Policy Note
3
September 2024

Strengthening the Global Sovereign Debt Roundtable

BRAHIMA COULIBALY AND WAFA ABEDIN, BROOKINGS INSTITUTION

KONRAD ADENAUER STIFTUNG

SAIIA 90 YEARS EST.1934

Introduction

A growing number of countries are strained by unsustainable debt burdens at a time when the world is falling behind on achieving the Sustainable Development Goals and in reaching the Paris Agreement's target of limiting global warming to 1.5°C.

Over the past decade, a combination of high investment needs and low domestic revenue in developing countries has driven rapid debt accumulation in the Global South.[1] This debt buildup was further enabled by ultra-low interest rates and a greater availability of credit from new lenders, such as the private sector and China. Rising debt levels became increasingly unsustainable when a series of global shocks, beginning with the COVID-19 pandemic, led central bankers in advanced economies to embark on an aggressive monetary tightening campaign, raising interest rates and thereby the cost of debt servicing.[2] In turn, high debt service payments are constraining fiscal space, limiting spending on education, health and climate despite substantial investment needs. This challenge is particularly acute for the African continent; African sovereigns constitute 20 of the 34 low-income countries in or at high risk of debt distress.[3]

The G20 has proven to be a critical forum to address and advance solutions to debt sustainability and debt-restructuring challenges. It has long recognised the need to address debt vulnerabilities in an effective, comprehensive and systematic manner. In response to the economic fallout from the COVID-19 pandemic, the G20 established a temporary Debt Service Suspension Initiative (DSSI), postponing almost $13 billion in debt payments and providing much-needed fiscal space to eligible low-income countries to combat the health and economic impacts of the pandemic. In 2020, the G20 established the Common Framework for Debt Treatments (CF) beyond the DSSI to address insolvency and protracted liquidity problems in eligible low-income countries that were compounded by the pandemic. Both the DSSI and the CF were major efforts endorsed by the G20 to address debt vulnerabilities and restructuring challenges. However, the CF has fallen short of providing the long-term debt relief and treatment many developing countries require. The G20 Global Sovereign Debt Roundtable (GSDR) was initiated in February 2023 to continue the G20's work to address debt vulnerabilities and restructuring challenges, with a specific focus on process and practices.

Collective priorities on sovereign debt challenges

There is widespread agreement that the CF is facing serious operational challenges in its current state. Implementation of the CF has been slow and protracted due to creditor coordination challenges, unclear timelines and limited consensus on the parameters of debt treatment. The need to reform the CF has been highlighted repeatedly by G20 finance ministers and central bank governors, as well as leadership in the World Bank, International Monetary Fund (IMF), African Development Bank, AU and UN.

There is also growing agreement that policies that address debt vulnerabilities must consider the urgent need for climate financing. High debt service payments, notably in Africa, weigh on financing capacity for critical climate investments. The issue of debt distress in the context of climate change gained

[1] Brahima Coulibaly, Dhruv Ghandi and Lemma Senbet, "Is sub-Saharan Africa Facing Another Systemic Sovereign Debt-Crisis?", Brookings Institution, 2019.

[2] Brahima Coulibaly and Wafa Abedin, "Addressing the Looming Sovereign Debt Crisis in the Developing World: It Is Time to Consider a 'Brady' Plan", Brookings Institution, 2023.

[3] IMF, List of LIC DSAs for PRGT-Eligible Countries, as of April 20, 2024.

momentum at COP27 with the launch of the Sustainable Debt Coalition endorsed by African finance ministers. Additionally, at COP28, leaders from Kenya, Colombia and France launched a Global Expert Review on Debt, Nature and Climate, which will bring together independent experts to evaluate the relationship between sovereign debt and its impacts on hindering climate action.

A proposed agenda for GSDR under the South African G20 presidency

As South Africa prepares to assume the G20 presidency, a strong agenda for the GSDR that uplifts African priorities should focus on 1) reforming the CF; 2) integrating climate financing into the conversation on debt management strategies; and 3) addressing the systemic drivers of high debt service costs for developing countries.

The GSDR has already held various meetings to generate mutual understanding between creditors and debtors on various aspects of debt treatment under the CF that require further clarity. The first of these areas is specifying the timeline and steps for debt treatment under the CF. In the case of Zambia and Chad, it took at least two years for each country to reach an agreement with its official and private creditors. The second area is suspending debt service payments for the duration of debt treatment negotiations. This suspension was proposed by IMF Managing Director Kristalina Georgieva.[4] The Marrakech Declaration, initiated by the 2022 Caucus of African Governors of the IMF and World Bank, has also called for an extension of the DSSI until the CF operates effectively and swiftly. The third area is clarity on the mechanism and evaluation criteria for comparable treatment between creditors. It is critical that all creditors understand the comparability of treatment requirements and that the debtor understands how its official creditors will assess these requirements. African countries have suffered the most from these shortcomings of the CF, as they are the only nations that have sought assistance under it. The GSDR should continue to hold meetings on these key issues until agreement on these areas is reached by debtors and creditors.

In addition to reforming the CF, the GSDR agenda should continue to elevate climate action in the context of sovereign debt challenges. African countries cannot substantially invest in climate measures without first addressing the debt problem. Importantly, the GSDR agenda should not neglect addressing the long-term drivers and implications of rising debt service costs for developing countries. African countries, in particular, face higher costs of financing than advanced and emerging economies, which weigh on their capacity to finance climate and development agendas.[5]

Steps to advance this agenda

To advance this agenda and address medium-term deficiencies in the sovereign debt architecture, the South African G20 presidency should push for the following:

Suspending all debt service payments as soon as a country requests treatment under the CF. This is a short-term action that would help alleviate the debt burden and socio-economic consequences experienced by the requesting country and accelerate the debt workout process under the CF. Extending the DSSI has been recommended by the African finance ministers and central bank governors

---

[4] Kristalina Georgieva and Ceyla Pazarbasioglu, "The G20 Common Framework for Debt Treatments Must be Stepped Up", IMF (blog), December 2, 2021.

[5] African Development Bank Group, *African Economic Outlook 2024* (Abidjan: AfDB, 2024).

of the IMF and World Bank caucus.[6] Importantly, this debt service suspension should not be net present value neutral, so that debtors do not have to add this to their balance sheets and pay back their creditors at a later date. This will apply pressure on creditors to resolve deficiencies in the CF and quickly reach debt treatment agreements, or they risk losing profits. In addition to concurrence with the G20, the South African G20 presidency will also need international financial institutions to endorse the debt service suspension. If a country is unable to reach an agreement with its creditors, the IMF could continue providing programme support by activating its lending into arrears clause. This would provide a further incentive for creditors to reach a debt treatment agreement in order to avoid a default. Eligibility for the CF and debt suspension should be expanded to include middle-income countries. Such a debt service payment suspension will free up critical resources for all developing countries to deal with the high cost of living and prioritise social demands, instead of raising the tax burden of ordinary citizens.

Refining the standards for climate-resilient debt clauses and scaling up their inclusion in new and restructured debt agreements. High sovereign debt burdens should not impede the ability of countries to respond effectively to climate and other disasters. The World Bank and African Development Bank have already committed to start including climate-resilient debt clauses in some loans.[7] However, the application of climate-resilient debt clauses (CRDCs) is often limited to small states. With climate disasters becoming increasingly common in small and large states, CRDCs should be scaled up for all low- and middle-income countries. The triggers for CRDCs should be enumerated to include hurricanes, floods, droughts, landslides, wildfires and health pandemics. The GSDR should also assess the merits of other state-contingent debt clauses, where debt repayments are linked to predefined variables like gross domestic product or commodity prices. The inclusion of such clauses reduces a country's debt burden during an economic downturn, providing liquidity relief to effectively mitigate the impacts of external shocks and reducing the likelihood and severity of a debt crisis.[8] The GSDR could help create transparency and clarity around the indicators that trigger these clauses, thereby encourage widespread adoption by all creditors.

The G20 should also take a more proactive role in preventing debt crises by setting up working groups to discuss debt-restructuring initiatives that complement the CF. These working groups should focus on:

Market-based solutions to deal with expensive outstanding bonds held by the private sector. Private creditors hold more than a quarter of the external debt stock, up from only 10% in 2010, and the cost of servicing private sector debt makes up more than two-thirds of total debt service payments for low-income countries.[9] A possible approach to remedy costly bonds could be similar to the Brady Plan of the 1980s, where low-cost sovereign bonds with longer maturities are issued to substitute for high-cost sovereign debt that countries carry on their balance sheet.[10] The adoption of this type of scheme could help provide developing countries with better terms and a sizeable reduction in debt burdens to sustainable levels. A G20 working group could develop such a scheme and address practical considerations for implementation.

---

[6] World Bank, "Marrakech Declaration", July 6, 2022.

[7] World Bank, "World Bank Extends New Lifeline for Countries Hit by Natural Disasters", December 1, 2023; AfDB, "COP28: African Development Bank, International Partners Commit to Climate Resilient Debt Clauses", December 12, 2023.

[8] Joseph Atta-Mensah, "Commodity-Linked Bonds and Africa's Search for Innovative Financing", Brookings Institution, Africa in Focus (blog), November 16, 2021.

[9] Coulibaly and Abedin, "Addressing the looming sovereign debt crisis".

[10] Coulibaly and Abedin, "Addressing the looming sovereign debt crisis".

Statutory approaches to sovereign debt restructuring. Legislators in New York and the UK have considered enacting laws to encourage private sector participation in debt workouts.[11] The G20 should set up a working group to be actively involved in conversations around the potential legislation and its implications on debt-restructuring practices. The laws governing sovereign debt fall under a few jurisdictions, all of which fall under G20 countries. Coordination between jurisdictions that govern sovereign debt will be essential to the success of any legislative reforms, or private creditors may switch debt issuance depending on which laws offer more profitability. A G20 working group could play a critical role in facilitating such coordination and encourage the adoption of similar laws by G20 countries.

[11] Brahima Coulibaly and Wafa Abedin, "Revitalizing the Global Architecture for Sovereign Debt Restructuring: The New York State Legislature Steps In," *International Banker*, September 5, 2023, https://internationalbanker.com/finance/revitalizing-the-global-architecture-for-sovereign-debt-restructuring/

Author

Brahima Sangafowa Coulibaly

Brahima Sangafowa Coulibaly is vice president and director of the Global Economy and Development program at Brookings and the Edward M. Bernstein Scholar, after previously serving as director of the program's Africa Growth Initiative. He joined Brookings in April 2017 after nearly a decade and half at the Board of Governors of the Federal Reserve System where he was most recently chief economist and head of the emerging market and developing economies group.

Wafa Abedin

Wafa Abedin is a Research Analyst and Senior Assistant to the vice president and director – Global Economy and Development at The Brookings Institution. Wafa previously interned at the UK Mission to the United Nations as a Humanitarian, Peacebuilding and Development Section Intern for the Foreign, Commonwealth and Development Office. Prior, Wafa worked as a Research Intern at the Mayor's Office of Economic Opportunity in the City of Los Angeles.

Acknowledgement

SAIIA gratefully acknowledges the support of the Konrad Adenauer Foundation for this publication.

About SAIIA

SAIIA is an independent, non-government think tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs, with particular emphasis on African issues and concerns.

Cover graphic: SAIIA

Please note that all currencies are in US$ unless otherwise indicated.

Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339 2021 • Fax +27 (0)11 339 2154
saiia.org.za • info@saiia.org.za

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS