



A PEOPLES' SUMMIT ON G20

POSITION PAPER ON DEBT

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This position paper is a part of working group papers written for **We20- A Peoples' Summit**, organised in Delhi in the run-up to the G20 Leaders' Summit. The topics for the position papers are agriculture, climate crisis, just energy transition, global economic governance, international trade and development, banking and finance, labour and employment, shrinking democratic spaces (institutions, press freedom, dissent), digitalisation and surveillance: privacy, data rights and accessibility, rising inequality, social protection and welfare, privatisation of public services, gender, health, youth, education, disability rights, debt, inclusive growth, public transport.

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DEBT

Global public debt remains elevated with debt-to-GDP ratio remaining above pre-pandemic levels. Debt vulnerabilities across lower-income countries are rising amid recent global shocks, which only foregrounds the flaws and futility of G20/Paris Club measures, namely the Debt Service Suspension Initiative (DSSI) and its successor, the Common Framework. The G20 should take the hard lessons from the failure of these short-term and limited coverage initiatives to deliver the ambitious debt relief needed by the Global South. The main challenge for the G20 is to prove itself relevant to the times by moving towards debt cancellation of unsustainable and illegitimate debts, delivering timely, substantial, fair sovereign debt crisis resolution and supporting the growing call by global civil society for an inclusive, democratic and accountable debt resolution mechanism in the United Nations system.

Specific to the false debt solutions offered by the G20 and Paris Club

Too inadequate, limited in scope and short-term: The G20's Debt Service Suspension Initiative (DSSI) was launched in April 2020 in response to the economic impact of the COVID-19 pandemic, aiming to provide temporary debt relief to eligible low-income countries that requested assistance. The initiative allowed these countries to suspend debt service payments to official bilateral creditors, including G20 member countries, from May 2020 until the end of 2021. It was succeeded by the Common Framework on Debt Treatments Beyond DSSI (Common Framework) was an agreement of G20 and Paris club countries to coordinate and cooperate on debt treatments of the 73 countries considered eligible for the DSSI. Rehashed from previous ineffective debt relief measures, both efforts have not resulted in the substantial debt reduction that debt-burdened and climate-threatened countries of the Global South urgently need.

Few eligible countries participated, given the threat to debt-dependent countries of negative credit rating implications and the impact on their access to international capital markets if they sought debt relief. Without protection against this high-risk backlash, many countries chose to continue servicing their debt obligations despite the economic hardships brought on by the pandemic.

G20's debt relief measures target only Low Income Countries and do not include Middle-Income Countries (MIC) with comparable conditions of economic and financial hardships and count among the most climate-vulnerable in the world. This is underpinned by a "debt sustainability" assessment applied by the G20 and the Paris Club that narrowly focuses on problems of liquidity or ability to pay and ignores country-level conditions such as sharp economic and social inequalities, and unmet needs to deal with Loss and Damage.

Only a portion of debt obligations for eligible countries, specifically the bilateral debts owed to G20 member countries, are covered by G20 debt relief measures. This leaves out private and commercial creditors which proportionally hold a bigger chunk of sovereign debts, but are only “urged” by the G20 to participate in debt relief. Sovereign bondholders have been notorious for going as far as suing Southern governments who have defaulted on debt payments, such as what Hamilton Reserve Bank Inc. did when it sued the Sri Lankan government in the US for full payment on a \$250-million international sovereign bond. Furthermore, in the absence of substantial debt cancellation, new loans incurred by borrowing governments are likely to be used for bailing out private lenders.

Potential Conditionalities: Although not explicitly stated, participating countries need to request or enter into financing arrangements with the International Monetary Fund (IMF). Conditionalities on economic policies including austerity measures, privatization of public services and liberalization are standard inclusions in IMF programs. Such conditions undermine the sovereignty of debtor countries and dictate their economic policies. Further, they leave Southern people vulnerable to the harmful financial, social and environmental impacts. Sri Lanka is currently in this position of little or no bargaining position before the IMF. For one, it is being pressured by the Fund along with the OECD to drop some progressive tax reforms, specifically taxing big tech firms. It has already complied with conditions to increase VAT and remove almost all exemptions by 2024.

Lack of Comprehensive Solution: It is widely acknowledged that the debt problem is systemic in nature, and goes beyond problems of liquidity or solvency. We need comprehensive and long-term solutions to sovereign debt challenges, which should be discussed with borrowing countries at the table and in multilateral arenas such as the UN, not in opaque and lender-dominated spaces.

On G20's role and processes in Sovereign Debt Resolution

Under the India Presidency, the G20 initiated the Global Sovereign Debt Roundtable (GSDR) in 2023. Again, borrowing countries were not consulted and do not have a seat at the table. This simply sustains the track of the G20 in sovereign debt resolution, which are marked by the following:

Gross democratic deficit (transparency, accountability, representation): The G20 is dominated by a handful of powerful and wealthy Global North countries, thus leaving out the majority of countries worldwide. It is not surprising that the conditions, interests and perspectives of Global South borrowing countries facing debt crises do not find resonance in its decisions.

The G20 has no mechanisms for transparency and accountability, and more fundamentally, no mandate to make global rules whether on debt, tax and/or the climate crisis. These are systemic and structural concerns that should rightly be discussed under multilateral frameworks, notably a 4th UN international conference on Financing for Development.

One-size-fits-all Solutions: The G20's approach to sovereign debt crises has been criticized for relying on "one-size-fits-all" solutions, which may not be suitable for the diverse economic and social conditions in different developing countries. These solutions often involve imposing austerity measures and structural reforms without taking into account the unique circumstances of each nation.


Insufficient Debt Relief: The G20's debt relief initiatives have fallen far too short of addressing the magnitude of debt challenges faced by developing countries. "Relief" provided has typically been temporary and inadequate, as shown by many Low-Income Countries targeted by past schemes and which have emerged once again among the most debt-distressed.

Inadequate Focus on Structural Issues: Critics contend that the G20's approach to addressing sovereign debt crises often focuses on short-term solutions and does not adequately address underlying structural issues in the global financial system that contribute to recurring debt crises in the South.

Debt Justice in the Peoples' Agenda

Recognizing the systemic and structural nature of multiple crises, and particularly the debt crises, the following demands advance an overarching focus on the need to reform the international financial architecture, which the pandemic starkly exposed as broken and unfit for purpose, and for system change. We urge civil society, peoples organizations and movements to mount bolder and bigger actions before the G20 in pushing our calls to/for —

- Debt cancellation for all countries of the Global South, including the cancellation of unsustainable debts and debts of a questionable/illegitimate nature that have and continue to violate human rights and exacerbate the climate crisis should immediately and unconditionally be cancelled. Establish an automatic debt standstill mechanism for countries faced with extreme shocks that include catastrophic natural and climate events, conflict or war and health epidemics and pandemics.
- On G20's debt relief schemes: Press for deeper, wider, and more comprehensive debt restructuring to avert further debt dependence and accumulation, require private creditors who remain unresponsive to calls for their participation in debt relief, and ensure actual and substantial reduction of public debt stocks, and include all public debts held by all lenders — private, multilateral and bilateral lenders, starting with G20 members. Require the participation of private creditors in debt relief, which is a key element in any serious wide-scale debt reduction or restructuring effort. Without debt cancellation, more lending would only result in additional debt burdens and provide funds for bailing out private creditors to which borrowing countries have become heavily exposed and who have refused to participate in even minimal debt relief efforts.
- Reject more loans as climate finance and continue to resist fossil fuel lending. New, additional and non-debt-creating climate finance for adaptation, mitigation and loss and damage must be immediately delivered and should be much more than the inadequate and still unfulfilled \$100 billion/year pledge

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- Push for the establishment of an inclusive, binding, transparent and accountable debt workout framework and mechanism under the auspices of the UN that will tackle sovereign debt issues such as unpayable and illegitimate debt, and develop fair, timely long-term solutions including debt cancellation through fully democratic and inclusive processes convening all lenders.
 - Advance recognition of the historical, financial, ecological and social debt that the global north owes to the global south, in addition to the climate debt, for which there must be structural and financial reparations and restitution, including the delivery of climate finance obligations and debt cancellation.