Policy Note
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The Quest to Solve the Global Debt Crisis

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A brief history of the G20 and global public debt

The G20 was founded in 1999 after the Asian financial crisis as a forum for the finance ministers and central bank governors to discuss global economic and financial issues.[1] The group was upgraded to the level of heads of state/government in 2008 in the wake of the global economic and financial crisis when it became apparent that the necessary crisis coordination would only be possible at the highest political level.[2] The financial crisis marked a pivotal moment for the G20. During the inaugural Leaders' Summit in Washington DC the importance of coordinated action to manage public debt and prevent future crises was underscored.[3]

More recently, another crisis, the COVID-19 pandemic, has helped shape the role of the G20 in managing public debt vulnerabilities across the globe, particularly in developing countries. This is because the economic recession triggered by the pandemic led to sharp declines in government revenues amid increased spending on healthcare and economic support measures,[4] which in turn caused public debt levels to surge in many countries. Low-income countries were already facing high debt levels before the pandemic and the economic fallout pushed many countries into debt distress or high risk of debt distress.[5] By 2022, about 60% of the 73 low-income countries that were eligible for the G20 debt relief efforts were in debt distress or at high risk of it, compared to less than 30% in 2015.[6]

In response to the COVID-19 pandemic, the G20 launched the Debt Service Suspension Initiative (DSSI) in 2020, allowing 73 of the world's poorest countries to suspend debt repayments.[7] This initiative highlighted the group's commitment to addressing the immediate financial pressures faced by vulnerable economies and was a significant step in acknowledging the need for debt relief. The DSSI provided up to $12.9 billion of debt service suspension, granted mainly by bilateral official lenders. However, recognising that support for debt relief may be required beyond the DSSI, the Common Framework for Debt Treatments (CF) was proposed and launched in November 2020 in Riyadh during the Saudi presidency. This framework was meant to allow debtor countries to seek comparable relief from their creditors, including Paris Club, non-Paris Club and private creditors.[8]

However, implementation of the CF has been slow and protracted due to creditor coordination challenges, limited consensus among creditors and low subscription of target beneficiary countries. Consequently, there have been calls for reforms of the initiative, leading to the establishment of the G20 Global Sovereign Debt Roundtable (GSDR) in February 2023 with the objective to 'build greater common understanding among key stakeholders involved in debt restructurings, and work together on the current shortcomings in debt restructuring processes both within and outside the Common Framework'.

Under the 2023 India G20 presidency, the agenda on debt centred on reforming the international debt architecture to ease the adverse lending environment facing developing countries following the

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[1] G20 India, "About G20".

[2] G20 India, "G20 – Background Brief".

[3] Kanica Rakhra, "The G20 as a Multilateral Force", *CEBRI-Journal* 2, no. 8 (2023): 77-94.

[4] World Health Organization, *Global Spending on Health: Rising to the Pandemic's Challenges* (Geneva: WHO, 2022).

[5] Ceyla Pazarbasioglu, "Current Sovereign Debt Challenges and Priorities in the Period Ahead" (Insights and Analysis on Economics and Finance, International Monetary Fund, Washington DC, November 16, 2020).

[6] IMF, "Debt Restructuring in LICs" (Questions and Answers, IMF, Washington DC, April 6, 2022).

[7] World Bank, "Debt Service Suspension Initiative" (Brief, World Bank, Washington DC, March 10, 2022).

[8] Rakhra, "The G20 as a Multilateral Force".

pandemic and to facilitate more loans to developing nations. The focus was on enhancing the capacity of multilateral institutions to provide additional financial support, reflecting ongoing concerns about rising public debt levels in low- and middle-income countries.[9]

Global public debt has now reached a record high of $92 trillion.[10] Developing countries owe $29 trillion in debt,[11] with debt service for external debt alone reaching a record $443.5 billion in 2022.[12] Debt-servicing costs for the 24 poorest countries are expected to balloon by as much as 39% in 2023-2024.[13] UNCTAD Secretary-General Rebeca Grynspan emphasised the urgent need for reforms in the G20's Common Framework for debt restructuring and relief.[14] The Brazilian presidency's priorities include fighting poverty, ensuring sustainable development and enhancing governance reforms, all of which are intricately linked to public debt issues. It calls for addressing global debt vulnerabilities by, among others, stepping up the implementation of the Common Framework in a timely, orderly, predictable and coordinated manner.[15]

Areas of possible agreement for the 2025 G20 South African presidency

It is important to note that there has been broad agreement on several key debt initiatives at the G20 in recent years. The establishment of the DSSI (2020), CF (2020) and GSDR (2023), along with other efforts to reform the global financial architecture, attest to this. Drawing on lessons learnt from these, particularly the DSSI and the CF, as well as the momentum for implementing reforms to the global financial architecture, the agenda for the 2025 South African G20 presidency can be formulated to reflect the needs of developing countries.

The following are areas of general agreement and priority among international stakeholders on how to address the debt challenge.

The need for an effective debt relief and prevention framework

A comprehensive and adaptable debt relief framework aimed at ensuring financial stability and sustainable development is key to the delivery of investments required to attain the Sustainable Development Goals (SDGs). Unfortunately, the CF has not delivered a restructuring mechanism that provides adequate relief to fiscally constrained debtor countries, nor does it provide an adequate framework for the prevention of unsustainable debt. This has been the general experience of the CF, which was not well received by the target beneficiaries due to its protracted negotiations and fear of negative ramifications, including credit downgrades.

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[9] Shivangi Acharya and Sarita Chaganti Singh, "G20 to Discuss International Debt Architecture, More Loans to Developing Nations", *Reuters*, July 13, 2023.

[10] UNCTAD, "UN Warns of Soaring Global Public Debt: A Record $92 trillion in 2022", July 12, 2023.

[11] UNCTAD, *A World of Debt: A Growing Burden to Global Prosperity*, Report (Geneva: UNCTAD, 20240.

[12] World Bank, "Developing Countries Paid Record $443.5 Billion on Public Debt in 2022", Press Release, December 13, 2023.

[13] World Bank Group, "Developing Countries Paid Record".

[14] UNCTAD, "UNCTAD Chief: Fractured World in Crisis Demands 'Immediate Action' From G20", February 29, 2024.

[15] G20 Brazil, "Chair's Summary – 1st G20 Finance Ministers and Central bank Governors Meeting", February 29, 2024.

The need for global financial architecture reforms

The existing global financial architecture has been unable to support the mobilisation of stable and long-term financing at scale for investments needed to achieve the SDGs for the world's 8 billion people. It is plagued with inequities, gaps and inefficiencies that are deeply rooted in the system, including poor debt conditions for developing countries, unequal access to liquidity during crises and volatility in global markets, with dire consequences for sustainable development.

The need for increased development financing

The G20 has recognised the critical need for increased development financing, particularly in the face of growing global challenges such as the COVID-19 pandemic, climate change and rising debt levels in developing countries. Several steps have been taken to achieve this and some key agreements and initiatives have been endorsed to mobilise more resources for sustainable development. These include the Financing for Sustainable Development Framework (2020), The G20 High-Level Principles on Scaling up Sustainability-Related Financial Instruments (2021) and the G20 Principles to Scale Up Blended Finance (2021). These agreements tackle important aspects of financing, including debt financing. The G20 High-Level Principles on Scaling up Sustainability-Related Financial Instruments, for instance, recognise the importance of green, social, sustainability and sustainability-linked bonds as a means of raising long-term financing for SDG-related projects. As a result, this agreement adopts a set of voluntary principles to support developing countries to take advantage of these opportunities.[16]

Key recommendations and proposals for the South African presidency

To effectively address the global debt issue for developing countries during South Africa's G20 presidency, several initiatives should be prioritised.

Strengthening the Common Framework for Debt Treatment. South Africa should advocate for a time-bound expert review of the G20's CF, focusing on the experiences of borrowing countries, to enhance its effectiveness. It should include a push for the integration of private creditors into the debt-restructuring process. This would involve developing guidelines for engaging private sector stakeholders, ensuring their participation in negotiations and addressing the complexities of multi-creditor scenarios.

Establishing an African Debt Monitoring Mechanism. Working with the African Development Bank, the World Bank, the IMF and other G20 members, including the AU, the South African G20 presidency must help facilitate the establishment of an African Debt Monitoring Mechanism (ADMM), as proposed by the AU. The ADMM would be 'a centralised mechanism to collect, collate, standardise, and aggregate debt related data in Africa and would serve as a platform to advise, consult, and train African members states in debt relief and re-structuring discussions and negotiations'. This mechanism should provide comprehensive data on debt levels, terms and repayment schedules, enabling better-informed negotiations and policy decisions. It would also be a significant pathfinding tool in tackling debt crises in the future and could have a broader application.

Enhancing transparency and data sharing. Initiatives that require both creditors and debtors to disclose comprehensive information about existing debts should be promoted. This could involve establishing a

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[16] UNDP and OECD, *The G20 Contribution to the 2030 Agenda in Times of Crises 2019-2023*, Report (New York: UNDP, 2023), 40.

centralised database managed by an international agency, such as the IMF, to track all loans and terms, thereby reducing the opacity that complicates debt negotiations. The G20 Operational Guidelines for Sustainable Financing adopted in 2019 promote information-sharing between creditors and borrowers and the IMF and World Bank.[17] The South African G20 agenda should support this voluntary data sharing to complement tools such as the World Bank International Debt Statistics whose expanded coverage also helps promote transparency.

[17] UN Inter-Agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads* (New York: UN, 2024), 220.

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