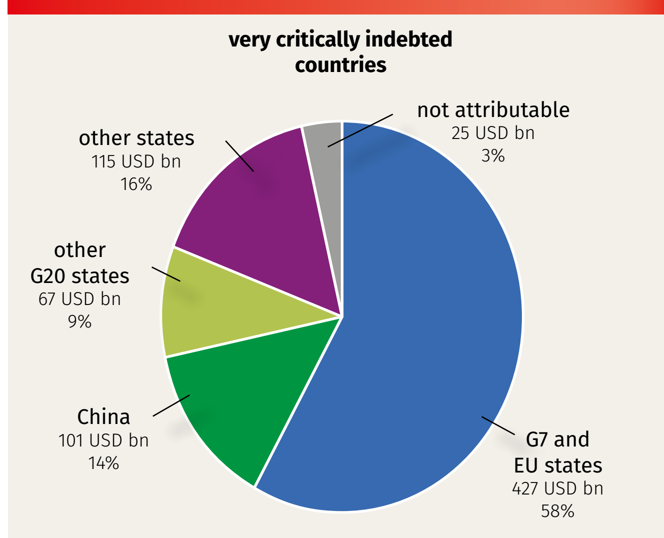
Fig. 4: Outstanding claims according to the groups of countries (directly or indirectly) responsible



Source: own illustration based on data from the World Bank International Debt Statistics (2022).

Note: Individual countries or groups of countries will be designated responsible, directly or indirectly, if they are directly responsible for outstanding bilateral public claims, or indirectly responsible for multilateral claims, by means of their voting rights, or if they are primarily responsible for securing the participation of private creditors in debt relief due to the location of private creditors or the location in which bond claims were issued.

Fig. 5: Outstanding claims according to the groups of countries (directly or indirectly) responsible



Source: own illustration based on data from the World Bank International Debt Statistics (2022).

Conclusion

Even though new lenders such as China, and the Gulf States of Saudi Arabia and Kuwait, have risen to become important bilateral creditors, the member states of the G7 and the EU continue to bear the primary responsibility for ensuring that adequate debt relief is granted. This is because private and multilateral creditors hold the majority of outstanding claims against low- and middle-income countries. The member states of the G7 and the EU are the most important shareholders, thus possessing the lion's share of voting rights within the most important multilateral lending institutions. For the most part, the primary responsibility for securing the participation of private creditors in debt relief lies with the G7 countries in which private creditors are based, or according to whose laws bond claims were issued.

Both in the G7 and in the important multilateral institutions, Germany's political weight is immense. Thus, the German Federal Government should not hide behind the argument that its public bilateral claims are comparatively small. Instead, it should advocate within the G7 group and with the multilateral institutions for a rethink of the general exclusion of multilateral claims from restructuring negotiations and for binding regulations governing the participation of private creditors in debt relief.

Box 1: Explanations on Table 2 (online)

Table 2 'Shares of the various groups of creditors in the total external public debt of critically indebted countries, and groups of countries bearing primary political responsibility' (available at: www.erlassjahr.de/en/news/gsdm-2023) provides the following information, and more, by country for all slightly critically, critically and very critically indebted countries:

- which creditor groups (private, multilateral, bilateral) hold what percentage of outstanding claims
- the size of the concessional share of multilateral claims
- which of the bilateral public creditors is the most important creditor country and what percentage of outstanding claims this country holds
- discrepancies between the World Bank's reporting and the information of the German Federal Ministry of Finance (BMF) in the data on German claims
- what percentage of outstanding claims is the political responsibility of which group of countries, and an explanation as to why which group of countries is deemed primarily responsible

Tab. 1: Shares of the various groups of creditors in the total external public debt of very critically indebted countries, and groups of countries bearing primary political responsibility (extract from Table 2)

Country	External public debt in USD billion	Share of multilateral creditors	Share of private creditors	Share of bilateral official creditors	Countries and groups of countries bearing primary responsibility for the resolution of the debt crisis [Share of claims]
Angola	51.24	16%	71%	13%	China [44%] / G7 & EU member states [44%]
Argentina	155.70	44%	53%	3%	G7 & EU member states [76%]
Armenia	6.70	56%	27%	17%	G7 & EU member states [65%]
Belize	1.28	38%	32%	30%	other states (esp. Venezuela) [39%] / G7 & EU member states [37%]
Bhutan	2.99	28%	1%	71%	other G20 states (esp. India) [75%]
Cabo Verde	2.02	53%	26%	21%	G7 & EU member states [66%]
Egypt	125.63	38%	36%	26%	G7 & EU member states [53%]
El Salvador	11.86	45%	52%	3%	G7 & EU member states [69%]
Eritrea	0.66	85%	5%	10%	G7 & EU member states [48%] / other states [31%]
Gambia	0.91	69%	0%	31%	other states [39%] / other G20 states [32%]
Ghana	29.30	28%	61%	11%	G7 & EU member states [71%]
Grenada	0.57	65%	17%	18%	G7 & EU member states [41%] / other states [23%]
Guinea-Bissau	1.00	56%	32%	12%	not attributable
Jamaica	9.90	40%	54%	6%	G7 & EU member states [73%]
Jordan	21.50	38%	44%	18%	G7 & EU member states [72%]
Kenya	37.04	48%	22%	30%	G7 & EU member states [53%]
Kongo	6.34	17%	37%	46%	China [38%] / G7 & EU member states [32%]
Lebanon	33.28	5%	94%	1%	G7 & EU member states [96%]
Malawi	2.76	84%	0%	16%	G7 & EU member states [38%] / other states [27%]
Maldives	3.12	15%	42%	43%	China [44%] / G7 & EU member states [36%]
Mongolia	11.94	27%	32%	41%	G7 & EU member states [56%] / China [27%]
Montenegro	4.37	17%	60%	23%	G7 & EU member states [64%]
Mozambique	11.07	46%	11%	43%	G7 & EU member states [43%] / other G20 states (esp. China) [33%]
Pakistan	101.40	41%	22%	37%	G7 & EU member states [39%] / China [29%]
Rwanda	5.94	72%	14%	14%	G7 & EU member states [49&] / other states [28%]
São Tomé and Príncipe	0.27	31%	4%	65%	G7 & EU member states [44%] / other states (esp. Angola) [42%]
Senegal	15.07	45%	33%	22%	G7 & EU member states [59%]
Somalia	3.33	22%	0%	78%	G7 & EU member states [65%]
Sri Lanka	37.78	29%	43%	28%	G7 & EU member states [61%]
Sudan	16.69	24%	28%	48%	other states [43%] / other G20 states [25%]
Yemen	6.15	48%	0%	52%	G20 states (esp. Russia, Saudi Arabia) [45 %]
Zambia	12.50	21%	45%	34%	G7 & EU member states [47%] / China [31%]
Zimbabwe	4.63	26%	9%	65%	G7 & EU member states [45%] / China [40%]

Largest creditor groups

Source: own calculation and illustration based on external public debt data from the World Bank International Debt Statistics.

Even though new lenders such as China, and the Gulf States of Saudi Arabia and Kuwait, have risen to become important bilateral creditors, the member states of the G7 and the EU continue to bear the primary responsibility for ensuring that adequate debt relief is granted.

1 In this article, we will analyse only who the creditors of the public sector in countries of the Global South are. For this reason, we will take into account only public and publicly guaranteed external debt. In its evaluation of the debt situation, the first article in this Global Sovereign Monitor also takes private external debt into account. However, reporting on private external debt, not publicly guaranteed external debt, and its creditors is lacking in transparency and completeness to such an extent in comparison to reporting on public and publicly guaranteed external debts that we will not be considering it in our analysis of the creditor landscape. It is safe to assume that the bulk of outstanding claims against private debtors is held by private creditors.

2 Insufficient data are available for a full analysis of the creditor landscape. Thus, this article references only the 121 low- and middle-income countries for which the data of the World Bank International Debt Statistics are available. The overall situation is, therefore, different from that in the countries referred to in the article 'The global debt situation'. Thirty-two of the countries dealt with in said article, especially those with high and higher-middle income, cannot be taken into account here. However, we will consider one middle-income country, Bulgaria, in the aggregated analysis of the creditors for all low- and middle-income countries that were not taken into account in article 'The global debt situation' because of their membership in the European Union *(see also Box 'Country selection', p. 9)*.

3 These include 10 low- to middle-income states and 22 middle- to high-income countries.

4 In the Global Sovereign Debt Monitor, the debt situation of countries of the Global South is assessed according to the four categories of uncritical, slightly critical, critical or very critical *(see box on methodology, pp. 18-19)*. In the following, for the sake of readability, those countries with an at least slightly critical level of debt will be termed critically indebted.

5 Unless otherwise stated, all references to average terms of credit in this article are derived from reports of the World Bank's International Debt Statistics (2022).

6 According to the United Nations, at least USD 4 billion per year is additionally needed in order to achieve the Sustainable Development Goals in countries of the Global South by 2030. See the press release of the OHCHR of 21 October 2022. On 6 December 2022, at a UNCTAD Debt Management Conference in Geneva, a representative of the Nigerian Debt Management Office also emphasised that her country had no option but to take out high-interest loans with private creditors, and criticised that not enough funds were being made available under favourable conditions for the fulfilment of the Sustainable Development Goals. See the recording from 06/12/2022, 12 p.m. (Minutes 00:14 - 04:50).

7 For the purpose of this analysis, outstanding debts arising out of an allocation of special drawing rights will not be considered to be debts owing to the IMF because in the balances of the recipient countries, special drawing rights are recorded as both debts and claims, which means they do not raise the level of net debt of these countries.

8 These are weighted averages that take into account the amount of lending by a multilateral institution.

9 The IDA is a subsidiary organisation of the World Bank Group, whose role is to combat poverty in countries with particularly low levels of income.

10 In the past years it has been demonstrated that the public claims issued by Germany, as reported by the World Bank and the Federal Ministry of Finance (BMF), differ widely. See Stutz, M. (2022): 'Germany as a creditor of the Global South', in: erlassjahr.de; Misereor (ed.): 'Global Sovereign Debt Monitor 2022'. Since we are also referencing the reports of the World Bank in the International Debt Statistics for all other data on creditors in this article, we will use this source additionally for the information about public German claims. A comparison with the data reported by the BMF was not possible by the time this article went to press because the BMF – unlike in former years – had not updated its data by 1/2/2022. Possible discrepancies between the World Bank data and that of the BMF, country by country, can be seen in Table 2 (online): http://www.erlassjahr.de/en/news/gsdm-2023.

11 Outstanding claims due to the Netherlands accrue interest to the tune of 7.9%, while those due to the USA accrue interest at a rate of 4.5%.

12 In the case of the USA and the Netherlands, the high interest rates apply to only a very limited number of outstanding claims because both countries fund development cooperation not by means of loans but through grants. By contrast, Japan funds more than half of its development work through inexpensive loans; this explains the very low interest rates and long loan periods. China provides a lot of loans at comparatively high interest rates but uses these funds predominantly to build physical infrastructure, for which Western countries provide almost exclusively expensive private funds and which – in contrast to social services infrastructure – have the potential, at least in principle, to generate profits during the lifetime of the loan that enable the borrower to repay both the loan and the interest. For a breakdown of the ODA payments according to funding instruments, see: OECD: 'Total Flows by Donor and Aid Type'.

13 Defined as: bilateral official creditors hold more than 50 per cent of the total outstanding external public debt of the debtor country.

14 Defined as: bilateral official creditors hold at least 20 per cent of the total outstanding external public debt of the debtor country.

15 For example, in the negotiations of the Paris Club it is usual for the most important public creditor to appoint a co-chair to the creditor committee.

16 Political responsibility is determined based on the nominal value of the outstanding claims. This is why differences in the interest rate level and the maturity of the claims are not taken into account. In order to take these factors into account, it would actually be desirable to take the present value of the claims as a basis instead of the nominal value. However, the World Bank International Debt Statistics do not show the present value broken down by creditor.

17 Due to problems of transparency it is not possible for us to determine the individual private commercial creditors. So, to attribute political responsibility we will use the classification of the World Bank as orientation. In the International Debt Statistics, the World Bank attributes responsibility for claims of private banks and other private creditors to individual creditor countries.

18 With an international debt register such as what erlassjahr.de and its partners worldwide have been calling for over many years *(see 'From the Common Framework to a sovereign insolvency process?', p. 48)*, and which the G7 countries could set up, it would be possible to systematically ascertain the holders of outstanding bond claims. The location of the bondholders could then be taken into account in the determining of political responsibility. At the present time, this is not possible due to a lack of transparency. Empirical studies show, however, that about 90% of the identifiable bondholders are based in member states of the G7 and the EU. The criterion of location would thus not make a significant difference in determining political responsibility, since the responsibility for bond claims is attributed to this group of countries also according to the principle of where the bonds were issued. On the identification of the bondholders, see Munevar, D. (2021): 'Sleep now in the fire. Sovereign Bonds and the Covid-19 Debt Crisis'. On the call for an international debt register, see Jones, T. (2019): 'Licht ins Dunkel bringen!' In: erlassjahr.de/Misereor (ed.): Global Sovereign Debt Monitor 2019.

19 See IMF (2020): 'The International Architecture for resolving sovereign debt involving private-sector creditors – recent developments, challenges, and reform options', p. 22. Since the lack of transparency makes it impossible to determine in individual cases which country's laws governed the issuing of individual bonds, the responsibility for outstanding bond claims will be attributed in full to the G7 states.

20 Details of creditors are available for 33 of the 40 very critically indebted countries. The following countries are not considered in this calculation: Antigua and Barbuda, Bahrain, Oman, the Seychelles, Venezuela, Suriname and Panama.

Dare to take more responsibility

The role of the IMF in delaying debt crisis resolution

By Kristina Rehbein

Just under 50 per cent of the very critically indebted countries qualify for the Common Framework, the G20's debt restructuring framework. The declared goal of this framework is to overcome debt problems early and preventively. Negotiating about debt relief before a country has to suspend payments can mean the difference between economic demise and swift economic recovery.[1] Yet the fear of how their creditors might react frequently leads countries to waive the option of early restructurings, preferring to accept the risk of social and political destabilisation in the event of a debt crisis.[2]

Should a crisis arise and a restructuring process be necessary, sovereign debt is the only category of debt for which this process is not regulated by any kind of legal framework. In the Global South, the International Monetary Fund (IMF) instead plays a central role in the recognition and resolution of debt crises. The decision to implement restructuring negotiations depends on a reliable debt sustainability analysis by the IMF, which identifies risks and unsustainable debt.

The IMF analysis also plays an important role in debt restructuring negotiations, in determining the debt relief envelope and in the formulation of adjustment measures. However, debtor countries often hesitate to enter into debt restructuring negotiations. In the following we will discuss the extent to which the IMF bears a responsibility for this.

Only very rarely does the IMF recommend debt relief

IMF Director Kristalina Georgieva is one of the loudest voices calling publicly for swift debt relief for critically indebted countries. In practice, however, the IMF staff reacts with extreme reservation, rather than encouraging these countries to restructure. Between November 2020 and up to and including September 2022, erlassjahr.de examined a total of 179 debt sustainability analyses of 117 countries. In 86 countries, the IMF describes high debt vulnerabilities, meaning that there is a medium or high risk of debt distress, or that a situation could arise in which debt sustainability is no longer assured.[3]

As the analysis shows, in just ten of these countries does the IMF actively suggest debt relief as a possibility for dealing with the situation. Of these ten countries, only four, however, are not already in default or have begun restructuring negotiations. Only in these four cases is debt relief proposed as a preventative measure *(see Table 1)*, because in the other six cases it is clear even without a recommendation from the IMF that there is no alternative to debt restructuring.

The four countries for which the IMF suggests preventive debt relief include the low-income country of **Malawi** with a high risk of debt distress, **Angola** with a still sustainable, but risky, debt situation as well as the island nations of **Tonga** and the **Seychelles**. Debt relief measures are seen

partly as a contingency plan in the case of risks arising, or as a way of stimulating growth, or as the only way to restore debt sustainability *(see Table 1)*. Hence, it is not possible to determine a clear system as to who the IMF chooses to preventively table debt relief with.

In all other cases of countries with similar situations of debt risk, there are no recommendations or scenarios in which debt relief plays a role. Take **Mauritius**, for example: although in 2021 the level of public debt was described as still sustainable but with high risks, the predicted development of the debt situation and economic growth turned out to be over-optimistic. Thus, in 2022, a significantly higher risk of debt distress had to be documented. Yet, although the IMF expects that the debt ratio of Mauritius will 'remain at an elevated level over the medium-term'[4] and underlines that the debt ratio urgently needs to be reduced, the only options the IMF brings to the table are fiscal reforms to increase revenue and reduce spending.[5] There is no mention of debt relief as an alternative.

The question of debt restructuring becomes even more relevant when the IMF itself steps in as a creditor in times of crisis. According to its statutes, the IMF is only authorised to give loans to those countries that are highly likely to be able to service their debt. If the IMF finds this is not the case, it must make its provision of the loan dependent on the existing creditors granting debt relief so that the burden of debt is reduced. Of the 86 countries that the IMF defines as having a more or less critical level of debt, 73 countries received funding as part of a full IMF programme in the period of the analysis. Nineteen of these countries started a new programme between November 2020 and

Tab. 1: Pre-default countries for which the IMF recommends debt relief

Country and year of report	Level of income	Risk of debt distress, according to the IMF	Reasons given by the IMF for recommending debt relief
Malawi December 2021 Article IV report	Low-income country	high	'Moreover, sizable support from the international community [...] in the form of nondebt creating flows (e.g., debt relief and budget support) are vital, as the adjustment alone cannot restore debt sustainability.'
Angola December 2021 Article IV report and review of the current programme	Lower middle-income country	IMF: 'Angola's public debt remains sustainable assuming continued fiscal discipline and implementation of growth-enhancing structural reforms, although risks remain very high.'	'[...] Further debt relief may be needed if downside risks were to materialize'
Tonga August 2022 Article IV report	Upper-middle-income country	high	'Given Tonga's high risk of debt distress and sizable financing needs, Directors underscored the importance of continued financial support from the international community, including through grants and debt relief [...].'
Seychelles August 2021 report on programme request	High-income country	IMF: 'Staff assesses debt to be sustainable but with significant risks.'	'Develop a contingency plan that would lower the impact of a shortfall in external financing: Authorities could consider further fiscal consolidation and debt restructuring.'

Source: own illustration based on data from the IMF reports mentioned.

Only a few countries manage to find their way out of unsustainable debt situations by means of austerity measures of budgetary reforms. .

September 2022. Only in four countries was debt restructuring part of the programme or a condition for its approval.[6]

The IMF's own analyses show that only in the rarest of cases does it declare the situation of the debtor to not be sustainable[7] – this being the prerequisite for IMF loans to be tied compulsorily to a debt restructuring. As a rule, this happens only when the situation is clear even without an IMF assessment; for example, when countries have already suspended payments. Thus, the IMF takes an approach that whenever possible excludes debt restructuring negotiations, also those that are preventive in nature.

Austerity measures lacking alternatives ...

An IMF study conducted in 2019 confirmed that the reason debt restructurings are often not part of its programmes is that the assessment of debt sustainability is based on ambitious fiscal consolidation and an optimistic macroeconomic framework.[8] In other words, the IMF can execute its approach of avoiding restructuring whenever possible because it one-sidedly relies on adjustment measures in the debtor country. Especially in countries that have not yet suspended their payments, austerity measures are the IMF's standard option, in most cases without any alternative, to decrease the debt ratio and restore debt sustainability. In this way, the IMF can provide loans even in cases of possibly unsustainable debt, without breaching its statutes.

At the same time, however, the IMF underestimates the growth-inhibiting effect of these measures. The economic situation of the country often worsens as a result, meaning that the debt burden cannot be reduced as had been hoped. In principle it is possible for heavily indebted countries to find their way out of debt situations that are no longer sustainable without debt restructuring – for example, by means of budgetary reforms and austerity measures. Yet experience shows that only a few countries manage to do so.[9]

... and optimistic forecasts

There are also cases in which the IMF's over-optimistic projections have made possible new loan programmes that in some circumstances should never have been approved without debt relief. The projections were over-optimistic, for example, with regard to how the economy would grow in the coming years and whether other donors would make additional funds available in the programme period, as well as in relation to the possible extent of fiscal adjustments – and how all of this might impact the development of the debt ratio, among other things. **Jordan**, **Tunisia**[10] and **Argentina**[11] are good examples of 'defensive lending' on this basis.

Box 1: How optimistic forecasts lead to less debt relief

In the case of countries already in default or undergoing debt restructuring negotiations, over-optimistic projections can lead to a lower possible debt relief envelope and, in turn, to a lower creditors' share of the burden. This is currently the case in some countries. In **Zambia** (undergoing debt restructuring negotiations) and **Sri Lanka** (in default), for example, the IMF is calling for a primary surplus of 3.2% and 2.3% respectively. In both cases, this assumption differs considerably from both the actual development in rapidly growing peer countries and the IMF's own estimation in relation to the future performance of these countries.[12] Moreover, the 'realism tool'[13] in the IMF country report for Zambia reveals that the assumed fiscal consolidation that Zambia is supposed to achieve in the framework of the programme is exceptionally high by historical comparison. Yet the assumptions have not been adjusted accordingly.

Because the size of the adjustment programmes effectively determines the total amount of debt relief that the debtor nation is to receive from its creditors, these assumptions can limit the calculated envelope for the necessary concessions on the part of the creditors – with the possible result that the country in question is given no way out of the debt crisis, instead having to negotiate over and over again.

Optimistic baseline scenario as intrinsic component

In (almost) every country report, the IMF provides information as to how realistic it is to assume that the developments it deems probable will come to pass. If we evaluate the country reports of the IMF between November 2020 and September 2022, it becomes clear that the majority of the IMF reports start from an optimistic baseline scenario: in just under 90% of the country reports in question, the IMF declares that in terms of the economic prospects, the 'downside risks'[14] predominate.[15] In more than 30%, these risks and uncertainties are exceptionally high.[16] In other words, the IMF expects more negative developments but at the same time does not integrate these into the projection that it regards as probable and on the basis of which policy-makers make decisions contracting further loans or entering into debt restructuring negotiations.

'Illustrative' scenarios – realistic but nonbinding

Instead, in a few of the debt sustainability analyses, an 'illustrative adverse scenario' is visualised in detail and maps the potential impacts of some risks. In the case of **Albania**, for example, the IMF made it clear in 2020 how assumptions change when, in the battle against COVID-19, the successes anticipated in the baseline scenario fail to materialise as quickly as expected. In the same baseline scenario, the IMF assumed it was highly likely that some of the parameters underlying the alternative scenario would come into effect.[17] Yet the scenario is explicitly 'illustrative' and thus nonbinding.

Over-optimism is historical and systemic

The observations made in such individual cases are threaded systematically through the practice of the IMF. A large number of studies conducted in the past 20 years, whether carried out by independent sources or the IMF and the World Bank themselves, reveal a historical and consistent tendency in the IMF to make optimistic macroeconomic projections,[18] particularly in predictions of mid-term economic performance and in relation to poorer countries.[19] The most recent study of this kind is from 2022. The World Bank examined the practice of projections for countries in the region of Northern Africa and the Middle East and found that these were 'inaccurate and overly optimistic'[20].

What the IMF can do:

Building safety buffers into projections

Since the information provided by the IMF underpins decision-making by debtors on debt-related economic and policy matters, it is problematic when predictions are systematically over-optimistic. At the same time, no one can see into the future; predictions can be little more than an informed guessing game. Hence, it would be a plausible option to build a safety buffer into every baseline scenario when making forecasts, especially for heavily indebted countries. Often, these countries have little fiscal scope, and small shocks are enough for them to reach the tipping point into a debt crisis. This applies concretely to countries in which the IMF declares there to be at least a 'moderate risk of debt distress with limited space to absorb shocks' or in which it believes 'debt is sustainable but not with high probability'.

The safety buffer could mean that the IMF builds the downside risks that it cites in its analyses as highly likely into the baseline scenario that it sees as probable – and accordingly shapes its projections on economic growth or margins for fiscal adjustment measures. At the present time, in fact, this is not totally unreasonable because in many countries in 2022, the possible downside risks have come to pass – as the IMF itself observes.[21] For the decision as to whether an IMF programme is to be bound to a restructuring, or whether, in countries without programmes, debt relief should be suggested as an option, the probable trajectory of debt in one of the stress scenarios or alternative scenarios[22] could be used as a basis, rather than the baseline scenario.

Building safety buffers into the volume of debt relief

A safety buffer is called for especially when the projections in the baseline scenario form the most important political basis for decision-making as to whether, and in what volume, a country needs debt relief. This applies to countries that are already undergoing debt restructuring negotiations. At the core of all debt relief negotiations is the question of

how to calculate the necessary debt relief envelope as accurately as possible. Like growth predictions, the calculation of the need for debt relief is, to a certain degree, speculation. Creditors have a genuine interest in ensuring that only as much debt is restructured as is needed to enable the country to resume its repayments. However, this resistance to granting sufficient levels of debt relief has, in the past, led to a problem of 'too little',[23] leaving the countries with no way out of the crisis.

Because predictions about the long-term ability to repay debt are as speculative as the question of longer-term economic growth or other factors, it is tempting for creditors to succumb to optimistic projections that lower the levels of debt relief that seem necessary. History reveals how over-optimistic projections regularly prolong debt crises – at high cost to all involved. Given current expectations that the global economic scenario will remain negative for some time[24] and that there will be widespread debt crises in countries of the Global South,[25] the granting of less than the sufficient debt relief poses a significantly greater risk to global financial stability than if it turns out, looking back, that too much debt was cancelled.[26]

To avoid a 'too little' scenario, the debt relief envelope should be calculated to include a safety buffer, for instance by taking predictions made under extreme stress scenarios as the basis for determining the need for relief. A different, or additional, possibility would be to take into account varying economic developments already in the restructuring agreement. Thus, it could be agreed that an additional amount would be automatically cancelled when one of the downside risks described in the IMF analysis materialised.[27]

It is tempting for creditors to succumb to optimistic projections.

Making debt sustainability analyses independent and public

So that creditors and debtors potentially agree on realistic forecasts, independent institutions and/or experts – also those independent of the loans and influence of the shareholders – can be consulted in the development of baseline and stress scenarios. After all, the IMF does not hold a legally enshrined monopoly on the development of debt sustainability analyses. At the point at which a country decides to restructure its debt, for instance, the viewpoint of the IMF is irrelevant.[28] It is only when that country applies for a loan programme that the IMF's debt sustainability analysis becomes relevant because the IMF's yes or no to the granting of the loan depends on it. Hence, there is no legal reason why the IMF's debt sustainability analysis could not be supplemented or even replaced by one undertaken by other actors or the debtor country's own analysis.

But here's the catch: in all debt relief initiatives borne by official creditors, be they the HIPC Initiative in the early 2000s or, currently, the G20 Common Framework, and in the negotiations in the Paris Club, the official creditors make an

Box 2: The need for a safety buffer in debt relief, using the example of Zambia

The need for such a safety buffer can be illustrated, for example, in **Zambia**, which is currently in the middle of debt restructuring negotiations in the context of the Common Framework: the IMF admits in the central country document that the downside risks are significantly greater, such as in relation to the assumed copper price, the development of the COVID-19 pandemic and the war in Ukraine, but also because the fiscal adjustment programme used by the IMF as a basis is exceptionally ambitious *(see also Box 1)*. The IMF calculates a debt restructuring scenario in which by 2027 the debt relief will see debt reach a level that is equal to a moderate risk of debt distress with 'substantial space to absorb shocks'.

Even if this points in the right direction, it can be assumed that the downside risks cited (and with them the 'shocks'), which the IMF sees as applying to the programme, will also materialise within the time frame of the programme, which means before 2027. To counter the downside risks, the 'safety buffer' would need to be 'raised' in such a way that the desired debt level would be reached earlier than 2027 – such as through higher debt relief or direct debt cancellation.

photo: picture alliance

Zambia, January 2023: empty stalls at the fruit and vegetable market in Ndola.

IMF programme the condition for their own debt restructuring. This creates a quasi-legal monopoly of the IMF on which the official creditors, who are at the same time the most important shareholders of the financial organisation, de facto insist.

Apart from the fact that the practice of making access to debt restructuring measures dependent on an IMF loan and adjustment programme is fundamentally questionable,[29] the debt sustainability analysis, and the assumptions underlying the calculated need for relief, should be a public good. This means it should be made publicly accessible so that independent experts, just like other actors – above all, actors from the country in question – are able to test the assumptions and introduce their own well-founded suggestions.

Debtor countries with only limited capacity should also be supported in examining these predictions: for example, by means of an informal pool of proven experts (say, under the umbrella of UN institutions) who are available to serve as evaluators or consultants. The World Bank, itself part of the claimed monopoly in debt sustainability analyses in low-income countries, suggests the development of independent predictions to avoid the vicious cycle of insufficient debt relief and over-optimistic predictions.[30]

Making debt restructuring 'more accepted'

The fundamental problem is that for countries that have not already defaulted, there are no scenarios in the country documents that differ from the standard recommendation of fiscal consolidation – and with it, internal adjustment at the expense of the country's population – as an appropriate strategy for stabilising the debt ratio. There are no other scenarios that integrate measures such as partial debt relief and take into account the impact on economic recovery and the improvement of debt indicators.

This is tragic, because the IMF does not simply provide loans or make nonbinding suggestions: it sets the parameters for acceptable macroeconomic policies.

If there were such alternative scenarios, the need for debt restructuring could be recognised at a much earlier stage. In the same way, countries could consider debt restructuring as a reasonable option early, or earlier, instead of only when there is no other way out. Moreover, this could well lead to more realistic projections, since the incentive to drive the figures upward in the case of heavy indebtedness (when restructuring is not part of the programme) through the demand for more austerity measures would be reduced.

In a conversation with the author of this article, one debt expert said it was difficult to integrate such scenarios because it was impossible to simulate debt relief without prejudicing a particular outcome. However, this applies equally to scenarios in which adjustments on the part of the debtor country are calculated – which is standard practice in IMF debt sustainability analyses. Hence, it is incomprehensible why, in the calculation of possible ways to share the burden, projections on options for restoring debt sustainability should not also contain adjustments on the part of the creditors. All the more so, as the IMF already envisages the option of a kind of debt moratorium[31] as part of its lending policy in certain cases.

Concluding remarks

In response to the question of why the IMF does not more frequently and proactively recommend debt restructuring in individual cases, IMF staff members say that the IMF must not encourage countries to default. Experts are not of one mind as to whether the IMF is legally prevented from doing so – hence, this seems to be a grey area.[32] The IMF takes the view that both defaults and the request for debt relief are a country's sovereign decision, and that the IMF is, therefore, not permitted to decide whether the claims are valid – what it would do if it was to recommend debt restructuring. In reality, however, the IMF provides a clear incentive, as it must bind its provision of loan programmes to debt restructuring measures as soon as the debt is no longer sustainable – which it is not legally prohibited to do.

Above all, however, there is a significant difference between the potentially confrontational step of defaulting and making debt relief measures visible as one option in dealing with the risks of crises, together with – or as an alternative to – other adjustment measures recommended by the IMF. The latter should in particular be considered when other measures fail to sufficiently reduce the debt burden.

Instead of allowing itself to be instrumentalised for individual interests, the IMF should understand its role to be the trustee of global regulatory interests.

From the perspective of erlassjahr.de, the IMF bears much responsibility in this regard, for it sets the parameters according to which the governments consider their political and economic options. Moreover, while the IMF purports to be neutral in terms of adjustments on the part of the creditors, it is not at all neutral when it comes to the sharing of burdens and adjustments by the debtors. Quite apart from whether a country applies for a loan or an analysis is done as part of a routine monitoring of the debt situation, fiscal adjustment measures are always the standard recommendation – and in these, the IMF does not mince words.[33]

While the IMF indicates that its mandate would not include deciding in principle on the need for debt restructuring, it is definitely part of its mandate to ensure global financial stability. The IMF is directly beholden neither to creditors nor to debtors. Instead of allowing itself to be instrumentalised for individual interests, it should understand its role to be the trustee of global regulatory interests. In this way, the IMF would be responsibly playing its role of advocating timely and sufficiently deep debt restructuring.

[1] See Georgieva, K. et al. (01/10/2020): 'Reform of the International Debt Architecture is urgently needed'.

[2] This is how Pakistan's Minister of Finance, in October 2022, made clear that his heavily indebted country, which had experienced a grave flooding disaster earlier, would neither suspend its payments nor request debt relief of its private creditors; see Rappler (22/09/2022): 'Pakistan will not seek Paris Club debt restructuring, says minister' and Reuters (15/10/2022): 'Pakistan seeks rescheduling of $27 Billion in bilateral debt'. Nigeria, too, was initially quoted as having to consider restructuring its debt, but the Nigerian government quickly retracted this due to the reaction of international investors, providing assurance that Nigeria would meet all its obligations; see Bloomberg (12/10/2022): 'Nigeria Exploring Debt Restructuring, Finance Minister Says' and CNBC Africa (14/10/2022): 'Nigeria says it is not restructuring its debt, can meet obligations'.

[3] All of the IMF reports can be found at www.imf.org. The detailed evaluation is available at erlassjahr.de. The IMF evaluates the sustainability of debt differently depending on each country's level of income. In low-income countries, the IMF classifies the risk of debt distress mechanically in the categories of low, moderate, high and in debt distress. This makes it very easy to identify where the IMF suspects a possible debt problem. It is different for countries that have access to the capital market (predominantly middle-income countries): in these cases, the IMF does not use mechanistic and uniform categories. Hence, the number of countries mentioned in this article whose debt sustainability the IMF considers to be at risk is also based on our own evaluation of the risk assessments as described in the respective IMF country information. To illustrate this: On the debt sustainability of the Seychelles, the IMF writes: 'Staff assesses debt to be sustainable but with significant risks', and in relation to Peru: 'Peru has some fiscal space, and the public debt sustainability analysis shows that Peru's public debt is expected to remain sustainable'. In this article, we classify the case of the Seychelles as 'endangered debt sustainability' and that of Peru as 'sustainable debt situation'. Thus, Peru is not classified as one of the 86 countries with high debt vulnerabilities, unlike the Seychelles.

[4] See IMF (2022): Mauritius: 'Staff Report for the 2022 Article IV Consultation – Press Release and Staff Report'. IMF Country Report No. 22/223, p. 32.

[5] Ibid. pp. 29 ff.

[6] In July 2020, the British Jubilee Debt Campaign published a study in which they show that due to the IMF's reticent behaviour, in countries with a high risk of debt distress, IMF funding is used for bailing out private creditors rather than for overcoming crises; see Jubilee Debt Campaign (2020): 'IMF loans bailing out private lenders during the Covid-19 crisis'.

[7] See IMF (2021): 'Review of the debt sustainability framework for market access countries'. IMF Policy Paper, p. 65.

[8] See IMF (2019): '2018 Review of Program Design and Conditionality'.

[9] See IMF (2018): 'Macroeconomic developments and prospects in low-income developing countries – 2018', p. 48.

[10] See Rehbein, K. (2022): 'A decade of rosy forecasts: how the IMF underestimated debt risks in the MENA region'. Friedrich-Ebert Stiftung, Study Economy and Finance.

[11] See Kaiser, J. (2022): 'Wer zahlt für die Fehler des IWF? – Anmerkungen zum Evaluierungsbericht des jüngsten IWF-Programms mit Argentinien'.

[12] See Doyle, P. (2022): 'On the IMF's Programs – Zambia and Sri Lanka Editions'.

[13] In 2013, the method used by the IMF for its debt sustainability analyses was revised, and 'realism tools' were introduced. As of 2014, IMF staff had to subject the assumptions underlying debt sustainability analyses to a 'reality test'. This meant they had to examine more closely the probability of their predictions on the basis of historical error rates and compared to forecast errors in other countries.

[14] The term 'downside risk' describes potential negative risks to the development of the economy or the debt situation of the respective country. Downside risks can be either external – such as a natural disaster – or internal.

[15] In 7 of the 189 country reports investigated, there is no adequate risk analysis, or it cannot be appropriately attributed. In 12 of the remaining 182 country reports, the IMF declares that the risks and opportunities balance each other out; in one report it says that the upside risks predominate.

[16] There are 62 country reports. The research was based on terminology relating to risks such as 'exceptionally high', 'significantly higher', 'unusually uncertain' and so on. For example: 'risks around the baseline remain exceptionally high and firmly tilted to the downside' (Moldova, September 2022).

[17] See IMF (2020): 'Albania – First Post-Program Monitoring, IMF Country Report No. 20/309', pp. 39 ff. (Annex III. and Annex IV.), p. 37 Annex II. Risk Assessment Matrix.

[18] Selection, including: Aldenhoff, F.-O. (2007): 'Are economic forecasts of the International Monetary Fund politically biased? A public choice analysis', in: Review of International Organizations, 2(3), pp. 239–260; Baker, D. / Rosnick, D. (2003): 'Too Sunny in Latin America? The IMF's overly optimistic growth projections and their consequences'; IMF (2011): 'Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis'; Mooney, H. / de Soyres, C. (2017): 'Debt Sustainability Analyses for Low-Income. WP/17/220'; IMF (2019): '2018 Review of Program Design and Conditionality'.

[19] See Independent Evaluation Office of the International Monetary Fund (2014): 'IMF Forecasts: Process, Quality, and Country Perspectives - Evaluation report'.

[20] See Gatti, R. et al. (2022): 'Reality Check: Forecasting Growth in the Middle East and North Africa in Times of Uncertainty', in: MENA Economic Update. Washington: World Bank.

[21] See IWF (2022): 'Macroeconomic Developments and Prospects in Low-Income Countries – 2022', IMF Policy Paper, p. 10.

[22] Stress scenarios simulate the impacts of diverse shocks and negative developments on the debt situation and economic outlook. The term 'Alternative scenarios' refers, for example, to the illustrative downward scenarios contained in some country reports.

[23] In 2013, the IMF described the problem of 'too little, too late' in global debt management. It means that on a regular basis, insufficient debt relief is granted, and it comes too late to restore debt sustainability and access to markets. See IMF (2013): 'Sovereign Debt Restructurings – recent developments and implications for the Fund's legal and policy framework'.

[24] See IMF (2022): 'World Economic Outlook October 2022 – Countering the Cost-of-Living Crisis', p. 16.

[25] Ibid. p. 18.

[26] See Buchheit, L. C. / Gulati, M. (2020): 'Avoiding a Lost Decade - Sovereign Debt Workouts in the Post-COVID Era. Capital Markets Law Journal'.

[27] This corresponds to the logic of GDP-indexed loans, for example, in which the conditions of repayment change depending on economic developments. This instrument already exists, so the basic logic has already been introduced to the market.

[28] Of course, the IMF has a kind of de facto monopoly over the data that almost no other institution could meet. Yet, this does not mean that other institutions – especially those in the country itself – would not be capable of constructing projections regarding the economy and debt.

[29] Greater elaboration would be needed here, but this is beyond the scope of this article. It is worth mentioning, however, that at the 13th UNCTAD Debt Management Conference in Geneva, held 5–7 December 2022, a representative of Nigeria asked whether this criterion of access should not be re-examined, one reason being that there are countries that introduce reform without an IMF programme; see audio recordings of the conference, (6th audio recordings of the conference (6 December 2022), recording beginning 12:00, recording 'Nigeria'. The Vulnerable Twenty (V20), a group of around 50 countries, has suggested, for instance, that there should be a debt relief initiative for climate-vulnerable countries on the basis of country-based climate prosperity recovery plans.

[30] See World Bank (2022): 'World Development Report 2022', section on 'Managing Sovereign Debt', p. 221.

[31] i.e. as part of its policy for countries that apply for IMF loans above the limit normally conceded to them, and in which the debt is deemed sustainable, although not with high probability. It is about the option of temporarily extending payment periods for loans falling due within the duration of the programme, without in principle reducing the amount of debt service or debt level; see IMF (29/01/2016): 'IMF Survey: IMF Reforms Policy for Exceptional Access Lending'.

[32] A legal scholar told erlassjahr.de that limitations could arise out of Article I(v) of the IMF's Articles of Agreement, which could be interpreted to mean that a debtor country must not be in payment default because then there would be no guarantee that a country would abide by its obligation to repay the debt to the IMF. A further interpretation could be derived from Article VIII 2 (a), which deals with the avoidance and limitations of transactions. However, there is scepticism as to whether the IMF is legally prohibited from playing this role. While payment defaults and delays can cause a problem, restructuring does not automatically cause a default or delay.

[33] See, for example Ortiz, I. / Cummings, M. (2022): 'END AUSTERITY - A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25' and Rehbein, K. / Stutz, M. (2022): 'The role of the IMF in the global debt crisis', D+C.

Ukraine: Fight now – pay later

An analysis of the debt level and options for debt relief

By Jürgen Kaiser

At the invitation of the German Chancellor, Olaf Scholz, and the President of the European Commission, Ursula von der Leyen, more than 300 people met on 25 October 2022 to discuss the reconstruction of Ukraine once the Russian aggression has ended. Politicians, academics, representatives of large companies with interests in Ukraine, think tanks and NGOs such as erlassjahr.de were among the guests.

As a result of the massive destruction caused by the war, Ukraine has enormous external financing needs. At the International Expert Conference in Berlin held in October 2022, amounts of up to USD 5 billion per month were mentioned. However, the question of how Ukraine will ever be able to repay loans of this magnitude did not come up. Off the record, however, an advisor to Ukrainian President Zelensky put it this way: 'We are fully preoccupied with incurring debts. For now, we aren't able to think about how to repay.' Even Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), who is actually obliged by the IMF's statutes to pursue a cautious lending policy, said that currently only 'Plan A' could be implemented, which is to support Ukraine in the face of Russia's aggression as far and as long as necessary.

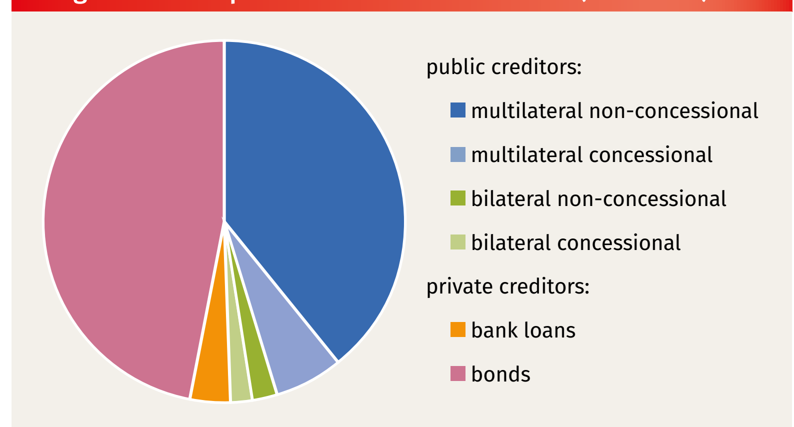
What could a Plan B entail, which, as Georgieva tacitly indicated, is also being worked out in Washington? What measures can make a war-torn and overindebted country in Europe fiscally viable again? To answer these questions, we must first look at Ukraine's current debt level, including how it is made up, who the creditors are and how it came about.

Debt situation before and at the outbreak of war

Even before the Russian invasion, Ukraine was a critically indebted country,[1] one which could easily slip into debt distress in response to an external shock. In 2020, the Ukrainian economy had more external payment obligations than the equivalent of its annual gross domestic product (GDP) and these obligations consistently exceeded international limits used to assess the debt sustainability. This is also due to the fact that, despite Russia's military aggression in the Donbass and Crimea, the initial development of Ukraine's economy had been surprisingly positive since the near-bankruptcy of the state in 2015 – albeit on credit.

Two creditor groups played the chief role in the phase between the annexation of Crimea and the beginning of the all-out war: more than half of all external public debt was accounted for by

Fig. 1: Creditor profile of the Ukrainian state (as at 2021)



Source: own illustration based on data from the World Bank International Debt Statistics (2022).

subscribers to Ukrainian government bonds, which were well received on the international capital markets despite the latent war, but also carried high interest rates of 6% to 10%. In second place were multilateral lenders, most prominently the World Bank and European development banks.

Against the backdrop of Russia's increasing aggression through the deployment of troops at the Ukrainian border, three trends could be observed, especially in the months leading up to the start of the war, and these trends continued to influence the time period after the start of the war *(see Table 1)*:

1. the general increase in Ukrainian external public debt by 37% within one year to enable the country to cope with its economic deterioration due to the war;
2. the gradual withdrawal of bondholders;[2]
3. the significant increase in multilateral financing. The largest financial support in this situation came from the IMF with around USD 1.3 billion under the Rapid Financing Instrument.

Support during the war through extensive lending

With Russia's invasion of Ukraine on 24 February 2022, Ukraine fell into default. Since then, the protracted war has hit the Ukrainian economy hard. The loss of lives, the destruction of vital infrastructure and the loss of livelihoods have traumatised a large part of the population and add up to a situation that is completely unsustainable in social, economic and fiscal terms.

The fact that Ukraine is still able to defend itself after more than one year of war is due in large part to international support. Ukraine is receiving extensive financial and material support from many parts of the world. A substantial proportion of this support comes in the form of donations of material, money or services. This type of support has no impact on Ukraine's debt situation. However, a significant part of the support comes from multilateral sources and reaches the country in the form of loans, most of them on concessional terms. On the one hand, these loans expand the scope of the Ukrainian government for maintaining public life in Ukraine and for military self-defence. On the other hand, they carry the risk of making post-war Ukraine insolvent.

According to research by the Ukraine Support Tracker of the Kiel Institute for the World Economy and our own research, commitments for loans, guarantees and currency swaps from bilateral and multilateral sources amounting to USD 41.7 billion can be identified from the beginning of the war until the end of January 2023.[3] The majority of the funds come from European sources, namely the EU, as well as from individual EU members. In addition, so far USD 2.7 billion has come from the IMF, and another USD 1 billion from the International Bank for Reconstruction and Development (IBRD). Further funding comes from the European Bank for Reconstruction and Development. Bilateral lenders are Japan, Poland, Canada, France, the United Kingdom, the United States and Germany. With its pledge of EUR 30.2 billion in November 2022 from EU budget funds for the 2023 fiscal year, the EU has replaced the US as Ukraine's biggest supporter for the first time since the war began.[4]

Tab. 1: Development of Ukraine's foreign debt (in USD million)

	As at 31 December 2020 according to the World Bank	As at 28 February 2022 according to the Ukrainian Ministry of Finance
Total external public debt	41,519	56,860
-- bonds	25,553	24,450
-- private banks	1,996	2,870
-- multilateral creditors	12,429	28,040
-- bilateral official creditors	1,541	1,500

Source: own illustration based on data from the World Bank International Debt Statistics (2022) and the Ukrainian Ministry of Finance.

It is noteworthy that, even after the start of hostilities, the IMF's disbursements from the USD 2.2 billion programme already underway before the war continued, although an external shock of such magnitude would actually have required a review of the programme. If it can no longer be assumed with a high degree of probability that the debt situation of the recipient of the loan is sustainable, the IMF would actually have to halt the disbursements.

If these new loan commitments up to January 2023 are added to the USD 56 billion reported by the Ukrainian Ministry of Finance *(as at the end of February 2022, see Table 1)*, the Ukrainian external public debt amounts to at least USD 97 billion.

Measured against GDP, which is provisionally calculated by the World Bank to have contracted by 30.4% in 2022 compared to 2021, the external public debt thus amounts to about 80%. The ratio of debt to annual export earnings is likely to have developed even more dramatically due to the temporary blockade of Ukrainian wheat exports. This indicator, which is even more important for solvency to foreign creditors, reflects access to hard currency from exports of goods and services and was already 60 percentage points above the critical level of 150% at the end of 2020.

Relief requirements and debt relief to date

With the war ongoing and no end of the resulting destruction in sight, it is extremely difficult to calculate relief requirements.[5] Based on the current debt profile and the fact that the aggressor can hardly be expected to pay reparations after the end of the war,[6] two predictions can currently be made regardless of the exact end and outcome of the war:

- Ukraine will not return to a 'normal' debtor-creditor relationship with its external lenders after the war. It is impossible for Ukraine to resume servicing its debts in the medium term and honour obligations from the pre-war period, as well as the new loans granted during the war.
- The international community's existing instruments for debt restructuring are not sufficient for the required debt settlement with Ukraine. The Evian Approach of the Paris Club[7] could theoretically allow for a far-reaching cancellation of the debts to other governments. However, as we have seen above, these are relatively small. And an attempt to obtain comparable debt relief from private creditors – as regularly demanded by the Paris Club – could lead to years of legal disputes with recalcitrant private creditors. Most importantly, an agreement in the Paris Club would have no impact on Ukraine's debt to multilateral donors, which has risen sharply.[8]

Against this background, Western creditors faced the dilemma in summer 2022 of neither wanting to hand Ukraine over to the aggressor by ceasing their support, nor being able to count on significant repayments from Ukraine at present. They consequently issued three moratoria, initially limited until the end of 2023, but extendable beyond that date.

- Firstly, in July 2022, Paris Club creditors granted Ukraine a debt moratorium until the end of 2023, which can be extended until the end of 2024.[9]
- Shortly thereafter, the most significant holders of Ukrainian government bonds granted a similar moratorium. This includes heavyweights such as Black Rock, Fidelity, Amia Capital and Gemmsstock.[10] The preliminary savings amount to around USD 6 billion by 2024.
- Finally, the IMF also suspended current Ukrainian payments of around USD 635 million in September 2022.[11]

These provisional relief measures are reasonable and, above all, fiscally effective measures that have an impact within a short period of time. However, they also clearly underline the need to focus on a permanent solution. Innovation in the

field of global debt management, as has often been sought internationally – for example with the IMF's proposal of a Sovereign Debt Restructuring Mechanism in 2001[12] or the G77's proposal at the 2014/15 UN General Assembly[13] – and as sought by the German Federal Government with the obligation to create a sovereign insolvency process in its coalition agreement, is therefore essential in the case of Ukraine. Ironically, the disaster that has befallen Ukraine could thus spur reforms of the inadequate global debt architecture – reforms that have long been blocked by powerful creditor countries that support Ukraine today.

How much debt relief does Ukraine need?

Given the debt relief already granted, the debt sustainability analysis published by the IMF in October 2022, which was only slightly modified in December 2022, is particularly noteworthy. In this analysis, the IMF predicts that Ukrainian debt will increase significantly until the end of 2022, but will stagnate at a high level thereafter *(see Figure 2)*.[14]

The answer to how this positive picture comes about can also be found in the IMF's analysis: the IMF assumes that real economic growth will oscillate between 3% and 3.5% annually from 2023 onwards.[15] This assumption is highly unrealistic, for either the war will continue, which is likely to lead to a slow further erosion of economic performance, or the war will end in a way that allows for the reconstruction of Ukraine. Experience shows that in this event a considerable part of the previous year's slump can be made up for in the first year, after which the economy will return to a more constant growth.

The disaster that has befallen Ukraine could spur global reforms of the inadequate debt architecture.

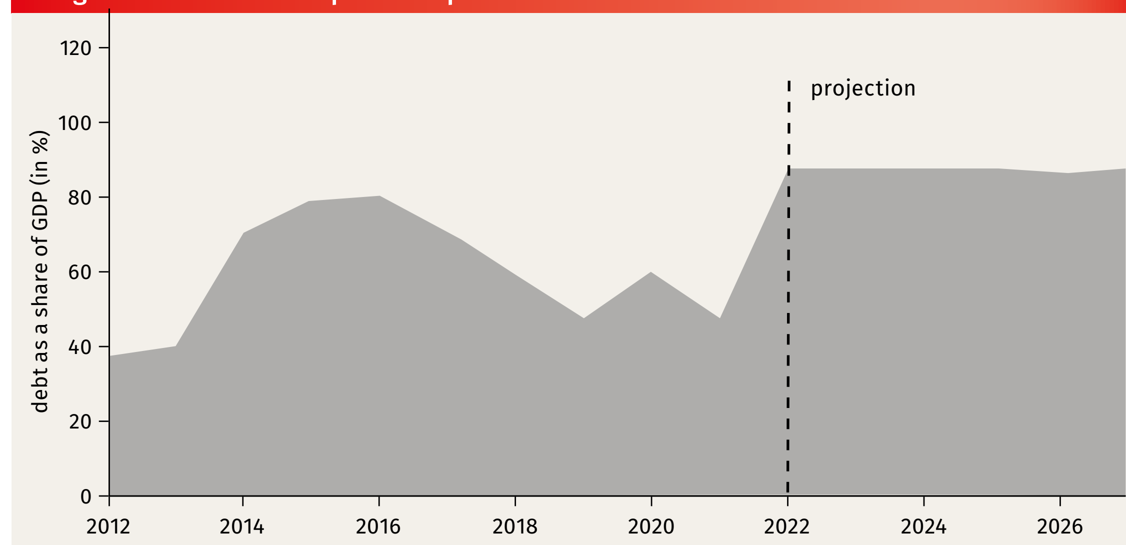
The IMF prediction therefore has less to do with the reality of a post-war Ukraine than with the lending conditions of the IMF. According to its statutes, the latter may only provide loans if repayment is at least 'highly likely'. In other words, the IMF has been pressured by its influential Western donors into standing by Ukraine and is now 'calculating' repayment prospects in a way that is possible under its statutes.[16]

Options for effective debt relief after the end of the war

A menu of options for linking the overcoming of Ukraine's unsustainable debt with the financing of reconstruction could revive some tried and tested instruments:

- For all bilateral and multilateral claims vis-à-vis post-war Ukraine, a coherent and comprehensive debt restructuring including all claims must be negotiated. An independent debt sustainability analysis

Fig. 2: Ukraine – Development of public debt over time



Source: adapted representation based on a graph from the IMF (2022): 'Ukraine: Request for Purchase under the Rapid Financing Instrument'; Country Report 22/323.

would be important in order to rule out renewed politicisation. For such a settlement, the negotiating format of a 'debt conference', modelled on the 1952-1953 London Conference, is conceivable, in which the (West) German pre- and post-war debts were reduced to a sustainable level in a coherent procedure.[17]

- All attempts to enforce private non-rescheduled claims against Ukraine should be legally blocked in the courts of the most important financial centres (New York and London) for several years – along the lines of the 'immunisation' of Iraqi oil revenues after the second Gulf War.[18]

- Private creditors should be given the opportunity to convert their claims into investments in reconstruction in Ukraine (known as debt-to-equity swaps) at high discounts of at least 90%.

- The war in Ukraine should serve as an opportunity for the IMF to rethink its surcharges policy. Surcharges burden countries that use IMF resources for longer periods than planned or in excess of the country's quota. In the case of Ukraine, this amounts to USD 423 million between 2021 and 2023 alone.[19]

However, it cannot be predicted whether a post-war Ukraine can expect a far-reaching settlement of its external debt. Experience from many previous sovereign debt crises shows that the Ukrainian state, whose supporters are presently providing generous support, will return to being a 'normal' debtor again after the end of the geopolitical confrontation, from whom repayments are expected, which the IMF, the EU and others are also reluctant to forego.

The IMF has already hinted at the fact that over-indebtedness could be managed not only by generous debt relief, but by classic austerity policies plus the continued flow of new loans in the subtle fine print[20] of the last two debt sustainability analyses. The IMF distinguishes between 'unsustainability' of debt and possible 'debt stress'. The former would require extraordinary measures such as debt restructuring, while the latter could also be managed with the very traditional measures mentioned. In the IMF reports, the way these two terms are used is suspiciously incoherent, as if the exact meaning of the individual words should not become clear.

photo: picture alliance

Bucha, April 2022: The city in the north-west of Kiev became a symbol of the atrocities of war.

Experience from many previous sovereign debt crises shows that the Ukrainian state will return to being a debtor after the end of the war, from which repayments are expected, which the IMF, the EU and others are also reluctant to forego.

1 In the article *'The global debt situation', p. 8 in this Global Sovereign Debt Monitor*, the most important indicators of Ukrainian debt are presented using World Bank and IMF data as at 31/12/2021.

2 Ukraine would have had to offer a coupon of over 40% on newly placed government bonds in summer 2022, practically eliminating financing via the Western capital market as an option. See Debt Justice UK (2022): 'Rising Interest rates and Falling Currencies in lower income countries'.

3 Antezza, A. et al. (2022): 'The Ukraine Support Tracker: Which countries help Ukraine and how?' Kiel Working Paper, No. 2218. In its latest debt sustainability analysis of December 2022, the IMF assumes a much lower sum of USD 18.65 billion. However, the sum is not broken down in detail and is therefore not considered here. See IMF (2022): 'Ukraine: Program Monitoring with Board Involvement'; CR 22/387; p. 25.

4 An important difference here is that US financial support is provided entirely as a non-repayable grant, whereas the EU only provides loan funds.

5 According to the IMF, the estimate of direct damage to civilian infrastructure, including productive facilities and residential construction, amounted to USD 127 billion as at December 2022 (see IMF 22/387, p. 5). If one adds the losses caused by the war as a result of interrupted economic activity, the sum corresponds to more than USD 500 billion.

6 Discussions include the question as to whether frozen assets of Russian oligarchs can be used for reparations. However, the enforceability of this measure is legally problematic and therefore questionable. It is therefore not further considered here. For the state of play of the discussion see: Research Services of the German Bundestag (2022): 'Reparationen im Kontext des Ukrainekrieges.' WD2-3000-050/22.

7 In 2004, the Paris Club of Western creditor countries made it possible, for the first time, for middle-income countries such as Ukraine to obtain real debt relief instead of merely extending payment obligations. In addition, unlike previous regulations, the Evian terms allow for a very flexible adjustment of debt relief to the needs of the debtor country; see Club de Paris (without date): 'Evian Approach'.

8 The repayment expectations for the currently outstanding IMF loans alone are around USD 2.5 billion per year from 2023 to 2026. See IMF (2022): CR 22/387, p. 42.

9 The strangely vague term 'Paris Club creditors' reflects the fact that all major Western partners plus Japan participate in the moratorium, or that, according to the Club's practices, other bilateral official creditors are expected to participate. However, as Russia remains a member of the Paris Club, no formal consensus-based decision could be reached in Paris and the decision is also not being published on the Club's website.

10 Bloomberg (20/07/2022): 'BlackRock, Fidelity, Paris Club back Ukraine's Debt Delay Plan.'

11 What is remarkable about the suspension of payments to the IMF is that at the same time ongoing and even newly committed IMF financing is not affected by this, although the IMF is actually prohibited by its statutes from providing new financing if the debt sustainability and thus the repayment capacity of the debtor is not guaranteed with a high degree of probability.

12 The Sovereign Debt Restructuring Mechanism proposed by the IMF in 2001 would have created a globally binding sovereign insolvency process on the basis of the Articles of Agreement of the IMF, in which almost all countries in the world are members. However, the IMF had assigned itself the role of arbitrator. In 2003, the project was buried under pressure from the private sector, despite the support of the German Federal Government in place at the time and of some other states.

13 In 2014, the UN General Assembly decided, at the initiative of the G77, the group representing developing and emerging countries, to establish a multilateral legal framework for sovereign debt restructuring within one year. However, under pressure from the EU and the other industrialised countries, only non-binding debt restructuring guidelines were adopted in 2015; these have not had any discernible effect since then.

14 All following data and figures from IMF (2022): 'Ukraine: Request for Purchase under the Rapid Financing Instrument'; Country Report 22/323.

15 Ibid. Annex Table 1.2.

16 This is by no means the first time the IMF has acted in this way. In 2018, at the behest of the Trump administration, it extended the largest loan in its history to Argentina to support the re-election of conservative President Macri. The election was lost nonetheless, but the left-wing Peronist Argentine government has been wrestling with an unsustainable multilateral debt ever since.

17 See erlassjahr.de (without date): 'Londoner Schuldenabkommen'.

18 Kaiser, J. / Queck, A. (2004): Odious Debts – Odious Creditors? International Claims on Iraq. FES Dialogue on Globalization. On the role that national laws can play at this point, see: Stutz, Malina (2022): 'The potential of national legislation for the fair resolution of global debt crises.' erlassjahr.de, Focus Paper 9. For the more recent discussion on national legal regulations to secure international debt restructuring processes, see '*The power of legislation', p. 44 in this Global Sovereign Debt Monitor*.

19 There has also been a push in this direction in the US Congress, see: VOA News (20/08/2002): 'IMF Fees on War-Torn Countries Closer to Elimination'.

20 IMF (2022): CR 22/323 p. 25

The power of legislation

How national legislation can contribute to a fair solution for the global debt crisis

By Malina Stutz

Over the past 30 years the number of suits filed by private creditors against states attempting to restructure their debt has steadily risen.[1] This practice poses a serious problem to finding a fair and timely solution to debt crises. Laws restricting private creditors' options for legal action can effectively counter this problem, as demonstrated by the example of Sri Lanka.

Even before the COVID-19 pandemic, **Sri Lanka** was one of the world's most critically indebted countries.[2] By the time the pandemic erupted, if not before, financial experts considered the South Asian island nation to be a sure candidate for the next sovereign default. Initially however, Sri Lanka, like many other critically indebted countries, made every effort to avoid debt restructuring negotiations.[3] Then, in April 2022, Sri Lanka's available foreign exchange reserves amounted to less than USD 50 million, a fraction of the more than USD 4 billion that the nation would have had to pay to external creditors in 2022 alone. In view of this situation, the government in Colombo declared that it wanted to renegotiate all external obligations and would temporarily suspend all payments instead of only suspending the next payments due, which was actually a good decision.

Just a few weeks after this announcement, the Hamilton Reserve Bank Ltd. filed a case against Sri Lanka with a court in New York and demanded full and early repayment of all claims. Since early 2020, the private bank based in the Caribbean islands of St. Kitts & Nevis purchased Sri Lankan government bonds which were traded far below their real value on secondary markets. The bank has already achieved high profits through investment in two bonds which fell due in July 2021 and January 2022 and which Sri Lanka paid on time despite the country's already disastrous social situation. Before a New York court, the bank is now claiming full repayment of its shares in another bond that would have fallen due in July 2022 and that Sri Lanka did not continue to service after the suspension of payments. If the claim is granted, Hamilton will gain an estimated 40% profit – even without the default interest that the bank also claims.[4] Sri Lanka retained the Clifford Chance law firm to defend the nation in court and, as early as September 2022, requested that the case be dismissed. A decision has not yet been made (as of February 2023).

Although the USD 250 million claimed by the bank constitutes only a fraction of the nation's total external public debt amounting to about USD 37 billion, the suit threatens to upset the upcoming debt restructuring negotiations. As long as Sri Lanka's creditors cannot be sure as to the outcome of the proceedings in New York, their own willingness to engage in debt restructuring is likely to be subdued. Another problem in this context is that the relevant bond contract does not contain a next-generation collective action clause (CAC), meaning that a blocking minority of at least 25% makes binding restructuring impossible. For apparently strategic reasons, Hamilton holds USD 250.19 million of the USD 1 billion bond – amounting to exactly the percentage of the blocking minority.

The suit threatens to upset Sri Lanka's upcoming debt restructuring negotiations.

Legal actions pose challenges to debtor nations

Legal actions against debtor nations seeking a restructuring of their debts are an increasingly frequent phenomenon. While only about 5% of debt restructuring negotiations were accompanied by

legal actions by individual creditors in the 1980s, this share rose to over 50% in the mid-2010s.[5] This practice of filing suits is mainly pursued by private creditors and poses manifold challenges to a fair and efficient solution for sovereign debt crises:

- **Increasing costs of restructuring negotiations:** For many debtor nations, in particular smaller ones, the costs and human resources associated with protracted litigation already constitute a serious liability. Additional costs are incurred when the nation is excluded from the capital market for the duration of the proceedings, as countries that are a party to litigation with individual creditors are generally unable to issue new bonds.[6]

- **Unequal treatment of different creditor groups:** In earlier debt restructuring processes, bondholders were systematically given priority over public bilateral creditors. Concerns about possible legal actions have often been explicitly named as the underlying reason for prioritisation.[7]

- **Delayed start of restructuring processes:** Governments of debtor nations have repeatedly attributed their decision to delay restructuring negotiations to their concern about possible legal actions.[8] However, in the case of over-indebtedness, a prompt start of the restructuring process is beneficial to all parties involved.[9] Some debtor nations have even argued that their non-utilisation of the deferral of debt servicing offered by the G20 nations in the framework of the Debt Service Suspension Initiative (DSSI)[10] was prompted by the fear that individual private creditors would consider the temporary suspension of payments to official creditors to be a 'credit event' and thus cause the filing of legal actions to demand full and early repayment of their claims.[11]

- **Impeded completion of restructuring negotiations:** Favouring individual creditors diminishes the willingness of the other creditors to grant even necessary relief as they fear that their concessions will only serve to enable creditors taking legal action to be given priority in repayment.

- **Prevention of necessary relief:** In restructuring negotiations, threatening the debtors with legal actions is often enough to achieve a result that is very favourable to the creditors, but fails to restore debt sustainability in the long term. This was for instance the case in Ukraine in 2015.[12]

New dynamic for national legislation

Civil society actors from both the Global South and the Global North have long demanded limiting private creditors' possibilities for legal action by means of national legislation.[13] As the global debt crisis has escalated since 2020 and private creditors have repeatedly refused to participate in debt relief, the discussion about the potential of such laws has gathered new strength. In 2020 and 2021, two new bills were submitted to the New York State Senate aimed at limiting private creditors' possibilities for legal action before New York State courts.[14] In Belgium as well, there are ambitions to pass a law even more comprehensive as the one already in place. In addition, the potential of such legislation is also increasingly debated at academical level and concrete legislative proposals are being prepared.[15]

Since 2020, even the International Monetary Fund (IMF) and the World Bank, who had long been reluctant to recommend legislative measures, have repeatedly endorsed the potential effects of national legislation on efficient debt restructuring.[16] It is therefore welcome that at least some parts of the German Federal Government think the passing of a law to restrict the options of private creditors to file legal action and effect enforcement is an option worthy of serious consideration and that the Federal Ministry for Economic Cooperation and Development has commissioned a study in this context.

A promising opportunity for Germany

Although the majority of bond contracts of countries of the Global South have been concluded under UK or New York law, passing national legislation to restrict the possibilities of litigation and enforcement is also of crucial importance in Germany, as a law that limits the legal enforcement of claims without formally reducing the claims themselves could be implemented in Germany independent of the question under which law the claims have been created.

- If the situation is as described by such a law, the creditors would not be able to enforce legal titles granted elsewhere, for example through attachment of assets of the debtor nation which are situated in Germany or intended for transfer via Germany.[17]

- Passing a national anti-holdout law in Germany would facilitate progressive forces in the UK and USA to introduce corresponding legislation in their jurisdictions as well. Moreover, a German law would be an important point of reference for the German government to advocate for corresponding laws in other countries at the bilateral and international levels.

- Passing a national law makes it necessary – and thus also offers the opportunity – to define what constitutes fair restructuring negotiations and what criteria have to be met in order to consider a finalised restructuring process to be successful. It is therefore imperative for the criteria to be included in the legal text to be aligned with the principles of fair and transparent sovereign debt restructuring processes as they were, for instance, agreed upon in the relevant UN resolution.[18]

Granting enforcement protection and safeguarding fundamental rights

When it comes to the details, some parts of the legislative proposals that are currently being discussed greatly diverge.[19] However, they all aim to end legal actions pursued by certain particularly aggressive creditors – so-called vulture funds[20] – and safeguard multilateral restructuring negotiations against legal actions from any of the creditors. This step is very welcome, as most legal actions, though certainly not all, are filed by vulture funds.

The full potential of national legislation can, however, only be realised when further criteria are met *(see Box 1)*. It is particularly important for safeguarding fundamental social and economic rights of the population to be set out as an explicit goal in the legal text and for debt relief, which is essential for ensuring these rights, to be legally secured – if need be also against the interests of the majority of creditors.[21] Furthermore, it is crucial for a temporary enforcement protection to be granted to the debtor nation for the entire duration of the negotiations as long as the debtor nation is acting in good faith. This is the only way to prevent debtor nations from being forced to agree to insufficient debt relief. Such a temporary enforcement protection might also have prevented the Hamilton Reserve Bank from filing a suit against Sri Lanka in the first place.

Conclusion

Properly worded national legislation can make an important contribution to finding fair and efficient solutions for the current debt crisis. It can also act as a corrective to the unbalanced legal processes that have been pursued more and more unilaterally, which seek to enforce creditors' rights without taking sufficient account of the fundamental rights of the population of an indebted state that might be at odds with these rights. In contrast to debt architecture reforms at the international level, which have often been prevented by block formation in the past, the crucial advantage of national legislation is that no international consensus is needed, as passing such laws is first and foremost the right and responsibility of national parliaments.

Safeguarding fundamental rights of the population must be set out as an explicit goal in the legal text.

The German Federal Government, which has defined a new international debt management consensus as one of its goals in its coalition agreement, should therefore also use this opportunity and pass a German anti-holdout law in 2023, and advocate for corresponding laws in other countries such as the UK and the USA.

Box 1: Key elements of national legislation to safeguard restructuring negotiations

- **All countries**, regardless of their per capita income or other classifications, should benefit from the protective effect of the law.
- **All creditors**, regardless of their specific business activity, should be covered by the law.
- Ensuring **equal treatment of creditors** should be an essential component of the law.
- Debtor states should be granted **temporary enforcement protection** for the period of negotiations. This will prevent uncooperative creditors from recovering their claims before the end of the negotiations through filing legal action.
- National laws should be **constructed in a forward-looking manner** and thus also safeguard future restructuring.
- Ensuring **fundamental social and economic rights of the population** must be made an explicit goal of the law. Debt relief, which is essential for ensuring these rights, has to be legally secured – if need be also against the interests of the majority of creditors.

[1] For more details on this topic, see Stutz, M. (2022a): 'The potential of national legislation for the fair resolution of global debt crises. An overview and assessment of existing laws and legislative proposals.' erlassjahr.de, Focus Paper 9.

[2] Sri Lanka was already among the 12 countries whose debt situation was adjudged to be particularly critical in the Global Sovereign Debt Monitor 2020.

[3] See, for example, Rehbein, K. (2022): 'No sovereign default = no sovereign debt crisis? An examination of individual crisis cases', in: erlassjahr.de / Misereor (ed.): Global Sovereign Debt Monitor 2022, pp. 22-23.

[4] From Hamilton Reserve Bank Ltd.'s complaint it can be ascertained when the bank purchased the relevant claims on the secondary market. Assuming that the bank paid the average price for which the bonds were traded at the time, its profit amounts to approximately USD 77 million, or about 42%.

[5] Schumacher, J. / Trebesch, C. / Enderlein, H. (2018): 'Sovereign defaults in court', working paper series of the European Central Bank No. 2135.

[6] Ibid. pp. 25 ff.

[7] See, for example, Stutz, M. (2022a), p. 5.

[8] Schumacher et al. (2018), p. 25.

[9] In this context, see, for example, Trebesch, C. / Asonuma, T. (2016): 'Sovereign Debt Restructurings: Preemptive or Post-Default'; Andritzky, J. / Schumacher, J. (2019): 'Long-Term Returns in Distressed Sovereign Bond Markets. How Did Investors Fare?', IMF Working Paper No. 19/13.

[10] For an introduction to and an assessment of the DSSI, see, for example, Stutz, M. (2021): 'Debt restructuring in times of corona: Group-based, coordinated, but ultimately purely symbolic?', in: erlassjahr.de / Misereor (ed.): Global Sovereign Debt Monitor 2021.

[11] 'Cross-default clauses' are frequently included in international credit agreements and enable individual creditors to terminate credit agreements and demand immediate repayment of the sums loaned if a debtor defaults on another creditor's claims. The idea behind this is that creditors whose claims will foreseeably be infringed upon could be disadvantaged when other creditors whose claims had initially not been serviced successfully file legal action to demand full repayment of their claims. Versions of the cross-default clauses that are particularly favourable to creditors even allow the filing of complaints when the creditors whose claims have not been serviced (i.e. official creditors in the case of the DSSI) choose not to take legal action.

[12] According to media reports, holders of Ukrainian bonds managed in 2015 to achieve a treatment which was – according to the general belief – very favourable to themselves by threatening the country with legal actions and the high costs connected with them. See in this context, for example Schumacher, J. / Trebesch, C. / Enderlein (2018), in particular pp. 49 ff and the works cited there.

[13] See, for example, Gambini, A. (2016): 'Das neue belgische Anti-Geier-Gesetz: eine unperfekte aber wichtige Lösung eines enormen Problems', in: erlassjahr.de / Misereor (ed.): Schuldenreport 2016. For current demands, see, for example, African Sovereign Debt Justice Network (2022): 'African Sovereign Debt Justice – Network's Statement on the Occasion of the 2022 Spring Meetings of the IMF and the World Bank'; Civil7 Germany (2022): 'Communique 2022 – Progress towards an equitable world must be more than a promise!', p. 11; erlassjahr.de / Misereor (2022): 'Global Sovereign Debt Monitor 2022. Recommendations to the German Federal Government'.

[14] See New York State Senate Bill S6627; New York Taxpayer and International Debt Crises Protection Act. For an introduction to and an assessment of the legislative proposals, see Stutz, M. (2022a).

[15] In this context, see, for example, Buchheit, L. / Gulati, M. (2021): 'The Duty of Creditors to Cooperate in Sovereign Debt Workouts'; Reichert-Facilides, D. (2022): 'Draft Proposal for a Foreign Sovereign Debt Restructuring Law' as well as Friedrich-Ebert Foundation / erlassjahr.de (2022): 'Solving global debt crises, involving private creditors – the role of national legislation in G7 countries'.

[16] World Bank (2022a): 'Global Economic Prospects Special Focus: Resolving High Debt after the Pandemic', p. 60; World Bank (2022b): 'Potential Statutory Options to Encourage Private Sector Creditor Participation in the Common Framework'; Kristalina Georgieva, Managing Director of the IMF, as part of a press conference of the International Monetary and Financial Committee on 21 April 2022, from minute 42 onwards; as well as IMF (2020): 'The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors – Recent Developments, Challenges, And Reform Options', Policy Paper No. 2020/043.

[17] For a definition of laws conceived for enforcement law, see Stutz, M. (2022b): 'Das Potenzial nationaler Gesetze für die faire Lösung globaler Schuldenkrisen: Eine Übersicht und Bewertung bestehender Gesetze und Gesetzesvorschläge'. erlassjahr.de, Fachinformation 71, p. 22.

[18] United Nations (2015): Resolution 'Basic Principles on Sovereign Debt Restructuring Processes'.

[19] For a detailed comparison of existing legislation and legislative proposals, see Stutz (2022a).

[20] 'Vulture funds' are investment funds specialised in buying claims at a favourable price during times of crisis and then filing legal action to claim full repayment including any default and penalty interest.

[21] For more information on how this could potentially be ensured, see Stutz (2022a) pp. 32 f.

From the Common Framework to a sovereign insolvency process?

Reform steps towards a new debt management consensus

By Kristina Rehbein and Dr Klaus Schilder

In its coalition agreement, the German Federal Government declared its commitment to greater progress in international debt management and its support for creating a sovereign insolvency process. erlassjahr.de and Misereor have analysed which pragmatic reforms, realisable in the short term, would be needed to make progress towards this goal.

On 5 January 2023, it was revealed that **Ghana**, one of West Africa's major economies, was the fourth country to request debt restructuring negotiations under the G20 Common Framework.[1] This announcement was preceded by a delay of several months as the implementation of debt restructuring processes under the Common Framework for the first three applicants – **Zambia**, **Chad** and **Ethiopia** – had been neither speedy nor sustainable. Timely and coordinated debt restructuring processes for countries outside the Common Framework, such as **Sri Lanka**, also proved to be challenging. This explains why Ghana, according to media reports, is seeking reassurances that the debt restructuring process will be expedited and designed in a more predictable manner.

One year earlier, at a meeting in February 2022, the G20 Finance Ministers and Central Bank Governors undertook to 'step up our efforts to implement it [the Common Framework] in a timely, orderly and coordinated manner' in order to 'give more certainty to debtor countries [...]'[2]. Christian Lindner, the German Federal Minister for Finance, also emphasised that his ministry supported the better and faster implementation of debt restructuring processes and advocated for further improvements.[3]

In its 2021-2025 coalition agreement, the German Federal Government committed to dare to achieve more progress – also in the area of international debt management. On p. 121, the parties to the three-party coalition ('traffic light coalition') agreed to support a codified international sovereign insolvency process that includes all creditors and implements debt relief for particularly vulnerable groups of countries.[4] By late 2022, however, no clear political initiative had been launched at the national or international level to create a sovereign insolvency process.

The political debates within (and outside) Germany to date have rather focused on not 'diluting' the Common Framework with potential alternative suggestions. Germany and other creditor states have thus accepted the de facto stalemate in implementing the Common Framework – regardless of the mission stated in the coalition agreement. Suggestions to include new elements into the debt architecture, made for instance by debtor nations,[5] were simply ignored. Meanwhile, this attitude seems to have changed. The shift in

attitude is demonstrated by the establishment of a new meeting format, suggested by the IMF, the global sovereign debt roundtable, which seeks to also include non-G20 actors and aims to overcome resistance to the need for debt relief.[6]

While consensus on an international sovereign insolvency process may not yet have been reached by the international community, it should still remain the guiding aim of Germany's policy agenda. In line with this, the German Federal Government should capitalise on favourable opportunities to prepare the ground for a codified sovereign insolvency process. Besides the global sovereign debt roundtable, another favourable opportunity might be the fourth International Conference on Financing for Development in the framework of the 2025 UN General Assembly, currently being discussed. This would be the right place for inclusive debates on a codified sovereign insolvency process and the German Federal Government should work to encourage such debates.

Until progress is made, erlassjahr.de and Misereor propose a road map comprising six political reform steps to speedily implement the announcements made by the German coalition parties. The road map is laid out below. All political reforms proposed can be realised in the short term and contribute to a more effective and fair design of debt restructuring processes consistent with the fundamental principles of a sovereign insolvency process[7] within and without the Common Framework. This will bring us closer to a codified sovereign insolvency process. To establish a baseline, the German Federal Government should commission an independent and publicly accessible evaluation of the first debt restructuring processes under the Common Framework.

Creating a sovereign insolvency process should remain an objective of the German Federal Government.

Step 1: Enforcing equal treatment of all creditors

Process to date under the G20 Common Framework
Just as in the Paris Club, only official bilateral claims are negotiated under the Common Framework, not private claims. As is the case in the Paris Club's debt restructuring processes, under the Common Framework the debtor nation is obligated by its official creditors to agree on concessions with its private creditors – and also with the bilateral official creditors that are not members of the Paris Club or do not participate in the Common Framework – that equal those granted by the Paris Club or the G20 nations. This is regulated in the comparability of treatment clause. This principle of equal treatment seeks to ensure that claims of G20 and Paris Club members will not be subordinated to claims of non-members (third-country governments or private creditors).

However, the Common Framework does not offer debtor nations legal or other means to seek binding and effective implementation of equal treatment of creditors (especially where there is a conflict). On the contrary, analogous to the Paris Club, the burden of enforcing equal treatment is solely on the debtor nation while official creditors try to set incentives for participation through 'moral persuasion'. Previous debt crises have shown that effective involvement of private creditors often did not work.[8] Nevertheless, the discussions about reforming the Common Framework have not yet found an answer to the question as to what will happen when the debtor seeks equal treatment of all creditors, but cannot achieve it. This can lead to a delay in debt restructuring processes, unequal treatment of creditors and ultimately, to the debtor agreeing to insufficient debt relief.

When restructuring processes are delayed, the focus also lies on penalising the debtor, for example by refusing to grant debt relief or by withholding bridging loans by the International Monetary Fund (IMF). At the same time, there are little or no incentives for creditors to advance the debt restructuring process. It is questionable whether the involvement of uncooperative creditors can be improved without any sanctioning mechanisms.

The IMF and the World Bank have already made some suggestions for overcoming unequal treatment, one of which entails the G20 nations identifying parameters and mechanisms to achieve more clarity for debtor nations when negotiating concessions with other creditors. Moreover, private creditors are to be involved in debt restructuring negotiations at an earlier stage and not only when decisions about the extent of debt relief by official creditors have already been taken. This would give private creditors a say in the extent of debt relief which they are to grant to the debtor, as stipulated by the equal treatment clause.

However, in the view of erlassjahr.de and Misereor, these steps are not enough to ensure equal treatment of the different creditor groups. Not (only) do private creditors lack clarity about what comparable treatment actually means; rather their willingness to participate strongly depends upon the question as to whether they will have to loose claims partially or completely if they do not participate. When creditors can count on being fully repaid when they do not participate – for instance because they file legal action, rely on a bailout through public funds or have the means to pressurise the debtor nation – there is no incentive to cooperate.

According to the German Federal Minister of Finance, more clarity about the different steps and a clear schedule for the restructuring process are needed to improve implementation of the Common Framework. For this reason, the German Federal Government's focus is on reforms to overcome the information gap. These include suggestions for more or less strict time constraints on the procedural steps necessary on the part of the creditors. However, it remains unclear what consequences will await those who do not deliver results within the set time frame. From a civil society perspective, it would therefore be much more preferable to define clear (legal) consequences for creditors who delay the restructuring process. Impending sanctions would speed up processes much more effectively than detailed schedules and procedures alone.

Proposal for reform regarding step 1

The German Federal Government should – together with other creditors – support debtor nations to enforce binding equal treatment of all creditors in debt restructuring and debt relief processes.

In particular, this includes:

- **encouraging debtors to threaten a suspension of payments** – provided they have negotiated in good faith – in order to increase pressure on uncooperative creditors;

- **and providing political, financial and legal support to debtors to do so**. This way, the German Federal Government can advocate for good-faith creditors to grant debt relief in debt restructuring negotiations and for the IMF to grant bridging loans through disbursements from its programmes even if individual creditors do not want to agree to the restructuring agreements or the debtor suspends payments to uncooperative creditors. For this, it should be established in a first step that the debtor has negotiated in good faith and that the reason for the default is rather that the creditor refuses to participate in debt restructuring processes. This holds in particular where Germany has claims itself and is thus a member of the creditor committee.

- **taking legislative action** to prevent uncooperative creditors to undermine multilaterally agreed debt restructuring processes by recourse to legal action;[9]

- **as well as recognising existing UN principles for debt restructuring.** These principles could then be consulted by national courts if holdout creditors filed suits against the suspension of payments by a debtor nation.

Step 2: Preventing de facto exemptions of multilateral creditors

Process to date

In at least 44 critically indebted countries, more than 50% of claims are held by multilateral creditors *(see 'Creditors worldwide', p. 20)*. Whether these are the World Bank, the European Investment Bank or smaller multilateral creditors such as the Organization of Arab Petroleum Exporting Countries, this creditor group has not been involved in debt restructuring processes so far. When the G20 debt moratorium, the Debt Service Suspension Initiative (DSSI) and predecessor of the Common Framework, was established, it was already discussed whether multilateral development banks should be included in the initiative in order to achieve its goals.

Hitherto, in particular Paris Club members have presented different arguments[10] to support their insistence on maintaining preferred creditor status[11] for this group. Especially China, the most important creditor in the G20, is simultaneously demanding that multilateral creditors are included, as the exemption of their claims means that all other creditors have to agree to even higher concessions.[12]

The principle of equal treatment does not necessarily have to mean equal treatment in terms of quantity. Different creditors can hold claims with different characteristics which are associated with differing risks (and yields). Therefore, treating different claims differently with regards to the amount and type of relief may be justified.

As a general rule, interim financing – often (but not exclusively) provided by multilateral funders – should be exempted from debt restructuring processes after a clearly defined cut-off-date (for example at the beginning of debt restructuring negotiations). So, instead of exempting multilateral creditors as a matter of principle, their involvement should depend on the question as to whether relief is necessary to reinstate debt sustainability.

When asked how debt restructuring processes could be improved, the German Federal Government in general points to the lack of cooperation on the side of the Chinese government, causing the G7 to be unable to act. China, on the other hand, is demanding that multilateral development banks should be included both in general and with regard to specific debt restructuring processes (as in Zambia most recently).

As the G7 nations are the largest shareholders of some central institutions, they are directly able to influence this decision. They could offer the Chinese government their compliance with its demand if China, in return, shows more willingness to cooperate on central issues, and ensures, for instance, that none of its own claims and institutions are exempted.

Proposal for reform regarding step 2

The German Federal Government should, for example within the G7 and the Paris Club, advocate to overcome the unlimited and general exemption of all multilateral claims, and thus to include multilateral creditors in debt restructuring processes.

Specifically, it can:

- work towards including multilateral creditors in debt restructuring processes where it is a creditor itself (for example in the cases of Sri Lanka and Ghana);
- initiate an independent assessment to ascertain whether debt sustainability in critically indebted countries cannot be reinstated without involving multilateral creditors;
- initiate a structural process within the World Bank – the most prominent within the group of multilateral creditors – where the World Bank takes a decisive role in the creation of new procedures that also take multilateral claims into account, similar to its role with the development of the HIPC Initiative in the mid-1990s;
- initiate an independent assessment to ascertain whether the arguments in favour of the preferred creditor status regularly put forward are well founded.

Step 3: Enabling independent, transparent and participatory debt sustainability analyses

Process to date

Under the current provisions of the Common Framework, the debtor nation is obligated to request a loan and economic adjustment programme from the IMF in order to be allowed to negotiate under the Common Framework. Necessary debt relief measures will then be based on a debt sustainability analysis by the IMF and the World Bank as well as on the collective assessment of G20 and Paris Club creditors.[13]

Taking into account whether debt relief is reasonable for the creditors goes against the principle of granting relief based on the question as to what would be necessary to help a debtor nation gain sustainable economic recovery according to an independent debt sustainability analysis. Provisions granting so much power to creditors to enforce their own interests are an obstacle to the key objective of a sovereign insolvency process governed by the rule of law to recover the debtor's capacity to act, also in the interest of the remaining creditor claims.

To achieve quick, foreseeable and sustainable debt relief, it is therefore key to define the basis on which decisions about the debt relief envelope are taken. Instead of making the relief to be granted dependent on the concessions of the majority of creditors, the extent of debt relief should be determined based on the results of a debt sustainability analysis that is independent of the creditors' and debtors' interests. In short, it should not be possible to further negotiate the need for debt relief after it has been identified in a debt sustainability analysis. A similar principle was already included in the HIPC Initiative created in the early 2000s to support heavily indebted poor countries to finally emerge from the vicious circle of debt relief that was too little, too late.

The calculations made in a debt sustainability analysis and the assumptions underlying the calculated need for debt relief are not publicly available. Neither other stakeholders such as private creditors nor the debtor nation's population have access to these data. Because a country seeking to negotiate its debts under the Common Framework or in the Paris Club is obligated to request an IMF programme, the IMF holds a de facto monopoly on both conducting debt sustainability analyses and formulating adjustment programmes which determine how the burden is shared between the debtor nation's population and the creditors.

As shown in the article 'Dare to take more responsibility' in this Global Sovereign Debt Monitor *(p. 30)*, the IMF's debt sustainability analyses are often characterised by over-optimistic assumptions, leading to far too low estimates of the need for debt relief. Moreover, the IMF is not immune to political interference – particularly from its key shareholders.

This vicious circle of too little debt relief and over-optimistic projections can be avoided by means of different measures geared towards the principle of impartiality that should lie at the heart of any sovereign insolvency process. For example, information from various sources could be accepted for the analysis and assumptions underlying the debt sustainability analysis could be made transparent at an early stage. This could also help build mutual confidence with non-G20 creditors, such as private creditors.

To achieve quick, foreseeable and sustainable debt relief, it is key to define the basis on which decisions about debt relief measures are taken.

Proposal for reform regarding step 3

The German Federal Government should advocate:

- to base the extent of debt relief exclusively on the need for debt relief as calculated in a debt sustainability analysis;
- and to use realistic projections for the debt sustainability analysis. To achieve this, the projections should either be prepared by independent experts or be made transparent and available for independent review.
- to publish the assumptions underlying the debt relief calculated before the beginning of the process to enable other stakeholders to review them as well;
- to also include analyses competing with the IMF's debt sustainability analyses in the process.
- to make it compulsory to review the impact of economic adjustment programmes on fundamental political, social and economic rights in the debtor nation. The results of this human rights impact assessment should be integrated into the design of adjustment programmes.

The overall goal is debt relief measures that enable a sustainable economic and societal recovery of the national economy.

Step 4: Appointing an independent arbitration board

Process to date
In debt restructuring negotiations, colliding creditor interests regularly cause conflicts between creditors or between creditors and the debtor, leading to a delay or a standstill of the process. This problem could be solved by appointing an independent arbitration board. However, such a board is not provided for in the Common Framework, in debt restructuring processes in the Paris Club or in other formats.

When it comes to reforms, the priority of the German Federal Ministry of Finance is to define fixed steps and timelines in the Common Framework to speed up the process and to avoid delays, as described above. At the same time, the question as to what will happen when the deadline to form a committee of creditors or to reach an understanding between the debtor and its creditors expires remains unanswered. The G20 nations could agree to automatically call in an independent mediator at a date fixed by them if no understanding has been reached by then. In the past, an independent mediation accepted by all parties has occasionally already proven successful to dismantle blockades and ensure sustainable results when a stalemate had been reached.[14] This would also take account of the principle of impartiality central to sovereign insolvency processes.

Proposal for reform regarding step 4

The German Federal Government should exert its influence in the circle of international creditors to appoint an independent and impartial mediator in the case of conflicts between the debtor and its creditors or between different creditor groups, who will ensure that the negotiations are continued and a fair result is reached. Such a mediator could be nominated by the UN Secretary-General, as suggested by the Group of Vulnerable 20. After a trial phase with ad hoc arbitration procedures, a Sovereign Debt Workout Institution could be established, as suggested by the United Nations Conference on Trade and Development (UNCTAD).[15]

Such an institution could be based on the preparatory work for the Common Framework and could defuse conflicts with non-Paris Club creditors such as China, who consider current processes to be steered too much by Western states.

Step 5: Ensuring an automatic debt moratorium for climate-vulnerable countries

Process to date
A debt moratorium, meaning the agreement of creditor and debtor to temporarily suspend debt servicing, can be a particular relief for states in acute (debt) crises. This is valid for states seeking debt restructuring negotiations as well as for states hit by sudden external shocks like climate disasters. Moreover, an automatic moratorium can facilitate and accelerate comprehensive debt restructuring negotiations.

Hitherto, however, neither the G20 Common Framework nor the Paris Club has provided for an automatic debt moratorium.[16] The German Federal Ministry of Finance holds that the country in question could request a temporary debt moratorium for the duration of the negotiations under the Common Framework from its creditor committee. Yet, the moratorium is not an integral part of the process. On the contrary, the committee must unanimously approve of the request. An automatic moratorium taking effect immediately and with legal protection for all involved would be far more effective.

The same holds true for states hit by external shocks. In the context of the COP27, UK Export Finance (UKEF) in November 2022 announced the introduction of 'climate resilient debt clauses' in their loan agreements.[17] Under these clauses, low-income countries and small island states can request a 12-month suspension of their debt service payments from UKEF in the event of natural disasters or climate shocks. The intention is welcome, as these clauses can significantly reduce critically indebted countries' fear of being stigmatised as a bad creditor when they suspend their payments. Moreover, in the event of a natural disaster, a moratorium can help release funds for emergency aid immediately after the disaster and thus contribute to managing loss and damage caused by natural disasters.

In addition, an automatic moratorium can prevent individual creditors from gaining access to the debtor's capital before other claimants. This also increases the willingness of creditors to cooperatively participate in debt restructuring negotiations, as it is to be expected that a country's debt sustainability will have to be reassessed after a natural disaster.

It is, however, imperative for a moratorium to extend to all of a country's creditors. On the other hand, if only part of the creditors granted the moratorium, this would weaken cooperation of those creditors still receiving payments, as a partial moratorium enables the debtor nation to continue servicing their claims. Consequently, the initiative has its limits, as the lending by UKEF only constitutes a very small part of global lending. There is the additional problem that the climate resilient debt clauses only apply to low-income countries and small island states. It would be preferable to enable an automatic moratorium for all climate-vulnerable countries in the event of a natural disaster.

Proposal for reform regarding step 5

The German Federal Government should take inspiration from the British initiative and include the possibility to automatically suspend debt servicing in the case of natural disasters in its lending terms, regardless of a country's income level.

Moreover, the German Federal Government should advocate at the international level to enable (automatic) debt moratoria that extend to all creditors. It could, for example, work towards a political legitimisation of payment suspensions in the event of natural disasters by the G7 nations that host the most important financial centres. In addition, the German Federal Government could suggest that an international institution is established which a debtor nation could approach in the event of natural disasters, in order to organise a comprehensive moratorium.[18] Legislative action to grant a temporary enforcement protection could help implement an automatic moratorium[19] *(see step 1 above)*.

Step 6: Creating a central and comprehensive data registry

Process to date
The debtor nation is obligated to provide all necessary information on its debt level and debt service to the creditor committee, which consists of official bilateral creditors from the G20 and the Paris Club. However, there is no obligation to make these data publicly available. Details on debt restructuring agreements concluded under the Common Framework – or in the Paris Club – are also not made publicly available. Paris Club and G20 members are thus not prepared to show transparency vis-à-vis the public. At the same time, they demand increased transparency from the creditor nation China.

Transparency should be an integral part of debt restructuring negotiations. Without information, a debtor nation's population and parliament cannot, for example, hold their government accountable. What is more, neither affected stakeholders nor independent third parties can monitor that the equal treatment principle is implemented. Debtor nations, moreover, cannot gather important information from prior debt restructuring processes that could be useful for their own negotiations.

In the context of the German G7 Presidency in 2022, the German Federal Minister of Finance Christian Lindner referred to his plans to improve debt transparency.[20] In its 77th session, the UN General Assembly on 14 December 2022 adopted a resolution recommending the creation of a 'central data registry' also including information on debt restructuring processes. erlassjahr.de suggested a 'sovereign debt restructuring liaison office' as early as 2015 to support debtor nations that must open negotiations, with a collection of best practices.[21]

Together with international partners, for several years, erlassjahr.de has also called for the introduction of a binding debt registry that also requires creditors to disclose their claims.[22] Similarly, Chinese government representatives recently called for (the sanctioning of a lack of) creditor transparency at an international conference.[23]

Proposal for reform regarding step 6

The German Federal Government should advocate for the creation of an international debt registry at an independent institution among the circle of the G7 and G20 and should provide financial support to this end.

By means of this registry, final agreements on debt restructuring should also be made accessible to the public and best practices in debt restructuring processes should be collected.

Until such an international registry has been created, the German Federal Government should publish its own debt restructuring agreements or work towards making agreements of the Paris Club publicly accessible.

Conclusion

With the six steps towards a sovereign insolvency process outlined above, erlassjahr.de and Misereor call on the German Federal Government to play its full part at the international level in ensuring a fair and orderly process for heavily indebted countries in the case of debt restructuring negotiations in accordance with the principles for fair and orderly debt restructuring processes[24]. The suggested proposals for reform do not contradict the Common Framework, but are rather meant to support the achievement of its goals.

Furthermore, the suggested reform steps contribute to create a level playing field for both creditors and debtors and thus help flatten and overcome power imbalances which have often prevented or at least hindered fair and just debt restructuring processes in the past. We expect the German Federal Government to present a concrete work plan soon in order to live up to its self-proclaimed claim to create a sovereign insolvency process.

photo: Daria Becker/erlassjahr.de

Meeting of the G7 Finance Ministers in Bonn under the German presidency in 2022: activists call for the binding participation of private creditors in restructuring processes and for passing appropriate national legislation.

1 See Reuters (05/01/2023): 'Exclusive: Ghana poised to request debt relief under G20 Common Framework – sources'.

2 See G20: 'G20 Finance Ministers and Central Bank Governors Meeting Communiqué', 17-18/02/2022, Jakarta, Indonesia.

3 See German Federal Ministry of Finance (2022): 'Internationale Schuldenstrategie zur Entlastung hoch verschuldeter Länder'.

4 See German Federal Government (2021): 'Koalitionsvertrag 2021-2025 zwischen der SPD, Bündnis 90/die Grünen und der FDP'.

5 See, for example, V20 (27/10/2021): 'V20 Statement on Debt Restructuring Option for Climate-Vulnerable Nations – Statement by the V20 Presidency'.

6 See Reuters (16/12/2022): 'China agrees to formation of global sovereign debt 'roundtable' -IMF chief'.

7 In 2015, the UN General Assembly adopted nine principles on fair and orderly debt restructuring processes (see UN General Assembly (29/07/2015): 'Basic Principles on Sovereign Debt Restructuring Processes', resolution of 29/07/2015). However, these principles were hardly taken into account in the creation of new processes or individual debt restructuring processes. A detailed comparison of current debt relief negotiation processes and processes in accordance with a sovereign insolvency process can be found in: UNCTAD (2015): 'Sovereign Debt Workouts: Going forward. Roadmap and Guide', particularly section III.

8 See World Bank (2022): 'Global Economic Prospects Special Focus – Resolving High Debt After the Pandemic. Lessons from Past Episodes of Debt Relief' and Schlegl, M. / Trebesch, C. / Wright, M. (2019): 'The Seniority Structure of Sovereign Debt', CESifo Working Paper No. 7632. In its latest Staff Report on the HIPC Initiative from 2019, the IMF writes that 'commercial creditor participation remains a challenge […] Commercial creditor participation in the HIPC Initiative has been weak.' IMF (2019): 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Statistical Update', IMF Policy Paper, p. 1.

9 See also Stutz, M. (2022): 'The potential of national legislation for the fair resolution of global debt crises. An overview and assessment of existing laws and legislative proposals', erlassjahr.de, Focus Paper 9.

10 In its reply to a parliamentary question by the Left Party dated 19/01/2023, the German Federal Ministry of Finance justified the preferred creditor status with the fact that in particular heavily indebted poor countries received highly concessional loans and grants from the multilateral development banks that would not or only slightly affect debt sustainability. However, an analysis of World Bank data shows that less than 50% of multilateral loans are granted on concessional, let alone 'highly concessional' terms in more than half of the very critically indebted countries *(see also 'Creditors worldwide', p. 20 in this Global Sovereign Debt Monitor)*. It thus does not appear to be a viable option to generally exempt multilateral development banks from all debt restructuring negotiations based on this argument. For further arguments and a comprehensive discussion of this topic, see Kaiser, J. (2021): 'Frequent arguments against the participation of multilateral development banks in debt relief. An analysis and response', erlassjahr.de, Focus Paper 5.

11 Creditors in this group receive preferred treatment in restructuring processes and are thus de facto exempted from the processes.

12 See Kaiser, J. (2021), p. 6 on the present value principle.

13 See G20 (13/11/2020): 'Statement': 'The need for debt treatment, and the restructuring envelope that is required, will be based on an IMF-WBG Debt Sustainability Analysis (DSA) and the participating official creditors' collective assessment […]'.

14 This was for example the case in Indonesia in 1969. For further information, see Kaiser, J. (2013): 'Resolving Sovereign Debt Crises – Towards a Fair and Transparent International Insolvency Framework', Study by the Friedrich Ebert Foundation.

15 See UNCTAD (2015): 'Sovereign Debt Workouts: Going forward. Roadmap and Guide'.

16 See response of the German Federal Ministry of Finance to a parliamentary question raised by Member of Parliament Claudia Möhring and the parliamentary group DIE LINKE, BT-Drucksache 20/5297 dated 19/01/2023. Sometimes, when nothing else is possible, countries suspend their payments, as was most recently the case with Ghana, Zambia and Sri Lanka. With this, they de facto implement a moratorium. However, this frequently happens in a disorderly way, after long delays and without political or legal protection on the part of the creditor.

17 See UK Government: 'UK Export Finance launches new debt solution to help developing countries with climate shocks'.

18 See Kaiser, J. (2020): 'Der nächste Sturm kommt mit Sicherheit: Entschuldung als Krisenreaktion in Zeiten des Klimawandels', erlassjahr.de, Fachinformation 64.

19 To this end, a national law that grants a temporary enforcement protection to debtor nations could define natural disasters as a reference point indicating that debtor nations seek to restructure their claims in a constructive manner.

20 See German Federal Ministry of Finance (2022): 'Internationale Schuldenstrategie zur Entlastung hoch verschuldeter Länder'.

21 See Kaiser, J. (2015): 'Das ‚Sovereign Debt Restructuring Liaison Office' – Ein greifbares Ergebnis des UN-Prozesses für ein Staateninsolvenzverfahren', erlassjahr.de, Fachinformation 48.

22 Jubilee Debt Campaign (2019): 'Transparency of loans to governments. The public's right to know about their debts'.

23 See statement as part of a panel at the UNCTAD Debt Management Conference, recording made 06/12/2022, 10.00, (from minute 35:13 to 46:22).

24 For more information on how erlassjahr.de and other actors understand the fundamental principles of a sovereign insolvency process, see erlassjahr.de (2021): 'Von Gläubigern und Schuldnern – Informationen und Lösungsideen zur Schuldenkrise im Globalen Süden', section 5, as well as UNCTAD 2015.

LIST OF ABBREVIATIONS

ADB	–	Asian Development Bank
AfDB	–	African Development Bank
BMF	–	German Federal Ministry of Finance
bn	–	billion
CAC	–	Collective Action Clause
DSSI	–	Debt Service Suspension Initiative
EIB	–	European Investment Bank
ESM	–	European Stability Mechanism
EU	–	European Union
EURODAD	–	European Network on Debt and Development
G20	–	Group of 20
G7	–	Group of 7
GDP	–	Gross domestic product
GNI	–	Gross national income
HIPC	–	Heavily Indebted Poor Countries
IADB	–	Inter-American Development Bank
IDA	–	International Development Association
IDS	–	International Debt Statistics
IMF	–	International Monetary Fund
MDRI	–	Multilateral Debt Relief Initiative
n. a.	–	no data available
NGO	–	Non-governmental organisation
OECD	–	Organisation for Economic Co-operation and Development
SDR	–	Special Drawing Rights
UNCTAD	–	United Nations Conference on Trade and Development
UN	–	United Nations
USD	–	US-Dollar
V20	–	Vulnerable Twenty

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

indicator / countries by region	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	(non-critical: Brunei Darussalam, Cambodia, Nauru; no data available: North Korea, Palau)										
Afghanistan*	n. a.		n. a.		n. a.		n. a.		n. a.		
Bangladesh*	35.5	▲	379.7	▲	20.9	▲	183.5	▲	11.4	▲	
Bhutan*	132.4	▲	399.4	▲	125.3	—	401.9	▲	15.5	▲	
China	71.5	▲	268.6	▲	15.4	—	70.6	—	8.8	—	
Fiji*	83.0	▲	402.4	▲	46.5	▲	164.5	▲	4.0	—	
India	83.4	▲	412.9	▲	19.5	—	90.6	—	23.9	▲	
Indonesia	41.2	▲	302.7	▲	36.1	—	164.2	—	28.8	▲	
Kiribati*	17.6	▼	15.8	—	n. a.		n. a.		n. a.		
Laos*	93.5	▲	682.3	▲	97.2	—	217.1	—	9.1	▼	
Malaysia	69.0	▲	377.1	▲	69.3		100.7		10.8		
Maldives*	124.8	▲	468.8	▲	86.8	▲	97.1	▲	19.2	▲	
Marshall Islands*	19.8	▼	29.1	▼	n. a.		n. a.		n. a.		
Micronesia*	15.0	▼	20.3	▼	n. a.		n. a.		n. a.		
Mongolia*	79.8	▼	243.7	▼	260.7	—	339.0	—	25.7	▼	
Myanmar*	62.3	▲	441.4	▲	22.0	▲	106.0	▲	17.6	▲	
Nepal*	45.8	▲	193.5	▲	24.3	▲	297.3	▲	9.4	▲	
Pakistan*	74.9	▲	602.8	▲	38.2	▲	360.0	▲	34.1	▲	
Papua New Guinea*	50.9	▲	347.5	▲	65.5	▼	159.3	—	38.0	▲	
Philippines	57.0	▲	367.7	▲	27.0	▲	121.1	▲	12.2	▲	
Samoa*	46.3	—	126.8	▼	57.3	—	402.9	▲	14.2	▲	
Solomon Islands*	16.5	▲	50.6	▲	29.2	▲	103.2	▲	2.8	▼	
Sri Lanka	103.1	▲	1,245.4	▲	68.6	▲	375.0	▲	31.4	▼	
Thailand	58.4	▲	288.6	▲	43.2	▲	68.4	▲	5.9	—	
Timor-Leste*	10.0	—	26.0	▲	11.7	▲	58.0	▲	2.0	▲	
Tonga*	47.5	—	98.4	—	41.2	▲	230.2	▲	3.6	▼	
Tuvalu*	6.0	▼	6.0	▼	n. a.		n. a.		n. a.		
Vanuatu*	48.2	—	103.7	—	50.6	▲	197.5	▲	6.8	▲	
Vietnam	39.7	—	213.3	—	39.3	—	39.9	—	5.9	▼	
Sub-Saharan Africa	(non-critical: Botswana, Eswatini)										
Angola*	86.4	—	373.1	—	100.7	▲	197.7	▲	33.3	▲	
Benin*	50.3	▲	356.7	▲	36.8	▲	156.6	▲	8.7	▲	
Burkina Faso*	52.4	▲	249.2	▲	55.0	▼	168.3	▼	8.1	▼	
Burundi*	66.6	▲	281.5	—	33.2	▲	269.3	▲	8.2	▼	
Cabo Verde*	142.3	▲	628.9	▲	108.5	▲	427.4	▲	11.2	▲	
Cameroon*	45.5	▲	321.9	▲	36.1	▲	210.9	▲	17.4	▲	
Central African Republic*	47.6	—	348.4	▲	41.5	▲	312.2	▲	4.9	▲	
Chad*	55.9	▲	338.8	—	25.5	▼	73.9		7.5		
Comoros*	26.0	▲	152.5	▲	25.5	▲	222.2	▲	3.4	▼	
Congo, Democratic Republic*	24.5	▲	177.5	▲	15.5	—	39.1	—	2.0	▼	
Congo, Republic*	103.6	▲	433.7	▲	70.5	▲	89.1	▲	11.7	▲	
Côte d'Ivoire*	52.1	▲	328.1	▲	44.0	▲	187.6	▲	10.9	▼	
Djibouti*	46.0	—	228.8	▲	97.7	▲	60.9	▲	1.0	▼	
Equatorial Guinea	42.8	—	279.8	▲	n. a.		n. a.		n. a.		
Eritrea	176.3	—	526.7	▼	n. a.		n. a.		n. a.		
Ethiopia*	53.0	—	480.0	—	27.1	▼	315.9	▼	21.1	—	
Gabon	65.8	—	446.5	▲	45.3	—	94.6		14.1		
Gambia, The*	83.8	—	498.8	—	49.8	▲	541.3	▲	39.3	▲	
Ghana*	82.1	▲	576.6	▲	47.8	▲	245.5	▲	21.9	▲	

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*	42.5	—	311.5	▲	33.6	▲	45.8	▼	1.6	▼	
Guinea-Bissau*	78.5	▲	406.0	—	67.8	▲	917.7	▲	38.6	▲	
Kenya*	67.8	▲	406.0	▲	60.3	▲	563.6	▲	160.0	▲	
Lesotho*	53.5	—	111.6	▲	63.9	▲	111.2	▲	20.9	▲	
Liberia*	53.2	▲	194.9	▲	56.4	▲	203.4	—	6.4	▲	
Madagascar*	53.1	▲	472.7	▲	37.3	▲	158.0	▲	5.0	▲	
Malawi*	64.0	▲	410.3	▲	25.7	▲	204.3	—	7.1	—	
Mali*	51.9	▲	234.1	—	34.8	▲	116.9	▲	5.3	▲	
Mauritania*	51.7	▼	235.2	—	59.2	▼	145.9	▼	12.5	▼	
Mauritius	93.6	▲	393.4	▲	108.7	▲	144.3	▲	29.2	▲	
Mozambique*	106.4	—	385.1	—	398.6	▲	948.4	▲	109.3	▲	
Namibia	70.1	▲	236.8	▲	66.5		204.7		47.2		
Niger*	51.2	▲	279.7	▲	32.8	▲	330.3	▲	14.7	▲	
Nigeria*	36.6	▲	505.1	▲	18.0	▲	144.4	▲	16.2	▲	
Rwanda*	73.3	▲	298.0	▲	75.7	▲	396.3	▲	44.9	▲	
São Tomé and Príncipe*	72.4	▼	261.3	▼	55.4	—	373.5	▲	3.2	▼	
Senegal*	73.2	▲	376.3	▲	107.0	▲	466.1	▲	28.2	▲	
Seychelles	76.2	▲	244.2	▲	361.1	▲	499.4	▲	n. a.		
Sierra Leone*	79.3	▲	378.7	▼	60.5	▲	233.2	▲	12.0	▲	
Somalia*	45.9	▼	936.7	▼	45.3	▼	263.4	▼	n. a.		
South Africa	69.0	▲	256.0	▲	41.3	—	119.5	▼	18.7	▼	
South Sudan*	64.7	▲	150.3	—	45.9	▲	67.9	▲	8.8	—	
Sudan	182.0	—	1,943.3	—	68.1	—	367.6	▼	49.7	▲	
Tanzania*	40.7	—	282.1	—	42.2	—	284.6	—	19.6	▲	
Togo*	63.7	▲	375.7	▲	41.1	▲	176.8	▲	8.6	▲	
Uganda*	51.8	▲	368.0	▲	48.3	▲	311.7	▲	12.2	▲	
Zambia*	119.1	▲	513.8	▲	124.7	▲	204.9	▼	13.8	—	
Zimbabwe	66.9	▲	397.9	▲	53.7	▼	209.0	▼	8.9	▼	
Latin America, Caribbean											(no data available: Cuba)
Antigua and Barbuda	101.4	▲	485.2	—	n. a.		n. a.		n. a.		
Argentina	80.9	—	442.1	▲	59.2	—	328.3	—	28.8	▼	
Bahamas	103.3	▲	532.8	▲	42.5	▲	159.8	▲	13.3		
Barbados	135.1	—	467.5	—	48.6	▲	165.9	▲	9.9		
Belize	82.2	—	356.4	▲	85.0	—	138.1	▲	58.9	▲	
Bolivia	80.5	▲	320.7	▲	40.6	▲	138.7	▲	12.8	▲	
Brazil	93.0	—	295.0	—	38.9	▲	174.8	—	44.8	▲	
Chile	36.3	▲	139.7	▲	72.4	▲	227.7	—	n. a.		
Colombia	64.6	▲	233.5	▲	56.2	▲	303.6	▲	44.8	—	
Costa Rica	68.2	▲	431.6	▲	56.4	▲	140.6	—	12.8	▼	
Dominica*	102.7	▲	173.1	—	69.1	▲	322.2	▲	16.6	▼	
Dominican Republic	63.1	▲	405.4	▲	48.8	▲	207.3	▲	15.7	▲	
Ecuador	62.3	▲	182.7	▲	54.5	▲	208.0	▲	22.4	▼	
El Salvador	82.4	▲	311.9	—	74.4	—	233.9	—	68.5	▲	
Grenada*	70.3	—	221.3	—	67.9	▲	175.9	▲	12.6	▲	
Guatemala	30.8	▲	249.0	—	32.0	—	167.1	—	9.5	▲	
Guyana*	42.9	—	230.8	▲	26.6	▼	113.8	▲	6.6	▼	
Haiti*	24.2	▲	291.6	▲	12.4	—	202.9	▲	2.0	▲	
Honduras*	50.2	▲	198.7	▲	45.3	—	147.2	▲	14.7	—	
Jamaica	92.3	—	305.1	—	133.9	▲	371.4	▲	28.5	▲	

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	57.6	—	250.4	—	48.0	—	113.8	—	14.5	▲	
Nicaragua*	49.4	▲	170.7	▲	108.8	—	216.2	—	20.6	▼	
Panama	58.4	▲	321.6	▲	177.4		414.3		n. a.		
Paraguay	37.2	▲	196.8	▲	56.2	▲	148.9	▲	8.5	▼	
Peru	36.4	▲	173.1	▲	42.2	▲	129.7	▲	7.8	▼	
St. Kitts and Nevis	65.2	▲	197.0	▲	8.9	▼	18.4	▼	2.5		
St. Lucia*	92.2	▲	389.0	▲	51.2	▲	95.7	▲	4.9	▲	
St. Vincent and the Grenadines*	89.3	▲	185.7	▼	59.5	▲	400.3	▲	23.7	▲	
Suriname	125.7	▲	463.0	▲	n. a.		n. a.		n. a.		
Trinidad and Tobago	60.6	▲	264.4	▲	25.5		49.8		80.2		
Uruguay	65.1	▲	230.6	▲	94.2		319.8		19.3		
Venezuela	240.5	▲	4,003.4	▲	n. a.		n. a.		n. a.		
North Africa, Middle East	(non-critical: Kuwait, Saudi Arabia, United Arab Emirates; no data available: Libya, Syria)										
Algeria	63.0	▲	210.6	▲	4.5	▲	17.4	▲	0.5	—	
Bahrain	128.5	▲	609.7	▲	n. a.		n. a.		n. a.		
Egypt	89.2	—	469.3	—	36.6	▼	241.6	▲	31.5	▲	
Iran	42.4	—	525.1	▲	2.9	▲	13.1	▲	0.4	▲	
Iraq	59.1	▲	167.8	▲	12.3	—	32.3	—	5.3	▲	
Jordan	91.9	▲	363.2	▲	92.9	▲	286.1	▲	20.3	▲	
Lebanon	361.0	▲	n. a.		381.7	▲	603.5	▲	65.9	▼	
Morocco	68.9	▲	285.1	▲	50.1	▲	136.6	▲	13.6	▲	
Oman	107.6	▲	317.4	▲	93.0	▲	173.4	▲	n. a.		
Palestine	50.4	▲	199.1	▲	n. a.		n. a.		n. a.		
Qatar	58.4	▲	172.8	▲	161.5	▲	274.8	▲	n. a.		
Tunisia	81.8	—	319.6	—	91.4	—	203.7	▲	21.2	▲	
Yemen*	69.7	—	987.5	▼	n. a.		n. a.		n. a.		
Europe, Central Asia	(non-critical: Azerbaijan, Kosovo, Turkmenistan)										
Albania	73.9	—	273.7	—	63.1	—	206.3	▲	14.5	▼	
Armenia	63.4	▲	263.1	▲	98.2	▲	277.9	▲	37.8	▲	
Belarus	41.2	▼	116.4	—	63.5	—	82.7	—	8.6	▼	
Bosnia and Herzegovina	35.4	—	86.6	—	58.1	—	123.0	▼	13.8	—	
Georgia	49.7	▲	194.9	▲	99.8	—	231.0	▲	29.5	▲	
Kazakhstan	25.1	▲	146.8	▲	83.6	▼	249.1	▲	45.2	—	
Kyrgyzstan*	61.1	▲	180.0	—	115.8	▲	269.8	—	17.0	▼	
Moldova*	33.2	—	103.8	—	64.2	—	209.1	▲	68.1	▲	
Montenegro	86.6	▲	200.9	▲	177.9	▲	361.4	▲	48.2	▼	
North Macedonia	60.6	▲	200.7	▲	82.0	▲	116.6	—	16.2	—	
Russia	17.0	▲	46.3	▲	27.8	—	76.2	▼	16.0	▼	
Serbia	57.1	—	131.9	—	71.3	▲	182.8	▲	28.7	▲	
Tajikistan*	44.4	—	161.1	—	66.7	—	167.1	▼	12.3	▼	
Turkey	41.8	▲	152.9	▲	54.2	—	150.7	▼	25.4	▼	
Ukraine	47.6	▼	128.8	▼	69.5	▼	142.0	▼	15.2	▼	
Uzbekistan*	35.8	▲	137.7	▲	56.2	▲	207.7	▲	24.5	▲	

[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.

* Countries qualified for the G20 Common Framework.

Sources: World Bank International Debt Statistics 2022 for all external debt data except where there have been IMF country analyses since December 2022. For data on public debt indicators in individual countries, the IMF World Economic Outlook October 2022. For individual countries where data was missing in these two sources, either national sources (Ministry of Finance, Central Bank) or IMF country analyses.

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Misereor, the German Catholic Bishops' organisation for development cooperation, campaigns for justice and education and against hunger, diseases, marginalisation and human rights violations. Regardless of colour, ethnicity, gender or religion, Misereor and its local partners champion those people who are denied the right to a life of dignity, freedom and sufficient and healthy nutrition. Since Misereor was established in 1958, over 113,000 projects have been sponsored in Africa and the Middle East, Asia and Oceania, Latin America and the Caribbean.

Misereor encourages individual initiative

Misereor projects help people help themselves, so that they do not end up depending permanently on support. For this reason, Misereor's project partners work, for example, to assist small-scale farmers, 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 organisations, communities and self-help groups know the local situation best and enjoy the local people's trust. Together with the local people, our partners foster development at the local level while also receiving advice and financial support from Misereor.

Misereor appeals to the consciences of those in power

Misereor does not just fight poverty, hunger and injustice, but also their causes. As a political lobbying organisation 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, organise 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.

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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 supported by more than 500 organisations 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 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.

Active together

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

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