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COOPERAZIONE IN RETE

RELEASE G20

A FLEXIBLE MECHANISM FOR DEBT REDUCTION AND SUSTAINABLE DEVELOPMENT
DRAFT CONCEPT TO RELAUNCH INTERNATIONAL COOPERATION

A win win proposal for the international community

Introduction

Funding the cooperation for Sustainable Development suffers from further sustainability issues and it is worsening with the Covid-19 pandemic. The technical assistance to investments, so indispensable for sustainable development, and including the ODA grants for blended finance, can be re-launched in-line with the SDGs, at next year G20 under Italian Presidency as the expansion of the suspension of payments decided already this year by the G20.

Promoting investment, especially in developing countries with high demographic potential such as in Africa, could boost economic growth promote global trade and generate employment.

With just under ten years left to achieve the Sustainable Development Goals, G20 countries can encourage the advancements in the Agenda 2030 by promoting and supporting a credible and concrete implementation of the UN sustainability goals in compliance with the Paris Climate Agreement not only in their own countries but in developing economies as well.

With the aim to help towards SDG achievements the most vulnerable countries facing economic crisis caused by the pandemic that add to and amplify the existing structural limitations of poverty and underdevelopment, debt relief will be needed to avoid widespread defaults and to facilitate investments in recovery and the SDGs.

Nevertheless, as the UN DESA argued, "[…] **any debt relief should be part of a broader strategy that takes SDG investment needs into consideration.** The assessment of relief required should consider medium-term financing gaps for the SDGs (rather than short-term liquidity constraints only) and inform comprehensive financing strategies to close them, e.g. in the context of integrated financing frameworks".

G20 countries could play a strategic role to serve this purpose which was made very urgent by the pandemic. The International Monetary Fund has already approved the suspension of the payment of debts for the 25 poorest states in the world. Indeed, following indications from the G7, in April 2020 the G20 announced a debt service suspension initiative (the DSSI) and has agreed to support the suspension of debt for 76[1] low-income developing countries (40 sub-Saharan African) eligible to the World Bank's International Development Association (IDA). "All official bilateral creditors - reads in the note released at the margins of the meeting of financial ministers and governors of the central banks - will participate in the initiative".

[1] All least developed countries (LDCs) and 13 small island developing States (SIDS).

The stop of payments has an expected duration of eight months: from May 1 to December 31, 2020. However, its extension for the next year 2021 is now a concrete possibility under discussion as well as desirable, as recognized by world leaders.

After the temporary suspension of the debt in 2020, **RELEASE G20** is an initiative for a flexible conversion, total or partial, of the sovereign guaranteed public and private debt, in line with guidelines that can be developed by a specific working group (Finance-development) and approved by the G20 summit 2021.

This initiative follows the indications of many who already today would like to see a cancellation of debt and it is the natural evolution of the suspension of the debt repayment agreed by the G20 in April 2020.
The aim is to help towards SDGs achievements the most vulnerable countries facing economic crisis caused by the pandemic that add to and amplify the existing structural limitations of poverty and underdevelopment, and to accelerate long-term investment in resilient infrastructure and services for sustainable development, through public investment and incentives for the private sector.
Indeed, within the flexibility spirit of RELEASE G20, in some particularly fragile cases of countries highly indebted that are considered not to have sustainable debt levels after the pandemic, partial or total cancellation of the debt should remain an option.

Background

At the turn of the century, the debt forgiveness of about one hundred billion dollars showed that debt cancellation alone is not enough to pave the way to economic stability and sustainable investment. It is necessary to operate within countries by focusing on sustainable investments and externally by renegotiating for public financing in change of sustainability. Often public debt, contracted to promote and encourage the economic and productive development of a country, can become, through the effects it generates, a factor that damages the social fabric. Debt forgiveness is also a matter of interest to avoid further destabilizing the North-South divide.

The composition of sovereign debt changed in many developing countries. Both public and private debt are currently at record levels, with private debt in emerging markets having grown particularly fast following the 2008 crisis. Also, while official debt remains the most significant portion of the external debt of most IDA-eligible low-income developing countries (those countries eligible for the G20 bilateral debt moratorium), commercial credit increased more than three-fold from 2010 through 2019, rising from 5 to 17.5 per cent[2]. This increased access to commercial financing while providing much needed resources in the short term, this has also resulted in higher debt servicing costs, and heightened interest rate, exchange rate and rollover risks.

The IMF has already decided to cancel debt payments to its twenty-five poorest member countries. According to some estimates, the sum would be about 214 million dollars.

The G20 initiative (DSSI) for 76 low-income developing countries in 2020 responds to an immediate need for liquidity from debtor governments and only temporarily shifts the problem. In fact, debtor

[2] The increase was particularly pronounced in so-called "frontier economies" (low-income and least developed countries with international bond issuance). Thirty-eight per cent of the so-called these countries' external public debt is owed to private creditors, with 32 per cent in bonds. Source: UN-DESA 2020, *Responding to COVID-19 and Recovering Better*, Policy Brief series Spring/Summer 2020.

countries may face a big debt crisis already in 2021 and their risk has already been rising. The gross public debt of almost all middle and low-income countries is mostly international and would peak at 55.7% of GDP in 2020. The Institute of International Finance (Global Association of the financial industry) estimated that in March 2020 alone $83 billion of capital left emerging markets due to increasing risk aversion from investors and that debt service payments owed by DSSI-eligible countries amount to approximately US$11 billion for official bilateral lenders, US$7 billion for multilateral lenders and US$13 billion for private creditors between 1 May and the end of 2020.

The pandemic has only aggravated the problem of debt sustainability by increasing public health costs, but also by the collapse of tax and trade revenues, the freezing of credit markets and the flight of capital.

The UN Secretary-General called for major economies to launch a large-scale, coordinated stimulus package of at least 10 per cent of global GDP to help boost the world economy.

As a moratorium will not suffice for many highly indebted countries, debt relief from all creditors and a more comprehensive action by the international community should include revisiting debt sustainability to be reassessed in a consistent and coherent manner, after the Covid-19 shock, to create space for SDG investments. Without investments there is no economic development, there is no tax revenue, there cannot be debt repayment.

The RELEASE G20 initiative

RELEASE G20 initiative calls for the partial or total debt reduction with the creation by the debtor country of a counterpart fund in local currency for Sustainable Development - SDG FUND - nominally equal to the value of the reduction net of capital (future interest would be automatically declared as a rebate).

RELEASE G20 could be the winning proposal to the international community to find a long-term agreement for the permanent reduction of the burden of the debt, and to locate a process of systematic and sustainable sovereign debt restructuring in the most fragile highly indebted countries, tied to SDGs investments, with quantitative indicators of impact based on the targets of the SDGs.

Indebted country reduces its public expenses to service the debt in exchange for an engagement **to invest the equivalent amount in local currency in an agreed time into own economy**.

Advantages of converting debts into investment funds are self explanatory: it increases the ownership of the respective country; it urges to take full responsibility for the management of the funds, thus helping to build up the administrative capacity of the country; it is easier to convince creditors in order to strengthen relations.

The initiative will be of great impact both on the international political scene, as a crucial step to fulfil commitments in the Financing for Development outcomes, as well as on programming and operations in the field of international cooperation, for debt restructurings to be fair, orderly, timely and efficient, and give room for countries to invest in the SDGs, as per the Addis Ababa Action Agenda's call.

G20 countries could have a political and operational advantage in proposing a combined action of conditional debt reduction of poor countries in favour of blending sustainable and strategic private investments originating from their private sector. Sustainable and balanced growth is prerequisite to achieve sustainability and to lower dependency on foreign financing.

The impact of the proposal is certain. Suffice it to say that 64 countries in the World (34 in sub-Saharan Africa) spend more on paying back public debt than on health.

Conversion of debt might and should be paralleled by the adaptation of development assistance through blending to create decent jobs and achieve higher level of sustainability. Country moving into RELEASE G20 will have a chance to leverage more funds from other sources than ODA, which remains essential especially for LDCs and should not be crowded out. The conditions attached to funding should be simple, transparent and easy to track by all involved institutions. One ideal partner in the EU will be the External Investment Plan and the European Fund for Sustainable development which is aimed exactly at the reduction of risks for investors and co-invest with the SDG funds generated by RELEASE G20.

In order for this initiative to be acceptable and sustainable, we need to look at the general public and policy makers of **creditor countries**, and for the operation of Financial Institutions to participate (also coming in large part from same countries). We need also to look at the **debtor countries** to accept that the outflow even if not going back to the creditor countries will be mobilised (from the general budget) into a **domestic fund for sustainable development with the aim to promote, and facilitate investments for sustainable development and the achievement of the SDGs.** RELEASE G20 must show how it can generate aspects of win-win for all participants.

Debt conversion may be gradual in order to increase, in time, the leverage the impact in phase with the country's policy shaping. Further and deeper conversion may be envisaged according on how the funds have being used by respective country. Gradual approach allows to modify development strategy and gives creditors some leverage. Moreover, in adverse cases of bad governance of funds, debt conversion could even be suspended.

Expanding the availability of the IMF's Special Drawing Rights (SDRs), as it has happened in 2009 with an injection of $ 250 billion, is another element of the RELEASE G20 action for which the US resistance will have to be overcome. One of the functions of the SDRs is to allow the most fragile states to access foreign currency liquidity without having to sell their reserves (which almost always entails a devaluation of the currency resulting in imported inflation). IMF is called upon to promote actively this expansion on its member base, which is broader than G20, also creating connection with willing partners outside G20.

On the new replenishment of the same, as part of the RELEASE G20 proposal, the creditor countries could increase funding to the Poverty Reduction and (SUSTAINABLE)[3] Growth Trust of the IMF that connected to the funds SDG to create via the resource RELEASE G20 country to country, it will contribute to feed the investment gap and the risk taking gap on investments for sustainable growth.

[3] It could be also proposed here to change its name adding "sustainable".

Part of RELEASE G20 will be the strong involvement of Private actors via the various platforms at UN or other levels that are available to promote the dialogue. In fact, the G20 member countries also invited private creditors to voluntarily adopt the same response, but it has not arrived.

It is necessary for RELEASE G20 to avoid private creditors taking advantage of the moratorium, and then the cancellation, to prevent that the resources freed up by the suspension of payments for the debt to public entities are used for the reimbursement to private. For this reason, it is necessary that the G20 through B20 (companies) will do the necessary advocacy and agreements with debtors to effectively stimulate the private sector, identifying significant champions as the World Business Council for Sustainable Development, the World Economic Forum and others.

RELEASE G20 will also call the involvement of the G7 group, the IFIs of the Paris Club (the informal organization of creditor financial institutions) and large groups of private investors with the support of the B20 (finance sector) for the private sector and of IMF and the WB. The European Union as a full member of the G20 could be a strong partner of the Italian leadership, with the strength of the EIB and the EBRD and the EDFIs in supporting RELEASE G20.

In the advocacy campaign for the G20 release, action by the T20 desirable through a combination of spiritual, intellectual, researchers and scientific leaders, Nobel laureates for peace and economics, personalities of global importance in culture, economy and finance, religious leaders (the Holy Father Francis has already expressed himself very clearly on this). Essential as well is the action of the C20 (Civil20) which channels the voice of the Global Civil Society Organizations.

RELEASE G20, by restructuring sovereign debt while launching sustainable development funds for sustainable private sector could create economic inclusive growth and decent jobs (also involving players from the creditor countries) and it can certainly be a win-win solution.

Italy as a natural bridge between Europe and Africa can and should take leadership and the G20 Italian presidency in 2021 would be a window of opportunity to encourage and flag the initiative. Also, French President Macron recently raised how France and Europe need to know how to help our neighbours in Africa fight the virus more effectively, also helping them financially by massively cancelling their debts. The economic and social consequences of the pandemic will go well beyond 2020 and lead to an unprecedented global recession from which economically weaker countries will be hardest hit.

Draft operational proposal

The line of continuity with the current G20 debt service suspension initiative is the necessary introduction to the RELEASE G20. Its extension could be enabled with a lot of simplicity to cover the entire 2021 and a campaign of preparatory meetings will serve to establish consensus on the proposed RELEASE G20 that, if approved at the G20 combined Finance and Development in October 2021, and supported in parallel by a special session, B20 (reserved for large private investors and international Banks-holders of the external credit private), both steered from Italy, will be operating from the 1.1.2022

The final version of RELEASE G20 must be reinforced by financial analysis of the measures at stake, with the help of data and expertise from the financial track of G20 (MEF and DFIs for Italy as CDP Group) to support Development cooperation operational proposals and supported by advocacy from

leaders, CSOs, and champions. Regional and International Financial Institutions should be fully involved and part of release G20.

The study will have to examine, public finance scenarios to arrive at recommendations on reduction by stages, with incentive mechanisms to elaborate scenarios of work country by country.

The study will compose a matrix of the situation of individual debt to individual G20 members by debtor countries in groups according to financial and macroeconomic data also using UN poverty indices starting from LDCs, landlocked, SIDS etc. The debt/SDG investment matrix will then be compared with the economic indicators and on some targets for reference SDGs. Incentives may be linked to the National Determined Contributions of agreements on emissions or biodiversity protection or other international agreements aligned with SDGs targets.

Monitoring mechanisms for how countries use the conversion of debt should be put in place. Arms trading and purchase as well as violation of human rights should be considered as impediment to alleviate the debt burden from the country. Engagement to achieve more climate resilience and climate neutrality as incentive for increase the tenor of RELEASE G-20.

Based on the preparatory work it will then be possible to present some different scenarios for the preliminary political decision for the G20.

From here, the **G20 RELEASE guidelines** could be developed, which would then be negotiated in the G20 Special task force. Once approved by the summit, the guidelines will be the basis on which bilateral negotiations will take place in a first G20 implementation window (and there may be several for each of the subsequent presidencies) lasting three months before each G20 meeting in the future. Negotiations at the request of the parties may, where appropriate, be assisted by the IMF and by the outgoing and incoming G20 presidencies.

Likely, bilateral negotiations can result in the following actions

1. Agreement on the partial or total debt reduction with the creation by the debtor country of the counterpart SDG FUND in local currency.

2. At the country level, all resources recovered from the G20 countries, from the IMF, the WB and other IFIs will be channelled into the counterpart SDG FUND. The aims of the fund should in principle be bound to make investments in local currency aligned with the SDGs (in line with the country's development plan, if in Africa, the African Union's agenda 2063, etc.) and present quantitative impacts in terms of targets. These investments (already identified and planned in many cases) can be co-financed by the fund or the Fund can serve as a guarantee fund for leverage on other funds and investors mainly for private investments and with the overall goal to create employment.

The SDG Fund managed at governmental level, country by country, under the supervision of the Minister of Finance of the country of operation and with the involvement of both Intergovernmental country delegations and national CSOs representatives, will be equipped with a defined monitoring and control mechanism such as the transparency and accountability are ensured. It should be negotiated on the basis of current practices and in agreement with the creditor countries somehow involved in a minority stake in the Fund. It will be important to keep a balance between accountability and efficiency, but the ownership will be fundamental. G20 could provide guidelines

on governance to be adapted case by case as it will also depend from the number of participant creditor countries.

The aspect of monitoring and the clear criteria for the use of the funds will be particularly important as there is a need to reassure the discipline and the good use of the conversion of the debt as often high indebtedness concerns countries with leadership that needs credibility and trust. Creditors could be attracted by the idea to convert what is no more recoverable into funds that could be a step towards sustainability of a given country, with a degree of monitoring attached to it.

For the African Union it could be also foreseen, with contributions from different countries, an African Union continental SDG fund that will work to leverage and hedge risks for cross border and continental investments. In fact the continental dimension is important in Africa as it is in Europe and the Agenda 2063 is an important reference. Last year all African Countries have signed the Niamey declaration to create a common free market area highlighting some important concrete investment projects.

3. The results of the RELEASE G20 initiative and SDG Funds from the various participating countries will be presented at each G20.

4. RELEASE G20 will also be piloted at other international platforms and initiatives dealing with sustainable development.

5. For the implementation of operations with parallel memoranda of understanding, creditor countries are invited to establish new generation of protocols of cooperation for inclusive sustainable productive investments which will depart from colonialist and paternalistic approaches of the past which will necessarily include local private companies.