THE ISSUE OF DEBT
IN VULNERABLE COUNTRIES AT THE TIME OF THE JUBILEE

Edited by di **Paolo Garonna e Oliver Galea**

Centesimus Annus Pro Pontifice Foundation

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A selected collection of documents

Introduction

The debt problem and the moral crisis in international relations: the time for solutions is now!

by Paolo Garonna

The relationship between debt and Jubilee is central to the Bible and to the Jewish- Christian tradition. In fact, according to the Bible, the Jubilee was a time established by God when debts were to be cancelled, slaves freed and land returned to its original owners. It is therefore natural that, in relation to the 2025 Jubilee, attention has focused on the issue of poor countries" debts. At this time, it seems even more necessary to denounce the growing and often unbearable burden that these debts represent in the public budgets of those countries. With this denunciation, the Pope and the Catholic Church have taken on an increasingly visible and heartfelt role, appealing not only to Christians but to the entire world public opinion.

Already in *Evangeli Gaudium* (2013), Pope Francis had highlighted how "debt and the accumulation of interest make it difficult for countries to honour their debts and ensure their survival. We can no longer trust in blind forces and the invisible hand of the market (§56)". The Pope has returned to this theme forcefully on several occasions, most recently in the message delivered on his behalf by Cardinal Parolin at COP 29 in Baku in November 2024 (and included in this collection), his spiritual testament on the environmental crisis, in which Pope Francis not only links ecological debt to foreign debt, "as two sides of the same coin", but broadens the perspective by reiterating the call to seek solutions through "a new international financial architecture centered on the person" and aimed at integral development "that is truly human and inclusive". "This is the real challenge of our century," the Pope underlines, "a question of justice even before magnanimity." This is the starting point for this volume on the debt crisis. We want to begin precisely with the moral imperative that drives us, and must drive us, on the path of the Jubilee to seek and find solutions to a thorny and urgent problem that affects some of the weakest and most vulnerable peoples and countries on the planet. We do so in the knowledge that this is a complex and pervasive issue, which has been exacerbated by too many years of procrastination and neglect, and that it cannot therefore be resolved with short- term, piecemeal solutions, but only with ambitious and wide-ranging reforms. Despite this awareness, or perhaps precisely because of it, an adequate solution must be sought and found with the commitment of all. This solution amounts to nothing less than building, in the medium term, with the necessary time and ambition, a new, more equitable and more effective financial architecture, as Pope Francis says, which allows everyone to "reach their full potential and see their dignity respected" (ibid.). Past experience shows that the sustainability of a country's public debt is linked to the overall performance of its economic and social system, involving individual and collective responsibility on the part of individual countries and of the international system as a whole, developed and developing countries, academic researchers and policymakers, in short, all people of good will.

The contributions of experts in economics and finance and the instances made by such spokespersons with respect to ethics and social teaching and thinking presented in this volume clearly show that debt and development are inextricably linked issues and cannot therefore be addressed independently of one another. The restructuring or cancellation of debt, which in itself is enormously complex and increasingly dependent not only on the will of individual governments but also on the functioning of the markets, is often wholly insufficient to guarantee "liberation" from the burden of debt and the launch of a new phase of development for debtor countries. Today, countries, especially the most vulnerable ones, are critically dependent on access to credit and financial markets on reasonable terms, on the overall liquidity of the financial system and on its ability to channel available resources towards productive investment. They also depend above all on structural reforms that increase a country's productive potential and on opportunities to enhance capital, capital being understood not only as raw materials and physical infrastructure, but also, and increasingly, from the human capital, social capital and good governance at national and international level. This is why temporary debt moratoriums and restructuring in cases of overt insolvency (debt reduction or cancellation), which have played and continue to play an essential role in addressing emergencies and avoiding devastating bankruptcies with their socio- economic and humanitarian consequences, on the most vulnerable segments of the population, are no longer sufficient, even though they are increasingly necessary and dramatically urgent.

The "*Jubilee 2000*" campaign, energetically supported by Pope John Paul II, with widespread mobilisation of countries and public opinion, led to the launch of the *HIPC (Highly Indebted Poor Countries)* initiative led by the International Monetary Fund (IMF) and the World Bank (WB). Thanks to this initiative, 36 countries were able to benefit from partial or total debt cancellation, often with write-offs of over 60-80%. The benefits of these measures on the social spending budgets of many countries (e.g. Mozambique, Uganda and Tanzania) were immediate and evident: think of the abolition of school fees, the expansion of health systems, new investments in infrastructure and other important public spending measures that were thus made possible. However, the same experience also revealed serious limitations and critical issues, such as: - overly rigid and selective access criteria, which were not always transparent and excluded many countries in need; - onerous conditions imposed on beneficiaries, which often proved unrealistic and socially and politically penalising (so-called austerity); - bureaucratic slowness and complexity; - the short-term and purely financial sustainability of the measures; etc. Above all, there was no shared framework for dialogue and discussion in which debtor countries and weak countries, and not only creditor countries, could make their voices heard and share overall responsibilities on an equal footing.

The successive crises that followed, from the financial crisis to the pandemic, from the technological and digital revolution to the environmental crisis, up to the current geopolitical crises, have highlighted that a significant part of the debt was not due to specific and idiosyncratic "faults" of economic and financial mismanagement by individual countries or industrial sectors, but rather to systemic deficiencies in global economic governance and the inability of existing institutions to manage economic and financial globalisation processes which, in order to deliver their full benefits, require addressing negative global externalities and providing global public goods. This has clearly been the case with pandemics, the lack of protection for environmental and natural capital, natural disasters, economic and geopolitical conflicts, all of which require solid and effective global governance. Governance capable of pursuing the common good and the stability of international systems, sharing national sovereignties and the total available resources. What is true for public goods at the level of a single state, namely that no one is truly protected until everyone is protected, and that therefore the government of the community as a whole must take responsibility for public order and social cohesion, is also true at the global level with regard to global public goods. This is all the truer given that the global economic and financial system has now reached an unprecedented level of interdependence and overall integration, which we can no longer do without.

The realisation that debt is a global challenge, and that global challenges require global responses, has become clear, especially with the sudden and unexpected outbreak of the pandemic crisis. The causes of the spread of the COVID epidemic and the remedies for it could not be attributed to the responsibility of individual countries or individual economic policy factors. The simultaneous collapse of tax revenues and the boom in health and social spending, both in rich and poor countries, had created a real risk of large-scale default for many countries in 2020, especially the poorest ones. The G20 therefore took the initiative, during the Saudi Presidency, to temporarily suspend official bilateral debt payments for vulnerable countries to allow them to focus their available resources on health and social response and prevention measures. It became clear at that time what it means and what it entails to be part of an integrated international community and what value global public goods such as public health and the prevention of the spread of epidemics have: if the virus could not be stopped in weak countries, it could not be eradicated in rich countries either. It was therefore not (or not only) a question of magnanimity, but of economic and social effectiveness.

Forty-eight countries participated in the HIPC program, which was then extended until the end of 2021, reaching over $12 billion in suspended debt. It was a necessary and urgent emergency measure that worked, because COVID-19 was eradicated globally in a relatively short time. However, that same experience also revealed all the limitations of the pure emergency measures we have discussed, which are incapable of reviving development on their own. The suspended debts eventually came due, compromising the economic recovery underway in the Global South, which ended up being weak, uneven and delayed. Furthermore, the moratorium did not cover private debt markets, whose role had been and continues to be growing, nor emerging creditor countries, such as China, which were not part of the "official" intergovernmental debt cooperation mechanisms (e.g. the Paris Club). Finally, it should be borne in mind that the suspension and even restructuring of official debt ended up further penalizing vulnerable countries through a deterioration in their ratings (and subsequently in their spreads) and a consequent deterioration in their access to markets (the so-called stigmatization effect).

These serious problems were subsequently addressed with a new ambitious program, the *Common Framework for Debt Treatment*, which aimed to manage the transition from debt suspension to effective debt restructuring through partial or total cancellation, extension of maturities, and related accompanying measures, etc. The aim was to create a well-coordinated procedure between public creditors, including China, and private creditors, to facilitate an orderly and fair restructuring of debts and thus give the economies of those countries a real chance of recovery. The Common Framework operates on a voluntary basis and is managed on behalf of the G20 by the IMF and the World Bank. It aims to involve all creditors, especially private creditors, in the procedure, thereby ensuring equal treatment. But this is precisely where the difficulties we are still struggling with today arise. Involving the private sector is, in fact, difficult and challenging think of pension funds and the sacrifices that would have to be imposed on pensioners and small savers with the cancellation of debts. We would add that: - negotiations are long and complex; - less poor countries are excluded from the framework even if they are highly indebted, with the risk of compromising their solvency; - the transparency and comparability of debt treatment are difficult to measure and verify and often give rise to thorny disputes (e.g. in the case of China); - etc. The contribution of the Italian Presidency of the G20 in 2021, led by then Prime Minister Mario Draghi, proved significant in these matters. Not only did the Italian Presidency work to launch the practical application of the Framework in the first countries (Zambia, Chad and Ethiopia) but also agreed on an important extraordinary issuance of Special Drawing Rights (SDRs) by the IMF with the aim of improving the overall liquidity of international markets. However, this objective was only partially achieved because, due to design and regulatory constraints, the SDRs did not benefit the countries that needed them most, i.e. developing countries. On that occasion, there was clear evidence of the need to reform the global financial architecture, giving a greater role to multilateral development banks, improving debt transparency, promoting the long-term sustainability of debt itself and market stability, and promoting the link between ecological transition and debt sustainability through appropriate financial innovations, such as *green bonds or climate-resilient debt instruments.* As can be seen from this brief chronological overview, as the debt crisis has progressed, the frame of reference has broadened from specific technical issues of debt management to the complex relationship between debt and economic development. Because, while it is true that excessive debt negatively affects development prospects, it is equally true that there can be no development without credit expansion, which is the other side of the debt coin. Sustainable debt (Mario Draghi called it "good debt') is an essential prerequisite for development because it fuels long-term investment, such as investment in the digital transition, the ecological transition, security, human capital, research and social cohesion, which are the essence and driving force of sustainable development. All these transitions, which underpin the competitiveness of an economic system, require courageous structural reforms, but these cannot be achieved without long-term financing and efficient capital markets. These observations bring us to the problems of today and tomorrow, which pose new and dramatic challenges. Because while awareness of the scale and structural nature of debt problems caused by the link between debt and sustainable development, the geopolitical crisis in which we find ourselves has exploded, which is having and will continue to have a devastating impact on sustainable development. Instead of reforming, this crisis risks eroding and dismantling the very foundations of the mechanisms governing development processes at international and global level. The (imperfect) multilateralism of the past, based on rules, is now being replaced by unilateralism based on mere power relations. The freedom of investment, technology and trade markets that characterised the 80 years of liberal international order we have known since the post-war period, and from which we have benefited greatly, despite all its limitations, is now facing obstacles and restrictions. These are now being replaced by protectionism, barriers to investment and the movement of human capital, the militarization of value chains, and the arms race and nuclear threat.

In this unprecedented and worrying context, the idea of bringing all public and private creditors to the same table to ensure equal treatment (as required by the *Common Framework*), or even more ambitiously reforming the Bretton Woods institutions (IMF and World Bank) and the United Nations itself to make global governance more effective, may seem completely unrealistic and out of context. This picture is further clouded by the winds of war, hegemonic and power struggles, which tend to destroy rather than build, polarize rather than unite, and fuel conflict and animosity rather than foster international cooperation and integration. In short, the debt crisis and the sustainable development crisis have now given rise to an unprecedented, wide-ranging ethical crisis, a crisis of the values underlying the international community and the principles underlying the economic, social and political relations on which effective governance of the global economic and financial system has been built and can and must be rebuilt. But it is precisely to tackle this ethical crisis that the role and mission of the Centesimus Annus Foundation can be usefully brought to bear, along with the opportunities offered by the "Jubilee of Hope" in 2025, the very promising beginning of the new pontificate of Leo XIV, which assigns a central role to Catholic social thought. If - as we were saying - the debt problem has become more complicated and magnified, transforming itself from a specific technical question of orderly management of a bankruptcy procedure into an epochal problem of the ethical re-foundation of the global community and of its institutions, then the unavoidable challenge is precisely that of reaffirming and rebuilding the principles and values that hold us together in the global economy and society. We are then aided by the concept of "universal brotherhood" to which Pope Francis has so often referred, and by the profound conviction of the universality of our values, of the values of the Social Doctrine of the Church (SDC), and therefore of their ability to unite all cultures, all knowledge, all interests and human sensibilities in order to redesign the prospects and institutions of peace, security and sustainable development for each and every person and for all peoples. Starting off on such a high level and ambitious task from the debt of vulnerable countries and from a perspective of reform linked to the moral imperative of the 2025 Jubilee seems to me a concrete, useful and necessary way to give true meaning to our being "Pilgrims of Hope" in a world in search of light and inspiration. To conclude the introduction to this collection of contributions on the debt crisis, I would like to identify the titles of the chapters that could and should be included on an agenda of reforms necessary to seek and find adequate solutions to the debt problem in the new and challenging context in which we find ourselves. There will be time and opportunity to go into detail on the technical aspects and flesh out these chapters, on which there are already numerous in-depth analyses and proposals, as well as significant input. What is lacking, however, and this is a decisive shortcoming, is a moral commitment to finding solutions, a sense of responsibility and urgency that should drive impatience and determination to try everything possible to help the suffering and neglected humanity that hides behind the technicalities of complex expert analyses. For this reason, the debt crisis is above all a moral crisis. We at the Foundation would like to humbly contribute to filling this gap. We do so not only by appealing to our members, to active SDC operators, and to the Catholic world, which has a rich heritage of teachings, principles and experiences from which to draw inspiration. We also do so by appealing to all faith communities that uphold universal values. These communities can and must work together to provide a more solid and renewed ethical foundation for the global governance of the debt issue.

Faced with the difficulties of governments, the lack of leadership, the indifference of many ruling classes, the fragmentation and selfishness of interests, and the polarisation of civil society and politics, faith communities, in dialogue and fraternal collaboration with one another, can give voice and strength to the needs of the most disadvantaged, promote unity and coherence in the pluralism of cultures, sensibilities and opinions, impose rigour and seriousness in the search for truth and solidarity, and give meaning and a role to the universalism of values and the common interest of the global community.

A list of reforms in the pipeline for the debt of vulnerable countries

Let us try to specify the titles of the main chapters to be defined to advance the reforms needed to find a concrete solution to the issue of vulnerable countries debt.

1. Improving the operation of the G20 Common Framework

Many reasonable ideas on this point are on the table, including: - making the process faster and more predictable (fast-track); - involving China and private creditors (banks, funds, etc.) ; - greater transparency on debt, including specific contractual clauses and guarantees; - independent and more robust assessments of debt sustainability; - more flexible conditionality and other incentives for participation in the program; - creating regional mechanisms and involving the UN; - linking debt and climate, for example through *debt-for-climate or debt-for-nature* swaps*;* etc.

2. Giving voice to and stimulating ownership in favour of debtors

Proposals in this area affect the governance of negotiation processes, where creditors have played the predominant role to date. The aim, however, is to give a voice and a role to debtor countries as well, stimulating their interest and their active support for reforms.

In truth, the problem of governance and the participation of weak countries in it, is much broader and affects the overall governance of multilateral processes (e.g. the governance of the IMF and the World Bank). It is also important to provide advice and stimulate *"peer dialogue"* between different countries, including those in the global South, to align debt sustainability with national and regional economic and trade development programs and investment, while also providing incentives and access to finance. UNCTAD and the UN have also proposed independent judicial or arbitration mechanisms, which could also be binding, and which should operate with neutrality and transparency.

3. Improving the liquidity and stability of the international financial system

Proposals in this area concern both market regulation and global monetary and financial policies to prevent or respond to crises and support the most vulnerable countries. Among the proposals are: - the periodic and automatic issuance of Special Drawing Rights (SDRs) and their redistribution to low-income countries; - expanding emergency liquidity instruments, such as rapid access to IMF precautionary credit lines, etc.; - strengthening and making more transparent cooperation between central banks to deal with systemic crises; - making macroeconomic surveillance and coordination between fiscal and monetary policies more effective at the international level; - etc.

4. Multi-polarise the global monetary system by placing SDRs at its centre

This implies transforming SDRs from an accounting tool into an actual currency accepted in markets and trade and held as reserve currency by banks. A proposal to this effect has already been formulated by Joseph Stiglitz in a UN report (included in this collection), by the South Centre and by the G77 group within the UN. In the current climate of hegemonic conflict and cold wars, the militarisation of the dollar's role in the system is leading to a push to replace the dollar with alternative payment systems or regional currencies. A proposal complementary to the above advocates the use of national currencies in trade as an alternative to the dollar and other major reserve currencies. This solution would increase the financial autonomy of the countries of the Global South but still presents many risks and difficulties in practical implementation.

5. Reforming the governance of international economic, financial and political institutions

This set of proposals opens a thorny chapter of discussion and debate because, while it is true that the current governance structures reflect the now outdated balance of power and representation of over seventy years ago, it is also true that the long-standing debate on governance reforms has never led to anything concrete and agreed upon. Today, proposals for reform of the Bretton Woods institutions (the IMF, the World Bank and the World Trade Organisation) appear to be stalled. The same is true of the UN. Meanwhile, multilateralism is being progressively abandoned even by the leading countries that contributed most to its foundation. The demand for a "new international financial architecture" is growing and gaining strength and is also being taken up in many papal documents on the social doctrine of the Church. However, the conditions for dialogue and cooperation between the main countries that would make responses to these demands credible appear increasingly distant and unrealistic.

In conclusion, I would like to emphasise that there are many initiatives for reflection, mobilisation and discussion on these chapters of the reform proposals, especially from developing countries. I believe it is important that faith communities, such as FCAPP, not only follow and, where appropriate, support these various initiatives, but above all establish contacts to play an active and proactive role in these matters. In this regard, I would like to mention the initiatives that I consider most promising and closest to the issues and solutions which we are interested in:

a. The **Bridgetown Initiative**, launched in the capital of Barbados by the competent and energetic Prime Minister of Barbados, Mia Mottley, with ambitious ideas for reform, supported by many international institutions, such as the IMF, as well as by Macron and other European leaders. On occasion of the UN General Assembly in autumn 2024, the initiative launched a new package of proposals with the Bridgetown 3.0 document. In early 2025, in preparation for the G20 under South African Presidency, the report "The Resilience Effect" was launched, identifying "10 super levers to catalyse finance towards countries vulnerable to climate change'.

b. The **African Union Debt Working Group** and the African Panel of Experts on the same issue, also aimed at mobilising public opinion and policy makers ahead of the G20 in South Africa in 2025, relaunched the debt proposals, linking them to ambitious projects for reforming multilateralism and global governance. In March 2025, seven former African heads of state launched the African Leaders Debt Relief Initiative (ALDRI), which aims to find solutions to the debt problem while helping to redesign the global financial system. The South African G20 Presidency for 2025 has "placed debt sustainability and debt reduction at the heart of the global economic agenda'. The Cape Town Declaration of March 2025 is also fully aligned with Agenda 2063, the African Union's long-term development program.

c. The **High-Level Independent Panel on Multilateral Development Banks**, established under the Indian Presidency of the G20 in 2023 and co-chaired by Larry Summers and N. K. Singh, aims to make proposals to strengthen multilateral

> public development banks and give them tasks for debt relief initiatives and investment promotion in weak countries. The panel has developed a 30-point roadmap to achieve its objectives, which include tripling annual financing to these institutions to reach a significant volume of $390 billion per year by 2030, and finalising financing for extreme poverty reduction, shared prosperity, and the provision of global public goods. The initiative has been supported by many stakeholders, primarily the multilateral banks themselves, but its implementation is proving very disappointing.

Finally, we would like to mention the **UN Group of Experts on the Debt Crisis**, established in December 2024 by the UN Secretary-General and co-chaired by Paolo Gentiloni, former European Commissioner, and Mahmoud Mohieldin, former Egyptian Minister of Finance. The Group aims to define a package of operational and sustainable solutions to the debt crisis of vulnerable countries and to prepare a report to be submitted to the 4th International Conference on Financing for Development, to be held in Seville, Spain, at the end of June 2025.

As can be seen, there are many initiatives in the field, and all seem to converge in linking possible solutions to the debt crisis to a revival of multilateralism on new foundations and to ambitious and far-reaching reforms of global governance. Pope Francis' appeals, and the suggestions linked to the pilgrimages of hope in the Jubilee Year 2025 are finding a favourable response in global public opinion, especially in the countries most exposed to the crisis in the Global South. The ground is therefore fertile, and the time is ripe to join forces in raising awareness and developing creativity in the search for solutions. As we said, the fact that the debt crisis is linked to broad and highly complex scenarios of multilateral crisis and of a "moral crisis" in global governance should not be an obstacle. On the contrary, this awareness must spur us to redouble our efforts and make this debt campaign the starting point for a reversal of the trend in international cooperation and sustainable development. The time for dialogue, hope and a solution to the debt crisis is now!

Rome, June 2025

Countering the debt crisis in Sub-Saharan Africa: new initiatives from the Catholic world

by Father Giulio Albanese

The state of health of any macro-region depends largely on the economic conditions of the nation states that comprise it. Unfortunately, as far as sub-Saharan Africa is concerned, there is no shortage of difficulties. In my speech, I will focus on this part of the so-called Global South, which I know best thanks to my missionary vocation. You are all aware of the systemic weaknesses that have been exacerbated by the pandemic, the Russian Ukrainian crisis and the spread of financial speculation on commodities of all kinds. The issue of African debt must be placed within this context to be understood.

In its latest *Regional Economic Outlook* for Sub-Saharan Africa, published at the end of October, the International Monetary Fund (IMF) painted a worrying picture. Here are some fairly telling points: "Inflation remains in double digits in nearly one-third of countries. Debt servicing capacity is low, and rising debt service costs (i.e., increased interest payments) are eroding resources available for development spending. Foreign exchange reserves are often insufficient, and concerns about overvaluation and competitiveness persist. In their efforts to reduce these imbalances, policymakers face three main obstacles. (…) Regional growth, projected at 3.6 per cent in 2024, is generally limited and uneven, although a modest recovery is expected next year. Resource-rich countries continue to grow at about half the rate of the rest of the region, with oil exporters struggling the most. Factors holding back growth include conflict, insecurity, drought and electricity shortages.

In this context, pressures related to high poverty, lack of social inclusion and job opportunities, as well as weak governance, are intensifying, exacerbated by the rapid rise in the cost of living and the short-term effects of macroeconomic adjustment.

The resulting political pressures and social frustration are creating a tense atmosphere. It is no coincidence that the IMF has expressed concern about an increase in "social unrest" for the first time in its regular report.

We must be realistic: in a macro-region where social spending is being cut to service an increasingly onerous debt and where rising prices are eroding purchasing power, the living conditions of ordinary people will become increasingly precarious.

An uphill struggle

It is therefore no surprise that sub-Saharan Africa is far from escaping the trap into which it was thrown by the series of shocks over the last five years. The IMF is rightly alarmed by the scarcity of sources of financing. No significant improvement is in sight. There is therefore an increasingly urgent need to reform the global financial architecture to facilitate the equitable, sustainable and inclusive allocation of resources, which is essential to finance Africa's development goals. In short, African governments have many priorities to present at the Fourth International Conference on Financing for Development, scheduled to take place in Seville (Spain) from 30 June to 3 July 2025.

First, there is the issue of debt, which has become almost unmanageable since African governments replaced low-cost, long-term multilateral debt with much more expensive, short-term debt owed to private creditors — insurance companies, banks, investment funds, private equity funds. As a result, debt as such has been financialised and interest payments are now inextricably linked to speculative activities on international markets. In this context, speculative finance considers a heavily indebted country to be unreliable and consequently forces it to pay more to borrow: at least four times more than economically advanced countries.

For African countries, this translates not only into the absence of a *welfare system* worthy of the name, but also into a lack of infrastructure (roads, schools, hospitals), which is necessary both to combat poverty and to create conditions conducive to development, which, in turn, would guarantee the repayment of the loans received. But in Seville, it is also necessary to talk about how to address the costs associated with climate change, which currently account for at least 5 per cent of African GDP. These costs, moreover, exacerbate the debt. And COP29 on the international fight against climate change, held in Baku, the capital of Azerbaijan, certainly did not offer any grounds for optimism.

Then there is the somewhat enigmatic issue of energy transition. On the one hand, countries on the continent are being asked to make the transition, without it being clear what that transition entails. Some countries do not even have electricity or fossil fuels from which to make the transition. Others lack basic electrical infrastructure. Of the 733 million people worldwide, who do not have access to electricity, 80% – it is worth remembering – are in Africa. And Africa has received only 2% of the $10 trillion invested globally in energy transition from 2015 to 2022. Other priorities include combating illicit financial flows (90 billion dollars a year, equivalent to 4% of African GDP) and building consensus on reforming the international tax system. *Dulcis in fundo,* there is the issue of carbon credits. Here too, the discrepancy is clear. While carbon is often sold in Africa for less than $10 per tonne, sometimes as little as $5 p e r tonne, prices in Europe and other parts of the industrialised world exceed $100-120 per tonne. To address these development gaps, the International Monetary Fund offers its traditional advice in general terms: invest more in human capital, improve natural resource management and promote economic diversification.

Considering the above, any outlook on the continent's economic performance must take into account the future of Africa, i.e. how African countries are positioning themselves internally and on the world stage, and the steps they are taking to contain the negative economic trends. What stands out is the commitment to supporting trade through *the African Continental Free Trade Area* (AfCFTA), the intra-African free trade area involving 54 of 55 African countries, which formally entered into force on 1 January 2021.

The international community, particularly the European Union (EU) and its member states, have a responsibility and an interest in supporting the process of free trade in goods in Africa through investment, trade and assistance, demonstrating in concrete terms their desire to “help Africans at home’, as is often said in political circles. This is also because by 2050, the EU will account for just under 5 per cent of the world’s population and the labour market will require human resources capable of sustaining the real economy. By that date, one fifth of the world’s workers will be African, and by 2075 they will account for one third. Investing to bridge the North-South divide, particularly by training young people and women, will therefore be a great opportunity for everyone.

We must also consider Africa’s position vis-à-vis the BRICS bloc. In addition to South Africa, Egypt and Ethiopia have also joined. This is an alternative to the current world order which, exploiting the crisis of Western-style multilateralism to its advantage, proposes a different way of conducting international relations. In other words, there is the possibility of dismantling the mechanisms of international finance consolidated by eighty-years of Western-led liberalism, enshrined in the statutes of the structures created by the Bretton Woods agreements, the World Bank and the IMF, but also in the World Trade Organisation.

The BRICS countries now reject the inadequate importance attributed to them, given that their economic weight now exceeds that of the G7 countries. Starting with China, which certainly plays a leading role in the BRICS and, with 16 per cent of global GDP, accounts for only 5 per cent of World Bank decisions. It should be borne in mind that the IMF and the World Bank are fundamentally Western led. It should also be remembered that international debt and interest are currently paid in dollars and that one of the prospects for the alternative system envisaged by the BRICS countries is to redeem them in local currencies.

In this context, Africa, with its extraordinary potential and exponentially growing population (the average age is 20), could play a significant role in the transformations underway at the global level.

What to do looking ahead

One thing is certain: the real challenge for the future is to develop tools to curb various forms of speculation. From this point of view, we are still in uncharted waters because the major international players are limiting themselves to reducing the current net value of the debt by extending the maturity date of bonds, temporarily suspending interest payments, or through so-called *haircuts,* which consist of cutting the nominal value of the debt. These measures serve to postpone the problem without addressing it in a systemic manner.

It would therefore be desirable to take into consideration *Oeconomicae et pecuniariae quaestiones*, the document of the Holy See on ethical discernment regarding certain aspects of the current economic-financial system published on 17 May 2018 by the Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development. The text states, among other things, that “there is a need for ethical reflection on certain aspects of financial intermediation, whose functioning, when detached from adequate anthropological and moral foundations, has not only produced obvious abuses and injustices, but has also proved capable of creating systemic crises of global reach”.

The document does not limit itself to mere moral exhortations but addresses important issues such as the social function of credit as opposed to usurious behaviour. It analyses the danger of certain economic and financial instruments that can create systemic risks, “poisoning” the markets. In particular, derivatives, which are veritable “time bombs”, especially when traded on unregulated markets, the so-called *Over the Counter* (OTC) markets, which are more exposed to risk and fraud. It should be noted that the Holy See’s document also highlights the danger of *credit default swaps* (CDS), derivatives that allow betting on the risk of default by a third party. “On the eve of the 2007 financial crisis,” it recalls, “the CDS market was so large that it represented approximately the equivalent of the entire world GDP’.

The proposals put forward in the Holy See’s document are very concrete and range from certification by public authorities of all products derived from financial innovation to the regulation of the financial system; from supranational coordination between the different architectures of local financial systems to curb *deregulation*, to the introduction of a general clause declaring illegal, with consequent financial liability for all those responsible, any acts whose purpose is to circumvent the applicable rules; from specific measures against the “shadow banking system” to combating *offshore* finance, which offers great opportunities for tax evasion and avoidance. Far from rhetoric, this is the only path to pursue if we really want to support the global economy, and the African economy in particular. Not only that: the Jubilee is the right time to move from good intentions to action. This is why the hope expressed by the authors of the *Charter of Sant'Agata dei Goti* (a qualified group of Catholic jurists) is well founded, namely that sooner or later the United Nations General Assembly will request an opinion from the International Court of Justice in The Hague on the principles and rules applicable to international debt, as well as public and private debt. The desired objective is to proceed with the removal of the causes of the persistent violations of the general principles of law and of the rights of individuals and peoples, thus establishing an unavoidable obligation, as already evident in the *Charter of Sant'Agata dei Goti* and in numerous resolutions of the UN General Assembly. However, for this to happen, it is necessary to identify a country that will promote this initiative by drafting a resolution. In view of the current situation, I personally believe that the most suitable country is South Africa, an emerging power on the African continent, a member of the BRICS and a country that has been severely penalised by the axing of the debt. However, in the knowledge that there is still a long way to go before the primacy of the rights of peoples over international markets is established, it is necessary to define as soon as possible buffer strategies that can at least bring relief to so much suffering humanity surviving in the slums of contemporary history.

In this regard, the proposal put forward by the Link 2007 network, which brings together some of the most important civil society organisations dedicated to international development cooperation and humanitarian action, is very interesting. With the help of development finance experts, they have drawn up a document illustrating the feasibility of an initiative, already proposed years ago to the G20 countries, which has become even more essential today, especially for African countries. The central idea involves the total or partial conversion of sovereign debt into a counterpart fund in local currency, called the *SDG Fund* or the *Oss Fund*. This fund will be used to finance projects that align with the Sustainable Development Goals (a set of 17 goals that make up the 2030 Agenda for Sustainable Development, adopted by the United Nations in 2015). The purpose of this initiative is to address the structural weaknesses of beneficiary countries and stimulate long-term sustainable investment, thereby contributing to resilient and inclusive economic growth that can reduce inequalities and create jobs. **Why should a creditor do this?** It is clear that the creditor country or private creditor must have a privileged, first-hand, *first-choice* option over these funds in the debtor country, which it can use for further investments in its business. The initiative would have a strong impact both at the international political level, as a fundamental step in the implementation of the Financing for Development commitments, and in terms of planning and operations in the field of international cooperation, for a fair and orderly debt restructuring.

Jubilee and debt: a historical and spiritual connection

by Minerva Freda

The issue of foreign debt in vulnerable countries is one of the main topics of debate on global economic justice, particularly with regard to the ethical and religious principles that inspired the Jubilee Years in 2000 and 2025.

The Jubilee Year 2000 was not only a religious celebration but, above all, a concrete opportunity to bring back to the centre of public and institutional debate the dramatic condition in which the countries of the South of the world found themselves, where hundreds of thousands of people lived crushed by excessive debts, often contracted under unfair conditions and paid at a high price in terms of denied rights, structural underdevelopment and economic dependence on the Great Powers. The Jubilee, therefore, was not only a religious event, intended for worship and pilgrimage, but a real opportunity for reflection and political and moral action, which succeeded in drawing attention to the need to free these people from poverty and underdevelopment and allow them full and just emancipation.

Through papal sources, parliamentary documents, international campaign documents and materials from civil society organisations, this chapter aims to provide a historical and conceptual framework for the issue of Jubilee debt.

It will analyse the biblical and doctrinal foundations that have shaped the demands and responses of global financial institutions. The aim is to understand how the Jubilee year has become a paradigm of applied economic justice and what its implications have been in countries considered to be low-income and highly indebted. **"The commitment to justice and peace [...] is a defining aspect of the preparation and celebration of the Jubilee"** (*Tertio Millennio Adveniente*, n. 51)[1].

"A time to think [...] about a substantial reduction, if not total cancellation, of the international debt that weighs heavily on the destiny of many nations": with

[1] John Paul II, *Apostolic Letter Tertio Millennio Adveniente*, n. 5, 10 November 1994, in: *Acta Apostolicae Sedis*, vol. 87 (1995), pp. 5-41.

these words, John Paul II links the spirit of the Holy Year 2000 to the biblical precept of Leviticus. According to the pontiff, as in ancient Israel, today to the Jubilee must translate into a concrete sign of justice, liberation and peace. That Holy Year, celebrated in 2000, represented a crucial moment not only for the Church but for the entire international community, called to reflect on the relationship between faith, economics and global justice.

The term Jubilee, as it is outlined and developed in the Hebrew-Christian biblical tradition, has always represented a fundamental moment of reflection and solidarity.

According to Leviticus (25:10), every fiftieth year was to be proclaimed a "Jubilee" year, during which land was returned to its original owners, slaves were freed and debts were forgiven. The Jubilee, therefore, is a time of social rebalancing and spiritual renewal, rooted in the recognition of God's sovereignty over all goods.

In this perspective, Pope Francis also sought to revive the social dimension of the Jubilee in the contemporary context, emphasising the urgent need to address global inequalities, through debt relief for the poorest countries. ***"If we truly want to prepare the way for peace in the world, let us commit ourselves to remedying the root causes of injustice, let us pay off unjust and unpayable debts, let us feed the*** **hungry" (*Spes non Confundit* n.16)**[2]; this way the Pope expresses the moral duty of the richest nations, called to perform an act of justice and not just charity.

Established as an institution prescribed by the regulations in the Book of Leviticus (25:8-55), the Jubilee provided for the cancellation of all types of debt, the liberation of imprisoned slaves, the return of land taken from its rightful owners, and other extraordinary measures, establishing itself as an exemplary moment to launch initiatives of redistributive justice and to interrupt and correct cycles of structural and social inequality.

As provided for in Leviticus (25:10), every fiftieth year was consecrated to God as a year of "liberation', during which the balance had to be restored between the fundamental socio-economic conditions through the remission of economic obligations and a return to the original conditions of distributive and organisational justice. In this context, debt was therefore seen as a temporary constraint to be periodically re-

[2] Francis, *Spes non confundit. Bull of the Jubilee 2025*, n. 16, 9 May 2024.

balanced so that no individual or social group could be permanently excluded from the economic and community life of society because of their insolvency or negligence. With the advent and subsequent evolution of Christianity, the Jubilee was also reinterpreted in a spiritual key, without, however, losing its original economic and financial function. Taking its name from the Hebrew term *Yobel,* the Jubilee, also commonly referred to as the "Holy Year', traditionally refers to the year in which Jesus, the son of God, according to the prophecies of Isaiah, fulfilled the meaning and proclamation (*kerigma*) of the ancient Jubilee, coming to earth to share our human condition, to preach and to bring about the year of grace and redemption given to us by the Lord.

Throughout history, jubilees have taken two forms: ordinary and extraordinary. The former are linked to predetermined dates, while the latter occur in the event of a particularly important anniversary. To date, in the Christian era, there have been 27 ordinary Jubilees, including the current one in 2025, and 10 extraordinary Jubilees, the most recent of which was proclaimed in 2016 by Pope Francis. No Jubilees were proclaimed in 1800, when Pius VI was imprisoned in France; in 1850, when Pius IX was brought back from exile in Rome by the French; and in 1875, after the conflictual annexation of Rome to the Kingdom of Italy.

The first Jubilee in modern times was proclaimed on 22 February 1300 by Pope Boniface VIII (1230-1303) through the promulgation of the bull *Antiquorum habet,* which established that full remission of sins would be granted to anyone who passed through the doors of the Roman basilicas dedicated to the apostles Peter and Paul, and that this indulgence would be granted on the occasion of the Jubilee every 100 years. Furthermore, in another document*, Nuper per alias,* it was established that the indulgence would only be granted to Christians who had proven themselves to be "not false or impious" and who had not had commercial relations with Frederick of Aragon, the Saracens and the Sicilians, who were then in open conflict with the Papacy.

In 1350, the second Jubilee in history was proclaimed by Pope Clement VI with the bull *Unigenitus Dei Filius*, which established the periodicity of the Jubilee event at 50 years. The third Jubilee took place in 1390, proclaimed by Pope Urban VI with the bull *Salvator noster Unigenitus*, which established the interval between Jubilee celebrations at 33 years. Unlike the other Jubilees, the one in 1390 saw a reduced number of pilgrims, mainly due to the Western Schism, which had resulted in French, Spanish, Catalan, Scottish and southern Italian pilgrims being forbidden to visit and pass through the doors of the basilicas of the two Apostles. The fourth Jubilee was proclaimed in 1450 by Nicholas V with the bull *Immensa et innumerabilia,* which restored the Jubilee interval to every 50 years. The fifth Jubilee took place in 1470, at the behest of Pope Paul II, who was later replaced by Sixtus IV. It was established that Jubilees would be celebrated every 25 years.

In 1500, the sixth Jubilee was held by Alexander VI with the bull *Pastores Aeterni Qui,* which established that only the penitentiaries of St. Peter's Basilica could grant plenary indulgence and introduced, for the first time, the rite of opening the Holy Door to mark the official beginning of the Jubilee year. The sixth and seventh Jubilees were held in 1525 during the pontificate of Clement VII, proclaimed with the bull *Inter Sollucitudines, and* in 1550, proclaimed by Paul III and then presided over by Julius III with the bull *Si pastores ovium.* The seventh and eighth Jubilees were held in 1575 by Gregory XIII and in 1600 by Clement VIII, a few years after the Council of Trent. Through these it was intended to show the new face and role which the Catholic Church had adopted after the reforms of the Council of Trent. The following Jubilees were held in 1625 with Urban VIII, who granted indulgence even to those who were unable to travel to Rome, prisoners and the sick; in 1650 with Innocent X; in 1675 with Clement X; and in 1700, when the first case in history was recorded in which the Holy Door was opened by a pope, Innocent XII, and then closed by another pope, Clement XI. In the 18th century, the century that saw the rise of the Enlightenment and the first great bourgeois revolutions in history, three Jubilees were held: in 1725 with Benedict XIII, in 1750 with Benedict XIV and then presided over by Pius VI. During the years of the Restoration, national revolutions and the unification of Italy, only two Jubilees were held, the first in 1825, proclaimed by Leo XII, who sought to establish a new bond between the Pope and the Catholic people by promoting a series of reforms aimed at countering those elements of national and liberal movements that threatened religious freedom and the exercise of worship. The second, on the other hand, was proclaimed in 1875 by Pius IX, without the ceremony of the opening of the Holy Door due to the occupation of Rome by the troops of Victor Emmanuel II.

This brings us to the century of the two Great Wars: 1900. In 1899, Leo XIII announced the beginning of the Holy Year with the bull *Properante ad Exitum Saeculo*, together with a solemn speech by the King of Italy, testifying to the improvement in relations between Italy and the Holy See. In 1925, Pope Pius XI proclaimed the new Jubilee with the bull *Infinita Dei Misericordia,* in which he blessed the unified Italian state for the first time. Subsequent Jubilees were held in 1933, proclaimed by Pius XI with the bull *Quod Nuper,* in 1950 by Pius XII with the bull *Jubilaeum Maximum,* which proclaimed the dogma of the Assumption of the Blessed Virgin Mary into heaven. In that same year, Pius XII profoundly transformed the College of Cardinals by introducing a large representation of non-Italian cardinals from all over the world to emphasise the universal dimension of Roman Catholicism. Furthermore, in the same jubilee year, the De Gasperi government created the "Pilgrim's Charter', thus giving life to the union that the Jubilee brings about between pilgrimage of faith and opportunities for international tourism. The last Jubilees of the twentieth century were held in 1975 with Saint Paul VI and the bull *Apostolorum Limina*, the first Jubilee broadcast worldwide; and in 1983, proclaimed by Saint John Paul II, when the 1950th anniversary of the death and resurrection of Jesus was also celebrated. This brings us to the 2000s, where three Jubilees have been held so far: in 2000 with Pope John Paul II and the bull *Incarnationis Mysterium;* in 2015, proclaimed by Pope Francis with the bull *Misericordiae Vultus,* dedicated to the theme of mercy and celebrated on the fiftieth anniversary of the end of the Second Vatican Council; and finally in 2025, with the current Jubilee dedicated to the theme of hope. The Jubilee of 2025 marks the second time in history that a Jubilee begins with one Pope and ends with his successor.

What, then, is the historical and essential relationship between the jubilee years and debt? From its earliest normative attestation, the Jubilee was a tool for the periodic suspension of debts, aimed at restoring an order that appeared to conform to the theological principle that "the earth belongs to God and we are on this earth as strangers and guests'. This approach reflects a theological view based on divine sovereignty, which limits and constrains all forms of permanent appropriation by human beings.

The practice of *remissio debitorum* had to be interpreted within a framework that also included the law of the seventh year, which provided for a period of time for the release of debtors and the resting of the land. The Jubilee, therefore, was seen as a sort of legislatively prescribed culmination of a cycle that responded to needs linked to religious tradition and the rhythms of agricultural production. According to Michael Hudson, these practices also reflected a social structure in which wealth was concentrated in the hands of a small local elite, in an agrarian context marked by subsistence crises and traditional mercantile and servile relations.

With the advent of Christianity and its institutionalisation in the Roman Empire, the Jubilee was reinterpreted. In 1300, Boniface VIII shifted the emphasis from *remissio debitorum* to the forgiveness of spiritual debt, the remission of sins.

However, financial debt remained a central metaphor for ethical debt, i.e. sin, and the practice of indulgences became a way of symbolically paying off this debt and thereby ensuring redemption and a place in heaven in the afterlife. Although material debt seemed to have disappeared from the normative dimension over time, its configuration from a theological point of view continued to remain valid. In fact, sin was seen as a kind of debt to God. On occasions such as the Jubilee, it was therefore possible to obtain mercy and forgiveness of sins through the mediation of the Church.

In the 20th century, particularly with the Jubilee in 2000, there was a conscious attempt to recover the economic and liberating dimension of the Jubilee in the biblical tradition. Crucial to this end was the *"Jubilee 2000"* campaign, through activities promoted by civil society organisations, religious organisations and activists from the political and academic world - such as Ann Pettifor, Jeffrey Sachs and Archbishop Desmond Tutu. The possible application of the Jubilee principle of remission of debts was placed at the centre of the discussion, in relation to the contemporary reality of sovereign debts of developing countries considered economically and socially most vulnerable. These debts had, in fact, become considerable in size and, in many cases, unsustainable.

The initiative provided for the total or partial cancellation of the foreign debt of developing countries, with explicit reference to the biblical tradition contained in Leviticus. The proposal called for a theological-political reading of the Jubilee, according to which the act of forgiveness was seen as a necessary measure to restore justice and equity, both of

which had been severely tested by the entire global financial system and its dysfunctions.

The results of that campaign were considered very positive. Thanks to international public support and the activism of religious, political and social leaders, backed by prominent figures such as those mentioned above, the World Bank and the International Monetary Fund launched a series of partial debt relief programs, including the *Heavily Indebted Poor Countries (HIPC)* initiative, aimed at helping vulnerable countries with the goal of bringing their public debt back to a level considered more sustainable in the name of poverty reduction and sustainable development.

The HIPC program identified 38 countries considered economically vulnerable, of which 36, by 2020, had received financial funds from the program totalling approximately $100 billion. These countries are:

1. Afghanistan
2. Benin
3. Bolivia
4. Burkina Faso
5. Burundi
6. Cameroon
7. Central African Republic
8. Chad
9. Democratic Republic of the Congo
10. Comoros
11. Ivory Coast
12. Ethiopia
13. Gambia
14. Ghana
15. Guinea
16. Guinea-Bissau
17. Guyana
18. Haiti
19. Honduras
20. Liberia
21. Madagascar

22. Malawi
23. Mali
24. Mauritania
25. Mozambique
26. Nicaragua
27. Niger
28. Rwanda
29. Sao Tome and Principe
30. Senegal
31. Sierra Leone
32. Somalia
33. Tanzania
34. Togo
Uganda
35. Zambia

According to estimates provided by the International Monetary Fund, between 2001 and 2015, debt decreased by 1.5 percentage points, and since 2017, debt servicing has remained below one percentage point of estimated pre-HIPC levels. However, available resources have not been sufficient to cover the debt of countries such as Sudan and Somalia, which had accumulated large arrears over time.

Between 2019 and 2021, the IMF Executive Board approved additional financing plans with the aim of mobilising the resources needed to cover the debt of these countries, including Eritrea, even though this country has no financial obligations towards the IMF.

Currently, the major creditors of poor countries, such as the World Bank, the African Development Bank, the Inter-American Development Bank and all the Paris Club countries, are working to ensure that these countries' debts are completely cancelled under the HIPC initiative, encouraging other creditors to join the program.

The historical evolution of the Jubilee, and the close relationship that such evolution reflects between the Jubilee and debt, therefore raises a fundamental question today: "What can we do in 2025 to send a concrete signal in favour of vulnerable countries grappling with public debt sustainability problems? Is it right that the debt of these countries and the heavy service that it imposes governs the economic policy and conditions without limits the survival and quality of life of peoples and families?" The Jubilee, therefore, offers a valuable historical opportunity to address and begin to resolve an issue of vital interest to the Global South, such as public debt. It is not just a religious experience and liturgical rite, but also an expression of concrete solidarity and social justice, which religion and liturgy highlight and motivate in a meaningful way. It is therefore an opportunity to remedy the imperfections of the markets and the imbalances in the international financial and commercial system.

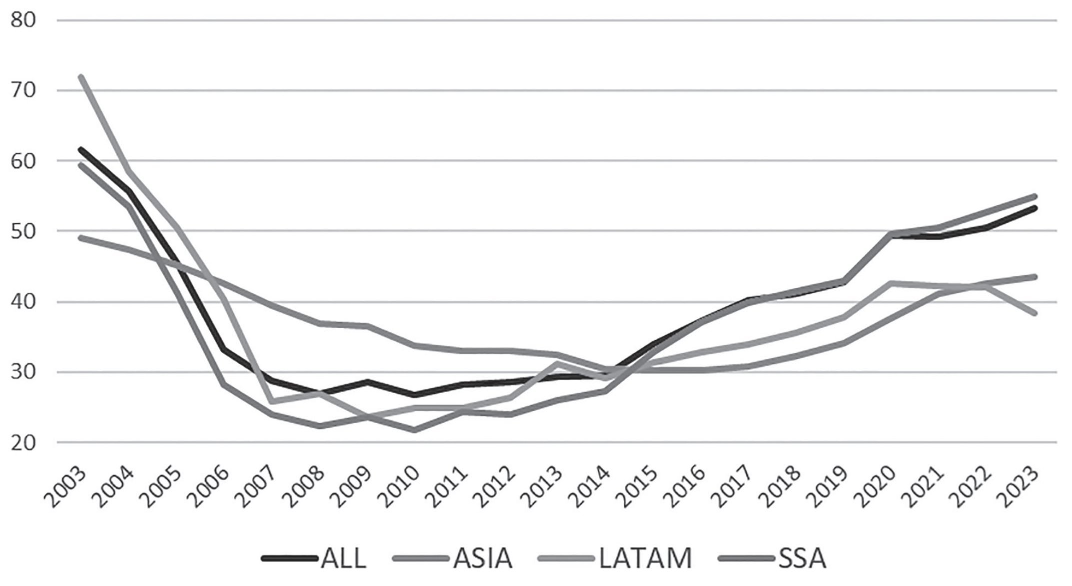
It is a question of steering international financial institutions towards redistributive solidarity, restorative justice and intergenerational equity. It is a question of placing issues of sustainable development, economic growth and social cohesion at the centre of policymakers' attention.

The debt of developing countries: the analytical framework and main support measures

by Patrizio Pagano

An analysis of the debt trends of the poorest countries over the last 15-20 years allows us to understand the current situation and how it has changed compared to the recent past. This exercise also provides an opportunity to make a closer comparison with some of the debt reduction programs mentioned above, such as the initiatives aimed at HIPC countries or other recent measures that have been relatively successful in reducing debt. To put the current situation into context, it is useful to start with a series of findings summarised in a few graphs.

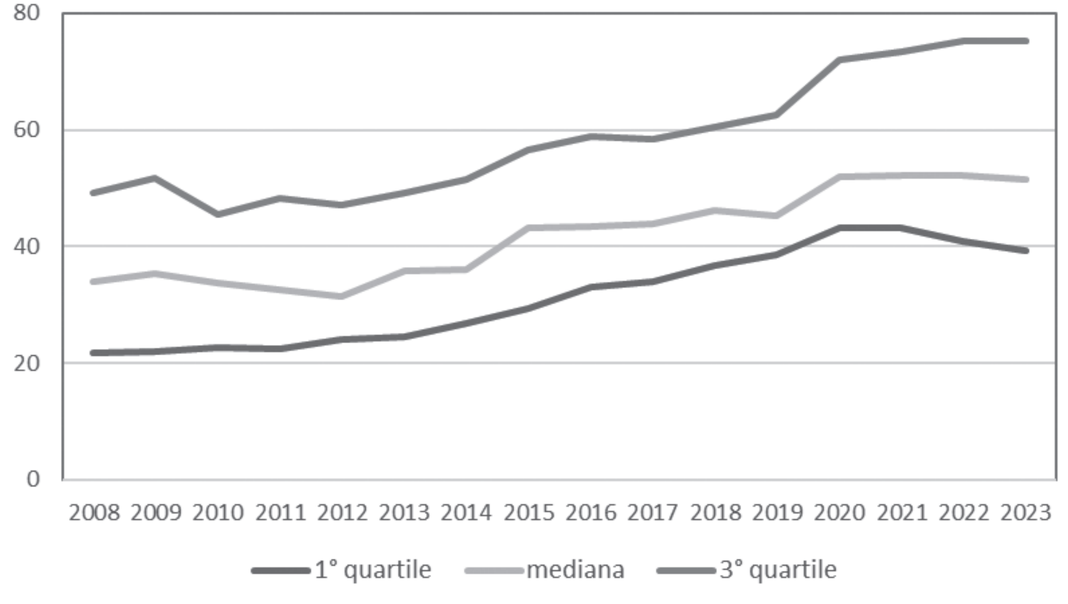
Fig. 1 - LICs: Public debt (%GDP)



When we refer to poor countries, we mean those that the World Bank admits to its most favourable financing programs, those of the organisation technically known as the IDA (International Development Association). Overall, the long-term foreign public debt of these countries has now exceeded $750 billion. Including private sector debt, the total amount for these countries reaches a record figure of approximately $1.1 trillion.

It is the debt of African countries that has grown the most: from 2008 to today, it has risen from 22% of GDP to over 55%, more than doubling (Fig. 1). This trend can also be seen, albeit to varying degrees, in other areas of the world. Now, it is true that these figures appear modest when compared with those of advanced countries such as Italy or Japan, where public debt now far exceeds 100% of GDP. However, it should be noted that around a quarter of poor countries now have public debt exceeding 75% of GDP (Fig. 2).

Fig. 2 - LICs: Distribuition of pubblic debt of GDP ratio (%)



This figure may seem much lower than those of advanced countries, but what matters is the ability to manage and sustain this debt.

Unfortunately, in many poor countries, the ability to collect tax revenues is extremely limited, and therefore even a relatively lower level of debt is much more difficult to manage and sustain. Advanced countries can count on substantial and responsive tax revenues, while this is not true for many IDA economies, making the debt situation in these countries much more critical. It is no coincidence that the International Monetary Fund and the World Bank, which regularly carry out so-called debt sustainability analyses, now estimate that around half of poor countries are in a critical situation, defined as either “debt distress” or “high risk of debt distress” (Fig. 3). In 2013, less than a quarter of poor countries were in this situation, clearly showing significant deterioration over the last decade.

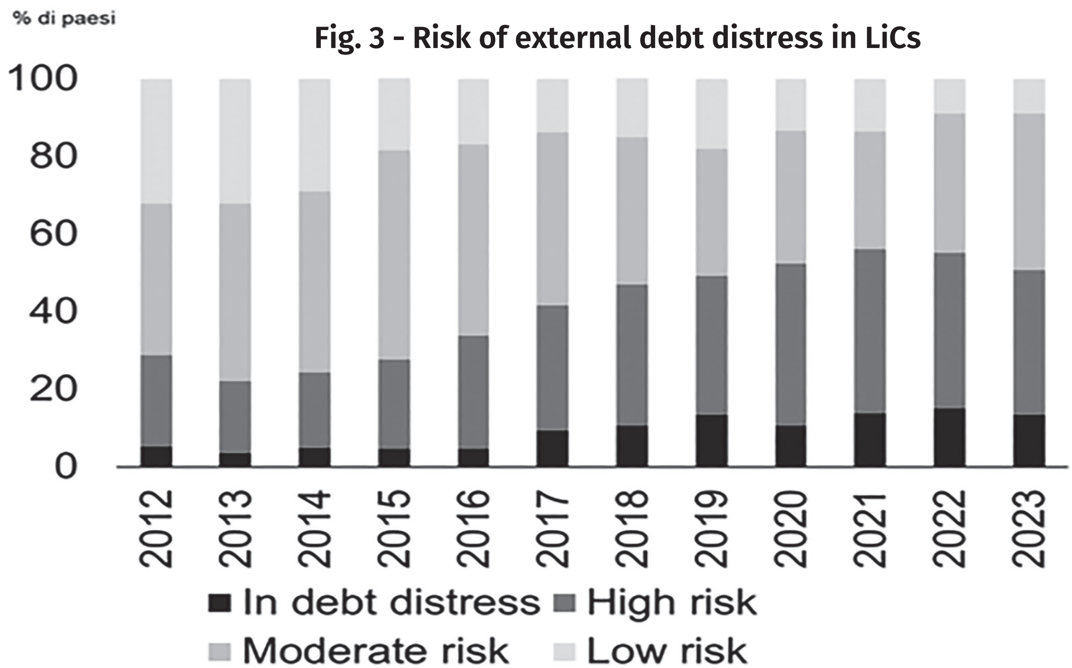
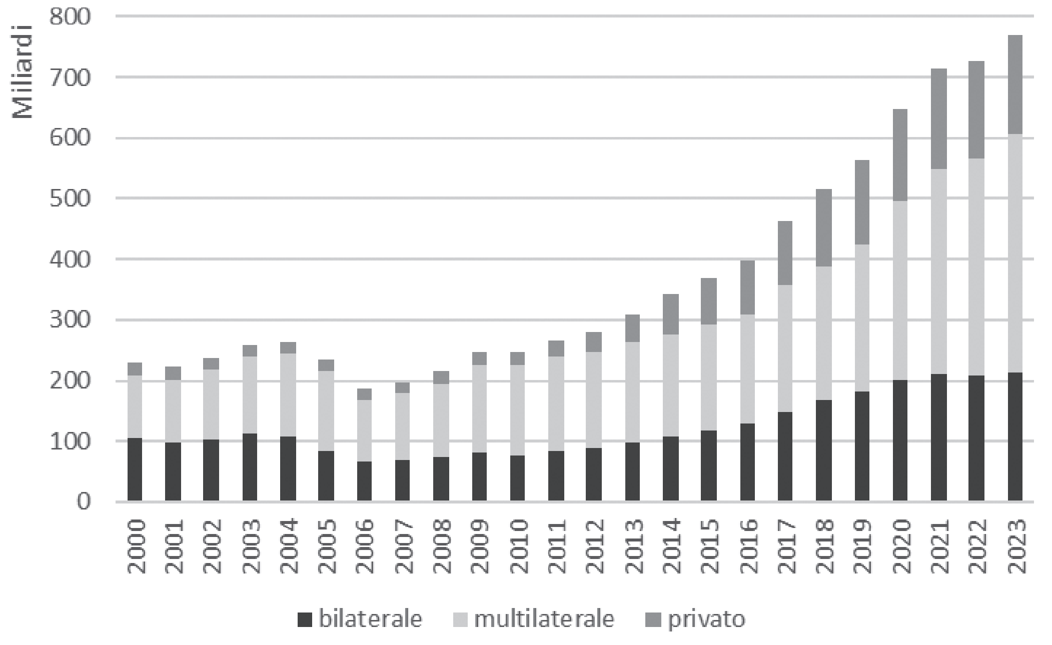


Fig. 3 - Risk of external debt distress in LiCs

This graph clearly shows how debt sustainability has deteriorated over the last ten years, from 2012 to 2023. The deterioration has a direct impact also on the cost of refinancing the debt. When public debt securities mature and need to be renewed, the cost of refinancing on the market becomes much higher, further aggravating the debt position of these countries. Alongside the evolution of the absolute size of the debt and the risks associated with it, there is another significant transformation to be considered when assessing possible corrective measures. This is the change in the composition of creditors. Over the last 25 years, the composition of creditors has changed profoundly. In particular, the share held by private creditors has more than doubled since the beginning of the century and now exceeds 20% of the total (Fig. 4).

Fig. 4 - LICs: External public debt (US$)

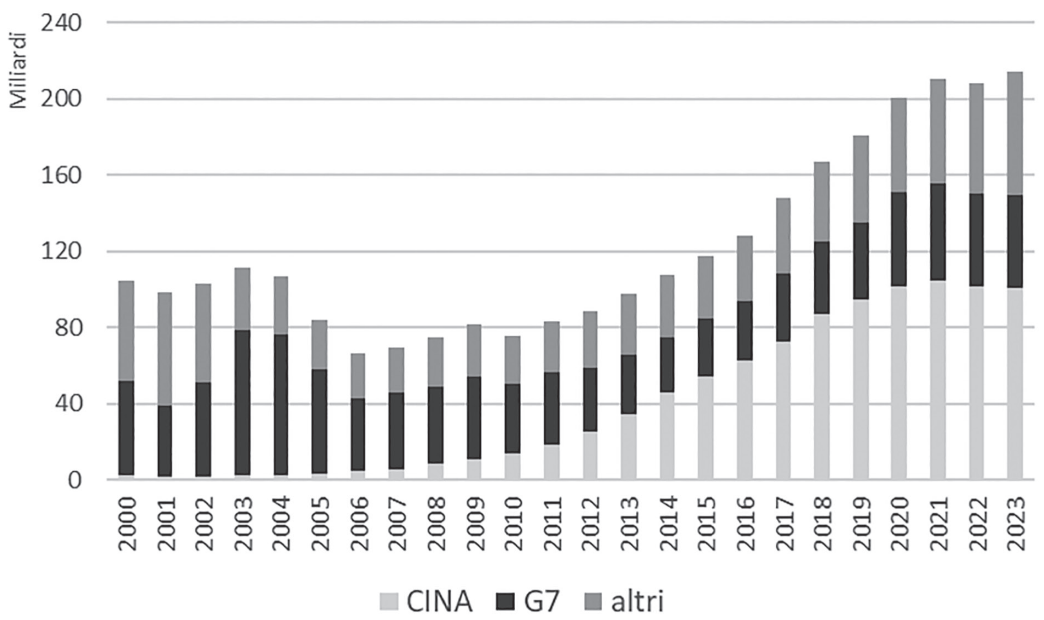


Multilateral institutions, such as the International Monetary Fund and multilateral development banks, still hold the largest share of developing countries' public debt, accounting for around 50% of the total. However, there has been a significant expansion in the share held by private entities (shown in green in Fig. 4), which has grown steadily and significantly over time.

Bilateral debt has also expanded significantly. This type of debt consists of obligations that one country contracts directly with another. Within this category, there has also been a substantial transformation: China is now the main bilateral creditor. It holds over 50% of this debt, more than twice the total share of the G7 countries.

This is a key observation for understanding the differences compared to the past. It would be misleading to think that replicating the HIPC initiative today in such a profoundly changed context would be sufficient. Innovative approaches and a substantial reformulation of the terms of the discussion are therefore necessary.

Fig. 5 - LICs: Bilateral public debt (US$)



Against this backdrop, Figure 5 clearly illustrates the trends highlighted above. China's share of bilateral public debt (shown in red) has grown enormously since 2008, while that of the G7 countries has gradually declined. The green section, on the other hand, represents other creditors, whose share has remained stable overall.

A final point to note concerns the transparency of debt data. In recent years, the International Monetary Fund and the World Bank have launched initiatives to analyse the debt structure of poor countries in greater depth. These investigations have revealed that the degree of debt transparency in many of these countries is rather approximate.

The reason is that in several cases, the debts are not contracted directly by central governments, but by state-owned enterprises or special vehicles set up ad hoc to finance specific projects. These financing instruments are not subject to the same level of public scrutiny and often include confidentiality clauses and collateral guarantees that further complicate their management.

In many cases, these are debts owed to China or Chinese entities: the loan guarantees are represented directly by the infrastructures financed, or by other assets, such as raw materials owned by the country receiving the financing and not necessarily related to the project itself.

This feature also represents a crucial new element. So far, there have been very few cases in which the above guarantees have been enforced. This possibility may have been hampered by political considerations. In many cases, for example, China has granted repayment extensions without touching the nominal value of the debt, and the issue of guarantees has rarely been addressed in detail.

In summary, the current debt situation in poor countries is complex, to say the least.

The question that arises, therefore, is: what has the international community done in response to this scenario?

The G20 has acknowledged the complexity of the new configuration of the problem and has therefore launched a multilateral discussion platform called the *Common Framework (*in full, the *Common Framework for debt treatment beyond the DSSI or Debt Service Suspension Initiative*). This mechanism was designed to coordinate the actions of all bilateral creditors and thus facilitate orderly debt restructuring in countries in difficulty.

However, only four countries, all in Africa, have joined this process so far: Chad, Ghana, Ethiopia and Zambia. The process has proven to be extremely complex and varied. Bringing together creditors that are so different in nature, interests and geopolitical vision has proved to be laborious and difficult.

While there were numerous difficulties in the past with the HIPC initiative, even though the parties involved were mainly homogeneous (such as the G7 countries), today the situation appears much more complex and its management much more challenging.

The main problem associated with debt management in countries in difficulty, therefore, lies not so much in the condition of the debtors but rather in the fragmentation and lack of coordination among creditors. The greatest difficulty, in fact, is bringing together a new, broad and heterogeneous group of creditors to discuss potential debt adjustments or rescheduling in an effective and consensual manner.

Taking all these complications into account, I believe that two types of concrete proposals can be put forward. The first concerns the use of financial innovation instruments, some of which have already been launched and have already proved particularly useful in relation to debt and climate transition. New and innovative financial instruments are currently being tested or are already in use, such as *debt-for-development swaps* and *climate-resilient debt clauses.*

Debt-for-development swaps are agreements whereby a creditor grants a debt reduction to a debtor country, and in return, the latter undertakes to use the financial flows corresponding to the interest it would have had to pay to make investments in its own territory, with the aim of promoting development, protecting the environment and strengthening climate resilience. In some cases, these instruments are bilateral, while in others they take a tripartite form: in the latter case, a non-governmental organisation grants financing to a country to purchase its debt at a discount on the secondary market. The difference between the nominal value and the price paid is then used to finance measures to support economic development or climate and environmental action.

The previous US administration had expressed strong support for such instruments. In contrast, the current administration appears less inclined to continue along this path. Nevertheless, financial innovation instruments geared towards these objectives continue to be available and deserve greater attention and experimentation.

Another example is *climate-resilient debt clauses*, clauses included in bonds, according to which – if a country is hit by an extreme natural event, such as a hurricane – interest payments can be suspended for a period of two or three years. This type of mechanism would be particularly useful, for example, for Caribbean countries, which are frequently exposed to climate disasters and, being classified as middle-income countries, often do not have access to concessional financing from multilateral development banks. The widespread introduction of these clauses would significantly ease the tax burden in the short term for the countries concerned, improving public finance management in countries affected by these shocks.

The widespread use of financial innovation tools, in the direction indicated or in other similar ways, should therefore be encouraged. Such tools would make debt more sustainable in the medium term, although they would not solve the structural problem of the overall level of debt.

The second proposal concerns a more general issue, namely the need to strengthen the multilateral approach. It has been emphasised that countries must be enabled to emerge from difficult situations on their own. The most effective instrument in this regard over the past few decades has been open markets in an environment that has fostered trade liberalisation, the elimination of barriers and the integration of markets at the global and regional levels.

The reduction in global poverty observed over the last 25-30 years has been unprecedented, with the absolute poverty rate falling to single digits. This result has been achieved in the context of increasing market openness and intensified international trade. Conversely, the recent slowdown in this process coincides with a phase in which restrictions and barriers to global trade are once again being discussed. Since trade is the main driver of growth for developing countries, the introduction of trade barriers risks halting, if not reversing, the progress made so far.

It is also essential that barriers be removed firstly within poor countries themselves. The case of Africa is emblematic: African countries trade much more with Europe, China or the United States than with each other. Therefore, strategic investment should be made to promote intra-African trade integration and South-South trade.

In this regard, the initiative taken by African countries shortly before the pandemic to sign an agreement for the creation of a pan-African free trade area (*African Continental Free Trade Area*) deserves attention. However, this initiative is still only on paper.

The entire international community, with the support of stakeholders, should focus on actively supporting the full implementation of this integrated pan-African trade area and, more generally, on trade liberalisation and market integration processes, which, if implemented, could become an autonomous tool for promoting development, fostering virtuous dynamics of improved well-being and strengthening the capacity of African countries to reduce their dependence on external factors.

The issue of debt and its relationship with the ethical foundations of global governance in the World Bank's view: not only crisis but also opportunities

by Matteo Bugamelli[3]

I would like to highlight two key issues: the need for a renewed multilateral approach, especially considering the recent reform of the institutions that make up the World Bank Group (WBG), and the growing burden of public debt in vulnerable countries, where the World Bank (WB) and the International Monetary Fund (IMF) play a key role. We are at a crucial juncture. Over the past decade, multiple global shocks, from the 2008 financial crisis to COVID-19, have disproportionately affected the most vulnerable populations.

Now, rising conflicts, geopolitical tensions and economic uncertainty threaten to reverse hard-won progress in poverty reduction. Global trade, once a key driver of growth and inequality reduction, is also threatened by rising protectionism. At the same time, multilateralism and rules-based global governance are being put to the test. This difficult context should not be seen only as a crisis, but as an opportunity to reshape and strengthen global cooperation. Allow me to begin with a quote from the speech given by Fabio Panetta, Governor of the Bank of Italy, during the recent spring meetings of the WBG and the IMF. The Governor stated: "*In the current context, international financial institutions like The World Bank Group (WBG) and the International Monetary Fund (IMF) are more important than ever. For 80 years, they have promoted economic and financial stability, poverty reduction and development. Their role remains fundamental in global finance and represents the best possible use*

[3] Speech at the International Conference of the ***Centesimus Annus Pro Pontifice Foundation*** on 16 May 2025, Rome, Vatican City.

of donor aid. But complacency is unacceptable: all international financial institutions must improve their efficiency and leverage their comparative advantages to ensure impact and strengthen their ability to respond to the priorities of developing countries. They must work as a system in a selective, coordinated and collaborative manner."

This is where the WBG's *"Evolution"* reform comes in. Launched in autumn 2023, it was a collaborative effort between the Board, the President, management and staff. The shareholders played a key role, overcoming internal divisions to ensure that all voices were heard.

With a refined mission to end extreme poverty and promote shared prosperity on a livable planet, we have focused on increasing resources for development and improving the Bank's effectiveness to maximise the impact of every dollar spent.

On the financial front, since 2002, the World Bank Group's annual financing has grown fivefold—from $24 billion to nearly $120 billion in 2024—totalling over $1.2 trillion in support.

However, more is needed. As part of the *Evolution* process, the WBG has acted on the G20 review of the "*Capital Adequacy Framework for Multilateral Development Banks*," approving:

- Measures to increase lending by up to $150 billion over 10 years, made possible by the support from some shareholders and better use of our financial standing.
- The introduction of innovative financial instruments that can serve as a platform to attract more resources not only from regular donors but also from other interested stakeholders. I hope and expect that other actors, such as philanthropic foundations, will do their part. We must all push in this direction.
- Despite enormous fiscal difficulties at the global level, the successful completion of the *replenishment* of IDA21 (International Development Association of the WBG) to support low-income countries with concessional resources.
- The launch of a crisis *toolkit* to support countries affected by shocks.

But increased funding is only part of the solution. We have also worked to make the Bank faster, more agile and more effective. Three highlights in this regard:

- Partnerships: under President Banga's leadership, the Bank's collaboration with other international and regional institutions has deepened.
- Focus on impact: our ambitious 2030 goals include reaching 300 million Africans with energy, 1.5 billion people with health and nutrition services, $9 billion a year in agri-finance, and 500 million people with social safety nets—half of them women and young females. We are committed to allocating 45% of funding to climate, with a focus on adaptation and resilience.
- Internal efficiencies: better coordination within the Group, greater exploitation of synergies, reduction of redundancies. Project preparation times have also been reduced from 19 to 12 months.

We are proud of what we have achieved, but we are also aware that there is still room for improvement. Two areas of work that you will soon see are: private sector development, particularly with job creation, and the mobilisation of private capital. The first point is fundamental because there can be no sustainable development if we limit ourselves to supporting only the public sector. I invite you to look at the Job Creation Plan presented at the spring meetings of the Bretton Woods' institutions in April 2025. Mobilising private capital is the lever we must activate to significantly increase financial resources for development. It is a complex and technical agenda that the WBG is promoting in an innovative way and that must be strengthened and supported. Part of this work to increase efficiency and seek impact is the WBG's contribution to the worrying issue of debt, which is my second point in this speech.

Let me start with some numbers. Public debt and debt service were already on the rise before the COVID-19 crisis due to persistent primary deficits, despite nominal interest rates close to zero and robust growth. Between 2010 and 2019, nominal public debt in WBG client countries (IDA – International Development Association, the poorest countries, and IBRD – International Bank for Reconstruction and Development, middle-income countries) increased by 91% to around $17.3 trillion, with IDA countries recording the largest nominal increase (128%). After COVID-19, public debt increased further, reaching $20 trillion.

This is worrying, although we must recognise that the risks of a systemic debt crisis appear to be contained, with post-pandemic public debt levels below historical highs and the number of countries at high risk or in distress high but stable.

But there is another problem that, if not addressed, could turn into a more serious solvency issue: record public debt servicing costs. Low-income countries now spend almost three times as much of their revenue on external debt servicing as they did ten years ago, while in middle-income countries this ratio has almost doubled. Among the poorest IDA countries, debt repayments exceed combined spending on health and education on average.

What is the World Bank doing in this context? And what more can be done? First, there are no quick fixes; the current fragmented creditor landscape makes past solutions unworkable. We must also balance urgent action with long-term sustainability to avoid repeated restructuring soon.

Turning to the World Bank's contribution, it is important to remember that the Bank's financing provides crucial support to low-income countries without exacerbating debt vulnerabilities. Take IDA financing, which, as I mentioned, includes highly concessional loans and grants. It offers built-in relief that creates fiscal space before crises emerge. For every $100 disbursed by IDA, borrowing countries repay only $40 on average (in present value), a level of relief unmatched by any bilateral creditor.

In countries already hit by debt crises, IDA has provided unprecedented support, with over $75.6 billion in net positive flows since 2020, including $30.7 billion in grants.

IDA commitments to countries that have requested debt restructuring under the G20 Common Framework (Chad, Zambia, Ghana and Ethiopia) have been close to $20 billion over the last four years (50% in grants).

The Bank and the IMF have supported the implementation of the G20 Common Framework. We have seen some progress, but much remains to be done to improve it and accelerate the process. But in calling for improvements, we must not forget that the timeliness of restructuring depends on mutual trust and understanding between creditors, debtors and international financial institutions. It has taken time to learn to work together in the new creditor landscape. But now debt treatments under the Common Framework are being delivered more quickly.

A key tool is the *Global Sovereign Debt Roundtable*. Co-chaired by the WB, IMF and the G20 Presidency, it brings together debtor and creditor countries, both official and private, to discuss and build consensus on solutions. The Bank is also strengthening its debtor reporting system (DRS) by reconciling data reported by borrowers with that provided by creditors, making the system more comprehensive and granular. The Bank has also published a *Playbook* with key timelines for debt restructuring. The World Bank's efforts on debt restructuring are closely linked to the prevention of future vulnerabilities. Too often, countries undergo major restructuring only to fall back into difficulty, harming the most vulnerable and discouraging lenders. Breaking this vicious cycle is essential to unlocking more financing for development.

In this regard, I want to focus on two main areas of work. First, increasing debt transparency must remain a top priority. The recent case of undeclared debt in Senegal has shaken investor confidence and reignited broader concerns about transparency. The only way to restore confidence is to broaden the circle of transparency and improve the quality and timeliness of data. The IDA is particularly active in this area, with its *Sustainable Development Finance Policy* helping countries address any shortcomings.

Second, strengthen the capacity of debt management offices and help countries design sound policies and improve public disclosure of data and here we have seen progress. More countries now produce detailed and high- frequency debt reports. Our *Debt Transparency Heatmap* shows that only 20% of IDA countries today do not disclose data, compared to 40% four years ago. Given the growing urgency of debt servicing challenges, the WBG and F-MI have launched a three-pillar approach that once again aims to both solve current problems and prevent future ones.

The first pillar helps countries implement reforms focused on mobilising domestic resources, growth and job creation.

The second pillar supports increased financing from IFIs, multilateral banks and bilateral creditors.

The third pillar supports debt management operations. For example, the recent operation in Côte d'Ivoire with a *debt-for-education swap*, designed in a context of sustainable debt and a country strongly committed to reforms.

In conclusion, with the strong support of its shareholders, the World Bank Group is focused on providing effective solutions to client countries, particularly the poorest and most vulnerable.

This is particularly vital in the context of the Financing for Development Conference. Ahead of the June meeting in Seville, the Board and the Bank are committed to contributing innovative ideas to the global debate.

Our Council is actively involved: in a spirit of collaboration, it held constructive meetings with the Co-Facilitators of the Final Document and with ECOSOC in Washington in March and in New York in April 2025. Our common goal is to help build a more effective multilateral system to achieve the Sustainable Development Goals (SDGs). Given the limited availability of financial resources, particularly of concessional resources, we are all aware that we must increase efficiency through better cooperation, strategic focus and greater resource mobilisation.

The World Bank Group Board remains fully committed to this inclusive and consensus-based approach.

The debt challenge in the new geopolitical context: from an assistance culture to self-sustained development

by Domenico Fanizza

Over the years, I have had the opportunity to gain direct and extensive experience on the issue of debt in developing countries, having held two different positions that brought me into close contact with the problem.

In the first, as an official of the International Monetary Fund (IMF), I assisted several African countries in developing the structural and macroeconomic reforms necessary to benefit from the *Heavily Indebted Poor Countries (HIPC)* initiative, which, promoted by the IMF and the World Bank (WB) in 1996, allowed the debt of 31 African countries to be forgiven, for a total of just under US$100 billion.

The second saw me participate as representative of Italy and other creditor countries on the Boards of Directors of the IMF and the African Development Bank (AfDB) over the last decade. I would like to recall and highlight a particularly significant experience I had at the IMF, which led Somalia to achieve debt cancellation through the HIPC initiative in 2023. This was made possible by a "bridge loan" granted by Italy to enable Somalia to clear its arrears to the IMF in 2020, a necessary condition for the start of the debt reduction process under the HIPC initiative.

The debate on debt tends to polarise around two opposing views. On the one hand, there are those who argue that debt forgiveness is equivalent to an inefficient use of financial resources, comparable – according to a well-known Anglo-Saxon expression – to *"throwing money down the rat hole*'. On the other hand, there are those who believe that debt cancellation is a prerequisite for heavily indebted countries to free themselves from unsustainable conditions resulting from adverse shocks and unfavourable initial economic conditions. Both of these perspectives can be justified and therefore deserve attention. However, in my view, this contrast is not productive. Rather, we need to focus on the most effective ways to address and resolve the concrete problems associated with sovereign debt, overcoming ideological divisions.

A growing element of complexity in the current context is the fundamental changes that have taken place in the international debt landscape. These make it more difficult to define and implement shared strategies for debt cancellation or restructuring. Three factors, in particular, have a significant impact on this issue.

The first concerns access to international capital markets for many low-income African countries. As Patrizio Pagano explained earlier, countries such as Ghana, Senegal, Côte d'Ivoire, Kenya, Nigeria and Benin have all issued debt securities on international capital markets. This means that accepting an offer of debt cancellation is problematic for these countries: the fear is that it would compromise their ability to regain access to global financial markets. As a result, countries that could, in theory, join existing debt restructuring mechanisms choose not to do so. To recall that the main mechanism currently available is the *"Common Framework for Debt Treatment*'. This is a program launched by the G20 in 2020, which aims to provide low-income countries with an orderly and coordinated debt restructuring mechanism with broad participation by creditor countries. As I said, countries' concern about losing access to private capital markets strongly discourages participation in the Common Framework. By way of example, out of a potential pool of around thirty-five countries, only four have accepted the terms proposed by the program. This reluctance stems from a desire to preserve the financial autonomy that has been achieved and to avoid structural dependence of indebted countries on public creditors.

The second factor of complexity concerns the growing importance of non-traditional. The new creditor countries include not only China, but also India other emerging players. These entities now hold a significant share of the debt of many African countries, but they are not members of the Paris Club and do not share its mechanisms. In the past, these creditors held a negligible share of the existing debt stock. The Paris Club is an informal group of financial organisations from the 22 richest countries in the world, created in the 1950s, which intervenes to restructure the debts of countries that are unable to repay them. For this reason, it is extremely difficult for debtor countries to accept the conditions proposed by the Paris Club, as they fear that this would compromise their bilateral relations with these new strategic creditors, including the emerging countries of the Global South, which have met most of their financial needs in recent years. On the other hand, cancelling the foreign debt of only those countries belonging to the Paris Club is not possible because it would end up favouring creditors who are not participating in the restructuring efforts, as in the case of China.

The third factor, which is often overlooked, concerns the development of domestic public debt markets in many countries. On the surface, this appears to be a positive sign, as it implies that governments can finance themselves, as is the case, for example, in Italy with government bonds. However, this development makes debt cancellation more difficult. In fact, restructuring limited to bilateral foreign debt risks freeing up resources that could be used not for productive investment but to repay domestic debt holders, who are often identified with the national economic elite. This would fuel social imbalances and political tensions. Finally, even if it were decided, in the name of equal treatment of all creditors, to intervene on domestic debt as well, this would set in motion politically extremely delicate processes. Reducing the value of domestically held debt means directly affecting the interests of the local ruling classes, and sometimes even popular savings, and could generate instability and political conflict.

Given these considerations, some preliminary conclusions can be drawn. For several countries, debt restructuring appears, as a final analysis, to be inevitable. However, it entails high costs, both in terms of access to future credit and in terms of its domestic effects. Furthermore, it is essential to clarify that debt cancellation, on its own, is not a structural solution or a panacea. As clearly shown by the data presented by Patrizio Pagano, in many cases, once the debt has been cancelled, it has started to grow again. The only effective approach is one that involves the strategic and long-term use of the resources freed up by debt cancellation. These must be used to finance productive investments, strengthen economic resilience and support the country's structural transformation. Debt forgiveness should not be a symbolic measure to alleviate the guilt of donor countries, but a concrete tool to promote long-term sustainable development, restore the public finances of those countries and make debt sustainable and functional to a strategy of growth and stability. This means, for example, that it is not sustainable to continue to guarantee transfers and subsidies that are solely intended for consumption. We need to invest in the future and build a path towards economic transformation for the African continent.

Another aspect should be emphasised: today's Africa is not asking for charity, but for opportunities! Multilateral development institutions on the African continent, such as the *AfDB*, for example, do not promote themselves as charitable organisations, but as financial institutions that act as drivers of development. They aim to establish equal and mutually beneficial partnerships with industrialised countries. I would also like to offer some thoughts on the geopolitical changes currently underway, which will undoubtedly have implications for the effectiveness of the multilateral approaches needed to manage the debt issue of vulnerable countries in a coordinated manner. In my view, these transformations should not be seen solely as a threat: they can also be an opportunity to redirect African countries' policies towards structural reforms, economic growth, education and the modernisation of the economy and society. We must definitively abandon the logic of an assistance culture and promote a new vision of development based on autonomy, responsibility and productive partnership.

The central idea to start from is the awareness that the multilateral framework we have been accustomed to for decades has changed radically and continues to transform incessantly. Consequently, to envisage an approach today that follows traditional lines - such as those of the Paris Club or the multilateral instruments which we have used in the past, including the HIPC mechanism itself – appears increasingly unrealistic. Indeed, such schemes are likely no longer adequate to address today's complexities. The concept of global governance remains fundamental, but today's reality forces us to question what it actually means. At present, it is difficult to provide a working and shared definition of the governance of globalisation. There have been some important signs, it is true. One of these is the recognition of the African Union as a full member of the G20, and no longer just as an observer. This is a significant step, also supported by the AfDB through its technical commitment to facilitate its effective participation.

However, although symbolically important, this development is not enough.

Frankly speaking, the G20 today appears to be a dysfunctional body, incapable of taking concrete and timely decisions. It is difficult to place full confidence in its operational effectiveness. Similarly, I confess that I do not have much confidence in the African Union either. In recent days, its inability to intervene in any way in the tragic conflict that is causing bloodshed in eastern Congo – and which also involves Rwanda – is a further blow to its credibility. Unfortunately, this is not an exception: Sudan is another recent example of dramatic impotence. And this could be one of the most tragic events of recent years.

We therefore find ourselves in a constantly evolving context that requires caution, clarity and a profound capacity to adapt. We hope that internal and international dynamics will move towards greater coordination, but the current reality suggests the need for strong realism.

Another aspect which I would like to emphasise strongly is the inappropriateness of generalising when talking about Africa. The African continent is vast and extraordinarily diverse. Within its dramatic situations coexist, such as those that I have just mentioned, but there are also concrete examples of economic and social dynamism.

Observing the African reality from my office window in Abidjan, I see a city of over seven million inhabitants undergoing constant transformation. Poverty, although still present, is decreasing in a tangible way. The results are not yet sufficient, of course, but it is essential to give value to these positive signs.

I believe that the key to sustaining this change is the active involvement of the private sector in African countries. Only a dynamic and solid private sector can become the engine of transformation. My experience, gained over more than three decades of work in this field, has taught me that much of the effort has been directed at correcting the damage caused by ineffective or overly intrusive public interventions. We must therefore move forward with care and caution. Often, to help, we risk doing more harm than good.

This awareness is, in my opinion, crucial. I want to strongly reiterate my confidence in Africa's ability to lead its own transformation. This process must start from the African continent itself, which must take responsibility for its own development. At the same time, it will be necessary to redefine the relationship with industrialised countries so that it is based on a genuine partnership that is more equitable and respectful of each other's autonomy.

New active players and new dynamics in the debt issue: how to transform debt into a financial tool for sustainable development

by Marco Ricceri

When discussing Africa, the first essential step is to take a different view from the past: we must look at Africa through the eyes of Africa itself, and not through those of Europe or Italy. This change of perspective must be not only symbolic, but deeply cultural and political.

Although I am not an expert in credit or finance, I would like to focus my speech on how to transform the African countries' debt into financial instruments, i.e. investment funds to support the sustainable development of this vast continent with great potential. An innovative idea that has recently emerged, which integrates debt policies and is being consolidated into concrete experiences, is to operate, where possible, in local currency, to also strengthen the national economic and monetary systems of African countries. This is an initiative that deserves attention and further study.

However, I would also like to take this opportunity to broaden the scope and offer some more general reflections on the new scenario that is emerging with the profound transformations taking place in this historic phase. In this context, the main risk is that of making serious cultural and interpretative errors influenced by immediate or short- term geopolitical interests. There is often superficial talk of the end of globalisation and the crisis in international relations in terms of fragmentation, breakdown or disintegration of the multilateral world order. The reality – in my opinion – is significantly different. What we are seeing is not an end, but rather a phase of continuous transformation of structures and balances that are taking on new and often unprecedented forms, giving rise to situations and trade-offs which are different compared to those in recent past. This applies to the process of globalisation, which is undergoing restructuring (re-globalisation, not de-globalisation), and to the multilateral system, which is increasingly taking on a multi-centric (not multipolar) structure.

One of the central aspects of this process of structural change is the emergence of new geopolitical and geo-economic players on the international scene. I am referring in particular to institutional actors, recognised by international law, which are operating with increasing effectiveness at the continental or sub-continental regional level in international coordination and cooperation initiatives, bodies that have become well established, especially in the last two decades. Africa, for example, currently has and operates a continental coordination institution, the African Union (AU), which has formulated its own strategic vision for long-term progress, projected to 2063, and has launched well-articulated development policies in various areas of intervention, supported by initiatives aimed at promoting trade and strengthening financial stabilisation mechanisms. This continental union, which is well structured in its decision-making and operational bodies, such as the Assembly of Heads of State and Government, the Executive Council, the Parliamentary Assembly, the Court of Justice and the Court of Auditors, are supported by eight regional economic cooperation communities (RECs), also recognised by international law, each with autonomous development programs tailored to the specific needs of the regional area in question. (See institutions: UMA, COMESA, CEN-SAD, EAC, ECCAS, ECOWAS, IGAD, SADC).

On the launch of Italy's so-called "Mattei Plan', during the major official presentation of the program, which took place in Rome at the Italy- Africa summit in January 2024, the President of the African Union stated very clearly that Africa does not intend to follow development models imposed by others. On the contrary, it wants to build its own model, collaborating on an equal footing with international partners that guarantee mutual benefit, respect for national sovereignty and a pragmatic approach. These clear statements signal a paradigm shift from the past.

It should be added that this change in approach does not only concern Africa. Regional centres of reference for local development are also multiplying in other areas of the world: in Southeast Asia with *the Association of Southeast Asian Nations (*ASEAN) and the *Shanghai Cooperation Organisation (*SCO), in Eurasia with the *Eurasian Economic* Union *(*EAEU), in Latin America with *the Pacific* Alliance *(*PA) and with structures such as the *Andean Community of Nations (*CAN). These are bodies, sometimes formal, sometimes informal, but which now represent consolidated and articulated collective needs and interests and are moving with increasing authority and determination on the international stage: they are the new protagonists of the multilateral, multicentric system.

I therefore believe that the time has come to ask ourselves a series of questions, starting with the role of the G20 in managing economic, scientific and technological development processes, in resolving the debt issue of emerging countries and in addressing the structural factors of global crises. Perhaps it is time to move beyond a dialogue that is limited to national states and open up to a broader dialogue involving these continental and regional institutions, many of which are recognised by the United Nations and supported by its agencies. Broadening the range of active players involved would also strengthen the legitimacy and effectiveness of decisions, especially on complex issues such as the restructuring of public debt accumulated in the weakest economies.

Reading the official documents of these continental and regional coordination institutions, the recurring demands are very clear: reform the current international order, making it fairer and more inclusive; build development models that are sustainable and shared by the countries involved; promote structured cooperation between the public and private sectors to make economic competition more balanced and regulated.

The point is that in Europe, these new dynamics and needs are often underestimated. Take, for example, the coordination of the BRICS, which is predominantly interpreted and assessed solely as a new subject of geopolitical confrontation between East and West. If one reads the official documents of the BRICS summits carefully, a different position emerges: we are not faced with statements that foreshadow confrontation with developed Western countries, between geopolitical and geo-economic blocs, but rather with a call for profound reform of the main international institutions, including the International Monetary Fund, the World Trade Organisation, the World Bank and the G20 itself, which is nevertheless recognised as the "engine of the world economy" (BRICS Summit, 2024).

Considering this rapidly changing international reality and the emergence of new players, it is essential to ask ourselves what stance we want to take as developed

Western countries. My belief is that now more than ever, we need to adopt a position of openness and dialogue with the new institutional players. Only in this way will it be possible to understand and adequately assess the new challenges arising on the international stage and to be open to joint initiatives aimed at building a more equitable and inclusive global order.

The United Nations 2030 Agenda is an essential reference point in this process. In pursuing the goal of a new development model, it emphasises two fundamental principles. The first concerns the system of *global governance*. It is not just a question of changing the traditional exercise of power by national governments, but above all their willingness/ability to build effective decision-making processes through cooperation between public and private actors and the sharing of responsibility for the resulting actions. This principle of new *governance* is often affirmed by states in official documents but rarely put into practice. The second key principle to be respected is that of the functional interface between science and politics. The 2030 Agenda, with its accompanying *Science Policy Interface (*SPI, 2015) program, emphasises the urgent need for science and politics to engage in dialogue, sharing ethical and social responsibilities, and to work together to build sustainable solutions to global issues.

It should be added that these issues will be at the centre of the World Social Summit, to be held in November 2025, which represents a concrete opportunity to rethink the relationship between economic development and social justice, inclusion and exclusion, including the issue of the debt of the most vulnerable countries.

Ultimately, I believe that in the current situation, we need to have the courage to break new ground. Engaging in dialogue with new players on the global stage, recognising the complexity of the emerging multipolar system, and working together to build a fairer future for the entire international community: this is the challenge we face, and it calls on all of us to act with ethical responsibility.

In this regard, the recent co-opting of the African Union as a full permanent member of the G20 (2023 summit, chaired by India) – following the previous co-opting of the European Union – represents not only an important sign of change, but also a possible model to follow. This decision to include new institutional, formal and informal active players in the main bodies governing the system of international relations should also be extended to other regional coordination bodies which, across the various continents, are developing their operational capacity and consolidating their institutional legitimacy. If we really want the G20 to become the instrument for providing concrete and shared responses to major global challenges – such as the reform of the United Nations, the review of sustainable development processes and the adaptation of international financial systems to new challenges – then it is essential to involve such new players in a stable and structured manner.

The G20–African Union model can and must therefore be replicated in other forums, transforming the G20 into a platform that is truly representative of the multi-centric world in which we live now and will live in the future. This implies the need – I repeat – to promote continuous and open dialogue, not only with the official and formal institutions of the international order, but also with informal bodies which, in many cases, are the true expression of regional economic and social dynamics. I therefore return to the initial theme. I believe that, alongside the issue of *global governance*, there is another area for reflection that deserves attention: the issue of debt and its possible conversion into instruments for sustainable development. Interesting proposals are emerging on this point, which should be monitored and explored in greater depth, particularly in terms of their practical implementation, as well as in terms of the real political will to move in this direction. Certainly, from a financial point of view, there are technical aspects that must be looked at carefully, but I think the idea of turning debt into a lever for sustainable development could be a winner and should be explored seriously and thoroughly.

Multilateral development banks (MDBs) can and must play a crucial role in pursuing this objective. These institutions, which are already active and important at the global level, are called upon to review and refine their project assessment and operating criteria, particularly regarding their application to sustainability and resilience. The fact is that although there is a certain degree of coordination between these banks and regular international meetings are held to review their work, there is clearly still a significant gap and worrying inconsistency in their interpretative and operational models in the environmental and social dimensions of development, beyond the economic and financial ones.

Multilateral development banks, precisely because of their ability to operate at the macroeconomic level, could be the natural place to develop an effective and shared model for converting debt into investment funds to support sustainability policies. However, this requires a new vision that can effectively integrate economic, environmental and social aspects, giving a correct interpretation of these terms and their implications.

Finally, today more than ever, we need a system that is open in terms of investment, production and trade dynamics. A closed, self-referential system cannot cope with the complexity of today's economy and finance. Only a system open to discussion, dialogue and multi-level cooperation will be able to generate lasting and fair solutions that can positively balance competition and cooperation.

Ultimately, it is precisely in this open and shared space that we must place our commitment for the future: to be global and united.

A SELECTED COLLECTION OF DOCUMENTS

a.

Pope Francis' speech on the debt of vulnerable countries at COP29: The Pope calls for the cancellation of the foreign debt of poor countries. "It is a matter of justice."

Message of His Holiness Pope Francis delivered in Baku by Cardinal Pietro Parolin, Secretary of State, at the Conference of the States participating to the **United Nations Framework Convention on Climate Change (COP29)** [Baku, Azerbaijan, 11- 22 November 2024]

Mr President,
Distinguished Heads of State and Government,
Ladies and Gentlemen,

On behalf of Pope Francis, I extend cordial greetings to all of you and assure you of his closeness, support and encouragement so that COP29 may once again demonstrate that there is an international community willing to look beyond particular interests and place at the centre the good of humanity and our common home, which God has entrusted to our care and responsibility.

The scientific data available to us allow no further delay and clearly show that the preservation of creation is one of the most urgent issues of our time. We must also recognise that it is closely linked to the preservation of peace.

COP29 is taking place in a context marked by growing disillusionment with multilateral institutions and increasing tendencies to build walls. Selfishness – individual, national and power groups – is fuelling a climate of mistrust and division that does not respond to the needs of an interdependent world in which we should act and live as members of a single family inhabiting the same interconnected global village[4].

"The increasingly globalised society brings us closer together, but it does not make us brothers"[5]. Economic development has not reduced inequalities. On the contrary, it has favoured the prioritisation of profit and particular interests at the expense of the protection of the weakest and has contributed to the progressive worsening of environmental problems.

In order to reverse this trend and create a culture of respect for human life and dignity, we need to understand that the harmful consequences of certain lifestyles affect everyone, and work together to shape the future so that "solutions are proposed from a global perspective and not just in defence of the interests of certain countries"[6].

May the principle of 'common but differentiated responsibilities and respective capabilities'[7]guide and inspire the work of these weeks. Let historical and present responsibilities become concrete and forward-looking commitments for the future, so that from these weeks of work a new quantified collective goal for climate finance may emerge, which is among the most urgent of this Conference.

Efforts must be made to find solutions that do not further undermine the development and adaptability of many countries already burdened by crippling economic debt. When discussing climate finance, it is important to remember that ecological debt and foreign debt are two sides of the same coin that mortgage the future.

In this context, I would like to reiterate the appeal made by Pope Francis in view of the Ordinary Jubilee of 2025, addressing the wealthiest nations 'to recognise the gravity of many decisions taken and to establish that the debts of countries that could never repay them be cancelled. Before being a question of magnanimity, it is a question of justice, aggravated today by a new form of iniquity of which we have become aware.

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4 See Pope Francis, *General Audience*, 2 September 2020.
5 Benedict XVI, Encyclical Letter *Caritas in Veritate*, 29 June 2009, n. 19.
6 Pope Francis, Encyclical Letter *Laudato si'*, 24 May 2015, 164.
7 United Nations Framework Convention on Climate Change, Art. 3.1 Art. 4.1; Paris Agreement, Art. 2.2.

"There is indeed a real 'ecological debt', especially between the North and the South, linked to trade imbalances with ecological consequences, as well as to the disproportionate use of natural resources historically by some countries"[8].

In fact, it is essential to seek a new international financial architecture that is people- centred[9], bold, creative and based on the principles of equity, justice and solidarity. A new international financial architecture that can truly ensure that all countries, especially the poorest and those most vulnerable to climate disasters, have access to low-carbon and highly shared development paths that allow everyone to reach their full potential and see their dignity respected. We have the human and technological resources to reverse course a n d pursues the virtuous circle of integral development that is truly human and inclusive[10]. Let us work together to ensure that COP29 also strengthens the political will to channel these resources towards this noble goal for the common good of humanity today and tomorrow. We must rediscover our hope in humanity's capacity, in the fact that "we can always change course, we can always do something to solve problems"[11]. We must hope "that humanity at the beginning of the 21st century will be remembered for having generously assumed its grave responsibilities"[12].

I reiterate the commitment and support of the Holy See in this effort, especially in the field of education in integral ecology and in raising awareness of the environmental question as "a human and social problem in a broad sense and at various levels"[13], which requires above all a clear commitment, where responsibility, the acquisition of knowledge and the participation of every person are fundamental. We cannot "pass by on the other side"[14]. Indifference is complicit in injustice. I therefore ask that, keeping in mind the common good, we unmask the mechanisms of self-justification that so often paralyse us: what can I do? How can I contribute? Today is not the time for indifference.

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[8] Pope Francis, *Spes non confundit*, 9 May 2024, n. 16, quoting the Encyclical Letter *Laudato si'*, 24 May 2015, n. 51.

[9] Cf. Saint Paul VI, Encyclical Letter *Populorum progressio*, 26 March 1967, n. 14.

[10] See *ibid*.

[11] Pope Francis, Encyclical Letter *Laudato si'*, 24 May 2015, n. 61.

[12] *Ibid*., no. 165.

[13] Pope Francis, Apostolic Exhortation *Laudate Deum*, 4 October 2023, n. 58.

[14] See Pope Francis, Encyclical Letter *Fratelli tutti*, 3 October 2020, n. 75.

We cannot wash our hands of this, remaining distant, uncaring, indifferent. This is the real challenge of our century. For an ambitious agreement, for every initiative and process aimed at truly inclusive development, I assure you of my support and that of the Holy Father, in order to render an effective service to humanity, so that we can all take responsibility for safeguarding not only our own future, but also that of everyone. Thank you.

L'Osservatore Romano,
Daily Edition, Year CLXIV No. 257, Wednesday, 13 November 2024, p. 4.

b.

United Nations Development Program (UNDP), **Report on Debt Service in the Poorest Countries**, "Ballooning Debt-Service Payments in Poorest Countries Reach Alarming Levels", UNDP, New York, 2025

Below is a report by the UNDP, which provides an updated overview of the debt situation and prospects starting from the Jubilee year. It reveals a generalised situation of growing vulnerability among poor countries and increasing risks of insolvency crises. Are we heading towards another lost decade for global development?

The picture and the outlook: towards another lost decade for development?

The United Nations Development Program (UNDP[15]) is monitoring debt vulnerability in developing economies and the availability and adequacy of international relief measures. As part of these efforts, our *Debt Insights* page provides access to key statistics and analysis for both individual countries and groups of countries. Accompanying our latest update, this brief report.

The report presents an overview of the current situation and future prospects and discusses the necessary international policy priorities.

[15] United Nations Development Program (UNDP), *Ballooning Debt-Service Payments in Poorest Countries Reach Alarming Levels, UNDP Warns,* press release, 31 January 2024, available at: https://www.undp.org/press-releases/ballooning-debt-service-payments-poorest-countries-reach-alarming-levels-undp-warns.

In summary, key debt vulnerability indicators remain very high and continue to deteriorate in many countries, thereby intensifying the trade-off between development spending and the growing debt service burden, with particularly devastating consequences for the poorest countries. For countries that have restructured their debt, the economic costs have been substantial due to protracted negotiations, pending a more formalised and predictable restructuring regime, and the agreements have provided insufficient and uncertain relief.

If support for debt relief is not strengthened, the situation could easily turn into a long-term solvency crisis in a larger number of countries. The Fourth International Conference on Financing for Development (FfD4) in 2025 provides an opportunity to address the debt issue, focusing on easier access to an effective debt restructuring process, agreement on a large-scale debt relief initiative for the poorest countries, and ways to reduce the cost of borrowing. If the conference fails to produce results, poor countries will face another lost decade for development.

1. Situation and outlook

It is natural to compare the current situation with past periods of debt crisis. For example, public debt (measured as a percentage of GDP) for the group of poor countries that obtained debt relief through the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) has not returned to pre-HIPC/MDRI levels, and debt is now expected to have stabilised in many countries and regions.

However, the debt service burden, measured as a share of revenue or export earnings, has continued to rise in many countries and now exceeds the levels recorded at the start of HIPC, more than two decades ago. High borrowing costs and weak currency, combined with large refinancing needs, continue to put pressure on debt vulnerability, especially in the poorest countries.

The consequence is an increasingly difficult trade-off between debt and development, which entails rising social and economic costs.

After more than a decade of steady growth, total public debt has stabilised since 2021 for the average developing country economy at around 56% of GDP, a level similar to that at the start of the millennium. However, several factors contribute to a growing risk that debt could continue to rise.

Although debt has stabilised since 2021, the debt service burden has continued to grow rapidly. This year, net interest payments are expected to reach 9.5% of revenue for the average developing economy, up from 6.4% in 2021, more than double the ratio a decade ago, making this level the highest in over two decades.

Development trade-offs associated with a growing debt service burden are more severe for countries with the greatest relative need for development spending and limited fiscal options. For example, as a group, the least developed countries (LDCs) now spend nearly 15% of total revenue on interest payments, compared with 9.5% for the group of non-LDC developing economies.

The number of countries with interest payments exceeding ten per cent of revenue is now 56 (45% of the total), almost double the number ten years ago. The number of countries paying more than one-fifth (a threshold strongly associated with default risk) is still almost double what it was ten years ago. In sub-Saharan Africa (SSA), the world's poorest region, interest payments (as a percentage of revenue) have almost tripled over the last decade, now reaching a median of close to 11%.

External debt

Debt service on external public debt has increased similarly and dramatically over the past decade, exposing countries increasingly to the volatility of international capital markets. The current combination of large refinancing needs, high borrowing costs and weakened currencies continues to put pressure on debt crisis levels in many countries.

In 2023, the total external debt service of developing economies is expected to reached a record $1.4 trillion. In the poorest countries, debt servicing has tripled, and interest payments alone have quadrupled over the last decade, with an estimated total of $36 billion paid in 2023.

In 2023, for the second consecutive year, external transfers to developing economies were negative. In total, external creditors collected $535 billion more in payments on existing debts in 2022 and 2023 than they granted in new loans. With the withdrawal of private creditors and the end of the Debt Service Suspension Initiative (DSSI), net transfers fell sharply and remained positive in the poorest economies only thanks to increased lending by multilateral institutions.

Measured against export earnings, total service (interest plus capital) on external public and private debt reached 12.5% for the average developing economy in 2023, and for 24 countries it exceeds one-fifth. For external public debt alone, the median country paid 6.5% of export earnings on debt servicing in 2023. Measured against government revenue, external public debt servicing rose from around 5% a decade ago to an estimated 11% for the median country.

The number of developing economies for which total external public debt service exceeds one-fifth of revenue in 2024 and 2025 is estimated at 26 and 24, respectively, i.e. more than one-fifth of countries (for which data are available) and the highest number in more than two decades.

In sub-Saharan Africa (SSA), total external public debt service reached an estimated 14.3% of revenue in 2024 for the median country, and 37% of SSA developing economies have total debt service exceeding one-fifth of revenue.

Despite some easing over the past twelve months, global financial market conditions remain tight compared to pre-pandemic levels, and many developing economy currencies have depreciated against the strong currencies in which they are heavily indebted. This adds significant pressure to debt vulnerabilities, especially considering the massive refinancing peak expected in the 2024-2026 period in low-income country groups.

While total external debt maturing over the three-year period 2024-2026 is expected to decline by one-third (compared to the previous three years 2021-2023) in the group of upper-middle-income countries, it is expected to increase by one-third in the group of low- and lower-middle-income countries, reaching a total of $675 billion.

Debt assessments

The precarious debt situation is strongly reflected in countries' sovereign ratings. Measured by credit ratings from credit rating agencies (CRAs) or debt crisis risk ratings derived from debt sustainability analyses (DSAs), the ratings paint a bleak picture for developing economies.

Of the 67 poorest countries with a DSA debt crisis risk rating, 11 (16%) are already classified as 'in debt crisis' and another 24 (36%) are at 'high risk' of debt crisis (see

Figure 3A). In sub-Saharan Africa (SSA), no country with a recent rating is considered low risk.

Eighty-eight developing economies have a sovereign credit rating, and only 14 (16%) are considered investment grade, while 53 (60%) are highly speculative or worse (i.e. B+/B1 or lower according to S&P/Moody's).

Fifteen sovereign foreign currency debt default events have occurred since 2020, accounting for more than a third of all such defaults since 2000.

For countries that have restructured their debt (either within or outside the G20's joint framework for debt treatment), the economic costs have often been high, as countries have remained in default for several years due to the protracted negotiations. In addition, several agreements reached have been characterised by insufficient and uncertain relief.

This is also reflected in the worryingly low post-restructuring debt ratings, which indicate a high risk of repeated defaults. The rating agency S&P has warned against weak restructuring outcomes and predicts that sovereigns will default more frequently in the next ten years than in the past, due to rising debt and borrowing costs on hard currency debt.

2. Looking at FfD4

Relying solely on growth and revenue mobilisation to break the negative cycle of debt and development in which many developing economies are trapped is unrealistic. This will require a combination of growth-enhancing reforms and fiscal reforms, which will take time to produce effects, together with more immediate debt relief measures.

The long-term growth prospects of developing economies are the weakest they have been since the beginning of the century. This is partly due to high debt burdens and is particularly damaging for low-income countries (LICs). Given the current outlook, only six of the world's 26 LICs are likely to achieve middle-income status by 2050.

The fiscal options available to alleviate debt vulnerabilities without worsening socio- economic and development trade-offs are similarly limited. For more than a decade, the poorest countries have been unable to increase revenue collection (as a percentage of GDP), and the median country still collects only about 13% of GDP in tax revenue (including social contributions).

Among the many issues to be discussed at FfD4, debt will be a central focus. Attention should be focused on how to ensure access to an effective restructuring process for all countries when needed, a new global debt relief initiative involving the poorest countries, and ways to lower excessively high market-based borrowing costs. Continued failure to find solutions would cast a dark shadow over the entire future FfD agenda.

An effective architecture for debt restructuring

Debt management must be made easier for all developing economies, whether the problem is solvency or liquidity. The G20 Common Framework (CF) and the initiatives of the Global Sovereign Debt Roundtable (GSDR) have made important progress on complex issues, such as defining and ensuring comparability of treatment, the provision of financing guarantees, the central role of debt sustainability analysis (DSA), the use of arrears policies, etc. However, much more ambition and action are needed to achieve an orderly and effective debt restructuring regime.

It is encouraging that governments have agreed, in the Pact for the Future, to undertake a review of sovereign debt architecture and to propose a way forward. A fundamental problem underlying the current approach to restructuring is the practice of 'extend and pretend', which history has shown is not in the interests of either debtors or creditors. Recent agreements and their limited impact on debt assessments and countries' fiscal and development space illustrate the need to reconsider key parameters of restructuring. Debt restructuring must not only be carried out more quickly, but it is crucial that it leads to greater certainty of improved growth and development prospects.

A new debt relief initiative for the poorest countries

As trade-offs between debt and development are causing serious damage in the poorest countries, which have the greatest relative needs for development spending and constraints on fiscal options, a new global multilateral debt relief initiative involving all creditors deserves serious consideration. The aim should be to significantly improve both debt sustainability and development prospects.

With total external public debt estimated at around $205 billion for the 31 poorest countries that are assessed as being in crisis or at high risk of debt crisis, granting complete debt relief should be entirely sustainable. By comparison, $205 billion is less than one-third of the IMF's 2021 allocation of Special Drawing Rights (SDRs) (which went mainly to rich countries that did not need them), or less than one year of total official development assistance (ODA) from the members of the OECD's Development Assistance Committee (DAC).

Granting these countries debt relief similar in size to that received under HIPC/MDRI could easily translate into debt service savings of $100 billion over the next seven years, equivalent to about 13% of GDP.

Despite the relatively low cost and significant potential impact, navigating the current heterogeneity of creditors will require careful coordination and planning.

Lowering the cost of borrowing

It is important to address the high cost of market-based financing for developing economies. The high spreads applied to the sovereign debt of these economies are not justified by credit risk, as demonstrated by ex post long-term yields, which far exceed those of comparable safe instruments. This is a major challenge, especially as countries are expected to finance a large part of their development spending needs through capital markets.

First, reform of multilateral development banks (MDBs) is central. Addressing global development challenges, particularly the climate transition, will require much larger amounts of long-term, low-cost direct lending by MDBs. For now, discussions on increasing MDB lending capacity are unfortunately limited, for the most part, to what can be achieved with existing resources. This must change.

Secondly, a variety of instruments and approaches are being designed and are already being used with the aim of reducing financing costs on the market and helping countries manage their liabilities. These range from the use of conditionality clauses that automatically suspend payments during periods of external shock, to the use of credit-guaranteed financing aimed at reducing the cost of market financing, also used in debt buyback operations in exchange for development investments.

While these instruments and approaches hold great promise, they must be carefully designed and implemented to ensure that official sector resources achieve the desired impacts on private capital mobilisation, debt cost reduction, and improved liquidity, debt sustainability and development prospects.

Finally, urgent priority must be given to grant-based climate finance and greater concessions for developing economies. It is neither fair nor effective to expect these economies to finance most of the necessary climate action on commercial terms. This is not only because of the unequal distribution of historical emissions and the impact of climate change, but also because the current distribution of emissions requires large-scale mitigation in many developing economies if we are to achieve the goals of limiting global warming to the levels set out in the Paris Agreement.

c.

Appeal by economists: "In memory of Pope Francis, let us offset the ecological debt of rich countries with the foreign debt of poor countries", Rome, April 2025

At the funeral of Pope Francis in April 2025, a group of economists, academics and experts issued an appeal to world leaders present in Rome. The invitation is clear: do not limit yourselves to condolences but transform into concrete actions the spiritual legacy of the Pontiff who made social and environmental justice one of the cornerstones of his Magisterium. The text of the appeal is as follows:

The entire planet and its leaders today salute a pontiff [16], Pope Francis, who preached and reminded us, until he exhausted all his energy and looked at history from the perspective of the least and the rejected, that 'this economy' can kill and that the market is not enough.

He made it clear that an economy that kills ultimately risks destroying itself in a spiral of financial, debt and social crises and climate emergency. We must therefore pay close attention to his reflections and warnings for ethical and moral reasons, that is, for global human/humanitarian reasons, to pursue the common good and identify mutually beneficial ways to avoid the succession of dramatic events and instead ensure the survival of the planet and organised coexistence.

If those who remember him today with emotion truly wish to honour his memory and carry out part of his spiritual legacy, they could start by taking up.

[16] Open letter signed by over 150 economists at the climate and finance summit in Paris, calling on the governments of rich countries to 'redirect trillions of dollars ... locked in the debts of poor countries ... towards ecological transition and climate adaptation.

The Jubilee is a timely opportunity to fulfil one of its great desires. It should be used to find ways of compensating for the 'ecological' debt of rich countries and the foreign debt of poor countries, a burden that is becoming increasingly unsustainable and is exacerbated by the global macroeconomic situation of high interest rates and the unfair treatment of debtors in financial terms. It is a fact that today in many poor or emerging countries, debt servicing consumes more resources than those invested in health and education, condemning a significant portion of the younger generation to poverty.

Laudato si' and the concept of ecological debt

The concept of ecological debt, as expressed by Pope Francis in *Laudato si',* considers that historically, rich countries have used a disproportionately higher share of 'rights to pollute' without compensating poor countries that have polluted much less, and therefore have a responsibility towards them.

In line with Francis's typical practical approach, we propose combining the ideal perspective with feasibility by promoting initiatives to convert debt into investment for ecological transition. These are some partial initiatives that have the potential to ease the debt burden on debtor countries and are simultaneously in the interest of creditor countries for at least four reasons.

First, combating global warming through emissions mitigation is a global public good that requires everyone's efforts, including those of low- and middle-income countries. Second, investments in adaptation to global warming in debtor countries, which are very often located in the areas most affected by the climate emergency, are essential to reduce the very risk of debtor solvency. Third, the climate emergency is making the relationship between resources and population unsustainable in many of these countries, fuelling climate migration that risks creating even larger and more difficult- to-manage flows in the future at the gates of high-income countries as well as between poor or emerging countries themselves. Fourth, debt crises are always harbingers of political instability, not only nationally but also globally.

Converting part of the debt and interest payments into a guarantee fund for investments in mitigation and adaptation projects capable of combating energy poverty in local communities and promoting the creation of renewable energy production plants with popular participation can therefore contribute to achieving the dual objective of accelerating the transition to a green economy while combating poverty in debtor countries. Without going into technical details regarding the various ways in which the initiative could be implemented, with the active involvement of governments, local civil society and communities, it would be necessary even for the most vulnerable countries that are unable to honour their debt, attracting additional resources from regional development banks and making use of the conversion of Special Drawing Rights allocated to creditor countries, part of which have been promised as a destination for the promotion of global development policies. Francis' spiritual legacy starts from a theological, pastoral and anthropological reflection on the safeguarding of the dignity of every person and, in its final phase with Fratelli tutti, appeals to the theme of lost fraternity, which is the real missing link that renders freedom and the striving for equality ineffective and unproductive. Conflicts between regions and countries, economic rivalries and the pursuit of power generate crises and produce violence, which also poisons human relationships. We must respond to this by nourishing our planet with relational intelligence and relationships.

humanising, between people and between institutions.

We would take a step forward by drawing on the spiritual legacy of Pope Francis and embarking on a journey in this direction.

The signatories:

Helen Alford, President of the Pontifical Academy of Social Sciences – Alfonso Apicella, Senior Officer Global Advocacy Campaigns Caritas Internationalis – Leonardo Becchetti, Tor Vergata University, Director of the National Festival of Civil Economy – Joachim Von Braun, President of the Pontifical Academy of Sciences – Luigino Bruni, LUMSA University, founder of Economy of Francesco – Iftekhar Hasan, Fordham University, Editor of the Journal of Financial Stability – Phoebe Koundouri, University of Athens, Chair World Council of Environmental and Resource Economists Associations – Giulio Guarini, University of Tuscia – Riccardo

Moro, former coordinator of the technical debt conversion project with Zambia and Guinea – Gianni Vaggi, University of Pavia – Stefano Zamagni, former President of the Pontifical Academy of Social Sciences.

d.

Paris Club[17], "**The *Common Framework for Debt Treatments*** *beyond the Debt Service Suspension Initiative* (DSSI)", November 2020

Recognising that effectively addressing ongoing debt vulnerabilities will require a case-by-case approach, but also strong coordination among creditors, this document sets out a common framework for the G20, also agreed to facilitate timely and orderly debt restructuring for countries eligible for the Debt Service Suspension Initiative (DSSI), with broad creditor participation, including the private sector.

The process will be initiated at the request of the debtor country. The need for debt restructuring and the amount of restructuring required will be determined by a joint IMF-World Bank Debt Sustainability Analysis (DSA) and a collective assessment by participating official creditors, consistent with the parameters of an IMF program supported by an Upper Credit Tranche (UCT).

Debt eligible for restructuring will include all public and publicly guaranteed debt with an original maturity of more than one year. The treatment necessary to achieve sustainability will take into account the cut-off date defined in the terms of the 2020 DSSI, which protects new financing granted after 24 March 2020.

The debtor country requesting restructuring will have to provide the IMF, the World Bank and the creditors participating in the restructuring with the necessary information concerning all public sector financial commitments (debt), while respecting the confidentiality of sensitive commercial information.

All official bilateral creditors with claims on a debtor country will participate in that country's debt restructuring process.

[17] Paris Club, *Common Framework for Debt Treatments beyond the DSSI – Annex*, November 2020, available at: https://clubdeparis.org/sites/default/files/annex_common_framework_for_debt_treatments_beyond_the_dssi.pdf

All G20 and Paris Club creditors with claims on the debtor country, as well as any other available official bilateral creditors with claims on that country, will coordinate their engagement with the debtor country and jointly define the key parameters of the restructuring, consistent with their respective national rules and internal procedures. Joint negotiations between creditors will be conducted in an open and transparent manner and, prior to the definition of the key parameters, adequate attention will be given to any specific concerns of all participating creditors and the debtor country.

Key parameters will include at least: (i) changes in the nominal debt service during the IMF program period; (ii) where applicable, debt reduction in terms of net present value; and (iii) the extension of the maturity of the bonds covered. In principle, debt restructuring will not take the form of debt cancellation or forgiveness. However, in the most difficult cases, where debt cancellation is necessary based on the IMF-World Bank DSA and the collective assessment of participating official creditors, particular consideration will be given to the fact that each participating creditor must comply with its internal approval procedures in a timely manner, informing other creditors of progress.

The key parameters will be defined in such a way as to ensure a fair burden sharing among all official bilateral creditors and treatment of the debt by private creditors at least as favourable as that offered by official bilateral creditors.

The key parameters will be recorded in a non-legally binding document, called a "Memorandum of Understanding" (MoU), to be signed by all participating creditors and the debtor country. Creditors will implement the MoU through bilateral agreements signed with the debtor country. They will also continue to coordinate closely and share information on the implementation of the MoU.

A debtor country that signs a MoU with participating creditors will be required to request that all other official bilateral creditors and private creditors grant treatment at least as favourable as that agreed in the MoU. Debtor countries will be required to provide regular updates to the signatories of the MoU on the progress of negotiations with other creditors, including through direct meetings, if necessary.

The assessment of the comparability of efforts will be based on changes in nominal debt service, debt stock in terms of net present value, and the maturity of the obligations covered.

Multilateral Development Banks will develop options on how best to contribute to meeting the long-term financing needs of developing countries, including by drawing on past experience in addressing debt vulnerabilities, such as internal adjustment, positive net financial flows and debt relief measures, while protecting their ratings and low cost of capital.

e.

International Monetary Fund, **The Multilateral Debt Relief Initiative (MDRI)**, Washington DC, November 2005

On 7 November 2005, the IMF Executive Board reached a consensus on how to implement, within the Fund, the debt reduction proposal initially put forward by the G8 and decided to call it the Multilateral Debt Relief Initiative (MDRI). The MDRI will provide debt relief to member countries with an annual per capita income of $380 or less, and to Heavily Indebted Poor Countries (HIPCs) above that threshold, in relation to their debt stock to the Fund (including the Fund as Trustee) outstanding at the end of 2004 and still outstanding at the time the country becomes eligible for debt reduction. The Board approved the decisions necessary for the implementation of the MDRI on 23 November 2005. The disbursement of MDRI assistance is now subject to the consent of the 43 members that have contributed to *the Poverty Reduction and Growth Facility (*PRGF) Trust *Subsidy Account*, whose consent is necessary to make the MDRI operational, and to separate decisions of the Board confirming the eligibility of eligible members following the country's request to benefit from the initiative.

Background

The G8 proposed that the IMF, *the International Development Association (IDA)* and the *African Development Fund (AfDF)* cancel 100 per cent of their claims on countries that have reached, or are on track to reach, completion point under the enhanced HIPC Initiative. The proposal was initiated as set out in the G8 Finance Ministers' Conclusions on Development, published on 11 June 2005, and reiterated in the statement on Africa signed by the G8 Heads of State and Government at the Gleneagles Summit on 8 July 2005.

The proposal aims to complete the debt cancellation process for developing countries (HIPCs) by providing additional resources to help these countries, most of which are in Africa, to achieve the Millennium Development Goals (MDGs). At the same time, the G8 countries have committed to ensuring that the financial capacity of international financial institutions (IFIs) is not reduced because of debt cancellation. The cost of debt cancellation for the IDA and the AfDF will be covered by bilateral contributions based on an agreed burden-sharing arrangement; the cost to the Fund will be covered by the institution's own resources, with a request for bilateral contributions to cover additional needs. The G8 commits to cover, based on equitable burden sharing, the cost of debt cancellation for countries that may become eligible for the HIPC Initiative under the extended expiry clause. The G8 has also committed to providing the additional resources necessary for full debt cancellation upon completion for the three cases of protracted arrears (Liberia, Somalia and Sudan).

Before making its decisions, the Executive Board held several meetings to discuss the G8 proposal and its financial, legal and policy implications for the Fund. To this end, staff prepared a series of documents addressing related issues concerning the uniformity of treatment of members, burden sharing, conditionality, as well as the cost of the proposal and its financing, the impact on the IMF's income and capital position, and the size and modalities of future concessional lending by the Fund. These documents draw on previous staff work on debt reduction.

Executive Board Assessment

The Executive Board's adoption of the decisions to implement the MDRI marks an important step in strengthening the Fund's ability to assist its poorest member countries in addressing their persistent balance of payments problems and in achieving the Millennium Development Goals (MDG). This initiative will be a valuable complement to three other elements recently discussed by the Board: the new Policy Support Instrument (PSI); the establishment of a new *Exogenous Shocks Facility (ESF)* within the PRGF Trust; and the financing arrangements for the PRGF. All four are integral parts of efforts to further strengthen IMF support to low-income member countries (LICs).

Eligibility conditions for benefits

The Directors had an extensive discussion on how the G8 proposal should be assessed in relation to the principle of uniform treatment of members, given that it provides for the use of resources from the Special Disbursement Account (SDA) of the Fund to grant complete debt cancellation to a limited number of member countries. Many Directors emphasised that the G8 proposal aims to deepen the HIPC Initiative and should be considered in that context. They reiterated that eligibility for the HIPC Initiative is based on a set of objective criteria consistent with the principle of uniform treatment.

At the same time, many other Directors felt that the G8 proposal raised concerns about the principle of uniform treatment. They doubted that developing countries (HIPCs) would face a different balance of payments problem from other low-income countries once they reached their completion point. Some Directors also feared that granting further debt relief to a select group of low-income countries could affect the incentives for those excluded to continue with sound debt management policies.

In light of these considerations, some Directors suggested that the resources identified by the G8 could be distributed to low-income countries on the basis of more relevant economic criteria, such as per capita income or debt position relative to the thresholds set out in the new Debt Sustainability Framework (DSF). Some Directors also recommended extending the coverage of the G8 proposal to all eligible PRGF members, including IDA members. They stressed, however, that achieving this without compromising the IMF's financing capacity would require the mobilisation of additional financing, including possible voluntary contributions.

The G8 proposed that the IMF and other international financial institutions consider additional measures to strengthen the PRGF.

In reaching their decision on the MDRI, the Directors agreed with staff's approach to ensure uniform treatment by providing debt relief to members based on a per capita income eligibility criterion and approved the choice of a per capita income limit of $380. The Directors agreed that SDA resources, which the Fund may use to provide special balance-of-payments assistance, including grants, to developing members in difficult circumstances, would be used to provide debt relief under the MDRI to member countries (including non-HIPC countries) with incomes at or below this threshold. In response to a request from contributors, the Directors agreed that third-party contributors' resources held in the PRGF Trust Grant Account could be used to provide debt relief under the MDRI to HIPC countries with per capita incomes above that threshold, subject to the consent of all contributors. This agreement balances the use of SDA resources and third-party contributors' resources in order to minimise the need for additional resources, thereby maintaining the Fund's future capacity to provide concessional loans.

The Directors reaffirmed that the cut-off date for eligibility of eligible debt

Under the MDRI, this should be the end of 2004 for all eligible members, but the actual date of debt relief will be decided on a case-by-case basis. The 18 HIPC countries that have reached completion point (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia) and the two HIPC countries eligible under the initiative (Cambodia and Tajikistan) could benefit from MDRI relief at the beginning of 2005. Uganda and Zambia) and the two non-HIPC countries (Cambodia and Tajikistan) eligible under the initiative could benefit from the MDRI facility at the beginning of 2006, subject to confirmation by the Council of their eligibility for this facility (see Table 1). The other HIPC countries that have not yet reached completion point would become eligible for MDRI relief upon reaching completion point. The Directors emphasised that the start of debt relief operations in early 2006 would be critically dependent on the timely agreement of all contributors to the PRGF Trust subsidy account.

The Directors reviewed the options proposed by staff to address the three cases of protracted arrears in the context of the MDRI. Given the complexity of the issue, the Directors requested staff to reflect further on the potential financial and policy implications of these cases and looked forward to a follow-up document on these issues.

Eligibility for MDRI relief

The Directors discussed the possible conditions that could be attached to the provision of further debt relief by the Fund. Many Directors initially considered that debt relief would be granted on the conditions already in place: first, that HIPC countries reach the completion point under the HIPC Initiative; second, that countries that have already reached the completion point are in good standing with their repayment obligations to the Fund and have not experienced serious deficiencies, including in governance, that would jeopardise their IMF-supported program.

In reaching their conclusion, the Directors emphasised that the conditions for benefiting from debt relief under the MDRI should be the same for pre- and post- completion HIPC countries, as well as for non-HIPC countries. In this regard, most Directors agreed that, to qualify for debt relief under the MDRI, the pre-performance of post-completion HIPC countries in three key areas should not have deteriorated substantially since reaching the completion stage. These areas are: (i) macroeconomic performance; (ii) implementation of a poverty reduction strategy or similar framework; and (iii) public expenditure management systems. The Directors agreed that, for HIPC countries, a minimum period of six months of satisfactory macroeconomic performance and implementation of poverty reduction policies would be necessary to qualify for debt relief. For countries with a Fund arrangement in place, the assessment would be based on the outcome of the most recent program review, assuming that it was completed less than six months earlier. As in the case of the HIPC Initiative, the eligibility criteria should be applied flexibly, considering the specific circumstances of each country.

For non-HIPC countries eligible for MDRI debt relief from the Fund, a satisfactory performance in the same three areas should be required. Directors were divided between those who considered that non-HIPC countries were closer, in terms of circumstances, to the post-investment completion point than to the pre-investment completion point, and that access conditionality should be defined accordingly; and those who requested that non-HIPC countries be required to demonstrate the same track record of sound policy actions that meet the conditionality standard of the senior credit tranche required of HIPC countries to receive debt relief. Finally, the Directors agreed that the specific eligibility requirements for non-HIPC countries will be: (i) a track record of at least six months of sound macroeconomic policies and satisfactory implementation of a poverty reduction strategy (or equivalent framework) in the period immediately preceding the assessment, and (ii) an assessment that the quality of public expenditure management systems (PEM) would allow the resources freed up by debt relief to be used to contribute to the achievement of the Millennium Development Goals. The Directors noted that, unlike HIPC countries, a comprehensive assessment of PEM systems had not been carried out for non-HIPC countries. They emphasised that performance under PEMs should be assessed using a variety of sources to ensure that PEMs in these countries are, and are expected to remain, sufficiently robust to ensure that the resources released will be used productively. If a country fails this test, staff will propose corrective actions involving a lasting strengthening of PEMs.

The Directors requested that, by the end of 2005, staff prepare, in consultation with the countries concerned, a report on the progress made in strengthening the PEM systems in the countries covered by the report.

In consultation with the World Bank, an assessment of the 18 post-completion HIPC countries, as well as eligible non-HIPC countries, and submit to the Council for consideration a list of members that could immediately benefit from MDRI debt relief. Corrective action should be proposed for post-completion HIPC countries whose performance has deteriorated substantially in any of the three areas since reaching their completion point, or for non-HIPC countries whose performance in these areas is unsatisfactory. For these member countries, eligibility for MDRI debt relief would be reassessed once these corrective measures have been implemented.

Provision of relief and post-relief monitoring

Many Directors supported the proposal that debt cancellation should be irrevocable and implemented in advance. They agreed that the MDRI should be implemented in a manner that allows for the early repayment of the entire stock of eligible debt owed to the Fund once countries have met the requirements for such cancellation. This approach would be fully consistent with the intention of the promoters of the MDRI and with the expectations of eligible countries. Under this approach, the MDRI would be implemented over a relatively short period. This would minimise accounting and investment issues, and thus administrative costs and risks, for the Fund. The Directors agreed that, consistent with this approach, financial assistance provided under the HIPC Initiative upon completion should be disbursed in a similar manner. Some Directors considered that a gradual debt cancellation for post-HIPC or non-HIPC countries would better ensure that the resources released are used productively for the achievement of the MDGs. Other Directors suggested the use of continued conditionality, linked to the successful implementation of a Fund-supported program, to ensure that the resources released are spent in support of the MDGs.

The directors invited the Fund and the World Bank to cooperate and coordinate the implementation of the MDRI, particularly with regard to the assessment of MDRI assistance requirements and the monitoring and reporting of spending related to the Millennium Development Goals after debt relief is granted.

Most Directors agreed with the proposed arrangements for post-debt relief monitoring, while recognising the difficulties related to the fungibility of resources. They requested that reports on the progress of MDRI implementation (including progress reports from all MDRI beneficiary members) be presented to the Executive Board prior to the 2006 Spring and Annual Meetings. They agreed that subsequent progress reports on the MDRI would be included in the joint periodic reports on progress under the HIPC Bank-Fund Initiative.

Costs and financing

The Directors noted that the total cost of the MDRI to the Fund's finances, excluding the two non-HIPC countries, the HIPC countries with potential exit clauses and cases of protracted arrears, would amount to approximately SDR 3.4 billion (approximately USD 4.8 billion), to be financed from the HIPC Umbrella Account, the SDA and bilateral contributors to the PRGF Trust Grant Account. Part of this cost is already financed through the HIPC Initiative; the incremental cost amounts to approximately SDR 2.1 billion. Additional bilateral contributions are expected to cover the costs associated with HIPC and MDRI debt relief for cases of expiry and protracted arrears.

The Directors noted that the overall cost of the Initiative to the Fund reflected, among other things, the list of eligible countries, the debt to be covered, and the choice of maturity and implementation dates. Many Directors noted that debt relief would not be granted under the MDRI before a country reached its HIPC Initiative completion point, which reduced the overall cost of the MDRI compared to the staff's initial estimate based on an assumed implementation date of end-2005. Other Directors expressed concern that the benefits of the MDRI could be significantly reduced for countries that would have to make significant repayments to the Fund before reaching completion.

The Executive Board has decided to amend existing decisions and adopt new ones regarding the use of Development Health Assistance (SDA) resources. Specifically, the Board authorised the use of part of the net proceeds from off-market gold transactions in 1999-2000 (and not just investment income, as is currently the case) for debt relief under the HIPC Initiative for all eligible countries. In addition, the Board authorised the transfer of part of these resources to a new MDRI-I Trust for MDRI debt relief for PRGF- eligible members with a per capita income of $380 or less; and the transfer of the remaining Health Development Assistance resources (after HIPC and transfer to the MDRI-I Trust) to the PRGF Trust Grant Account.

The Executive Board also decided to amend the provisions relating to the PRGF Trust Grant Account to allow the transfer of resources contributed by bilateral contributors from the PRGF Trust Grant Account to ensure MDRI debt reduction for developing countries with a per capita income above $380. This amendment will require the consent of all 43 bilateral contributors to enter into force. (3) The Executive Board decided to establish a separate trust, the MDRI-II Trust, to which bilateral contributions from the PRGF Trust Grant Account will be transferred. Additional modalities for receiving new contributions to cover the costs associated with debt reduction for countries with potential default clauses and prolonged arrears could be considered. The Directors urged bilateral contributors to the PRGF Trust Grant Account to approve the necessary amendment to the PRGF Trust in a timely manner. This would enable the Fund to provide debt relief to member countries that meet all the criteria of the Initiative by early 2006. To address the possibility that a donor may not wish to agree to these amendments, the Executive Board authorised the Managing Director to return the remaining resources attributable to the dissenting donor in full.

The Directors noted that the MDRI would preserve the resources of the PRGF Trust reserve, but that the reallocation of bilateral contributions to the MDRI-II Trust would reduce the resources available for existing and future PRGF interim loan subsidies. The Directors reiterated the importance of maintaining adequate resources to meet future demand under the PRGF, as well as the financing needs associated with the FSE. In this context, the Directors welcomed the G8 commitment to ensure that the

Fund's financial capacity would not be compromised as a result of debt cancellation. They requested staff to assess carefully the long-term implications of using the Fund's own resources, both for the institution's ability to continue providing financial support to low-income countries and for ensuring its overall financial integrity. In this context, some Directors also suggested that staff consider a possible investment of the proceeds from a limited sale of IMF gold. The Directors took note of staff's estimate that additional contributions of about SDR 210 million (about $297 million) would be needed in terms of NPV at end-2005 to allow full use of the lending resources available under the interim PRGF (although some uncertainty remains regarding the potential additional costs arising from the inclusion of the two non-HIPC countries). In this context, they welcomed the G8 commitment to provide an additional contribution of SDR 100 million (about $143 million) and to consider addressing the potential additional costs arising from the inclusion of Tajikistan and Cambodia, if and when they arise, in line with their commitment to ensure that the Fund's financing capacity is not reduced. The Directors welcomed the G8 commitment that donors will provide the additional resources necessary for full debt cancellation upon completion of the three protracted arrears cases. The Directors also welcomed the G8 commitment to cover, on an equitable burden-sharing basis, the cost of debt cancellation for countries that may become eligible for the HIPC Initiative under the extended expiry clause.

The Directors reviewed the modalities of the Fund's concessional operations involving the use of the PRGF Trust Reserve Account in the medium term. Most Directors considered that the proposed approach, aimed at maintaining the current policy framework beyond the transition period, would be appropriate a n d should be pursued. In general, Directors considered that flexibility in managing uneven demand for Fund concessional lending was the main advantage of this approach.

The directors asked staff to evaluate options for reimbursing the General Resources Account (GRA) for administrative expenses related to the PRGF SDA. They noted that there is no intention to modify, following the MDRI, the current burden-sharing arrangements to mitigate the effect of the 1999-2000 off-market gold transactions and, therefore, that there should be no impact on the interest rate applicable to the use of GRA resources.

The MDRI and the Fund's role in low-income countries

The Directors agreed that the debt relief provided by the MDRI by the IMF should be part of an effort to strengthen the role of the institution support to low-income countries. The IMF must remain fully equipped to advise and assist members in designing macroeconomic stabilisation measures and structural reforms, in strengthening capacity, and in providing financing, both in response to shocks and to address persistent or emerging protracted balance of payments problems. In this context, the Directors emphasised the importance of preserving the Fund's financing capacity, including for low-income countries that would not benefit from debt relief.

The Directors saw justification for continuing IMF lending to countries that have benefited from debt relief but expressed divergent views on how the MDRI would affect developing countries' demand for Fund financial support (HIPCs). They agreed that the demand for PRGF resources from developing countries (HIPCs) prior to the decision point is unlikely to be significantly affected by the MDRI. For countries that have reached the decision point under the HIPC Initiative, PRGF-supported programs will remain a key source of support for reaching the completion point. At the same time, many Directors emphasised that developing countries (HIPCs) after the completion point are expected to have reduced financing needs as a result of debt relief, thereby reducing their demand for IMF resources, particularly in the context of the PRGF interim. Other Directors emphasised that this may not be a lasting outcome if the resources freed up by debt relief are spent in support of the Millennium Development Goals (MDGs).

The Directors considered that the PSI and the ESF were important complements to Many Directors considered that the PRGF would remain the appropriate form of Fund engagement with many HIPC countries even after completion, given that many of these countries have not achieved lasting macroeconomic stability and have an important unfinished structural reform program. They emphasised that the PSI was designed to meet the needs of mature stabilisers and would not necessarily meet the requirements of all countries that have not benefited from debt relief under the MDRI. Other Directors considered that many members benefiting from debt relief would be interested in the PSI. Directors agreed that the appropriate form of IMF engagement with low-income members should continue to be determined on a case-by-case basis.

The Directors noted that official financing from multilateral creditors and grants from donors are likely to remain the most attractive financing vehicle for low-income countries, even after debt cancellation. They emphasised that the IMF would continue to play an important role in policy-making, both in the context of surveillance and program support.

Most Directors considered that an adjustment of the Financial Sustainability Fund (DSF) in light of the MDRI would be premature at this stage. However, some Directors considered that the assessment of such an adjustment should not be postponed, given the critical importance of avoiding a re-accumulation of unsustainable debt after debt cancellation. Some Directors considered that the existing safeguards in the context of Fund-supported programs and the case-by-case approach to new lending, embedded in the macroeconomic frameworks, were adequate instruments to prevent excessive debt accumulation after debt cancellation. Other Directors considered that DSF-compatible mechanisms could be justified to prevent such an outcome. Overall, the Directors agreed to consider the impact of further debt cancellation on debt sustainability assessments in the context of the next review of the DSF's implementation.

The IMF will extend debt relief to 100% for 19 countries under the multilateral debt relief initiative.

The Executive Board of the International Monetary Fund (IMF) has completed its assessment of the first group of countries eligible for assistance under the historic Multilateral Debt Relief Initiative (MDRI). Following the discussion, IMF Managing Director Rodrigo de Rato issued the following statement: «I am pleased to announce that the IMF will grant 100% debt relief to 19 countries under the Millennium Development Initiative (MDRI) (including remaining HIPC assistance), amounting to SDR 2.3 billion (about US$3.3 billion). This is a historic moment that will enable these countries to increase spending in priority areas to reduce poverty, promote growth, and progress toward achieving the Millennium Development Goals. These countries should benefit from this debt reduction in early 2006.

"Bringing the MDRI to this stage, since it was proposed in June 2005, has required an intense effort. I am proud of what the IMF has achieved in debt relief in just six months.

This represents the first phase for countries that will receive a 100% debt reduction under the MDRI. There are other countries that are also eligible and are at different stages of the path toward qualifying for MDRI relief. As they continue to make progress—and I hope that progress will be rapid—we look forward to helping them join those we considered at this Board meeting.

For this debt reduction to take effect, the IMF still needs the consent of some contributors to the PRGF Trust Subsidy Account, which is one of the sources of financing for MDRI debt reduction resources, and I urge donors who have not yet done so to provide their consent as quickly as possible.» said Mr. de Rato.

The 19 countries that qualified following today's assessment include: Benin, Bolivia, Burkina Faso, Cambodia, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tajikistan, Tanzania, Uganda, and Zambia.

f.

Recommendations by the Stiglitz Commission on Reforms of the International Monetary and Financial System, UN, New York, April 2009

Note by the President of the UN General Assembly on the recommendations of the Commission of Experts chaired by Nobel Prize winner Joseph Stiglitz

Below is a note from the President of the UN General Assembly of April 2009 reporting on the recommendations of the Commission of Experts chaired by Nobel Prize winner Joseph Stiglitz on reforms of the international monetary and financial system.
The list of the Commission's recommendations is also provided below. The Stiglitz Commission produced a wide-ranging and ambitious set of proposals covering the architecture of the global economic and financial system. In the complex scenario following the 2008 financial crisis, these proposals had a great resonance and sparked much discussion. However, intergovernmental mechanisms and subsequent negotiations did not follow up on these ideas, which therefore remained largely unimplemented.

The outbreak of the financial crisis in 2008 originated in advanced developed countries but quickly spread and turned into a global economic crisis that affected all countries, including emerging economies and less developed countries[18].

[18] United Nations, *Recommendations of the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System*, Note by the President of the General Assembly, United Nations Doc. A/63/838, 29 April 2009.

In order to examine the functioning of the global financial system and explore ways and means to ensure a more sustainable and equitable global economic order, I have convened a Commission of Experts, chaired by Professor Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, composed of a group of eminent economists, policymakers and practitioners from Japan, Western Europe, Africa, Latin America and South and East Asia. These experts have been selected for their deep understanding of the complex and interconnected issues raised by the functioning of the financial system. The members of the Commission are also recognised for their knowledge of the strengths and weaknesses of existing multilateral institutions, as well as their sensitivity to the specific challenges faced by countries in different regions of the world and with different levels of economic and social development.

Following the thematic and interactive dialogue on the global financial and economic crisis and its impact on development, held at United Nations Headquarters from 25 to 27 March 2009, and the constructive comments made by representatives of Member States and civil society on that occasion, I have the pleasure to transmit the recommendations of the Commission of 5 April 2009 for your consideration. I trust that the Members of the General Assembly will find these recommendations useful in preparing for the Conference on the World Financial and Economic Crisis and its Impact on Development, to be held in accordance with General Assembly resolution 63/277, from 1 to 3 June 2009.

Recommendations of the Commission of Experts of the President of the General Assembly on Reform of the International Monetary and Financial System chaired by Joseph Stiglitz

1. Introduction

The rapid spread of the financial crisis from a small number of developed countries to the entire world economy clearly demonstrates that the international trade and financial system is in urgent need of profound reform to respond to the needs and changes of the 21st century. Past economic crises have had a disproportionate impact negative impact on the poor, who are least able to bear the costs, and their effects may continue well beyond the end of the crisis. It is therefore important to recognise that this is not only an economic crisis, but also a social one.

While structural changes are essential to prevent future crises, this cannot happen without significant immediate measures to promote recovery from the current crisis. Such changes must be designed to protect the poorest in the least developed countries — many of which are in sub-Saharan Africa — who will bear a significant burden of adjustment. According to the International Labour Organisation (ILO), around 200 million workers, mostly in developing economies, could be pushed into poverty if swift action is not taken to counter the effects of the crisis. Even in some industrialised countries, millions of families are at risk of losing their homes and access to healthcare, while economic insecurity is growing among older people who have lost their savings in the market crash. The ILO estimates that the number of unemployed in 2009 could increase by about 30 million compared to 2007 and exceed 50 million if conditions continue to worsen.

In an increasingly integrated global economy, the well-being of developed and developing countries is interdependent. Short-term measures to stabilise the current situation must ensure the protection of the world's poor, while long-term measures to prevent a new crisis must ensure sustainable financing to strengthen the policy response capacity of developing countries. Without a truly inclusive response that recognises the importance of all countries in the reform process, global economic stability cannot be restored, and economic growth and poverty reduction will be at risk.

This inclusive global response will require the participation of the entire international community; it must encompass more than the Group of 7, the G8 and the G20, including representatives from across the globe, i.e. the Group of 192. It is in response to this need that the President of the General Assembly has established the Commission of Experts to address the measures necessary to tackle the crisis and recommend long- term reforms. Recognising the work done by the G8, the G20 and other bodies, the Commission sees its work as complementary, focusing in particular on the impacts of the crisis on poverty and development.

The reform of the international system must aim to improve the functioning of the global economic system for the common good. This involves the simultaneous pursuit of long-term goals, such as sustainable and equitable growth, job creation in line with the concept of 'decent work', the responsible use of natural resources and the reduction of greenhouse gas emissions, as well as responding to more immediate challenges, including the food and financial crises. While the world focuses on the urgent issues of the moment, long-term commitments to the Millennium Development Goals and the fight against climate change must remain key priorities; indeed, well-designed global reform should provide an opportunity to accelerate progress towards these goals. Although the world will eventually recover from the global economic crisis, other challenges, such as global warming, will require further action. The intersection of enormous unmet global needs — such as combating climate change and eradicating poverty — with a world of unused productive capacity and mass unemployment is unacceptable.

2. Principles and recommendations

Sustainable responses to the crisis require identifying the underlying factors that caused it and led to its rapid global spread. Expansionary monetary policies, inadequate regulations and weak supervision interacted to generate financial instability. The results are evident in large global imbalances, whose disorderly unwinding, in the absence of timely countercyclical measures, could further aggravate the crisis.

One of the causes of inadequate regulation was a lack of awareness of market limitations, what economists refer to as "market failures". Although such failures occur in many sectors, they are particularly relevant in financial markets and can have disproportionate consequences as they spill over into the "real" economy.

In this context, monetary policy conduct can be partly explained as an attempt to compensate for insufficient global aggregate demand, exacerbated by rising income inequality in most countries. Monetary conditions were also affected by the accumulation of foreign exchange reserves by some emerging countries seeking protection from global instability and the onerous conditions traditionally imposed by multilateral financial institutions.

The current crisis reflects problems that go beyond monetary policy and financial sector regulation; it concerns deeper shortcomings in areas such as corporate governance and competition policy. Many of these dysfunctions have, in turn, been underpinned by a flawed view of how markets work, which also contributed to the drive towards financial deregulation. These views formed the basis for the policies promoted by some international economic institutions and for much of the architecture of globalisation.

More generally, the crisis has highlighted the shortcomings of the policies adopted by some national authorities and international institutions, based on then-dominant economic doctrines that unregulated markets are capable of self-regulating quickly and efficiently. Globalisation was also built on these flawed assumptions: while it has brought benefits to many, it has also allowed the flaws of a single economic system to spread rapidly across the globe, causing recession and increased poverty even in developing countries with good regulatory systems, effective monetary institutions and sound fiscal policies.

The principles and recommendations outlined in this report aim to respond both to the need for immediate action to revive the global economy and to the urgent need to address underlying structural problems. They focus on measures that can be implemented immediately, as well as on more far-reaching reforms to be undertaken in the medium and long term to restore confidence in the economic system, reduce the likelihood of similar crises in the future and strengthen the international community's capacity to respond effectively to any crises.

In analysing national and global responses to the crisis, the Commission has highlighted the following principles:

a. Failure to act promptly to address the global recession will inevitably increase its depth and duration, and the ultimate cost of creating a more balanced and robust recovery will be higher.

b. In a globally integrated world, the actions of one country affect others. Too often, these external effects are not taken into account in national policy decisions. Developed countries, in particular, must be aware of the negative consequences of such externalities, while developing countries need tools to protect themselves from regulatory and macroeconomic failures in systemically important countries;

c. Developing countries should have greater freedom of action to adopt policies and create institutions that enable them to implement appropriate countercyclical policies;

d. Advanced industrialised countries must keep their promises not to adopt protectionist measures and, even more importantly, ensure that stimulus packages and recovery programs do not further distort economic competition and exacerbate global imbalances;
e. Measures to revive domestic financial markets in developed countries through subsidies to financial institutions have been accompanied by a sharp reduction in capital flows to developing countries. It is important that these measures do not generate a new form of financial protectionism. Financial subsidies can damage the efficiency of a free and fair-trading system just as much as tariffs. In fact, they can be even more unfair, as rich countries have more resources to provide subsidies;
f. Greater transparency is needed from all parties involved in the response to the crisis. More generally, democratic principles, including inclusive participation in decision-making processes, must be strengthened and respected;
g. The crisis is, in part, the result of excessive deregulation of financial markets and international trade. Restoring the health of the global economy will require a rebalancing of the roles of the market and the state. Both the global economic crisis and the climate crisis are linked to enormous externalities that can only be addressed through appropriate global collective action.
h. When taking political action, it is essential to ensure that it does not exacerbate the crisis through its impact on other countries or produce unintended changes; structural factors that increase future instability or reduce growth. For example, in some countries, the response to excessive risk-taking by financial institutions considered 'too big to fail' has led to banking concentrations that increase such risks for the future;
i. To emerge from the crisis with sustainable and balanced growth, it is essential that governments undertake reforms that address some of the structural causes underlying the crisis. A return to the previous status quo is not sufficient. The launch of such reforms could also generate immediate benefits by boosting confidence;

j. Carefully designed short-term measures can be complementary to long-term objectives, particularly those related to climate change and the environment. Recovery policies should include large-scale environmental investments. Such investments, both public and private, can be stimulated by strong incentives and far-reaching reforms in national and international regulatory frameworks, including the introduction of carbon pricing measures.

The current crisis must be addressed with swift and effective measures, but it must also lay the foundations for long-term reforms necessary to ensure a more stable and prosperous global economy and to avoid future global crises.

The following 10 immediate measures are essential for global recovery. All developed countries must take strong, coordinated and effective action to stimulate their economies:

a. The stimulus must be timely, have high "multipliers", help address the tensions caused by the economic crisis on the poor, contribute to the resolution of long-term problems and prevent instability. Although decisions on stimulus are a national responsibility, they should be assessed based on their global impact: if each country considers only the domestic benefits and costs, such as an increase in public debt, the size of the global stimulus will be too small, spending will be distorted and the global impact will be weakened.
b. If developing countries are unable to mobilise the resources needed to finance domestic stimulus policies, they may have to adopt pro-cyclical policies that counteract the positive effects of stimulus measures in developed countries on global development. It is therefore essential to ensure adequate financing for all countries so that national policies reinforce each other and support global recovery.
c. National stimulus packages should include spending measures to be implemented in developing countries to offset the impact of the contraction in world trade and financial disintermediation. Industrialised countries should allocate at least 1% of their stimulus packages to supporting the recovery of developing countries, in addition to increasing their traditional official development assistance commitments. To prevent the financing of stimulus packages in develop-

> ing countries from generating new external debt, such financing should consist of both grants and loans.

Public bailouts have significant redistributive consequences that must be carefully analysed when assessing their impact on recovery. Furthermore, due to the urgency of the situations, such interventions often do not comply with the principles of good governance and, in particular, democratic transparency. This can lead to the introduction of inappropriate incentives, as well as a failure to consider the negative effects on other countries, especially developing countries, which do not have equivalent financial resources. Developed countries should adopt financial support policies recognising that, even if symmetrical, these measures may have asymmetrical effects, as the guarantees offered by developing country governments are often less credible than those of developed countries.

Failure to consider the domestic and global consequences of financial support measures has often resulted in higher costs for governments and developing countries. Funds have frequently been redistributed to higher incomes, thereby creating distorted incentives. The measures implemented by central banks to support financial institutions risk placing a heavy burden on public finances without adequate parliamentary control over the resources allocated. Greater transparency on the part of all those involved would facilitate a more effective response to the crisis.

The coordination of global economic policies needs to be substantially improved. Global economic integration has outpaced the development of adequate political institutions and governance mechanisms for the global economic system. Bridging this gap is an urgent priority, even if it cannot be achieved overnight.

In the short term, an appropriate mechanism should be established within the United Nations system for the independent international analysis of global economic policies, including their social and environmental dimensions. Following the positive example of the Intergovernmental Panel on Climate Change (IPCC), a group of experts could be set up to advise the General Assembly and the Economic and Social Council, as well as relevant international organisations. The panel would help improve decision-making, identify gaps and shortcomings in the global economic architecture, assess progress and critical issues in the global economic and social system, and promote constructive dialogue between policymakers, academia and major international organisations. It should include respected academics from all continents and representatives of international social movements. It should also analyse long-term global trends and propose solutions for coherent international political action.

There is an equally important agenda of deeper systemic reforms of the international system that should begin now if the recovery is to be sustainable. The global imbalances that played an important role in this crisis can only be addressed if a better way is found to manage the international economic risks that countries face than the current system of international reserve accumulation. Indeed, the scale of this crisis and the inadequacy of the international response could incentivise further accumulation, contributing to the deflationary bias of the global system and undermining the prospects for a robust recovery. Inappropriate responses by some international economic institutions in previous economic crises have contributed to the problem.

Furthermore, the difficulties associated with the dominant use of a single national currency as an international reserve currency are well known, and solutions have been proposed in the form of a global reserve system. Such a system could be based on an expanded role for special drawing rights (SDRs), with regular or cyclical issuance adjust according to the size of their reserve holdings. Such a system would be in the interests of all countries and would contribute to global stability, economic strength and global fairness.

The rapid introduction of the new global reserve system would be an important step towards global recovery. A transition process could be initiated based on an annual issuance of at least $250 billion in special drawing rights during the current crisis. Such issuances would be an important source of financing for developing countries in need of additional funds to cope with the crisis and would help build confidence in the feasibility of a new reserve system. The Commission's final report will include a discussion of different institutional arrangements (including systems for allocating new issues) for the new global reserve system, as well as a discussion of the transition and the steps needed to ensure that it enhances stability.

Currently, poor countries are lending to rich countries holding reserves at extremely low interest rates, widening the gap between the opportunity cost of their resources held as reserves and the returns they receive. In addition, emergency measures introduced to support the financial systems of developed countries have led to radical changes in the management of central bank balance sheets and, in some countries, have resulted in sharp increases in the public debt-to-GDP ratio. This has generated concern and anxiety about the long-term stability of the value of assets held as reserves in the financial markets of developed countries and created further uncertainty about the stability of global financial markets.

The risks of instability, deflationary bias and potential debt accumulation in a single- country-centred reserve system have long been recognised. However, the crisis and the problems that have emerged as a result of the current reserve system have made reform urgent. But even a two-country (or three-country) reserve system, towards which the world seems to be moving, could be just as unstable. The new global reserve system is feasible, non-inflationary and could be easily implemented, even in ways that mitigate the difficulties caused by asymmetric adjustments between surplus and deficit countries.

There is growing international consensus in favour of reforming the governance, accountability and transparency of the Bretton Woods institutions and other non-representative institutions that have assumed a role in the global financial system, such as the Bank for International Settlements, including its various committees, and the Forum for Financial Stability.

These shortcomings have undermined the ability of these institutions to take appropriate action to prevent and respond to the crisis and have meant that some of the policies and standards they have adopted or recommended have penalised countries. These shortcomings have undermined the ability of these institutions to take appropriate action to prevent and respond to the crisis and have meant that some of the policies and standards they have adopted or recommended have penalised developing countries and emerging market economies. Important reforms are therefore needed in the governance of these institutions, including those that give developing countries a greater voice and greater transparency.

The reform of the World Bank's governance structure should be completed quickly. For the second phase of the reform, focusing on the realignment of quotas, three criteria could be considered: economic weight; contribution to the World Bank's development mandate (e.g. measured in terms of contributions to the International Development Association and trust funds); and volume of loans from the Bank. About the IMF, serious consideration should be given to restoring the weight of basic votes and introducing double or multiple majority voting.

Elections for the leadership of the World Bank and the IMF should take place in an open democratic process.

To complement existing specialised institutions and ad hoc intergovernmental groups with limited membership, a globally representative forum should be created to comprehensively address areas of concern in the functioning of the global economic system. At a level equivalent to the General Assembly and the Security Council, this global council should meet annually at the level of Heads of Government to assess developments and provide leadership on economic, social and ecological issues. It would promote development, ensure consistency and coordination in the policy objectives of major international organisations, and support the building of consensus among governments on efficient and effective solutions to global economic governance issues. Such a council could also promote the accountability of all international economic organisations, identify gaps to be filled to ensure the effectiveness of the global economic and financial system, and help set the agenda for global economic and financial reforms, intellectually supported by the work of the international panel discussed in paragraph 14 above. Representation would be based on the constituency system and designed to ensure representation of all continents and all major economies. At the same time, the size should be such as to keep the board small enough to ensure effective discussion and decision-making. Important global institutions, such as the World Bank, IMF, WTO, ILO and UN Secretariat entities dealing with economic and social issues would provide supporting information and participate in the council, which could thus constitute a democratic and representative alternative to the Group of 20.

The intensity of economic policy surveillance should be calibrated according to the systemic importance of the country. Responsibility for surveillance should be separate and independent from creditor institutions and should also be subject to effective political accountability. There should be a broad mandate to cover not only price inflation but also unemployment levels, sources of instability for the global financial system and the impact of automatic stabilisers, or destabilisers, and social protection systems.

Although price stability is desirable to support growth and financial stability, it is not sufficient. Central banks should therefore aim to ensure price stability in the context of promoting long-term sustainable growth, while remaining sensitive to risks to financial stability, capital flows and exchange rates. Central banks must also take into account developments in financial markets and asset prices. This may involve the use of a broader range of instruments, including prudential instruments. A distinction may need to be made between the roles of central banks in maintaining financial stability in normal times and during periods of crisis. The governance arrangements of central banks may need to vary depending on their precise role. In particular, any action that could impose serious risks on a country's fiscal position, such as those currently being implemented in many countries in the context of financial institution resolutions, should be subject to coordination.

Financial policies, including regulation, aim not only to ensure the safety and soundness of financial institutions and the stability of the financial system, but also to protect bank depositors, consumers and investors and to promote financial inclusion — such as access to all banking services , including credit, and the provision of financial products that help individuals and households manage the risks they face and obtain credit on reasonable terms. It is also imperative to ensure that the sector is competitive and innovative.

Financial institutions were allowed to grow to become "too big to fail", posing enormous risks to the global economy. And while there has been innovation, too much of it has been directed towards regulatory, fiscal and accounting arbitrage, and too little towards meeting the real needs of ordinary citizens. Little has been done to help developing countries and ordinary homeowners manage the risks they face, with consequences that have repeatedly manifested themselves. Financial regulation must be designed to encourage meaningful innovation that improves risk management and capital allocation.

The current crisis has highlighted major gaps and weaknesses in the regulatory structures of many systemically important countries. It is also clear that, while effective regulation must be national, there must be a global regulatory framework that sets minimum national standards and governs the global operations of systemically important global financial institutions. The Commission's final report will identify a number of key aspects of regulatory reform, emphasising the need for deep and pervasive reforms and warning against the risks of merely cosmetic changes to regulations. Among the key aspects of the necessary reform are the following.

Sustainable recovery will depend on appropriate regulation (across countries, products and institutions). Regulation should be based on what things are, not what they are called; that is, insurance products should be regulated in the same way, regardless of whether or not they are called 'insurance'. Financial regulators should be tasked with ensuring the safety and appropriate use of various financial instruments and practices, including through the creation of a financial product safety commission.

Major deposit-taking institutions should be restricted from engaging in excessively risky activities and should be tightly regulated. Strict supervision is needed for all highly indebted and systemically important institutions, but there should also be supervision of all financial institutions, as these can quickly become systemically important.

The fact that the related behaviour of a large number of institutions, each of which is not systemically important, can give rise to systemic vulnerabilities makes it necessary to supervise all institutions. Stricter regulation of incentives is needed, especially in central institutions; part of the current problem stems from distorted incentives that have encouraged short-sighted and overly risky behaviour. It may be easier to increase public supervision of existing incentives than to prohibit every single case of perverse incentives. Restrictions on leverage are needed, with automatic countercyclical capital adequacy and/or provisioning requirements.

Regulation of private equity funds, hedge funds and hedge fund activities is not uniform globally, creating potential opportunities for regulatory arbitrage. Funds should be registered in the countries where they operate and provide adequate reporting to regulators. In addition, banks need to set limits on transactions with hedge funds.

The mark-to-market principle should not be abandoned for institutions with short-term funding, in order to ensure full transparency for investors and regulators. Other institutions could be encouraged to supplement mark-to-market with valuations more appropriate to the maturity of their liabilities. In addition, measures should be taken to enforce transparency rules and public accountability for all listed companies. The widespread use of unregulated and unsupervised over-the-counter derivatives has led to excessive complexity and opacity and mispricing of these instruments, facilitating the circumvention of capital adequacy requirements by financial institutions. These practices have significantly weakened our financial system and made the resolution of companies in crisis.

Regulations should ensure that derivative instruments are accounted for in balance sheets, valued at real transaction prices and subject to independent audit, with adequate capital provisions and clarity of purpose. Standardisation of contracts and registration of transactions on regulated exchanges should be adopted where possible, with appropriate regulatory restrictions, including limits for non-commercial traders. Complex, customised, over-the-counter derivatives that cannot be standardised or that do not generate sufficient volumes sufficient volumes to be traded on an exchange should, if used by central institutions, be subject to a higher capital charge than those traded on an exchange. Institutions using non-standardised contracts should be subject to more intensive supervision by regulatory authorities.

Significant reform of credit rating agencies and their role in the financial system will be necessary. Where financial regulations use ratings, regulators must have a mechanism to assess the quality of the ratings provided. They should also consider mechanisms to avoid conflicts of interest in the provision of ratings by agencies and assess the possibility of incentivising new entrants to promote competition in the credit rating industry. The reforms needed in this area and in information systems will be addressed in the Commission's final report.

In the absence of adequate global coordination, financial sector regulation will have to be based on the host country, not the country of origin, and may require the creation of subsidiaries rather than relying on branches.

Market-driven international capital flows are so large and volatile that they can nullify any formal mechanism for additional development financing. Active management of foreign capital inflows is therefore necessary to ensure that they support governments' countercyclical policies. The IMF Articles of Agreement give members the authority to control capital inflows and expressly exclude the use of Fund resources to rebalance capital account imbalances. The Fund should be encouraged to return to its original principles and support countries seeking to manage external capital flows in support of domestic countercyclical policies.

In the absence of better risk mitigation systems, it is particularly important that developing countries avoid measures that expose them to greater risks and volatility, such as inappropriate liberalisation of capital and financial markets. Developing countries should use all instruments at their disposal, including price interventions, quantitative restrictions and prudential regulations, to manage international capital flows.

Although inadequate regulation is partly responsible for the current crisis, in some cases good regulations have not been effectively implemented and enforced. This highlights the need for reforms in regulatory structures, including reforms that increase the accountability of regulatory institutions in effectively enforcing existing rules and reduce the possibility of regulatory capture, including reforms that increase the accountability of regulatory institutions in effectively enforcing existing rules and reduce the possibility of regulatory capture. The weaker the global regulatory system, the more financial markets need to be segmented to ensure global stability.

The Financial Stability Forum was created after the 1997-1998 financial crisis to promote international financial stability, improve the functioning of financial markets, reduce the tendency for financial shocks to spread from country to country, and strengthen the institutional framework supporting global financial stability. It is now clear that the reforms proposed by the Forum, while important, have not been sufficient to prevent significant global financial instability. If the Forum is to become the main instrument for formulating reforms of the global financial system, it must consider the importance of financial stability for the development of the real economy. Furthermore, it must increase the representation of developing countries to adequately reflect their views and conditions and must be accountable to a democratically representative institution, such as the global economic coordination council proposed above.

The development of financial institutions that are too big to fail played an important role in the crisis and made it difficult and costly to resolve, both for taxpayers and for the global economy. It is therefore essential not only to ensure adequate supervision of these large institutions, but also to make efforts to limit their size and the extent of their interactions in order to reduce systemic risk. This will require more effective global cooperation in financial and competition regulation. Progress towards this goal could be made by taking steps to lay the foundations for a global financial regulatory authority and a global competition authority. With so many companies operating across borders, it is difficult to rely on national regulatory authorities, as the actions (or inaction) of national authorities can generate far-reaching externalities. One possible, albeit partial, remedy for this difficulty is the proposal for a college of supervisors for global systemically important financial institutions, which could form the basis for a more comprehensive global authority.

The international community must further improve strategies to prevent crises and address external shocks. In the absence of global risk-sharing systems and innovations that facilitate efficient risk management, it is necessary to promote the development of new instruments that offer better protection to developing countries from increased market volatility (commodities, foreign currencies, food, etc.). Examples include local currency lending instruments, risk mitigation structures and GDP- or commodity-indexed bonds. The possibility of credit facilitation with flexible debt services should also be explored more proactively.

Regional development banks and other official institutions should be encouraged to play an active role in promoting such financial products. International financial institutions need to explore significant innovations to improve risk management and distribution and incentivise markets to perform better. In particular, while there has been some expansion of local currency capital markets in developing countries, they are still highly vulnerable to exchange rate and interest rate fluctuations. Lending by international and regional financial institutions in local currencies, local currency baskets or regional units of account, as well as exchange rate and interest rate hedging, could be important steps towards improving international risk markets.

Improved mechanisms and new international institutions to mitigate international investment risk could also have a positive impact on global demand if they allowed countries to maintain the same level of protection against global financial instability with lower levels of international reserves and restrictive regulations on capital movements, thereby facilitating a more productive use of global savings.

Several developing countries are already facing debt sustainability problems. It is important to ensure that countercyclical recovery measures introduced in developing countries do not generate unsustainable debt dynamics. In countries where the crisis seriously threatens debt sustainability, debt moratoriums and, where appropriate, partial debt cancellation could be considered. In addition, low-income countries in particular need greater access to highly concessional funds if they are to meet their essential spending needs without falling back into debt. Multilateral development banks and other bilateral donors should make every effort to make repayments flexible in response to exogenous shocks.

There is therefore an urgent need to develop a fair and generally acceptable mechanism for sovereign debt restructuring. The mechanism should ensure that restructuring is sufficiently deep to allow countries a fresh start. All debtors and creditors must be treated fairly, including implicit creditors such as social security claimants. This mechanism should be complemented by an improved framework for cross-border bankruptcy management. One possible way to achieve this could be the creation of an independent structure, such as an international bankruptcy court.

The current crisis has already seen numerous cases of bankruptcies of companies operating across national borders, and this number is set to rise. The absence of a formal mechanism to manage the impact of cross-border bankruptcies and insolvencies, especially involving financial institutions, has negative economic effects on the global economy.

It is therefore particularly important to achieve a uniform approach to financial and investment disputes concerning bankruptcy and insolvency. One way of achieving this could be through the international bankruptcy court mentioned above.

The management of external financial flows and external debt are closely linked and crucial for the implementation of a national development strategy that is sustainable and resilient to global crises. International development institutions should ensure that developing countries have access to sufficient technical advice and managerial expertise to build domestic capacity in managing these issues.

There is a need for a genuine development-oriented round of negotiations to create an international trading system that truly promotes growth in developing countries. It is essential that the long-recognised principle of special and differential treatment for developing countries be preserved in all trade negotiations.

The need for more and more stable sources of financing for development, including the investments needed to address the long-term challenges of climate change, and for new institutions to deliver these funds has been discussed above.

The international community must explore a variety of innovative financing mechanisms, including the regular issuance of new global reserves (such as special drawing rights), revenues generated from the auctioning of global natural resources (such as ocean fishing rights and pollution permits) and international taxes (such as a carbon tax, which would simultaneously help address global warming, or a financial services tax, which would help stabilise international financial markets). The proceeds could be used in part to cover the costs incurred by developing countries in reducing greenhouse gas emissions in the context of their national policies to promote sustainable development.

The effective implementation of national taxation systems is a crucial part of financing domestic development. Measures must be taken to preserve national autonomy in the choice of sources and methods of public financing, while ensuring that national differences do not create incentives to evade taxpayers' responsibility for supporting government policies. An efficient way to achieve this would be to automate the exchange of information.

g.

Raffaele Coppola, the 1997 “Charter of St. Agata de’ Goti. Declaration on usury and international debt: past, present and future”, Pontifical Academy of Social Sciences, article dated 3 April 2024

The following article reports on the work of a working group of distinguished Catholic jurists and social scientists who, in 1997, also in preparation for the Jubilee of 2000, produced a manifesto with an ambitious series of proposals for the reform of international law on the treatment of international debt. The document was named the ‘Charter of St. Agatha of Goti’ after the place where most of the work was carried out. The article also reports on follow-up initiatives and the interest that this attempt to revive and reform international law continues to attract today.

The *Charter of St.’Agata de’ Goti*[19] is a declaration of principles on ‘Usury and International Debt’ drawn up and presented on 29 September 1997 in the town of Sant’Agata de’ Goti, on the feast day of Saints Michael, Gabriel and Raphael. It was promoted by His Excellency Monsignor Mario Paciello, then Bishop of the Diocese of Cerreto Sannita-Telese-Sant’Agata de’ Goti, to celebrate the third centenary of the birth of Saint Alphonsus Maria de’ Liguori, bishop of the same diocese and Doctor of the Church. The initiative was born with the intention of gathering and relaunching the moral, legal and theological legacy of the holy bishop, with the aim of offering

[19] *Charter of St. Agata de’ Goti. Declaration on usury and international debt: between past, present and future*, Pontifical Academy of Social Sciences, 3 April 2024.

answers with concrete answers to the prophetic indications of St. John Paul II in preparation for the Jubilee of 2000.

Although it originated in the ecclesiastical sphere, the Charter is a declaration with a strong legal and technical basis, the result of the work of lay study and research groups such as the CEISAL (European Council for Research on Latin America) and ASSLA (Association for Latin American Social Studies). It is structured along two main lines: on the one hand, a line of political commitment aimed at overcoming the separation between state communities and the international community, with the aim of obtaining an advisory opinion from the International Court of Justice through the United Nations General Assembly; on the other hand, a line of scientific study that aims to overcome the separations between economics, law, morality and religion.

The fourteen general principles of law on which the Charter is based – referred to in Article 38, 1c of the Statute of the International Court of Justice – include: objective good faith, freedom of contract, prohibition of *culpa in contrahendo,* causality and fairness in contracts, *laesio enormis,* prohibition of usury, diligence, *rebus sic stantibus* clause*, favor debitoris,* prohibition of abuse of rights, *beneficium competentiae,* inviolability of human rights (especially the right to life), and self-determination of peoples. The document reiterates the urgent need for a new recognition of these principles in light of contemporary issues surrounding international debt, especially with regard to developing countries.

Over time, numerous national and international organisations, both religious and secular, have come out in support of the Charter: the Pontifical Council for Justice and Peace (now part of the Dicastery for Promoting Integral Human Development), Caritas Italiana, FOC-SIV, ATTAC Italia and, more recently, CADTM (Committee for the Abolition of Illegitimate Debt), while the Italian Parliament incorporated part of the Charter's demands into Article 7 of Law No. 209 of 25 July 2000.

Numerous academic and research entities have contributed to the development and updating of the Charter, including the 'Giorgio La Pira' Unit of the CNR, the Centre for Latin American Legal Studies of the University of Rome 'Tor Vergata', the 'Renato Baccari' Centre of the University of Bari, and the Institute of International Legal Studies of the CNR. A major update of the Charter was drawn up on 18 December 2015 in the document "The Holy See and Poor Countries at the United Nations," which renewed the call for intervention by the United Nations and the Hague Court to legally re-examine the mechanisms of international and public debt, based on the principles enshrined in the Charter.

On the twentieth anniversary of its promulgation, on 15 December 2017, the Charter was solemnly commemorated at the Library of the National Research Council, in a context that emphasised the urgency of fair and sustainable global debt management. The *Charter of S.Agata de' Goti,* in its latest revision, sets itself the explicit goal of contributing to the eradication of global poverty and the legal reconstruction of the concepts of debt and financial responsibility. To this end, it calls for action by the United Nations in accordance with Article 96 of the UN Charter and the Statute of the International Court of Justice, with a view to a more just regulation of the world economy, threatened by the rampant 'economy that kills' denounced by Pope Francis.

h.

Craxi Report on Debt: Report of the Personal Representative of the Secretary-General of the United Nations, Bettino Craxi, on "The External Debt Crisis and Development", 8 October 1990

Below are a summary and conclusions of the report by Bettino Craxi, then Representative of the Secretary-General of the United Nations, on the issue of debt, entitled: The external debt crisis and development. The report was published in 1990, and even then, the reasons for the crisis and the main proposals for reform needed to address it, had already emerged. After 35 years, we must unfortunately note that not much progress has been made and much remains to be done. Here is the text of the summary and conclusions of the report.

The following recommendations consider existing measures to provide debt relief to developing countries: they include possible extensions of these measures, as well as some new proposals. In the final section of this report, the recommendations are presented with a systemic approach to debt relief for different groups of countries[20].

For many developing countries, the burden of debt is a significant obstacle to their economic and social growth. It is therefore necessary to continue along the path taken by the seven leading industrialised countries at their recent economic summits, with a view to aligning the debt burden with the capacity to pay of developing countries and thus create the conditions for their renewed future growth. The basic positions taken in the report are as follows:

[20] General Assembly, *External Debt Crisis and Development*, Note by the Secretary-General, Forty-fifth session, Agenda item 83, A/45/380, 8 October 1990.

a. The problem of freeing countries and regions with heavy debt burdens from the debt crisis is systemic in nature and requires the participation of all creditors, not only banks but also governments and multilateral institutions;
b. The Brady Plan should be strengthened and provided with more resources, with coordinated management by an agency within the international financial institutions, working in close cooperation with regional banks.
c. On the basis of the decisions taken by the group of seven leading industrialised countries at the Toronto and Paris summits, it should be possible to obtain further debt relief, differentiated according to the level of development and indebtedness of the various types of debtors. This relief should take the form of long-term debt restructuring (40 or 30 years) and greater concessions to ease the burden of debt servicing, consistent with the different categories of debtors;
d. Debt servicing should be completely cancelled only in the case of the poorest countries (IDA-only group), and only for concessional loans under official bilateral assistance programs;
e. Countries should be allowed to pay interest on bilateral debt into trust funds denominated in indexed local currencies, to be used to finance development projects for environmental protection and human resource development.
f. An 'intermediate' group of debtor countries, situated between the poorest and middle-income countries, should be defined with the aim of increasing the concessionally of their debt, applying, as a first step, the Toronto terms to restructuring with reduced interest rates;
g. There should be a commitment to ensure an adequate flow of public and private funds to developing countries. The report reaffirms the target of providing 0.7% of gross domestic product (GDP) as official development assistance: this target was reconfirmed by the Ministerial Council of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) at its ministerial meeting on 14 May 1990.
h. The case-by-case approach should be maintained. However, a clear distinction should be made between different categories of debt, such as that arising from concessional loans, publicly guaranteed debt, private non-guaranteed debt and

debt to international financial institutions. In this context, the privileged status of these institutions as creditors is important both to support their concessional lending and as a framework for overall financial stability.

i. Developing debtor countries and Eastern European countries should adopt coherent internal adjustment policies in cooperation with international financial institutions. However, adjustment programs must be selective and growth- oriented. They should also take into account the needs of the most disadvantaged groups of the population;

j. Private banks should be encouraged, through appropriate incentives and effective coordination, to reduce interest on private debt. Tax and accounting regulations should be reviewed to favour creditor banks that reduce interest rates and provide new financial flows to developing countries;

k. Consideration should also be given to expanding the resources of international financial institutions for financing operations under the Brady Plan, as well as allocating Special Drawing Rights (SDRs) to be used to expand the funds available for debt reduction, interest subsidies and bridge loans.

l. In indebted countries with a wide range of industrial assets or natural resources, incentives should be provided for 'swap' operations aimed at creating joint ventures and promoting the participation of foreign capital in the privatisation of public enterprises. Commodity-backed bonds should receive public guarantees. Innovative approaches, such as the payment of part of the debt service in local currency-denominated bonds indexed to commodity exports, with the option of using them to purchase shares and other negotiable securities, should be considered.

m. A special effort should be made to provide financial support to Eastern European countries during their transition to a market economy in order to avoid serious social shocks. In debt relief, consideration should be given to the use of innovative financing options and the conversion of debt into shares in privatised companies.

It can be estimated that the additional burden on the public budgets of creditor countries resulting from bilateral debt concessions would not exceed 0.1% of GDP.

This would imply an increase in their aid budgets from 0.35% to 0.45% of GDP.

Particular attention should be paid to extending the system of regional banks. Following the recent establishment of the European Bank for Reconstruction and Development, consideration should be given to creating a bank for the Mediterranean region to provide financial flows to strengthen the resources of the countries concerned and address the serious problems linked to population growth and migration.

1. The stability and development of the world community in the coming years face four serious threats: war, poverty, debt and environmental destruction.
2. These problems are closely interlinked. The large debts of many developing countries are partly the result of excessive arms purchases and military spending. Defence spending in developing countries increased more than sixfold between 1960 and 1985, due to political and military instability in their regions. Just as détente was finally achieved in relations between the industrialised countries of the West and the East, political instability intensified in many areas of the South.
3. The experience of the 1970s and 1980s shows that internal and international instability was greatly exacerbated by large fluctuations in the prices of raw materials, particularly oil.
4. This is clearly demonstrated by recent developments in the Persian Gulf region and the impact of these events on military deployments, oil prices, interest rates, labour migration, workers' remittances and global financial systems.
5. In the 1980s, cheap oil, food and raw materials greatly benefited industrialised countries, but exporters of these goods had to sell them at lower prices than in the past, while their import costs rose. As a result, they were unable to repay their debts or make the investments needed to lift themselves out of poverty. In Africa and Latin America, development has stagnated and poverty has increased over the last decade.
6. Poverty fuels environmental degradation in both rural and urban areas. In rural areas, the use of firewood — the main source of energy in many poor regions — leads to desertification; in urban areas, urban poverty causes degradation even

where basic infrastructure and services are available. Recent World Bank estimates indicate that the number of poor people in developing countries is growing faster than the total population. This impoverishment brings with it political instability. The issues of war, debt, poverty and environmental destruction are therefore closely linked: addressing one means addressing all of them. They are all part of the same international political agenda for the 1990s.

7. The political and economic developments of recent months should raise awareness of the frequency and severity of local conflicts and their spread internationally.
8. They highlight the urgent need to promote international cooperation to break the vicious cycle of war, poverty, debt and environmental destruction. They also point to the need to prioritise debt relief and concessional financing for countries that demonstrate respect for human rights, are committed to peace and adopt sound reconstruction and development plans.
9. Preliminary estimates indicate that, in the near future, the outlook for developing countries as a whole is worsening due to slowing economic growth in industrialised countries, rising interest rates and higher oil prices.
10. Before the Gulf crisis, the real GDP growth rate of developing countries was expected to improve from 3.2% in 1990 to 4.2% in 1991, thanks to good agricultural harvests and sustained growth in China and India, the two largest low-income countries. Many other countries were also expected to benefit from long-standing structural adjustment programs.
11. Preliminary estimates of the overall impact of the Gulf crisis now point to a reduction of at least half a percentage point in the growth rate of industrial market economies. Estimates for developing countries are more uncertain, but the impact is expected to be much more severe. Rising interest rates and tightening global liquidity will affect all developing countries, even the few that produce and export oil. The benefits that some will derive from higher oil prices will be more than offset by the interest costs that all debtor countries will have to bear.
12. In short, the current conflict, due to its significant international ramifications, will lead to:

a. Stagnant or negative growth rates in per capita income for many low-income countries, especially in Africa;
b. The emergence of new large debtor countries among low-income countries in South Asia, which have so far been relatively unaffected by serious debt problems;
c. A worsening of the debt burden for many lower-middle-income countries;
d. Serious balance of payments difficulties for countries in Central and Eastern Europe;
e. A reduction in external fund flows to heavily indebted oil-exporting countries, such as Mexico and Nigeria.

13. In summary, the conflict poses a threat to structural adjustment even in those countries that have implemented the most decisive policies. It is likely to lead to an increase in poverty and environmental degradation.
14. The proposals contained in this report aim to reduce the unsustainable debt burden of developing countries. They are the result of consultations with leaders of industrialised and developing countries, as well as with the international financial community. The overall objective is to reduce that part of international debt that fuels war, poverty and environmental degradation. These are not technical solutions to financial engineering problems, but central political and social proposals of crucial importance for global development in the 1990s.

1. DEBT, THE RICH AND THE POOR

a. Why the debt problem concerns everyone

15. The debt problem does not only concern developing countries. Despite the complacent view taken by industrialised countries in recent years, its implications also have a significant impact on them.
16. Debt is closely intertwined with war, poverty and environmental degradation. Drug trafficking, immigration from countries with stagnant economies, environmental hazards, trade imbalances and political instability are all phenom-

ena exacerbated by frustration over development and debt paralysis in recent years.

17. Disorderly immigration from Latin America to the northern hemisphere offers a clear example of this frustration. Such immigration is often an act of desperation rather than a choice. Europe faces similar problems in relation to immigration from the African continent. The only alternative to these migratory flows is development, but there can be no development in those regions until the debt problem is addressed.
18. The drug problem is closely linked to the solution of the debt problem in developing countries. In some highly indebted countries, drug cultivation a n d trafficking is considered among the few potential sources of foreign currency and tools for combating underdevelopment; for this reason, they are difficult to eliminate in a context of general economic decline. They can and must be combated by offering opportunities for healthier economic growth. Otherwise, some countries will continue to resort to drug cultivation. Extremist social and political trends are also fuelled by poverty and deprivation.
19. Environmental degradation is also linked to poverty and debt problems. The desperate search for land for grazing or subsistence farming, overcrowding in the large cities of Latin America and Asia, and the lack of fuel — all these factors lead to deforestation and desertification. These phenomena stem mainly from economic stagnation and decline.
20. This generates pressure on natural resources that cannot be controlled without the means provided by a growing economy. The environmental problems typical of development are almost impossible to solve when foreign debt servicing absorbs a large part of national resources and an excessive share of tax revenues.
21. The forced flow of exports from countries that have to pay their debts has sometimes generated protectionist pressures and negative consequences in multilateral negotiations for the liberalisation of world trade.

Another shared concern is the difficult situation facing major international financial institutions — the World Bank and the International Monetary Fund (IMF) — as a result of the debt crisis in developing countries and Eastern European countries.

22. Granting new loans to indebted countries without the participation of the majority of creditors would represent a growing risk for the World Bank. However, limiting loans only to fully creditworthy countries would not be acceptable for a bank that wants to play a role in development.
23. Similar considerations apply to IMF loans to countries whose debt pushes them below the survival threshold and threatens their disintegration. In such situations, they often stop making payments and accumulate arrears to the IMF and other official creditors.
24. The recent increase in IMF quotas offers a means of providing new funds to developing countries to ease the burden of debt. This is a positive development positive development, but probably insufficient given the scale of the problem. The possibility of further increasing the number of concessional resources that the IMF and other multilateral financial institutions can use for debt reduction and debt servicing should be explored. In this context, consideration should be given to the proposal for a special allocation of Special Drawing Rights (SDRs) to ensure the payment of interest on securities issued by developing countries in the conversion of their commercial debt.
25. From this overview of the interdependencies linked to developing countries' debt, it is clear that the problem does not only concern debtor countries. It is a global issue which, if not addressed through joint action, will seriously jeopardise the well-being of industrialised countries and the survival and financial stability of multilateral institutions.

b. The imbalance between rich and poor in the world

26. The problem of developing country debt is not a normal problem of relations between creditors and debtors. The billion people living in countries affected by the debt crisis live mostly in poverty.
27. Almost 70% of global production is generated and consumed by around 15% of the world's population. Developing countries account for 76% of the global

population but produce less than 20% of global income. In 1987, per capita income in the poorest countries (population: 2.8 billion) was \$290, compared to \$14,500 in developed market economies; the poorest countries had over half of the world's population and only 5.6% of global income.

28. In poor countries in Africa and South America, the average daily calorie intake was 2,385, while in industrialised countries it was 3,375. Life expectancy was 47 years or less in sub-Saharan Africa, compared to 77 years in wealthy Western countries.

It is clear that political decisions (or the lack thereof) in industrialised countries have a profound impact on developing countries.

A significant example of this imbalance of influence is the spectacular rise in real interest rates in the 1980s, which greatly exacerbated the debt crisis in developing countries.

29. The real long-term interest rate in the seven most industrialised countries never exceeded 4% in the three decades following the Second World War and was sometimes negative or close to zero during part of the 1970s, when some industrialised countries initially responded with expansionary policies to the 1973 oil price increase. This led to a rapid expansion of the global money supply a n d an acceleration of inflation. It was in the first half of the 1980s that macroeconomic stabilisation, based almost exclusively on anti-inflationary monetary policies (without adequate fiscal and income support), caused real interest rates to rise above 5% in most industrialised countries.
30. This increase was then sustained by the persistence of large budget deficits in several major industrialised countries, the reduction in global savings rates in those countries and higher returns on investment linked to productivity growth in OECD countries.

c. Causes of rapid debt growth

31. The external debt of developing countries grew rapidly between 1980 and 1990, reaching an estimated \$1.2 trillion according to Bretton Woods estimates. In-

terest and amortisation payments rose from $90 billion in 1980 to an estimated $175 billion in 1990.

32. There are several reasons for the accumulation of this enormous debt. Furthermore, there are significant differences between countries. However, in most cases, external debt was incurred by developing countries to finance government budget deficits and support ambitious development programs.

33. The design and implementation of public investments have often been flawed. The financial, economic and social viability of many projects was low, even though they were financed with borrowed resources at high interest rates. There is no doubt that the selection and implementation of public investments have often been inadequate. In this regard, national institutions bear a great responsibility, as they left most of the decision-making process in the hands of government bureaucracies that preferred to finance public investment through the creation of public debt.

34. There are indications that investments would have been more profitable if they had been made by companies – public or private – with managerial autonomy and budgetary and financial responsibility. Productivity was sometimes low because investments were made in economic systems that imitated collectivist models of bureaucratic planning.

35. A large part of the external debt was also contracted to finance balance of payments deficits, which were closely linked to public sector deficits. The significant deterioration in the terms of trade for developing countries' exports in the 1980s was also one of the main causes of the deterioration in their debt situation.

36. From a global perspective, the abnormal growth of developing countries' external debt was made possible by the lack of a set of agreed international rules for monetary and fiscal policies and for banking supervision. No attempt was made to regulate or coordinate the growth of international public debt. In such a vacuum, borrowing took on particularly risky forms for developing countries.

37. On the creditor side, commercial banks in developed countries had abundant excess funds from oil-exporting countries during the 1970s. They were strongly attracted by the returns they could obtain by lending to developing countries

and were not discouraged by their home supervisory authorities. Commercial bank lending to sovereign governments in developing countries exceeded all prudential limits.

38. At the time, rising commodity prices were perceived as a new reality that was here to stay, rather than a cyclical trend. This misperception led to irrational behaviour on the part of both creditors and debtors. Thus, the oil price increases of the 1970s led to numerous international financial initiatives that, in hindsight, appear irrational, even though they seemed sensible at the time.
39. Indebted countries were provided with extensive guarantees by credit insurance agencies in industrialised countries, eager to obtain lucrative contracts for large and medium-sized projects.
40. In the absence of international rules, individual public or private entrepreneurs granted loans without knowing how much others had already lent or intended to lend. As long as debtors could continue to borrow against their natural resources, particularly oil, old debts were paid off with new loans. But this spiral could not last forever. At some point, the bubble burst.
41. When commodity prices collapsed, it was initially thought to be a temporary situation. Governments continued to borrow to finance their current needs and balance of payments deficits, thereby delaying the adjustment process and further exacerbating the debt problem. However, at the time, there was no support from the industrialised countries.
42. When the US dollar collapsed in 1986 and stock markets plummeted in 1987, generous financial shock absorption mechanisms were put in place in industrialised countries. Nothing similar was done to address the consequences of excessive borrowing by developing countries in the 1970s.
43. On the contrary, no attention was paid to the serious repercussions on the situation of developing countries resulting from the rise in real interest rates. However, heavy responsibilities also fall on the governments of developing countries.
44. Many of these governments had – and still have – high levels of public spending and low tax revenues. In some countries, weak fiscal policies are the product of entrenched interests; in others, they are the legacy of past mismanagement; in

still others, they are the result of institutional weakness. The remedies may differ, but in all cases sound fiscal management should be the prerequisite for any adjustment program.

45. Finally, it should not be forgotten that high population growth remains a primary long-term cause of the crisis in developing countries. There can be no be a lasting solution to the problems of debt and development without policies aimed at controlling population growth rates.

d. The crisis

46. With such a basic situation, many developing countries soon entered a state of deep crisis, in which policy variability increased significantly, giving rise to sequences of exchange rate devaluations and revaluations accompanied by trade liberalisation measures, often revoked as quickly as they were adopted. Government policies lost credibility and inflationary spirals developed alongside sharp declines in GDP growth rates. In most developing countries, it became increasingly difficult to service foreign debt.
47. In other countries, the debt burden quickly reached levels that raised the spectre of insolvency, making commercial banks increasingly reluctant to grant new loans. This reluctance was confirmed by the request from banking supervisory authorities to increase provisions against exposure to developing country debt. Further disincentives to lending to these countries arose from the emergence of a secondary market in which claims on developing countries were traded at deep discounts.
48. A high level of provisions became necessary and was implemented by the international banking system on the basis of tax and banking regulations which, in general, encouraged such provisions but reduced the economic attractiveness of granting both reductions on old loans and new loans. The situation produced a veritable downward spiral, as the provisions acted both as a disincentive to debt reduction and as a deterrent to new financial flows to developing countries.

49. The massive provisions made by major banks were evidence of the belief that debtor countries were no longer able to pay, which led to a disruption in credit flows to them, making them even less able to meet their payments. The result was also a fall in prices in secondary markets for their debts, which further reduced their creditworthiness and ability to obtain new loans.

e. The decline in GDP growth in indebted countries

50. GDP and export growth rates in heavily indebted countries have been exceptionally low compared to other developing countries and, unlike the latter, imports in heavily indebted countries have also declined.

51. For many of these countries, there is clearly a financial and economic limit to their ability to pay. However, unlike individual companies, there are no bankruptcy laws for sovereign debtors that provide for the possibility of new financing after a debt agreement has been reached with all creditors.

52. Furthermore, individual creditors are not interested in granting the debtor country a substantial discount on their share of the debt or new loans for a fresh start. This would increase the debtor's ability to pay all its debts, including those to other creditors, without the individual creditor benefiting. What is advantageous for all creditors as a whole is not necessarily advantageous for the individual.

53. Coordination between debtors and creditors, which is ensured by national bankruptcy laws in many countries, cannot therefore be achieved at the international level without an appropriate set of universally recognised rules.

54. There is a clear need for an institution or mechanism to provide the necessary framework for reaching collective agreements that do not arise spontaneously. In establishing such a framework, all actors must play their part.

2. DEBT AND RECOVERY

BASIC PARAMETERS

a. Debt service, GDP and exports

55. The burden of debt servicing on national income and exports stems from massive transfers of resources from domestic consumption and investment to external creditors.
56. As average income levels decline and income distribution becomes more uneven, the decline in resources available to the debtor country becomes increasingly burdensome.
57. Since most of the debt of developing countries is public or guaranteed by the state, its financing requires either higher taxes and lower public spending, or the issuance of new debt, or the transfer of the deficit – through inflation – to the entire economy.
58. The risk of poor political management is particularly high when debt servicing accounts for a large share of exports. The urgency of meeting heavy interest obligations can make measures such as import restrictions, credit controls and discriminatory taxation attractive. However, such policies have negative effects on living standards and investment, undermine political and social stability and undermine the very process of economic growth and job creation.

b. Interest rates and GDP and export growth rates

59. For the debt problem to resolve itself over time, two conditions must be met. First, the GDP growth rate of the indebted country, measured in its national currency, must be higher than the interest rate on the debt. If no new debts are incurred, except those arising from the accumulation of unpaid interest, the stock of debt will gradually become a smaller and smaller percentage of the indebted country's GDP. Second, the growth rate of net exports (the balance between exports and imports) should be higher than the interest rate on the debt.

60. Considering these two conditions, the reason for the emergence of the debt crisis in the 1980s is clear: real interest rates were much higher than the rate of GDP growth and exports in the developing countries that are now heavily indebted.

GENERAL POLICIES TO OVERCOME THE DEBT CRISIS

Sustained growth in GDP and exports

61. Analysis of the debt situation, as well as discussions with government leaders of creditor and debtor countries and with the financial community in general, have led to two main points of consensus. First, the debt problem can only be resolved in a climate of generalised growth, both in debtor and creditor countries. Second, it is necessary to increase export opportunities for debtor countries, while also protecting them from excessive price volatility on world markets.

c. Lower interest rates and higher savings rates

62. In industrialised countries, rigorous monetary, fiscal and wage policies will be needed to neutralise inflationary pressures and keep interest rates low during the 1990s. This is particularly important as recent developments (in August and September this year) point to a new rise in interest rates, with serious repercussions for debt and growth.
63. Indebted countries must adopt sound rules for finance and for the functioning of the real economy, in order to promote savings, attract domestic and foreign investment, increase the profitability of investment and create political and institutional stability. All this is essential to ensure sustained growth.
64. The principles of self-determination must be respected in the implementation of these changes, which must be based on: (a) recourse, where possible, to market mechanisms; (b) international cooperation; and (c) the gradual implementation of measures, so as to avoid social shocks that would jeopardise the growth process. (b) international cooperation; and (c) the gradual implementa-

tion of measures, so as to avoid social shocks that would jeopardise the growth process.

65. Adjustment policies must not overlook the human cost of sudden price increases and reductions in social spending. Efforts must be made to protect vulnerable groups from excessive hardship. Adjustment should not be viewed in ideological terms, but rather as a necessary step towards modernisation and the resumption of economic cooperation between debtor and creditor countries.

c. Appropriate fiscal and accounting rules

66. An essential element of a systemic approach is the review of tax, accounting and monitoring rules and regulations by banking supervisory authorities, so as to promote – rather than hinder – initiatives aimed at reducing the debt of developing countries.

d. New resources and additional aid

67. The growth policies of developing countries must be supported by donor countries and their development institutions. Official development assistance must be increased to reach the target of 0.7 per cent of GDP, which the Development Assistance Committee (DAC) has recognised as the level necessary for restoring growth.
68. Unless debt reduction is accompanied by the immediate provision of fresh funds, the revival of the growth process is unlikely. Export credit insurance agencies, regional banks and multilateral institutions have a major responsibility in this regard, for which additional resources on concessional terms will be needed.
69. Ultimately, this will test the willingness of taxpayers in industrialised countries to support the fight against underdevelopment. This will require sustained political commitment, beyond the technical efforts and financial engineering that remain necessary.

3. EASTERN EUROPEAN COUNTRIES

a. Debt and investment in Eastern Europe

70. At the end of 1988, the debt of Eastern European countries (excluding the Union of Soviet Socialist Republics) amounted to $100 billion, of which 40 per cent was attributable to Poland and 20 per cent to Hungary.
71. Centralised and essentially monopolistic economic planning proved incapable of organising the economy efficiently. The absence of the challenge posed by an open economy was a crucial factor and led to the decline of Czechoslovakia and the former German Democratic Republic – which had an important tradition of advanced industries in Eastern Europe – as well as Hungary, which had a strong agricultural tradition and medium-sized industries.
72. This decline occurred despite extensive capital formation; it was caused by low and falling productivity. From 1974 to 1984, total factor productivity in the Soviet Union fell by 1.4% per year, while in the industrialised countries it rose by 1.3%. Labour productivity grew by only 1% compared with 2.7% in industrialised countries. The trend in other Eastern European countries was similar.

b. Speed and scope of the adjustment process

73. The task is daunting. Medium-term objectives are still unclear. Industries have much to learn, not so much about basic technologies as about how to ensure quality, adapt products to market requirements and improve production efficiency.
74. The partial reforms implemented in some countries in the 1970s and 1980s sometimes made problems worse instead of solving them. They removed wage constraints and the rigidity of overall planning without introducing incentives and autonomy to promote efficiency and competition. The result was a sharp rise in inflation.

c. Risks of excessive new debt flows

75. It is clear that the problem of financing Eastern European countries is not only one of quantity but above all of quality. Too much financing without selective criteria could even increase inefficiency. In the past, state-owned enterprises, supported by government subsidies and the creation of foreign debt, often operated with few financial constraints, generating widespread inefficiencies.
76. More recently, progress has been made in Eastern Europe towards establishing a market economy. In several countries, bold measures are being taken in the areas of prices, exchange rates, the organisation of capital markets, labour and services, and the improvement of public finances.

4. WAYS OUT

DEBT REDUCTION STRATEGY

77. Since the early 1980s, the international community has been looking for ways to resolve the debt problem. Three distinct phases can be identified in this process:
    a. Until the end of 1985, the emphasis was on market solutions and financial engineering to facilitate debt restructuring.
    b. From the end of 1985 to March 1989, the strategy consisted of providing financial resources to heavily indebted countries with the aim of facilitating their growth and structural adjustment, and thus reducing the debt burden (the so-called 'Baker Plan', named after the US Treasury Secretary at the time);
    c. From 1989 onwards, the focus shifted to debt reduction. The following sections examine the progress of the debt reduction strategy and outline specific techniques for reducing the debt burden.
    d. Comments are also made on development financing and regional cooperation, and specific proposals are made for regional areas and groups.

DEBT REDUCTION BY PRIVATE AND OFFICIAL CREDITORS

THE BRADY PLAN

a. A bold step in the right direction

78. The Brady Plan emphasises the need for both a reduction in commercial bank claims and substantial support from the IMF and the World Bank to facilitate debt reduction and debt servicing. It recognises that such reductions can be beneficial to both creditors and debtors and can therefore be achieved through a voluntary agreement involving all parties. The plan also highlights that indebted countries need new funds. In particular, the Brady Plan consists of the following elements:
    a. Financing from official sources to support debt reduction and debt servicing;
    b. Conversion of short- and medium-term debt into long-term debt and/or equity participation;
    c. Debt buy-back;
    d. General agreement between the debtor country or countries and the creditor banks, based on credible and feasible adjustment programs.
79. Despite its positive impact in several cases, experience with the Brady Plan raised a number of issues related to the length of negotiations, lack of resources and the use of guarantees. There are several reasons for the lengthy debt reduction negotiations under the Brady Plan. Banks are usually bound by a 'sharing clause', whereby any advantage obtained by one bank must be shared with all the others. They are also often bound by a 'negative pledge clause', which prevents the debtor from fulfilling obligations arising from a debt contracted subsequently, before having honoured previous ones the debtor from meeting obligations arising from debt contracted subsequently before honouring previous ones. The presence of these clauses and the collusive behaviour of creditor banks have made negotiations under the Brady Plan excessively long and sometimes less effective than expected. Therefore, this new debt strategy needs

to be strengthened through the creation of legal and institutional mechanisms capable of ensuring coordination between all parties involved in debt reduction operations.

80. The financial resources available for the Brady Plan are probably insufficient to achieve sufficiently substantial debt reductions quickly and to stimulate the flow of new financial resources to countries implementing economic adjustment programs.
81. Japan's commitment to provide financial resources to the Brady Plan should be followed by other countries. Alternatively, the same objective could be achieved through a special issuance of Special Drawing Rights (SDRs).
82. The 18-month limit on interest guarantees significantly reduces the expected effectiveness of bonds issued by debtor countries for debt conversion or repurchase. More robust interest guarantees would encourage greater willingness to accept deeper debt reductions.
83. The difficulties of the Brady Plan relating to coordination between creditor banks and the availability of resources would be better addressed if an ad hoc agency or authority within the Bretton Woods institutions administered all aspects of debt reduction and debt servicing operations.
84. Another difficulty with the Brady Plan stems from differences between national taxation, accounting and banking regulation systems with regard to lending to developing countries. Some systems (Switzerland, Great Britain, Germany and France) allow tax deductions for large provisions on risky loans when such provisions are made, while others (Japan, Italy and the United States) do not allow this, or only to a very limited extent, while allowing the deduction of actual losses on capital. These differences cause distortions and delay debt reduction negotiations very small percentages, while allowing the deduction of actual losses on capital. These differences cause distortions and delay negotiations for debt reduction.
85. In most countries in the first group, the authorities do not allow exposures to be written down until they have matured without being honoured. Therefore, banks in those countries are usually not interested in voluntary debt reduction

operations, as they do not derive any tax benefits from them and, in any case, their risk is already covered by provisions.

86. In countries where tax deductions are allowed for losses but not for provisions (at least not completely), banks have not always been able to accumulate large provisions; in effect, they could not use them to reduce taxable profits and improve their balance sheets, nor could they spread them over several years. Furthermore, banks are more interested in reducing loan capital than interest payments, as the latter are not recognised as losses for tax purposes.
87. One possible solution to the dilemma could be to grant larger tax deductions for provisions, although only as a tax difference. If, after a certain period, the provisions have not been used to support restructuring or debt reduction in proven cases of insolvency, then these provisions would become taxable. This procedure could be applied to tax systems such as those in the United States, Japan and now Italy, which do not allow (or will no longer allow) provisions on loans to countries at risk.
88. In addition, accounting write-offs should be allowed for losses incurred in a tax year when such losses result from debt reduction or conversion operations, as provided for in the Brady Plan.
89. In countries where tax deductions are allowed only for actual losses on debt, efforts should be made to include deductions for capitalised financial losses due to reductions in interest obligations; this would ensure tax neutrality between the various options under the Brady Plan and improve its feasibility. Similar measures should be adopted for provisions arising from the 'new money' option in the Brady Plan.

New funds and the Brady Plan

90. A major restructuring, with guarantees on the remaining debt, should have a positive effect on country risk and therefore on the requirement to set aside funds for new loans. If, in addition to bank debt, other debts are also converted, this will result in increased repayment capacity and a reduction in the risk on new bonds and other loans.

91. Providing new funds is also an objective of the co-financing of the World Bank's new Expanded Co-Financing Operation. This facility is intended both for countries that have not restructured their debt, such as Colombia, and for countries such as Mexico and Chile (and in the future Venezuela and Uruguay) that have completed negotiations under the Brady Plan and adopted the required economic adjustment programs.
92. In addition, several commercial banks have reaffirmed their willingness to continue their operations in many developing countries, provided that adequate incentives are put in place. In particular, commercial banks attach particular importance to the following incentives: commercial financing facilities and project financing requiring public insurance guarantees on bonds issued against new money and co-financing with the World Bank and regional development banks.

Strengthening the Brady Plan

93. The Economic Commission for Latin America and the Caribbean described the Brady Plan as uncoordinated and stated that incentives for banks to waive their claims are not very strong, which leads to a tendency to hold on to them. The Commission stated: "There is no substitute for a coherent institutional framework that makes each country's debt reduction offer – in the context of an officially supported adjustment program – an offer that most banks cannot refuse. The framework must include incentives for socially correct behaviour and sanctions for anti-social 'free riding' behaviour. The Brady Plan lacks such a coherent structure."
94. In their joint assessment of the initial results achieved by the Brady Plan, the World Bank and the IMF acknowledged that fewer agreements than expected have been finalised so far. They stated that delays in negotiations must be overcome without compromising adjustment programs, without increasing the vulnerability of countries whose debt structure has been restructured, and without causing an unjustified shift of burden from private to official creditors. The two agencies also stated that creditor governments have not made efforts compara-

ble to those required of commercial banks for official loans to highly indebted middle-income countries, while for the poorest countries even the Toronto initiative seemed insufficient. Financial resources for debt restructuring should therefore be added to those made available by multilateral agencies.

95. The World Bank and the IMF have stated that debtor countries should encourage, rather than discourage, foreign direct investment, along with specific project financing and commercial operations by commercial banks, and the repatriation of capital flight. This implies the adoption of market-oriented reform measures, including the timely repatriation of dividends, the development of local financial markets, full protection by national courts in the event of private insolvency, and the elimination of financial repression and unfair tax practices, together with incentives for the rapid conclusion of negotiations and subsequent compliance with agreed terms.

5. DEBT RELIEF FOR OFFICIAL CREDITORS

a. The Toronto conditions

96. The Toronto conditions for the restructuring of debt owed by the poorest developing countries to official creditors were agreed by the group of seven leading industrialised countries at their summit in Toronto in June 1988. They were then outlined in Berlin during the assembly annual review by the World Bank and the IMF, and subsequently by the Paris Club of official creditors. Under this scheme, all restructured concessional debt must be repaid within a period of 25 years, including a 14-year grace period. For non-concessional debt, creditor countries can choose the repayment terms from three options:

   a. Partial cancellation: cancel one third of the debt service due during the renegotiation period and restructure the remainder according to standard conditions for low-income countries (14-year maturity and 8-year grace period with market interest rates);

b. Extended maturity: restructure the entire amount of debt service at market interest rates but with a maturity of 25 years and a grace period of 14 years;

c. Concessional interest rate: restructure the entire amount with the maturities of option (a) but with an interest rate 3.5 percentage points below market rates (or half the market rate, whichever is lower).

97. This scheme is inadequate. While the Brady Plan calls on commercial banks to implement significant debt reductions for all highly indebted countries, the Toronto agreement addresses only the problems of the poorest of the highly indebted countries, excluding poor countries with moderate debt levels and highly indebted middle- and low-income countries.

98. For non-concessional debt owed to governments, option (a) seems the most logical way to resolve the problem of a difficult or impossible payment situation, because it provides for a one-third reduction in the interest burden. But this option is also weak in two respects.

99. First, the reduction is not sufficient for poor countries. Assuming an interest rate of 9-10%, a one-third reduction would reduce interest obligations by about 3%. This proved insufficient under the Brady Plan to help highly indebted middle- income countries emerge from the crisis and is even less adequate for highly indebted poor countries.

100. Furthermore, extending deadlines leads to a concentration of obligations in the future, which makes it difficult to emerge from the crisis and lays the groundwork for further restructuring. The accumulation of future debt prevents low-income indebted countries from accessing trade credit and investment, thus hindering their return to the market, which is usually considered the fundamental objective of adjustment plans. The weakness of all the Toronto options is precisely the growth of the future debt burden, as can be easily seen in the figure below.

b. International Monetary Fund instruments

101. At the end of 1987, the IMF established the Enhanced Structural Adjustment

Facility (ESAF) to help low-income countries with long-standing balance of payments problems res tructure their economies and embark on a more effective medium-term growth process. This program complemented the Structural Adjustment Facility (SAF), created in March 1986. Together, the programs provide \$11.7 billion in 10-year credits at a highly concessional interest rate of 0.5% and a five-year grace period, of which almost two-thirds is provided through the ESAF and one-third through the SAF.

102. Indeed, without this support and without the special interventions of the World Bank already mentioned, the situation would be disastrous. However, these actions remain partial, as they do not directly address the problem of the existing debt burden.

103. Similar considerations apply to World Bank loans. International financial institutions should have more concessional funds available for purposes other than conventional ones.

104. The issue of debt relief from the IMF and the World Bank, as well as the problem of arrears to these institutions, does not only concern poor countries; it also affects middle-income countries.

TECHNIQUES FOR REDUCING THE DEBT BURDEN

DEBT CONVERSION METHODS

a. Debt-for-equity swaps

105. Debt-for-equity swaps, linked to partial privatisation and the revitalisation of local businesses, should be seen in the context of a policy of modernisation and genuine liberalisation, deregulation and economic rationalisation.

106. It is not just a matter of increasing capital flows to address immediate external debt problems, but rather of combining debt restructuring with economic adjustment.

107. A World Bank survey shows that exporting companies have benefited particu-

larly from investments resulting from debt-for-equity swaps. Foreign investment, at least in joint ventures or commercial partnerships, also facilitates the overcoming of trade barriers in industrialised countries.

108. Debt-for-equity swaps could thus become a springboard for new forms of financial flows to encourage economic initiatives and exports from indebted countries.

b. Debt-for-debt conversion

109. Among the restructuring measures aimed at alleviating debt, particular attention should be paid to those aimed at reducing the burden of variable interest rates. Many loan agreements were concluded when the prices of raw materials exported by indebted countries were higher or when real market interest rates were lower than in recent years.

110. However, a simple switch from variable to fixed interest rates may not yield positive results unless the latter are facilitated. Restructuring operations carried out at peak times could lead to fixed rates that may subsequently be higher than market rates. A cap on the variable rate could solve this problem: to preserve its potential benefit, the cap should be set at a heavily discounted level increase the potential benefit, the cap should be set at a heavily discounted level.

111. Furthermore, it is worth considering the proposal to link debt servicing to the prices of commodities exported by debtor countries. With such a mechanism, the debtors' ability to pay would not be affected by unfavourable fluctuations in their terms of trade on world markets.

112. There are two types of debt conversion that can be beneficial to debtors while entailing low costs for creditors, provided that a sufficient number of creditors participate in the scheme. The first type involves crediting interest payments to a special account of the debtor, without any actual payments being made and without penalties for late payment. The second type would involve the payment of at least part of the debt service in local currency.

113. The first option is only valid if the country in question has a real long-term ability to pay and if, each year (with possible support from international financial institutions), it can buy back more debt than it accumulates in interest arrears.

114. The second type of debt conversion would involve the total or partial payment of the debt service in local currency indexed to a basket of commodities and usable for the purchase of real assets in the debtor country.

DEBT BUYBACK

a. Debt buy-back must be rapid.

115. When prices on the secondary market are low, voluntary repurchases of external debt by debtor countries can be extremely advantageous. However, if negotiations for repurchase operations are prolonged, the effects can become counterproductive. As institutional debt buyers enter the secondary market, debt prices rise. However, a country that decides to repurchase its debt on the secondary market may be tempted to act in a way that lowers the price, but this would discourage the inflow of new capital.

116. If a country in debt and in payment difficulties applies a de facto moratorium on its debt, this will discourage new lending, but it will also depress prices on the secondary market and thus facilitate the repurchase of its debt.

117. For this reason, repurchases should be carried out in substantial blocks, with transactions agreed once and for all, at a price predetermined on the basis of real indicators and with the aim of rapid completion.

118. As in the case of debt-for-equity swaps, buybacks require the approval of creditor banks. Banks could adopt opportunistic behaviour, waiting for the price on the secondary market to rise as a result of buybacks by other banks. This can be avoided by predetermining the purchase offers at a fixed level.

119. For this same reason, the best way to carry out large-scale buybacks is to reach an agreement based on agreed indicators and within clear institutional arrangements.

b. Buybacks require bilateral or multilateral assistance

120. Buybacks are almost always public finance operations, since most debt is contracted by governments, other public finance institutions or state- guaranteed public enterprises. To buy back its debt, a government may be assisted through loans from international financial institutions.

121. If a country believes that it can soon restore its creditworthiness, repurchasing its debt on the secondary market could have negative effects on potential new capital inflows.

122. However, even in countries that are far from regaining their creditworthiness and establishing credible governments following major political developments (e.g. general elections after a return to democracy), the authorities will face a difficult strategic choice.

123. If they choose to categorically reject the debt incurred by their predecessors, they set a negative precedent. It would be wiser for them to show a willingness to repurchase the debt in line with their ability to pay and based on the secondary market value calculated under the previous government. If the repurchases are not accompanied by international financing that allows for global purchases, they could be more advantageous for creditors than for the debtor.

124. Assistance from multilateral or bilateral organisations is therefore essential to the success of such operations, in order to (a) provide financial support, (b) ensure the global nature of the operation, and (c) ensure that the repurchase, although taking place over a long period, maintains a reference price set at the time of the overall agreement.

SUMMARY

125. In summary, the following steps are recommended to broaden the scope of debt and debt-service reduction

    a. Increase public resources under the Brady Plan to bring the level of debt reduction and/or debt servicing to 50%;

b. Ensure neutral treatment of possible options through equivalent collateralisation (or other guarantees) on principal, interest and new money through equivalent tax regimes;
c. Provide for partial debt servicing through index-linked securities denominated in local currencies and usable for real estate, shares and commodities;
d. Reduce the commissions charged on loans granted to countries that have concluded debt reduction agreements;
e. Establish an official coordination committee or agency within international financial institutions, with the means to finance or co-finance, in parallel with the regional development banks concerned, guarantees, bridge financing, repurchases and new money.

DEVELOPMENT FINANCE, NEW MONEY AND REGIONAL COMMON MARKETS

DEVELOPMENT FINANCING

a. Transfers between rich and developing countries

126. Until 1983, developing countries, with the exception of oil exporters, borrowed more than they paid in debt servicing and thus received substantial net transfers of financial resources from the rest of the world. Since then, however, that flow has been reversed due to the loss of new loans. At the end of the 1980s, they transferred almost $40 billion a year to industrialised countries in debt-related transactions.
127. Development aid transfers from industrialised countries, amounting to $30 billion, were thus offset. The overall net result was a negative balance of $10 billion in terms of actual repayments, and a much higher balance in terms of total repayments due.
128. It will be difficult to avoid new external debt problems if development aid remains at its current, very low levels. There are urgent needs — for additional

financing through the World Bank and the IMF and regional banks, to support both poor countries and middle-income countries with serious debt problems, and to help those low-income countries that have not encountered such problems, either because of low levels of spending or because of their ability to manage their financial problems.

129. On the other hand, it is necessary to accept the principle that aid is only deserved by those who are genuinely committed to trying to solve their own problems, as far as possible, with the resources of their own taxpayers and savers. The expression 'as far as possible' implies respect for those fundamental human rights that underpin civilisation as accepted by democratic nations.

130. The adoption of these principles to resolve the problems under consideration entails a gradual increase in the share of GDP allocated to development aid, from the current 0.7% to 1% of GDP by 2015. 0.35% to 0.7%, as the Development Assistance Committee (DAC) has repeatedly called for in its ministerial meetings. With a development aid level of 0.7%, an additional 40 billion dollars would become available, and if even a small fraction of this amount were used to provide interest subsidies to some developing countries, the scope for additional funds for these countries would increase considerably. An illustrative projection can be based on the assumption that 0.1% of GDP in donor countries amounted to around $16.5 billion in 1991. If 1% of this amount were used for interest subsidies, approximately $30 billion in additional development financing could be mobilised.

b. An international regime for public debt

131. Public debt arising from aggregate budget deficits should not be financed through bank loans, as third parties cannot easily assess the debtor country's overall exposure. Such debt should take the form of internationally issued negotiable securities with certain restrictions; these restrictions should be based on objective indicators to avoid past mistakes. The possibility of earmarking revenue from specific taxes for debt servicing should be explored.

132. The case of a country borrowing not for budgetary reasons but to finance specific investment projects is quite different. In this case, it is necessary to consider the financial viability of the project, in addition to its social and economic profitability. If the project meets the second criterion but not the first, issuing international debt, even in the form of bonds at market conditions, is a dubious proposition for a country with low tax revenues, even if it has good export capacity.

133. It is therefore essential that regional development institutions take an active role and offer favourable terms, such as those applied by the International Development Association (IDA) and the Japan Fund for International Cooperation, which provide long maturities, low interest rates and long grace periods.

NEW FINANCING

a. Some innovative new financing instruments

134. Innovative new financing operations that can be used to channel private funds to developing countries and Eastern Europe can be classified into two groups: project financing; and commodity financing.

135. The first group of operations concerns the implementation of profitable investment projects by entrepreneurs in industrialised countries. The most interesting options are known as BTO (build, transfer, operate) and BOO (build, own, operate). Both involve management by foreign entrepreneurs, with the dual advantage of exporting technical and managerial know-how and having a single partner.

136. The second group of operations involves financing by foreign investors of specific export operations carried out by companies in a developing country.

137. In this sense, the most interesting model is that of merchant banks. In this case, the role of the foreign bank would not be limited to lending, but would also include the technical assistance necessary to obtain an exportable product and,

above all, international marketing services, so that even small businesses in developing countries could access international markets.

138. Commodity bonds are a financial instrument particularly suited to the needs of developing countries. They provide for the repayment of the principal and the payment of dividends during the maturity period, but their principal and interest are linked to the price of a commodity. Commodities that the debtor country exports are particularly suitable for this purpose.

139. The function of benchmark – and, if necessary, collateral – can also be carried out using non-mineral raw materials such as timber or non-perishable agricultural products such as cereals. Effective forms of collateral can be created through appropriate legal instruments and storage deposits. Any raw material can be used for these bonds.

b. Direct investment

140. Direct investment can take many different forms of cooperation between private and public economic agents in developing countries. The international enterprise may be wholly foreign-owned or partly financed by local entrepreneurs. It may also take a mixed public-private form, in cooperation with a public enterprise from a developing country or an Eastern European country, or it may be a joint venture between operators from the two geographical areas.

141. If the voting capital is wholly foreign owned in the initial phase, forms of collaboration with local entrepreneurs may exist through the issue of bonds convertible into shares.

142. These financial arrangements are also of particular interest for encouraging the return of capital flight. However, their success depends largely on fiscal and exchange rate policies. There are clearly very sensitive issues that need to be assessed by the governments of developing countries. In particular, they need to examine the sensitive tax issues that may arise.

143. Joint ventures between local and foreign entrepreneurs seem particularly suitable in the small and medium-sized enterprise sector.

NEW REGIONAL COMMON MARKETS

144. The outcome of the Uruguay Round of multilateral trade negotiations is still uncertain. A less than satisfactory result would certainly create serious tensions in trade flows between industrialised countries and between these countries and developing countries. It is therefore essential that the negotiations conclude with positive and balanced results.

145. At the same time, it seems appropriate to focus on the development of regional common markets, structured in such a way as to meet local needs and characteristics. The recent proposal for a free trade area comprising the United States and Mexico appears very promising. Other similar projects should be considered.

146. The time seems ripe for large regional groupings. The debt problems of Latin America, Africa and Asia will be much easier to solve if 'new financing' is accompanied by new free trade areas between industrialised and less developed countries within the same region. The overall objectives of trade groupings should, of course, be to encourage trade liberalisation worldwide.

PROPOSALS FOR REGIONAL AREAS AND GROUPS OF COUNTRIES

MEDITERRANEAN AND SUB-SAHARAN AFRICA

a. Intermediate countries of Mediterranean Africa

147. The weight of African debt — approximately $250 billion in total — has two components: that of the Mediterranean African countries (approximately $105 billion) and that of the sub-Saharan African countries (approximately $145 billion).

148. The countries of Mediterranean Africa are officially classified as middle-income countries because their per capita income is above $545. It ranges from just under $700 for Egypt to $830 for Morocco, around $1,200 for Tunisia and $2,400 for

Algeria.

149. Countries such as Egypt, Morocco and Tunisia are classified by the World Bank as ‘lower middle income’ countries. For the purposes of debt reduction and the granting of new financial resources on concessional terms to improve economic and social growth, the major industrialised countries should recognise this category as distinct from other categories of middle-income countries.

150. This means extending the list of countries eligible for the Toronto program and adapting this program to greater needs. It also implies ad hoc consideration by the IMF and the World Bank of the use of their concessional facilities. It would also require a reconsideration of bilateral development aid policies.

b. A Mediterranean development bank

151. Debt and development in the Mediterranean African countries are a matter of common interest for Europe and Africa. A regional development bank, operating on the model of the Inter-American Development Bank and Japan’s Overseas Economic Cooperation Fund, seems indispensable for channelling new financial resources to these countries for infrastructure investment and for supporting productive investment through insurance guarantees and co- financing.

152. For middle-income countries such as Algeria, the main priority is now above all financing and greater attention from public insurance agencies and banks in industrialised countries, especially in Europe, towards new innovative financing solutions.

c. Official debt reduction for middle-income countrieS

153. There are additional problems in Morocco and Tunisia and, in particular, in Egypt, whose debts were largely contracted with governments and international financial institutions. A relatively large portion of Egypt’s $50 billion debt stems from military spending. This is a special case that requires a highly concessional response.

154. As a general rule, it seems advisable, in the case of intermediate countries, to provide for a substantial reduction in bilateral debts guaranteed by governments or by the governments themselves. In addition, the maturity should be extended to 30 years and interest reduced to a maximum of 60%. A quarter of the remainder should be allocated to environmental initiatives or programs for human capital, children and growth. Particular attention should be paid to projects environmental issues relating to the Mediterranean basin and vocational training programs for migrant workers.

d. Adjustment policies

155. It is essential that internal adjustment policies be pursued with determination. It is vital to improve public revenues and eliminate or modify the numerous corporatist and centralised forms of public and semi-public monopolies in order to achieve a genuine modernisation of market structures, with a strong focus on the needs of the poorest sections of the population.

156. The debt of sub-Saharan African countries has reached $145 billion. Full payment of interest and amortisation, in the absence of economic growth and export expansion, would mean sacrificing the basic needs of these countries. The dilemma is whether to cut already low levels of investment or reduce the supply of essential consumer goods, which is already below subsistence levels.

157. In the period 1980–1986, the per capita GDP of sub-Saharan countries fell by 3.1% per year, consumption fell by 2.4%, exports fell by 2.1% per year in real terms, while imports fell by 7.5% per year, and new investment and maintenance levels were drastically reduced. Growth opportunities were further compromised by repeated natural disasters.

158. Despite official development assistance (ODA) from all donors reaching 7.0% of the recipient countries' GDP, there has been a dramatic decline in capital formation, with investment falling from 20.2% of GDP in 1980 to 11.4% in 1984, before recovering partially to 15.9% in 1987.

159. Without a drastic reduction in their debts, the economic problems of sub-Saharan countries are unsolvable.

Debt relief for the poorest countries

160. Following the decisions taken by Italy and France, political, economic and ethical considerations require the cancellation of the debts of the poorest countries eligible for IDA, without affecting other aid flows.

161. As regards bilateral loans to poor countries not eligible for IDA, a step forward would be to convert them into 40-year loans with very low interest rates, around 1%. The debt service on these loans would be deposited in trust funds in local currency indexed to finance development projects for environmental protection, such as the preservation of tropical forests and the fight against desertification, and for the improvement of human capital. For middle-income countries, reductions should be more modest. In total, $3.2 billion in interest could be forgiven, while the remaining $800 million would be added to amortisation and channelled into trust funds.

162. A $5 billion reduction in debt servicing, consisting of $3.5 billion from government budgets and $750 million each from banks and multilateral institutions, is not much for rich countries. However, it can mean survival for the poor and open the way for them to access much greater resources and achieve the goal of an annual GDP growth rate of 6%. This goal is achievable and imperative.

LATIN AMERICA AND THE CARIBBEAN

a. Financial transfers from Latin America

163. Latin America is the only developing region that has been transferring resources to rich countries for almost a decade. From net inflows of 10-11 billion to Latin America and the Caribbean in 1980-1981, there was an outflow of 18 billion in 1982 and 31 billion in 1983. In 1989, the outflow was 25 billion. The amount would have been much higher if large arrears had not accumulated.

164. Interest and amortisation payments from 1982 to 1989 amounted to $350 billion, equivalent to three years' total export earnings. The debt, which stood at $330 billion in 1982, reached $435 billion in 1989.

165. The surplus needed to service foreign debt was obtained mainly by reducing imports through devaluations, monetary tightening and cuts in investment and real wages. With the exception of small amounts, debt servicing was not financed through the budget, but through the expansion of the money supply, while savings flew abroad.

166. The average annual inflation rate in Latin America rose from 57% in December 1981 to 994% in December 1989. It reached 3,000% and above in Argentina, Nicaragua and Peru, while in Brazil it was around 1,500% and in Uruguay and Venezuela around 80-90%.

167. The situation was not uniformly negative, as some countries such as Chile and Mexico managed to control their galloping inflation. Many countries returned to democracy. Several are now adopting more coherent economic policies and less permissive fiscal policies than in the past.

b. Debt and underdevelopment

168. The countries of Latin America and the Caribbean possess vast natural resources that are not being exploited due to the debt crisis. Their combined GDP grew by only 1.5% in the 1980s and, as a result, their per capita income fell by 0.7% per year, or about 10% over the decade.

169. This situation is partly explained by the compression of investment and heavy financial drain, but their slow growth cannot be explained solely by capital loss. Any explanation must also include the deflationary impact of the contraction of domestic demand to generate a trade surplus and the disincentives to saving and productive investment resulting from uncertainties in the financial climate and poor policy management. The loss of growth compromised payment capacity and created a downward spiral of crisis.

c. A plan for debt reduction

170. The debt problem and the resumption of growth in the countries of Latin America and the Caribbean should become a permanent item on the agenda of the group of seven most industrialised countries and other donor countries.

171. A plan for debt reduction and recycling to help Latin American and Caribbean countries emerge from the crisis and grow in line with their capabilities must be based on four pillars.

172. First, in the case of official debts of middle-income countries, governments should apply debt reductions and relief comparable to those accepted by commercial banks, as provided for in the Brady Plan. The program must be strengthened by channelling part of the debt service into trust funds, where payments would be made in indexed national currency and used for environmental protection, children and human capital improvement projects. This point, made in relation to African countries, also applies to this group of intermediate countries.

173. Secondly, special facilities similar to those adopted for the poorest countries with less concessional terms should also be provided for the Latin American and Caribbean region.

174. Third, a flow of public funds is needed to finance infrastructure on moderately concessional terms and to provide incentives for 'new money'.

175. Fourth, the Brady Plan should be refinanced and strengthened. Brazil and Argentina — not to mention Ecuador, Peru and Bolivia, which belong to the intermediate category — cannot obtain any debt relief under a scheme limited to Mexican terms or based on the proposals negotiated for Venezuela. Incentives to reduce interest payments must be more effective, and this option must be made as attractive as reducing principal. In this context, consideration should also be given to the possibility of some countries depositing a portion of their debt service in local currency-indexed securities convertible at face value into local property. Incentives are needed to speed up the conclusion ofagreements and to make the 'new money' option more attractive. Highly concessional fi-

nancial instruments for buy-back operations are also needed; in extreme cases they are the best solution, in others they are useful for broadening the options.

d. Everyone must play their part.

176. Latin American countries must also play their part. Governments must face up to the unpopularity of new taxes, given that their foreign debt is largely a problem of internal public deficits. Bureaucrats must adapt their role to economies in which the private sector is more important than in the past. The wealthiest citizens must invest in their countries' futures rather than abroad. Everyone must do their part by paying taxes and other levies and renouncing populist attitudes.
177. The resumption of growth in Latin America is of global interest, given what is at stake in the delicate political, economic, social and international balances. This is essential if scourges such as drug trafficking and disorderly migration are to be tackled.
178. After the lost decade of the 1980s, the peoples of Latin America and the Caribbean are entitled to a decade of hope and progress in the 1990s. With the help of other countries and through their own efforts, in a context of constructive institutional cooperation, this should be possible.

EASTERN EUROPEAN COUNTRIES

Two transition strategies

179. Based on the above considerations, strategies can be outlined to address the debt problem of Eastern European countries. First and foremost, their debt reduction strategies must avoid repeating the mistakes of the past.
180. They must accelerate the process of rapid and complete transition, relying mainly on commercial financing. Debt to official creditors must be replaced by debt to private sources of financing and direct investment must be replaced by debt

to private sources of financing and direct investment. The adoption of innovative options for raising new financial resources should be encouraged, linked to the implementation of investment projects, the exploitation of raw materials and international marketing.

181. Of particular importance is the need to explore the possibility of establishing an Eastern European payments union with the assistance of the financial institutions of the European Communities and to facilitate immediate convertibility, as was done for Western Europe after the Second World War with the assistance of the United States.

b. The dual objective of the proposals

182. These suggestions would have two important positive effects. Firstly, their implementation would promote the financial and managerial autonomy of businesses, the flourishing of small and medium-sized enterprises and the development of a market system. Secondly, it would prevent the accumulation of new external debt, which would only provide temporary relief to the economy, erode countries' creditworthiness and hinder financial flows to productive enterprises.

183. Within large regional areas, free trade zones associated with the European Economic Community may be more effective than large concessional loans between governments.

A SYSTEMIC APPROACH TO DEBT RELIEF FOR MAJOR GROUPS OF COUNTRIES

184. The proposals put forward in this report can be summarised as follows:

1. New forms of debt cancellation for low-income countries (per capita income up to $545):
    a. Total cancellation of official development assistance debt for 'IDA-only' countries;

b. Conversion of non-concessional bilateral debt into longer-term loans on IDA terms. Servicing payments on these loans should be channelled into local currency-denominated trust funds indexed to development projects for environmental protection and human capital improvement;

c. Increase in the financial resources of the concessional facilities of international financial institutions.

2. Debt reduction for low- and middle-income countries (per capita income between $545 and $1,300):

   a. Conversion of official bilateral loans into 30-year credits on highly concessional terms, with interest payments used to establish trust funds in local currency for the purposes indicated in 1 (b);

   b. Strengthening of the Brady Plan for commercial bank debt by increasing funds to international financial institutions to facilitate interest payments and ensure equal tax treatment for debt reduction and debt servicing operations. Other complementary measures would include ‘bridging’ loans, financing for repurchases, payment in local currency indexed to the local currency, and fiscal and accounting improvements for creditor banks engaged in debt reduction and ‘new money’. The overall objective should be a 50% reduction in the overall debt burden;

   c. Increase in concessional credit;

   d. Expansion of the role of regional banks, especially their concessional lending facilities.

3. Debt relief for middle-income countries (per capita income between $1,300 and $6,000):

   a. Conversion of non-concessional bilateral debt as in 1 (b);

   b. Strengthening of the Brady Plan, in line with 2 (b);

   c. As in 2 (c) and (d), but with lower concessionally.

4. Support to Eastern European countries to finance the transition:

   a. Conversion of non-concessional bilateral debt in accordance with 1 (b);

   b. Implementation of the Brady Plan in line with 2 (b);

c. Support for multilateral ‘new money’ instruments (Group of 24, European Bank for Reconstruction and Development) to support the transition to a market economy and promote infrastructure investment in key sectors.

5. Application of new financial instruments to all countries, with particular reference to BOT and BOO projects (see paragraph 123 above) and commodity bonds to be reinforced with public insurance guarantees.

AUTHORS’ BIOGRAPHIES

Father Giulio Albanese is a priest and journalist, an expert on Africa and the South of the world. Founder of the MISNA news agency, he has collaborated with numerous Italian and international newspapers. He has taught at the Pontifical Gregorian University and edited the missionary magazines of Missio Italia. A columnist for *Avvenire* and *Osservatore Romano*, he was awarded the title of Grand Officer of the Republic in 2003.

Matteo Bugamelli is Executive Director at the World Bank for Albania, Greece, Italy, Malta, Portugal, San Marino and East Timor, where he currently chairs the Executive Board. He held senior positions at the Bank of Italy for over twenty years, including Director of the Research Department. A graduate of Bologna University and a Ph.D. from Columbia University, he is the author of studies on international trade, migration and business.

Domenico Fanizza is an economist and expert in international finance. He is currently Executive Director at the African Development Bank, representing Italy, the United Kingdom and the Netherlands. From 2018 to 2022, he held the same position at the International Monetary Fund, representing six European countries. Previously, he was also Assistant Director of the IMF and held positions in various economic and geographical departments of the institution.

Minerva Freda holds a degree in Political Science from LUISS Guido Carli University in Rome, with a focus on international relations, European institutions and development cooperation. She is currently an intern at the Italian section of the European League for Economic Cooperation (ELEC), where she works on economic policy and European integration. At the same time, she also works as a journalist, focusing on Latin America and exploring issues related to geopolitics, human rights and global economic justice.

Oliver Galea is the Secretary General of the Centesimus Annus Pro Pontifice Foundation. Treasurer and a Member of the Presidency Board and of the National Council of CARITAS Italiana. Former Managing Director of PwC Advisory Italy, a member firm of the PwC global professional service network. Registered auditor in Italy and a Chartered Certified accountant in the UK and Malta.

Paolo Garonna is President of the Centesimus Annus – Pro Pontifice Foundation and Full Professor of Economic Policy at LUISS Guido Carli University in Rome. A graduate of La Sapienza University in Rome, he has studied and conducted research in the United States (University of Denver) and the United Kingdom (University of Cambridge). He is former Deputy Executive Secretary of the United Nations Economic Commission for Europe, Director General of ISTAT, Chief Economist of Confindustria and Secretary General of the Federation of Banks, Insurance Companies and Finance (FeBAF). He is the author of numerous studies and publications on economics, finance and the social doctrine of the Church.

Patrizio Pagano has been Head of the Special Secretariat of the Directorate of the Bank of Italy since 2020. He joined the Bank in 1996 and headed the Advanced Economies and International Finance Division. He was Executive Director at the World Bank from 2014 to 2020, representing seven countries. An economist by training, he has held academic positions in Italy, the United Kingdom and the United States.

Marco Ricceri is Secretary General of the Eurispes Research Institute and an expert in social and labour policies. A journalist and author of essays on European social policy, he has taught European Union History at various Italian universities. He oversees the Institute's international relations, with a particular focus on trade union culture and industrial democracy.