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- ✓ Koalitionsvertrag umsetzen.
- ✓ Staateninsolvenzverfahren schaffen.

**Reform proposals**

**to implement the mandate in the  
2021-2025 German coalition  
agreement**

**to support a sovereign debt workout  
mechanism**

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## Introduction

**The debt crisis in the Global South continues to worsen.** The collapse of the global economy as a result of the COVID pandemic, rising energy and food costs due to the Russian war of aggression, and rising interest rates due to the interest rate turnaround in the USA mean that the debt situation in many countries is no longer sustainable. This is leaving countries without the financial resources to overcome global challenges.

**The German government has recognised this problem.** In the [coalition agreement](#) for the 2021 to 2025 legislative period, the governing parties (Social Democrats, Greens and Liberals) agreed to the following (p. 154):

*"We support an initiative for a codified international sovereign insolvency procedure that includes all creditors and implements debt relief for particularly vulnerable groups of countries."*

**We welcome that this German government target responds to long-standing demands of debtor countries in the Global South, the United Nations and global experts.** We also welcome the fact that the German government explicitly recognised again at the G7 in May 2023 that achieving the Sustainable Development Goals by 2030 is directly linked to solving the debt crisis<sup>i</sup>:

*"We recognize that achieving the sustainable development goals by 2030, reducing poverty, responding to global challenges including the climate crisis, and addressing debt vulnerabilities in low and middle-income countries are urgent, interrelated and mutually reinforcing. [...] We remain concerned that serious challenges to debt sustainability are undermining the progress towards the SDGs [...]. We are determined to take on a leading role in reversing the setback of progress towards the SDGs."*

**However, more than a year and a half after the coalition agreement was adopted, we are not seeing sufficient progress to fulfil the mandate of the coalition agreement.** As part of our campaign "[For a fair approach to debt!](#)" we are therefore calling on the German government to initiate concrete implementation steps. The principles of fair and orderly debt restructuring of the United Nations<sup>ii</sup> should be the guiding principles for action.

The **reform proposals** presented below do not contradict the objectives of the G20 *Common Framework for Debt Treatments beyond the DSSI*. **We call on the German government not to let the remaining legislative period pass unused, but to pave the way, step by step, for the creation of a fair and transparent sovereign debt workout mechanism.**

✓ **Reform proposal 1: Enable comprehensive debt cancellation for a socially and environmentally sustainable economic recovery.**

- ➔ Advocate for realistic, transparent and independent debt sustainability analyses. These must ensure that the basic economic, social and cultural rights of the population in the debtor country as well as climate change-related costs and risks are mandatorily taken into account.
- ➔ Advocate for, and provide financial resources towards, the establishment of an independent mediation institution to resolve disputes between the debtor and its creditors and within the group of creditors.

✓ **Reform proposal 2: Oblige all creditors to participate in debt cancellation.**

- ➔ Increase the pressure on uncooperative creditors: Support debtor countries politically and financially to threaten or enforce payment suspensions.
- ➔ Take legislative action and make it more difficult for uncooperative creditors to legally enforce their claims.
- ➔ Advocate for the inclusion of multilateral creditors in debt restructuring programs.
- ➔ Cooperate with China and insist on sufficiently deep debt cancellation.

✓ **Reform proposal 3: Establish and enforce transparency as a binding creditor principle.**

- ➔ Set a good example and make German public loans and debt rescheduling agreements accessible to the public.
- ➔ Promote the creation of an international debt register that makes transparency mandatory for private creditors.

✓ **Reform proposal 4: Recognise that debt justice is a climate justice issue.**

- ➔ Cancel debt as a contribution to overcoming damage caused by climate change.

✓ **Reform proposal 5: Put a sovereign insolvency procedure on the international agenda and strengthen the role of the United Nations.**

- ➔ With a view to the Fourth Conference on Financing for Development, strengthen the role of the UN in international debt management and proactively take up proposals from countries of the Global South.

## **Reform proposal 1: Enable comprehensive debt relief for a socially and environmentally sustainable economic recovery.**

### **The problem from the perspective of erlassjahr.de:**

The history of debt crises is characterised by repeated delays in resolution, due to “too little and too late” debt cancellation - at the expense of the citizens of the debtor country and the taxpayers of the creditor country. Conflicting creditor interests and optimistic debt sustainability analyses by the International Monetary Fund (IMF) play a key role here. If the debt relief is too low, the costs of overcoming the crisis are passed on to the population of the debtor country through austerity programs.

In addition, debtor governments are reluctant to enter into debt cancellation negotiations at an early stage - not least because of the limited prospects of rapid and sufficiently extensive debt cancellation. This further delays the rapid resolution of debt crises, which is against the interests of all stakeholders.

### **What the Federal Government can do from the perspective of erlassjahr.de:**

#### **1.1 Advocate for realistic, transparent and independent debt sustainability analyses in which the basic economic, social and cultural rights of the population in the debtor country are taken into account.**

According to the current regulations of the Paris Club and the *Common Framework* of the G20 countries, the debtor country is obliged to agree to a loan program with the International Monetary Fund. As part of this program, the IMF formulates adjustment measures that the debtor country must implement and determines the need for debt cancellation as part of a debt sustainability analysis.

From erlassjahr.de's point of view, there are many problems with this approach. First, the requirement that the debtor country must enter into an IMF program restricts the sovereignty of the debtor country and its right to democratic self-determination. This is due to the problematic assumption that debt problems are the result of an irresponsible budgetary policy on the part of the debtor country - and not the result of power imbalances and instabilities of globalised financial capitalism or the consequence of unforeseeable external shocks, such as climate disasters or pandemics. Second, the requirement means that the IMF has a *de facto* monopoly on the preparation of debt sustainability analyses and the formulation of adjustment programs. Third, the impact on the fundamental economic, social and cultural rights of the population of the debtor country is not examined either when calculating the need for cancellation or when formulating the adjustment measures. Fourth, the governance structure of the IMF is undemocratic, meaning that creditors can indirectly exert a strong influence on the calculation of needed debt cancellation and the

formulation of the adjustment measures. Fifth, the calculations made as part of a debt sustainability analysis and the assumptions on which they are based are not publicly available and therefore not verifiable. Sixth, the debt sustainability analyses prepared by the IMF have been systematically over-optimistic in the past, which has meant that the required debt cancellation has been underestimated. Finally, the creditors have not even made a binding commitment to actually grant the debt cancellation determined by the IMF; rather, they explicitly keep the option open - both in the Paris Club and in the *Common Framework* - to include their own considerations in the decision on the amount of debt cancellation.

The Federal Government can address these problems through the following initiatives and measures:

- The German government should work to ensure that an **IMF program is not formulated as a condition for conducting negotiations on debt restructuring**. If debtor countries do not wish to enter into a loan program with the IMF in parallel to debt restructuring negotiations, **alternative debt sustainability analyses, for example from UN institutions**, should be allowed to be used as a basis.
- The German government should work to ensure that **realistic forecasts** and assumptions are used in debt sustainability analyses. To this end, it is important that the assumptions on which the calculation for needed debt cancellation are based are made publicly available before the procedure begins and can therefore be verified. In cases in which the German government is itself a creditor, it should ensure that the IMF is not the sole source for calculating debt cancellation requirements. Instead, various sources or - as proposed by the World Bank<sup>iii</sup> - independent experts agreed in advance by creditors and debtors should be involved in the negotiations.
- The German government should advocate that when calculating the need for debt cancellation and formulating adjustment measures, the impact on the rights of the population of the debtor country arising from the **International Covenant on Economic, Social and Cultural Rights (ICESCR)** should be examined and that the granting of these rights should have priority over the creditor's repayment claims. This should be a binding requirement.
- The German government should ensure that **climate change-related costs and risks are taken into account** when calculating the need for cancellation and formulating adaptation measures. For example, forecasted lower revenues in the debtor country due to the phase-out of fossil fuels should lead to more debt cancellation (see 4.2).
- The German government should work to **ensure that repayment obligations are automatically adjusted downwards** if the underlying assumptions of the debt

sustainability analyses prove to be over-optimistic.

- The German government should lobby other public creditors to ensure that the **independently and transparently calculated cancellation requirement is used as a binding basis for granting debt cancellation.**
- The German government should advocate for a **more democratic governance structure within the IMF**, including a greater voting weight for low- and middle-income countries.

## **1.2 Advocate for the establishment of an independent mediation institution for disputes and provide financial resources for this purpose.**

Conflicting creditor interests have led to conflicts between creditors or between creditors and debtors in current debt restructuring negotiations. This has resulted in delays to, or a standstill in, the process. An independent mediation institution could help here. In the past, independent mediation accepted by all sides has led to the resolution of deadlocks and ensured sustainable results in stalemate situations.<sup>iv</sup> As a debtor country, Germany itself was also part of such a process: after the Second World War, it was granted extensive debt relief as part of the London Debt Agreement. At that time, a court of arbitration was set up in Koblenz, which could be called upon as an independent arbitrator in the event of disputes over the interpretation of the agreement. Germany should ensure that other countries also benefit from such mediation procedures.

- The German government should work with international creditors to appoint an **independent mediator** in conflicts between debtors and creditors and between creditor groups. This should ensure the continuation of negotiations and the achievement of a balanced outcome. Such a mediator could, for example, be proposed by the UN Secretary-General, as suggested by the *Vulnerable20 (V20)*.<sup>v</sup> After a trial phase with ad hoc arbitration proceedings, a permanent *sovereign debt workout institution* could be created, as proposed by the UN Conference on Trade and Development (UNCTAD).<sup>vi</sup>
- The federal government should **provide funding for the creation of such an independent mediation institution.**

## **Reform proposal 2: Oblige all creditors to participate in debt cancellation.**

### **The problem from the perspective of erlassjahr.de:**

There is currently no comprehensive procedure under which a debtor country in difficulty can jointly negotiate all of its outstanding debts with all of its creditors. Instead, the system is characterised by a multitude of procedures and players. If the debtor country has reached an agreement with some of its creditors, there are currently no mechanisms for obliging uncooperative creditors to also participate in debt cancellation.

From erlassjahr.de's point of view, it is particularly problematic that the majority of claims are held by: private creditors such as investment banks and funds; multilateral creditors such as the World Bank or the IMF; and China, which is now the most important bilateral public creditor and holds significant claims against a large number of countries.<sup>vii</sup> All three creditor groups have so far refused to grant sufficiently comprehensive debt cancellation. As public creditors, the German government and the majority of Western countries hold relatively small claims against low- and middle-income countries.<sup>viii</sup> However, this does not mean that Germany and the Western countries do not bear any responsibility for resolving debt crises. Rather, it means that, in the view of erlassjahr.de, their responsibility is not limited to enabling the cancellation of their own bilateral claims. The central responsibility of Germany and the other G7 countries is to ensure that all creditors participate in sufficient cancellation. This includes, above all, ensuring the participation of multilateral creditors (in which they are the most important shareholders) and private creditors (most of whom are based in Western countries).

### **What the Federal Government can do from the perspective of erlassjahr.de:**

#### **2.1 Increase the pressure on uncooperative creditors: Support debtor countries politically and financially to threaten or enforce payment suspensions.**

So long as creditors are paid on time, they show little willingness to cancel part of their claims. This applies in particular to commercial creditors, who have no development mandate and whose interest in the long-term economic and political stability of the debtor country is overshadowed by short-term profit interests. These creditors therefore only participate in debt cancellations if they fear that they will get less back than if they do not participate. The most important method available to debtor countries to persuade uncooperative creditors to participate in debt relief is therefore to temporarily suspend debt repayments.

The German government can support debtor countries in this regard in several ways:

- The German government should **publicly encourage debtor countries to stop repaying uncooperative creditors.**
- The Federal Government should **grant its own debt cancellation** if the debtor country has temporarily suspended repayments to other uncooperative creditors and continues to do so whilst these creditors are not prepared to make comparable concessions. Currently, the German government makes the granting of its own debt cancellation dependent on the debtor country having also negotiated comparable concessions with other creditors. This is to avoid public debt relief being used to pay back other uncooperative creditors. However, if the other creditors do not agree to comparable restructuring, this requirement leads to a stalemate. If, on the other hand, the Federal Government grants its own cancellation if the debtor country is seriously endeavouring to obtain comparable participation from other creditors and, to this end, temporarily suspends repayments to these creditors, it would decisively strengthen the debtor country in negotiations with uncooperative creditors. Appropriate agreements, such as the proposal for a *most favoured creditor clause*<sup>ix</sup>, can ensure that the debtor country does not treat uncooperative creditors more favourably at a later date. This can prevent debt cancellation from Germany and other cooperative creditors from ultimately financing their bailout.
- The German government should **endeavour to ensure that other countries within the G7 and the Paris Club follow this example.**
- Finally, the German government should **provide financial support to debtor countries** during the critical period of suspension of payments and encourage friendly governments and international organisations to do the same.

## **2.2 Take legislative action and make it more difficult for uncooperative creditors to legally enforce their claims.**

Lawsuits filed by private creditors against states endeavouring to restructure their debts have steadily increased over the last 30 years. This practice poses a serious problem for the fair and timely resolution of debt crises.<sup>x</sup> For many - especially smaller - debtor countries, the costs and human resources involved in protracted legal disputes are already a heavy burden. In addition, lawsuits lead to unequal treatment of different creditors and favour hedge funds that act particularly aggressively at the expense of public creditors. The fear of lawsuits and the associated negative consequences also often prevents debtor countries from entering into debt restructuring negotiations in the first place, which prevents crises from being resolved at an early stage.

In the view of erlassjahr.de, the Federal Government can take the following measures to make it more difficult for uncooperative creditors to legally enforce their claims:



- The German government should **introduce a law that limits the amount that can be claimed and enforced to the amount agreed in international debt restructurings.** Comparable laws already exist in the UK, Belgium and France, albeit with significant weaknesses in each case.<sup>xi</sup> Although the majority of loan agreements in countries in the Global South are concluded under British or New York law, the adoption of a national law is also crucial in Germany. This is because the adoption of a corresponding law would no longer allow plaintiff creditors to enforce their legal titles obtained elsewhere, for example by seizing assets of the debtor state that are located in Germany or are to be transferred via Germany. Germany could thus become a so-called "**Safe Harbour**" for debtor states.
- The German government should **lobby friendly countries to pass comparable laws themselves.** It would be particularly important for corresponding laws to be passed in New York and England. In both financial centres, there are already efforts from the parliaments to pass corresponding laws. However, so far these progressive forces have not been able to prevail.<sup>xii</sup>
- The German government should **recognise the UN principles for debt restructuring.** In the event of a lawsuit, debtor states could then refer to these principles before German courts.

### **2.3 Advocate for the inclusion of multilateral creditors in debt restructuring.**

To date, Paris Club members including Germany have insisted on maintaining a preferred status for multilateral creditors. The argument of favourable financing is often used to justify a full exemption status. However, this is not tenable. Only a third of multilateral loans are granted on concessional terms, and some multilateral loans even have higher interest rates than those of bondholders and China. In addition, the concession granted can certainly be taken into account when calculating a comparable participation in debt cancellation, so that creditors who have granted loans on concessional terms are required to cancel less in nominal terms than commercial creditors.

From erlassjahr.de's point of view, the unrestricted and fundamental exclusion of all multilateral claims is problematic in several respects. The multilateral claims are so high in some cases that a sustainable debt situation is difficult to achieve without the inclusion of these claims. For example, multilateral creditors hold more than 50 per cent of the claims in at least 44 critically indebted countries.<sup>xiii</sup> Furthermore, the privileged status of multilateral creditors makes it difficult to persuade all other creditors to participate in cancellations. If multilateral claims are kept out of restructurings, bilateral and private creditors will have to make greater concessions in order to achieve a sustainable debt situation.

In order to overcome the exceptional status of multilateral claims, the German government can do the following:

- The German government should work towards **involving multilateral creditors in the debt restructuring of countries in which it is itself a creditor** (for example, in the current cases of Sri Lanka and Ghana).
- The German government should **initiate a structural process within the World Bank**, the largest multilateral financial institution, which, modelled on the HIPC initiative of the mid-1990s, would lead to multilateral claims, and above all the claims of the World Bank, being cancelled.
- The Federal Government should support **an independent review to establish how tenable the arguments regularly put forward against the inclusion of multilateral organisations are in principle**.
- The German government should also support **an independent review in individual cases to determine whether a situation exists in which debt sustainability in critically indebted countries can no longer be established without the involvement of multilateral creditors**.

#### **2.4 Work cooperatively with China, while insisting on deep debt cancellation.**

In current restructuring negotiations – for example, Sri Lanka, Zambia or Suriname - Beijing does not appear to be prepared to agree to comprehensive debt cancellation. Instead, attempts are being made to counter the crisis in the short term by extending payments and adjusting debt servicing with minimal cancellation effect. As is currently the case in Zambia, this threatens to repeat the mistakes of the 1980s, in which debt crises were prolonged due to inadequate cancellations. To avoid this, erlassjahr.de believes that it is important to work cooperatively with China, whilst also insisting on sufficiently deep debt cancellations:

- The German government should **fulfil its own responsibility and advocate for the binding participation of private and multilateral creditors in comprehensive debt cancellation (see above)**. Only then will appeals to China be credible.
- The German government should **stop the harmful discourse that China is solely responsible for debt crises in countries of the Global South**. This applies in particular whilst the German government is failing to fulfil its own responsibilities and is not advocating for the binding participation of all private and multilateral creditors.

- The German government should **remain open to dialogue** and work cooperatively with China through existing channels and try to find a joint solution in restructuring processes.
- If the aforementioned steps have been exhausted and China does not participate in debt cancellation on comparable terms, the German government should **offer debtor countries that temporarily suspend their repayments to China the comprehensive cancellation of their own claims and the provision of new financing**. In order to prevent debt cancellation by Germany and other co-operative creditors ultimately financing China's bailout, the cancellation should be made dependent on debtor countries suspending their repayments to China (whilst it is not prepared to make comparable concessions). Whether such a strategy is attractive for debtor countries and can therefore exert serious pressure on China depends on the extent of the relief and the new financing granted to the debtor countries. Germany should therefore lobby friendly governments and international financial organisations to pursue a joint strategy. If Western countries offer debtor countries extensive cancellations of their own bilateral claims and also ensure the participation of Western private creditors and multilateral financial institutions such as the IMF and World Bank in the cancellation, they can offer debtor countries a credible opportunity to overcome debt crises quickly and thereby exert serious pressure on China.

### **Reform proposal 3: Establish and enforce transparency as a binding creditor principle.**

#### **The problem from the perspective of erlassjahr.de:**

It is currently not possible for the public or other creditors to identify all the creditors of a particular debtor country. This applies in particular to private creditors. For example, the identity of investors can only be traced in just under a quarter of cases.<sup>xiv</sup> The conditions for granting loans and therefore the costs of a loan transaction in terms of interest, amortisation, fees and other contractual conditions are also not usually publicly available. The same applies to the terms of debt restructuring agreements. The *Paris Club*, for example, keeps its debt agreements secret, meaning that debtor countries lack important information on past debt restructuring processes that could be helpful for their own negotiations. Voluntary transparency initiatives, such as those of the OECD and the *Institute of International Finance*, have had little success to date.

In development cooperation, the development of the debtor country's capacities for better, transparent debt management is often a particular focus. The debtor is also sanctioned if there is a lack of transparency, for example by postponing the disbursement of IMF loans.

However, creditors themselves also have a duty. Transparency must be established and enforced as a binding responsibility of all creditors.

## What the Federal Government can do from the perspective of erlassjahr.de:

### 3.1 Lead by example and make German public loan agreements and debt rescheduling agreements transparent.

The German government currently only reports on its public claims from countries in the Global South in aggregated form. There is no transparent reporting on the basis of individual loan agreements. There are also major discrepancies between the information provided by the Federal Ministry of Finance and the World Bank regarding German public claims. The Ministry of Finance reports that Germany held loans totaling the equivalent of around USD 13.6 billion from debtor countries in the Global South at the end of 2021. However, the debtors report claims totaling around USD 30 billion to the World Bank.

In order to set a good example, the Federal Government should take the following measures:

- The German government should **report transparently at a central location on its own claims on the basis of individual loan agreements** and also include the lending of publicly owned commercial credit institutions. It should also proactively clarify data differences between its own reporting and the World Bank's reporting, which is based on information provided by debtor countries.
- The German government should **make its own agreements on debt restructuring publicly available** and work towards the publication of Paris Club debt restructuring agreements.

### 3.2 Promote the creation of an international debt register that makes transparency mandatory for private creditors.

erlassjahr.de, together with partners worldwide, has been calling for the introduction of a binding debt register for years. Such a register would also oblige private creditors to disclose their claims. At the 77th session of the UN General Assembly on 14 December 2022, a resolution was passed recommending the creation of a "central data register" that would also record information on debt restructurings.

The Federal Government should take the following measures:

- The German government should **advocate for, and provide financial contributions to, the creation of an international debt register** at an independent institution.
- The German government should endeavour to ensure that the **lack of transparency is sanctioned on the creditor side**, for example by ensuring that claims that have not been made public can no longer be sued for.

## **Reform proposal 4: Recognise that debt justice is a climate justice issue.**

### **The problem from the perspective of erlassjahr.de:**

The debt crisis is exacerbating the climate crisis and hindering a sustainable green transformation: high levels of debt and continued debt service payments to foreign creditors are forcing countries to maximise their exports. This often means continuing fossil fuel extraction that is profitable in the short term and expanding fossil fuel projects.<sup>xv</sup>

At the same time, the climate crisis is driving countries in the Global South deeper into debt. Countries that are particularly vulnerable to climate change are already having to pay higher interest rates to borrow from abroad. Public subsidies are inadequately provided and international financing agreements are not honoured. This leaves mainly debt-generating funds for the enormous climate financing requirements, especially for climate-vulnerable countries. At the same time, extreme weather events are on the rise due to climate change. As a result of the destruction caused by climate disasters, the repayment of loans is becoming a problem for many countries. In addition, they often have to take out additional loans to cope with the consequences of such disasters, which further increases their debt.

In order to break this vicious circle, erlassjahr.de believes that it is important to link climate and debt justice. The historical responsibility of the countries of the Global North for the climate catastrophe must be taken into account. On the one hand, this requires that sufficient new, additional and grant-based funds are allocated to countries of the Global South instead of continuing to rely primarily on the mobilisation of private funds to achieve climate targets. On the other hand, a fair approach to over-indebtedness is needed to break the vicious circle.

To this end, debt swaps or the conditioning of debt cancellations are being increasingly discussed. However, debt swaps usually do not offer sufficient relief in dealing with a debt crisis.<sup>xvi</sup> In addition, critically indebted countries - just like critically indebted private individuals - should have the right to have unsustainable and illegitimate debts cancelled without conditionality.<sup>xvii</sup> The unconditional cancellation of these debts is a necessary - if not sufficient - condition for countries to embark on a sustainable development path. In this sense, advocating for a fair, transparent and participatory process that ensures the

cancellation of unsustainable and illegitimate claims and the participation of all creditors is itself a contribution to global climate justice. Climate change-related costs and risks must be taken into account when determining whether a country's debt is unsustainable. The German government should also proactively address how debt cancellation can play a role in making it easier for debtor countries to fulfil their obligations under the Paris Climate Agreement and incentivise them to phase out fossil fuels, for example by cancelling claims for climate-damaging projects.

In addition, erlassjahr.de sees the following concrete starting points for the German government to contribute to climate justice by cancelling debt.

## What the Federal Government can do from the perspective of erlassjahr.de:

### 4.1 Cancel debt as a contribution to overcoming damage caused by climate change.

Extreme weather events, such as hurricanes and droughts, are on the rise as a result of the climate catastrophe. The resulting loss and damage is immense. However, many of the affected countries are heavily indebted and there is a lack of funds for emergency aid and reconstruction.

In the view of erlassjahr.de, affected countries should have the right to temporarily suspend debt service payments from the time of a disaster ("debt moratorium"). During the moratorium, the long-term adjustment of repayment obligations should be negotiated in a fair and transparent manner. Debts that have become unsustainable as a result of a disaster should be consistently cancelled.

The German government should promote this kind of approach to climate-vulnerable countries in the following way:

- The German government should **actively offer critically indebted countries, in which it is itself a creditor, a suspension of their debt service after climate catastrophes**, such as hurricanes, in order to immediately release funds for emergency aid and reconstruction.
- In **international processes such as the UN climate conferences, the German government should advocate for the automatic introduction of debt moratoriums** as a result of climate disasters. All creditors should be included in these moratoria.
- The German government should **politically legitimise the suspension of payments to creditors as a result of climate disasters**.

- When adopting a national law (see reform proposal 1.2.), the Federal Government should also **temporarily prevent the possibility of legal action and enforcement as a result of a natural disaster.** <sup>xviii</sup>

## **Reform proposal 5: Put a sovereign debt workout institution on the international agenda and strengthen the role of the United Nations.**

### **The problem from the perspective of erlassjahr.de:**

If there were a fair and transparent international debt workout institution and thus debt relief procedures that function according to the rule of law, many of the problems that debtor countries (and well-intentioned creditors) are confronted with would not exist. For this reason, there have been repeated attempts throughout history to create such a mechanism.

In the view of erlassjahr.de, a debt workout institution should be set up under the responsibility and supervision of the United Nations. This is the only way to ensure that the affected debtor countries are sufficiently heard and adequately involved in the creation of a fair global financial architecture. The UN is the place to conduct inclusive debates and decisions on a “codified sovereign insolvency mechanism” (as agreed in the German coalition agreement) in a transparent and participatory manner. In 2014, Global South countries made a push in the UN to establish an international sovereign debt workout mechanism under the umbrella of the UN. However, countries in the Global North, including Germany, blocked the process.

Even if there is currently no international consensus in favour of creating a sovereign debt workout mechanism at the United Nations, the goal agreed in the coalition agreement must remain an overarching guideline of the German debt strategy. Of course, Germany cannot create such a mechanism on its own. However, the German government has a serious influence in regional and international forums and negotiations, which it should use to proactively shape opinion and create momentum.

### **What the Federal Government can do from the perspective of erlassjahr.de:**

#### **5.1 With a view to the Fourth Conference on Financing for Development, strengthen the role of the UN in international debt management and proactively take up proposals from countries of the Global South.**

In order to fulfil the objective in the coalition agreement, the German government should proactively seek dialogue with countries and groups of countries that are committed to fair and efficient debt restructuring procedures. It should also work to ensure that constructive solutions do not fall victim to the formation of blocs in the United Nations and proactively take up and support proposals from countries of the Global South.

From erlassjahr.de's perspective, this means above all for the current legislative period:

- The German government should work to ensure that the Fourth Conference on Financing for Development actually takes place as part of the United Nations General Assembly in 2025 and **ensure that the creation of a fair and transparent sovereign debt workout mechanism features prominently on the agenda.**
- Together with Namibia, the German government is preparing for the **UN Summit of the Future** in 2024 and should ensure that this new process strengthens the established UN processes in which global structural issues and questions of development financing are discussed and decided. It should also ensure that this summit provides a good basis for the Fourth Conference on Financing for Development in 2025. When it comes to the debt crisis in the Global South, the German government should proactively drive forward the discussion on a fair and transparent sovereign debt workout mechanism, as mandated in the coalition agreement. This means ensuring that the debate goes beyond the better implementation of the G20 Common Framework.
- The German government should **play a constructive role in existing UN processes**, such as the SDG mid-term summit in September 2023 and the *Financing for Development process*, and proactively support proposals from countries of the Global South for reforming the global financial architecture.
- The German government should **actively seek dialogue with states and groups of states that are committed to fair and efficient debt relief procedures.**
- The German government should **politically and financially support proposals from institutions other than the G20 that could pave the way for codified sovereign insolvency proceedings.** This applies, for example, to the UN Conference on Trade and Development (UNCTAD), which presented proposals for reformed restructuring procedures back in 2015 that were not sufficiently considered.
- The German government should also **commission an independent and publicly accessible evaluation of previous debt restructurings** under the G20's *Common Framework* for Debt Restructuring, thereby implementing the concerns of the UN *Financing for Development Forum*. In April 2023, the member states agreed that current and previous debt relief initiatives should be independently evaluated in order to derive reform proposals. This should be based on sovereign debt workout principles<sup>xix</sup>. The results of the evaluation should be incorporated into the German position on international debt policy.



## Sources and literature

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- <sup>ii</sup> Cf. UN General Assembly: "Basic Principles on Sovereign Debt Restructuring Processes", Resolution of 10 September 2015, <https://digitallibrary.un.org/record/804641?ln=en>.
- <sup>iii</sup> See World Bank (2022): "World Development Report 2022", chapter on "Managing Sovereign Debt", p. 221.
- <sup>iv</sup> See erlassjahr.de (ed.): "Handbuch: Von Gläubigern und Schuldner - Informationen und Lösungsideen zur Schuldenkrise im Globalen Süden", p. 72, <https://erlassjahr.de/produkt/handbuch-von-glaeubigern-und-schuldner/>.
- <sup>v</sup> See erlassjahr.de (ed.): "V20: Die Gruppe der vom Klimawandel besonders betroffenen Staaten fordert Schuldenerlässe", <https://erlassjahr.de/news/v20-die-gruppe-der-vom-klimawandel-besonders-betroffenen-staaten-fordert-schuldenerlasse/>.
- <sup>vi</sup> See UNCTAD (2015): Sovereign Debt Workouts: Going forward. Roadmap and Guide, [https://unctad.org/system/files/official-document/gdsddf2015misc1\\_en.pdf](https://unctad.org/system/files/official-document/gdsddf2015misc1_en.pdf) esp. chapter IV
- <sup>vii</sup> Private creditors hold 61 per cent of the claims against all low- and middle-income countries, multilateral creditors 26 per cent and China 4 per cent. The figures for countries with very critical debt situation according to the erlassjahr.de definition are 43, 36 and just under 7 per cent respectively. See Stutz, M. (2023): "Creditors worldwide: an analysis of the creditor landscape and political accountability for debt relief", in: erlassjahr.de; Misereor (ed.) (2023): "Global Sovereign Debt Monitor 2023", p. 20, <https://erlassjahr.de/produkt/schuldenreport-2023/>.
- <sup>viii</sup> As a public bilateral creditor, Germany holds less than 1 per cent of the claims against all low- and middle-income countries, while the G7 countries together hold around 5 per cent. The figures for countries with very critical debt situation according to the erlassjahr.de definition are around 1 and 9 per cent. See Stutz, M. (2023): "Creditors worldwide: an analysis of the creditor landscape and political accountability for debt relief", in: erlassjahr.de; Misereor (2023).
- <sup>ix</sup> See Buchheit, L. and Gulati, M. (2022): Breaking the sovereign debt impasse', Cf. <https://www.ft.com/content/8cb037be-f17d-434d-9e93-f14bf4887335>.
- <sup>x</sup> See Stutz, M. (2023): "The power of legislation: How national legislation can contribute to a fair solution for the global debt crisis" in: erlassjahr.de; Misereor (2023), pp. 44-47.
- <sup>xi</sup> See Stutz, M. (2022): "Focus Paper 9: The Potential of National Legislation for the Fair Resolution of Global Debt Crises", <https://erlassjahr.de/en/publications/>.

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<sup>xii</sup> See, inter alia, Fahy, P. (Member of the New York House of Commons); Hoylman-Sigal, B. (Member of the New York Senate) (2023): "New York Taxpayer and International Debt Crises Protection Act", <https://www.nysenate.gov/legislation/bills/2023/S4747> and Debt Justice (10/03/2023): "UK MPs call for law to make private lenders deliver debt relief", <https://debtjustice.org.uk/press-release/uk-mps-call-for-law-to-make-private-lenders-deliver-debt-relief>.

<sup>xiii</sup> See Stutz, M. (2023): "Creditors worldwide: an analysis of the creditor landscape and political accountability for debt relief", in: erlassjahr.de; Misereor (2023), pp. 20-29.

<sup>xiv</sup> See Munevar, D. (2021): "Sleep now in the fire. Sovereign Bonds and the Covid-19 Debt Crisis", p. 20, [https://www.eurodad.org/sovereign\\_bonds\\_covid19](https://www.eurodad.org/sovereign_bonds_covid19).

<sup>xv</sup> Debt Justice UK (2023): "The debt-fossil fuel trap: Why debt is a barrier to fossil fuel phase out and what we can do about it", not yet published.

<sup>xvi</sup> See Kaiser, J. (2020): "When climate change becomes a debt trap: overcoming damage and losses with debt cancellation", in: erlassjahr.de; Misereor (ed.) (2020): "Debt Report 2020", <https://erlassjahr.de/produkt/schuldenreport-2020/>

<sup>xvii</sup> See Kaiser, J. (2020): "When climate change turn into a debt trap", in: erlassjahr.de; Misereor (ed.) (2020): "Global Sovereign Debt Monitor 2020", [https://erlassjahr.de/wordpress/wp-content/uploads/2020/05/Global-Sovereign-Debt-Monitor\\_2020.pdf](https://erlassjahr.de/wordpress/wp-content/uploads/2020/05/Global-Sovereign-Debt-Monitor_2020.pdf), and Woolfenden, T.; Sharma Khushal, S. (2022): "Why climate justice must include debt justice", <https://debtjustice.org.uk/wp-content/uploads/2022/10/Debt-and-the-Climate-Crisis-Briefing-October-2022-UPDATED2.pdf>.

<sup>xviii</sup> See Stutz, M. (2022): "Focus Paper 9: The Potential of National Legislation for the Fair Resolution of Global Debt Crises", p. 13.

<sup>xix</sup> In 2015, the UN General Assembly adopted nine principles for fair and orderly debt restructurings (see UN General Assembly: "Basic Principles on Sovereign Debt Restructuring Processes", resolution of 10 September 2015), but these have not subsequently played a major role either in the creation of new procedures or in debt restructurings in individual cases. A concrete comparison of the process of current debt cancellation negotiations with processes based on the principles of sovereign insolvency proceedings can be found here: UNCTAD (2015): "Sovereign Debt Workouts: Going forward. Roadmap and Guide", in particular Chapter III, [https://unctad.org/system/files/official-document/gdsddf2015misc1\\_en.pdf](https://unctad.org/system/files/official-document/gdsddf2015misc1_en.pdf).