



# How the G20 Can Promote Innovative Reform of the Global Debt Architecture

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*[Disclaimer: While supporting its general approach, participants do not necessarily agree with all of the particular proposals contained in this brief.]*



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Financing for Sustainable Development

# Abstract

Since the COVID-19 pandemic, emerging market economies, and especially low-income countries (LICs), have been facing a potential debt crisis. While a catastrophic wave of defaults and a systemic crisis have been avoided, strong challenges persist and new shocks loom on the trade and aid front.

High rollover needs combined with high US interest rates strain national budgets and create a complex environment of debt distress and liquidity impasses.

Building upon our previous recommendations to the T20 Brazil 2024, we propose the following enhancements to the Common Framework (CF) and the Global Sovereign Debt Roundtable (GSDR) as the pillars of a Global Debt Governance system:

1. Development of a Universal Code of Conduct under the guidance of the G20 Financial Stability Board (FSB), establishing common broad principles throughout the whole debt engagement process. The FSB should develop the code of conduct into a proper regulatory standard with workable supervision, considering lessons learned from the CF and GSDR.
2. Establishment of a dedicated Secretariat to Oversee Debt Treatments to manage and coordinate the CF process, constituted from the institutions that currently support the GSDR and the CF process. It would be crucial in ensuring the smooth implementation of debt treatments, facilitating communication among all parties, and providing technical support.

These enhancements should be supplemented by further development of the proposals for a Liquidity Facility as part of the CF and use of guarantees from MDBs.

**Keywords:** Sovereign Debt, Common Framework, GSDR, Code Of Conduct, Financial Stability Board

## Diagnosis

After the COVID-19 pandemic and during the wars in Ukraine and Middle East, emerging-market and low-income countries (LICs) have confronted debt distress and, in several cases, crises. While a systemic crisis has been avoided, severe challenges persist and new shocks loom on the trade and aid horizons. Around 15 percent of LICs are in debt distress and another 40 percent are at high risk thereof, according to the IMF. These crises have created an urgent need for substantial public spending, changed the macroeconomic environment and led to higher debt service payments, reducing the financial resources available for investment in sustainable development. The UN reports that in 2023, 54 developing countries, including 25 countries in Africa, spent more than 10% of their government revenue on net interest payments (UNCTAD 2024).

The G20 plays an important role in restructuring the debt of LICs and lower-middle-income countries (LMICs). G20 countries are important creditors, in many cases, very influential as a group, and the most important shareholders in the international financial institutions (IFIs) that play essential roles in debt restructuring. The inclusion of the African Union as a member of the G20 has increased the importance of the T20 to South Africa's upcoming G20 presidency and provides a unique opportunity to agree on reforms to the Global Debt Governance system.

In late 2020, the G20 agreed upon and implemented the Common Framework for Debt Treatments beyond DSSI (CF), currently the only framework for debt restructuring for LICs, bringing virtually all official bilateral creditors to the table and committing debtors to seek comparable treatment from private creditors. The official creditor committees have generally been co-chaired by France and China. In addition, a Global Sovereign Debt Roundtable (GSDR) was set up at the initiative of the G20, IMF and World Bank to work out agreements on

implementation issues (Siaba Serrate et al., 2024). However, only four countries have utilised the CF, owing to (i) coordination problems among creditors, (ii) insufficient incentives for bilateral and private creditors to participate, and (iii) problems of transparency and completeness in debt contracts, among other reasons.<sup>1</sup>

Prior to the CF, the G20 had developed the so-called Operational Guidelines for Sustainable Financing (G20 2017) that are a quasi-code of conduct for lenders and borrowers, including provisions about coordination of stakeholders, promotion of contractual clauses, information sharing and transparency. However, they have not been applied in practice and effectively compete with similar codes developed by the United Nations, the Organisation for Economic Co-operation and Development, and the Institute of International Finance (IIF) (Berensmann, 2022).

## Recommendations

Building upon our previous recommendations to the T20 Brazil 2024 (Siaba Serrate et al., 2024, Berensmann et al., 2020, Berensmann, 2022), we propose establishing a Universal Code of Conduct and setting up a Debt Treatments Secretariat to the CF<sup>2</sup> and the GSDR as the pillars of a Global Debt Governance system.

### 1. Development of a universal code of conduct

Because multiple codes of conduct generate uncertainty among stakeholders and market participants, it is crucial to design and establish a universal code (Berensmann, 2022 and 2024; Siaba Serrate et al 2024). We thus propose creation of a “Universal Code of Conduct” (UCOC) for consideration by the G20 Working

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<sup>1</sup> Significant progress has been achieved, however, in data transparency (World Bank 2024) and widening the IMF's room for lending into official arrears (Henning 2024).

<sup>2</sup> On proposals to link debt restructuring mechanisms to a code of conduct for debtors and creditors, see, for example, Berensmann and Schröder (2006).

Group on International Financial Architecture. Building on existing codes that have been proposed or established by various institutions, the UCOC should include broad common principles that apply to the behaviour of creditors and debtors before and during a debt restructuring.

We propose that the G20 Financial Stability Board be tasked with playing an oversight role in the development of the UCOC and its subsequent application, building on its role in overseeing international financial system stability, with debt problems linked to this broader context as current developments bear witness. With experience supervising 15 other codes of conduct using peer review and reporting methods, and with 6 Regional Consultation Groups, including one in Sub-Saharan Africa, the FSB can thus bring a valuable larger perspective to the Global Debt Governance system. With such input, and based on lessons from the CF and GSDR, the UCOC should be developed into a proper regulatory standard with workable supervision and reporting. The Secretariat we propose below would develop the detailed content of the UCOC under the oversight of the FSB, drawing on the progress being made in the GSDR and the CF contexts and with input from a broad set of stakeholders and institutions involved in debt restructuring. The Secretariat would also undertake the implementation tasks involved in underpinning debt restructuring cases.

Development of the UCOC should be connected to the Financing for Development process at the Fourth Financing for Development conference (FfD4) (Berensmann, 2024). The FfD4 first draft outcome document proposes the creation of an independent expert working group to consolidate and develop guiding principles on responsible sovereign borrowing and lending. These principles will build on existing standards, such as the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing, the G20 Operational Guidelines for Sustainable Financing, and other relevant principles and guidelines. Furthermore, the document proposes the design of tools for continuous

monitoring and assessment of their implementation during the sovereign debt cycle (UN 2025).

There should be further incentives for compliance with the code of conduct and for the code of conduct to become more binding (Berensmann, 2022 and 2024). The G20 can play a pivotal role in the promotion of these guidelines by incorporating them into international policy discourse and actions.

## **2. Establishment of a Debt Treatments Secretariat**

The establishment of a permanent Debt Treatments Secretariat that is aligned with the GSDR is essential for the effective management and coordination of the CF process. Such a Secretariat should be comprised of a network of the offices that currently deal with debt restructuring matters within the existing institutions, rather than a new organisation<sup>3</sup>. It would thus knit together bureaus within the IMF, World Bank, Paris Club with officials who chair the relevant working groups within the G20, for example, and a select number of other institutions. Knitting these offices more tightly than presently and having their executive boards explicitly endorse their collaboration would enable them to improve communication and cohesion and bolster their collective authority vis à vis stakeholders. They would be in a stronger position to provide technical support to and facilitate communication among creditors and debtors, facilitate consensus building, and smooth the path toward restructuring agreements and implementation.

As a technical body, with no authority to conduct debt sustainability analyses or set the terms of a restructuring, the Secretariat would assume the following functions:

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<sup>3</sup> Compare to earlier proposals for secretariats to backstop the SDRM (IMF 2002) and an International Debt Framework (Berensmann and Schröder 2006).

- Backstop analytical discussions, such as those in the GSDR, among stakeholders to overcome stumbling blocks that arise in restructuring negotiations;
- Provide a roadmap for the debt restructuring process;
- Serve as custodian and oversee the development of the UCOC, including periodic reviews and updates;
- Facilitate the exchange of information among stakeholders, when this is otherwise lacking, to facilitate in turn debt agreements;
- Work to further improve the transparency of data and the terms of debt restructuring agreements, including the memoranda agreed with both official and private creditors insofar as they relate to public and publicly guaranteed debt; and
- Monitor debt restructuring processes and report on the progress of ongoing negotiations.

Once proven, this networked secretariat could be granted further responsibilities and in time constitute a core feature of a more systematic debt-restructuring process.

## **Accompanying measures**

The UCOC and Secretariat proposals should be accompanied by two complementary measures:

(a) further analysis and eventual introduction of a new Liquidity Window, and (b) development of MDB guarantees for restructured debt as a mechanism of credit enhancement. Both would complement existing facilities at the IMF and MDBs and be valuable adjuncts to the CF.

Countries that sit on the margin of debt sustainability can in many cases avoid default or a restructuring with a liquidity bridge, which these measures could provide. Guarantees were a key component of the successful Brady Plan after its launch in 1989. For countries that cannot avoid a restructuring, such guarantees can facilitate a more efficient restructuring processes. Moreover, policies within G20 countries, such as legislation to deter holdout strategies, can encourage broad participation and facilitate restructuring.

## Conclusion

Recent policy developments – the Trump Administration's trade war, abrupt demise of USAID, business uncertainty and the fall in consumer confidence – increase pressure on countries already suffering debt distress. Strengthening the Global Debt Governance system is crucial to handling new debt crises, supporting troubled debtors in sustaining growth and achieving development goals, and restoring resilience to the global economy. Establishment of the Secretariat and adoption of the Universal Code of Conduct for sovereign debt would lay the basis for more effective management of the CF and improve the system's capacity to confront complex challenges.

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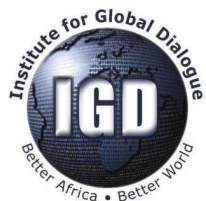
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