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PROSPECTS AND PRIORITIES FOR THE FOURTH INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

Note for The 6th Meeting of the Ecumenical Panel on a New International Financial and Economic Architecture (NIFEA)
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The title of this session is "Global economic governance for equity and sustainability – current challenges and opportunities." Unfortunately, the reality today is there are lots of challenges and few opportunities, at least for the next few years. But we must nevertheless engage the challenges in both domestic and international economic and financial policy, including at the forthcoming Fourth International Conference on Financing for Development (FfD4).

In most of our countries today, developed as well as developing, although today we focus on developing economies, there is a domestic challenge and an international challenge.

> **At country level**: the challenge is to make the needs of poor and working people count more in economic policymaking. This means adopting economic policies that deliver good jobs, provide rising incomes, and deliver environmentally and financially sustainable production; it also entails the rich paying their fair share for essential public goods and services through progressive taxation. Unfortunately, the political power of wealth, capitalist ideology, and international pressure, as from the International Monetary Fund (IMF), have made for unfair fights over national budgets (I'll say more about the IMF later). But these circumstances necessarily require domestic political struggle.

> **At international level**: In some international policy realms, the challenge is to build inter-governmental alliances and partnerships that will address specific needs, as in international trade and investment policy. Countries just have to look more intensively at deepening cooperation among neighbors or like-minded partners. In other policy areas, however, only global action is meaningful, as in pandemic prevention or addressing global warming or managing global financial relationships. In those cases, the fight must be to somehow fix the fractures.

All of this has implications for what may be achieved at FfD4, which will be hosted by the United Nations at the end of June in Sevilla, Spain. FfD conferences are unique among intergovernmental conferences in that, while hosted by the United Nations, they have intimately involved the IMF, the World Bank and the World Trade Organization, along with other international economic and financial bodies. They have thus been opportunities to integrate and politically strengthen different specialized economic and financial policy discussions. While some of those discussions take place under the UN symbol, most of them are undertaken elsewhere in narrower trade, financial and other forums. The objective is that, taken together, the policies in an FfD outcome document should form a coherent package for a holistic agenda that promotes what we today call "sustainable development" and its 17 sustainable development goals (SDGs).

Unfortunately, the current FfD cycle comes on the heels of several years of fruitless global,

high level, economic policy negotiations, beginning during the pandemic (2020-2022), continuing with the SDG Summit (2023), ending with the "Pact for the Future" (2024). It has been almost as if calling for a meeting of heads of state was the same as having reached some agreement worth bringing the leaders together to celebrate. There have been no such agreements. Instead, the outcomes of those meetings have been milquetoast consensus texts that effectively commit no one to anything anytime soon.

Governments at the UN have viewed FfD as a different type of process whose outcome could thus be more meaningful. Maybe it will, although the US government recently disowning the SDGs,[1] and leaving the World Health Organization and the Paris Climate Agreement pose a major challenge to international cooperation for development.

Nevertheless, all delegations, including the United States as of the February Preparatory Committee meeting, are continuing to work toward an FfD4 agreement, whose first draft was released by the committee of four "co-facilitating" ambassadors on March 10.[2] What remains are several rounds of negotiation, hopefully leading to a meaningful Sevilla consensus.

FfD in the evolving policy context

FfD has sought to be a politically important forum from the start. At the first FfD conference 23 years ago at Monterrey, Mexico, the focus was on helping developing countries extract more economic and financial benefits from globalization and from official financial cooperation, including the exit from sovereign debt crises (more on that later). One could say the theme of the "Monterrey Consensus" that was adopted then was to *make globalization work for development*.[3]

However, as the new Millenium evolved, the need to amend that theme was recognized, as in the creation of a *World Commission on the Social Dimension of Development*, chaired by the Presidents of Finland and Tanzania, which produced an important report in 2004 called *A Fair Globalization: Creating Opportunities for All*.[4]

A second need to amend the Monterrey Consensus became apparent a few years later, in 2008, when the global financial crisis rocked the global economy and made the world aware of how unstable the global financial system had been made by overconfidence in the wisdom of unleashed financial markets.

At the time the financial crisis was unfolding, governments at the UN were preparing the second FfD conference. However, the UN was unable to demonstrate political coherence and thus offered no effective alternative or even complement to the US proposal to create the Group of 20 at

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[1] "The United States rejects and denounces the 2030 Agenda for Sustainable Development and the Sustainable Development Goals," From "Remarks at the UN meeting entitled 58th Plenary Meeting of the General Assembly," 4 March 2025 (https://usun.usmission.gov/remarks-at-the-un-meeting-entitled-58th-plenary-meeting-of-the-general-assembly/).
[2] UN, "First draft: Outcome document of the Fourth International Conference on Financing for Development" (https://financing.desa.un.org/sites/default/files/2025-03/FFD4%20Outcome%20First%20Draft.pdf).
[3] UN, "Monterrey Consensus of the International Conference on Financing for Development" (https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_CONF.198_11.pdf).
[4] https://webapps.ilo.org/public/english/standards/relm/ilc/ilc92/pdf/rep-wc.pdf.

leaders' level (G20).

FfD2 nevertheless took place as scheduled in Doha, Qatar,[5] but it was rough going. It was saved from collapse by the personal shuttle diplomacy between the developing and developed country diplomats by the Development Minister of Germany, Heidemarie Wieczorek-Zeul. She forged agreement for the UN to host a conference the following June that would not remake the IMF and World Bank as the South had been demanding, but was instead a Conference on the World Financial and Economic Crisis and Its Impact on Development. In light of the confrontational approach at the Doha FfD meeting, the "impact on development" was all that the North was willing to discuss at the UN. In fact, the outcome document did not contain any new policy measures.[6] Control of the global financial and economic system was now fully in the hands of the G20.

For a time, the G20 worked effectively and informally to pull the world economy out of its sudden collapse and to strengthen financial regulation. Then in 2010 it expanded its remit to include international cooperation for development. However, in the spirit of the times of continued confidence in limited government and in increased private financing, the G20 focused on using the World Bank and other public financial institutions to help mobilize more private finance for development.

The G20 did not take up the social equity and vulnerability problem that the global financial crisis had brought to the surface. That shortcoming was emphasized in the 2011 report of another international advisory group, this one chaired by Michelle Bachelet, Executive Director of UN Women and former President of Chile. It was titled *Social Protection Floor for a Fair and Inclusive Globalization*.[7] A year later, the International Labor Conference adopted recommendation 202 on just what should constitute a social protection floor, meaning a basic package of cash and health benefits for children and mothers, people with disabilities, the elderly and people in temporary unemployment.[8]

Two thousand and twelve was also the year of the São Paulo Statement that initiated the NIFEA Initiative, on which we meet today.[9]

Importantly, when the international community met three years later for FfD3 in July 2015 at Addis Ababa, Ethiopia, the social agenda had been joined to the economic and financial agenda. That is, many heads of state met soon after Addis in September at the UN in New York to adopt the "sustainable development agenda" and its SDGs.[10] The Addis conference was understood to point

[5] UN, "Doha Declaration on Financing for Development" (https://www.un.org/esa/ffd/wp-content/uploads/2014/09/Doha_Declaration_FFD.pdf).
[6] UN, "Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development" (https://www.un.org/esa/ffd/wp-content/uploads/2014/09/Outcome_2009.pdf).
[7] https://www.ilo.org/publications/social-protection-floor-fair-and-inclusive-globalization
[8] The recommendation is summarized by ILO in "ILO Social Protection Floors Recommendation, 2012 (No. 202)" (https://www.social-protection.org/gimi/Media.action?id=18067). The full text is at https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524.
[9] https://www.oikoumene.org/resources/documents/sao-paulo-statement-international-financial-transformation-for-the-economy-of-life.
[10] UN, "Transforming Our World: The 2030 Agenda for Sustainable Development," A/RES/70/1 (https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf).

the way to financing that sustainable development agenda.[11]

The policy agenda as we approach Sevilla

The Addis Ababa Action Agenda, adopted 10 years ago, was very broad in the range of issues covered and very detailed in the commitments and recommendations included in the text. The Sevilla outcome document will likely emulate Addis in this regard and largely follow the Addis outline of chapters. There are too many chapters and too many details in every chapter to summarize the possible outcome of FfD4. But we can consider some possibly relevant highlights.

Domestic public resources

I began above saying that the first challenge is to make the domestic economies of developing countries and their public systems function better for their people. The first policy cluster addressed in the Addis Agenda also took this approach by addressing domestic public financing imperatives. As governments were expected to provide more social as well as economic services under the SDGs, governments needed to budget more effectively, including through gender responsive budgeting. They also needed to tax more, to collect more of the taxes owed and to tax more fairly. Addis also showed increased appreciation of an international responsibility to help developing countries catch their tax cheats and to more fairly apportion the taxation of large corporations that operated in many countries. These corporations had become notorious for arranging their accounting to shift their tax liabilities to "tax havens" with low or zero tax rates on profits, depriving authorities in other countries of tax revenues from foreign businesses operating locally. Addis also highlighted the need to better monitor and ultimately control illicit financial outflows from developing countries.

A number of international initiatives on these matters were endorsed or acknowledged in Addis, but they were mainly independent initiatives by limited groups of countries. They included the Inclusive Framework on Base Erosion and Profit Shifting of the G20 (relating to corporate tax avoidance), the Extractive Industries Transparency Initiative (mining companies should be charged appropriately and pay what they owe), the Open Government Partnership (fostering government transparency), the Addis Tax Initiative (a multi-donor technical assistance program), and Tax Inspectors without Borders (chasing tax cheats).[12]

Very little of the Addis work on international cooperation on tax matters reflected a global consensus forged at the UN. Rather, just the opposite: there was much dispute and no agreement over the proposal of the Global South to make the UN the center for international policymaking on tax cooperation. The fallback proposal that was agreed was to strengthen a UN expert committee on international cooperation on tax matters, a valuable but quite limited gain.

Did domestic public revenue mobilization respond to these initiatives over the following 10 years? It is hard to see it in the aggregate data (figure 1). However, a somewhat less discouraging picture emerges when one drills down to individual country data. That is, as recently reported by the Organization for Economic Cooperation and Development (OECD), between 2015

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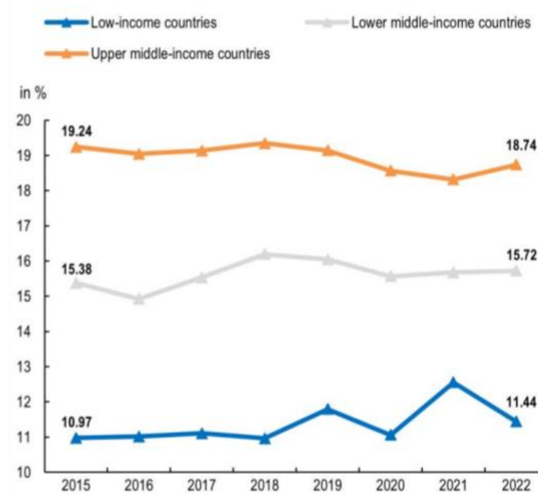
[11] UN, "Addis Ababa Action Agenda of the Third International Conference on Financing for Development" (https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf).

[12] Several of the initiatives were described in UN, *Third International Conference on Financing for Development: Taking Stock of Side Events and Voluntary Commitments and Initiatives* (https://www.un.org/esa/ffd/publications/ffd3-side-events-commitments.html).

and 2021, the ratio of tax to gross domestic product (GDP) increased in three-fifths of the 130 economies included in the OECD Global Revenue Statistics database. However, in 86% of low-income countries and 43% of lower-middle income countries, revenues remain below the level that has become the benchmark for financing critical social services and investment in economic development (15% of GDP).[13]

Figure 1. Tax revenue as a share of GDP in groups of developing countries, 2015-2022



Note: Figures exclude social security contributions.

Source: OECD, 2025.

In short, and while a number of developing countries receive significant non-tax public revenue, as from mining operations, many developing countries need to make the political effort to mobilize additional fiscal revenues. The alternative is more public borrowing and more debt or forgoing necessary spending. Countries simply cannot borrow their way to economic development that also includes a measure of social security.

FfD4 is expected to build on the Addis Agenda by recommitting to and elaborating on its public finance principles, such as in strengthening a gender perspective in taxation as well as budgeting, and singling out, in the context of progressive taxation, taxes on high net worth individuals (an issue introduced by the Brazilian President into the 2024 G20 outcome).[14] The conference is also expected to call on countries to integrate the financing of their social protection floors into their development plans and strategies. Indeed, countries will be called upon to align their overall budgets with "country-led plans and strategies," such as would be formulated in Integrated National Financing Frameworks (INFFs).[15] The INFFs embody a comprehensive planning tool developed by the UN following a suggestion in the Addis Agenda. It integrates domestic and international, and public and private financial flows, and is being adopted by some 86

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[13] OECD, *Global Outlook on Financing for Sustainable Development 2025* (https://www.oecd.org/en/publications/2025/02/global-outlook-on-financing-for-sustainable-development-2025_6748f647.html).

[14] The proposal to tax high net-worth individuals is based on a paper by Gabriel Zucman commissioned for the Brazilian G20 Presidency, "A blueprint for a coordinated minimum effective taxation standard for ultra-high-net-worth individuals" (https://www.taxobservatory.eu//www-site/uploads/2024/06/report-g20.pdf).

[15] See https://inff.org/.

countries thus far.

FfD4 may also pledge continued engagement in the UN General Assembly to negotiate a UN Framework Convention on International Tax Cooperation under which more detailed agreements could be forged, as on tax dodging or corporate tax reform.[16] In essence, this is the successor to the initiative that had been rejected in Addis. Unfortunately, the United States recently announced it will stop participating in the work on the Framework Convention.[17]

FfD4 may also agree to seek ways to reduce the carefully cultivated opacity of corporate and wealthy taxpayers. For example, it could deepen cooperation to limit illicit financial flows by beginning to negotiate national standards for providers of legal and financial advice that would be recommended to governments.

These systemic initiatives are worthwhile and must be pursued. However, they will not produce significantly larger domestic revenues in the near to medium-term future. That requires deliberately strengthening national tax policies.

International Development Cooperation

When the Addis Agenda was adopted in 2015, there was much enthusiasm for the potential role of private finance in delivering at least some of the SDGs, as on sustainable agriculture and industry; water, sanitation, urban and other infrastructure; affordable and reliable energy; and so on. The traditional roles would remain for official development assistance (ODA), which is delivered as grants or highly concessional loans, and for international development bank lending to middle-income countries, which is on near-commercial terms but longer maturities than private creditors offer. However, the dynamism in development financing was expected to be on the private side.

The high confidence in private financing was well captured in the phrase "from billions to trillions."[18] However, "billions to trillions" turned out to be an empty phrase. It is clear now that more funding from public sources is needed to fund all the SDGs.

By the same token, it is increasingly recognized that more of the essential climate-related funding also needs to come from official sources. Such funding is meant to be used for climate mitigation (meaning investments to stop the rise in global temperatures) and climate adaptation (meaning investments to survive better at hotter temperatures and subject to more frequent and more devastating weather events).

Climate finance is meant to be kept in a separate and additional bucket than SDG finance

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[16] For ongoing work and background on the Framework Convention, see https://financing.desa.un.org/inc.
[17] United States, "Statement at the Session for the Intergovernmental Negotiating Committee on the UN Framework Convention on International Tax Cooperation," 3 February 2025 (https://usun.usmission.gov/statement-at-the-session-for-the-intergovernmental-negotiating-committee-on-the-un-framework-convention-on-international-tax-cooperation/?_ga=2.70978256.1961200304.1742674145-622749146.1742674145).
[18] IMF and World Bank Development Committee, "From Billions to Trillions: Transforming Development Finance: Post-2015 Financing for Development: Multilateral Development Finance," https://thedocs.worldbank.org/en/doc/622841485963735448-0270022017/original/DC20150002EFinancingforDevelopment.pdf).

and both buckets need to be huge. By agreement last November at "COP 29,"[19] developed country governments will aim to boost their target for international climate funding from US$100 billion a year to "at least US$300 billion" a year. It is well appreciated that this much funding will not be enough to stem global warming or enable the Global South to adapt to it. It is understood as only a step in the right direction. Trillions are needed for climate finance and additional trillions are needed to deliver the SDGs.

In fact, most official international financing, whether for climate or the SDGs, is usually not just money, but includes a commitment to concrete programs and investments that the foreign donor will finance or help finance. The truth is that donors have their own agendas, some of which can be quite narrow, such as the "vertical funds" that focus on fighting particular diseases or specific climate or biodiversity needs and make relatively small contributions to the receiving country's budget. The challenge for the aid recipient is to assure that the aid offers they accept form a coherent whole that fills out the financial needs of their development strategies and plans. Moreover, as many international public financing offers are in the form of loans, receiving countries also need to assure they do not commit to borrowing that undermines the sustainability of their sovereign debt, nor overstimulate spending in their economies raising domestic inflation rates.

This aid coherence challenge is as old as foreign aid itself, as are international efforts to strengthen aid coordination. The Sevilla approach to the challenge will likely emphasize the contribution that can be made by INFFs in sorting out financing options and opportunities, complemented by the introduction of "country-led national coordination platforms." If developing countries do create these platforms and open them to national civil society inputs, as mentioned in the current draft text for Sevilla, they may provide more citizen – indeed, legislative and press – access to decisions traditionally taken behind closed doors.

However, coordination of aid will be less of a problem if there is a lot less of it and the trend in official international funding is not encouraging, notably for ODA. Preliminary estimates of ODA in 2024 will be released soon, but final figures for 2023 indicate that the donors as a group provided about half of the internationally agreed target of 0.7% of gross national income (actually 0.37% of GNI). Still, that amounted to US$223.3 billion, not an insignificant amount, except that US$30.5 billion of that was provided for in-donor refugee costs owing to the war in Ukraine and the exodus of millions of Venezuelans, let alone millions of other people trying to escape poverty and insecurity in their home countries (figure 2). In addition, US$23.9 billion was allocated for humanitarian aid, which is essential emergency support but not development assistance per se. Finally, US$38.9 billion was provided to Ukraine. That left US$130.0 billion to support SDG development in the Global South.

As worrying as these figures seem, the aid situation suddenly worsened dramatically in the past months. On the one hand, the United States has dismantled its aid effort, which at US$64.7 billion in 2023, accounted for almost 30% of the total (figure 3). In addition, European countries have been forced to reassess their aid efforts as they faced the need to increase military expenditures to support Ukraine and prepare to defend against a feared Russian invasion of eastern European countries. Their ODA reduction is not likely to be as large proportionately as that of the United States, but it will likely be significant.

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[19] "COP29" was the 29th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change; see https://www.un.org/en/climatechange/cop29.

Figure 2. Components of DAC countries' net ODA, 2000-2023

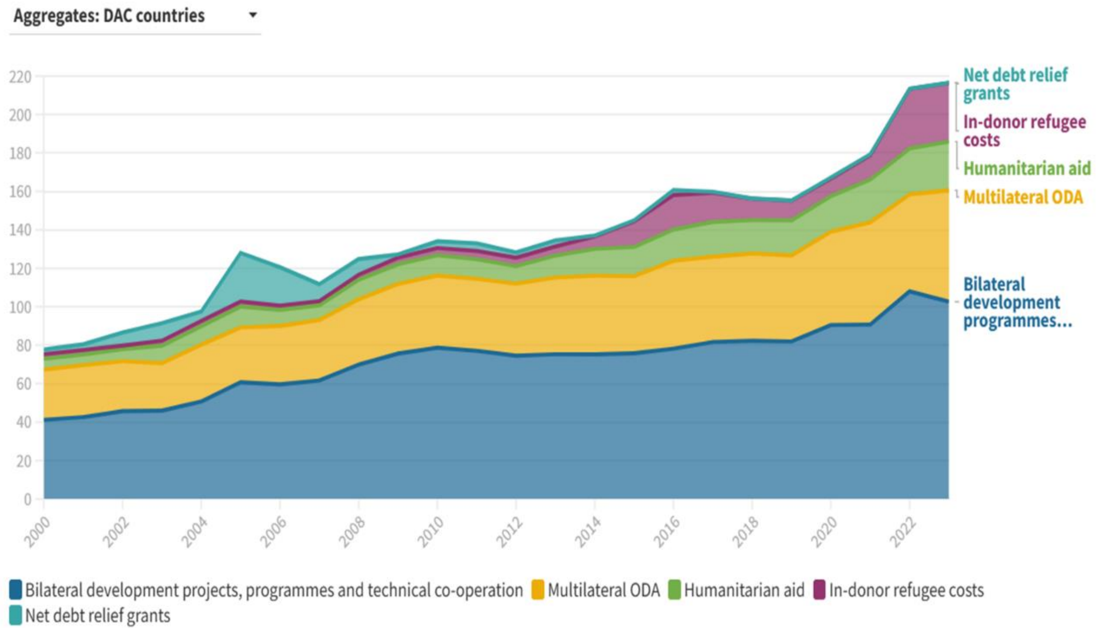
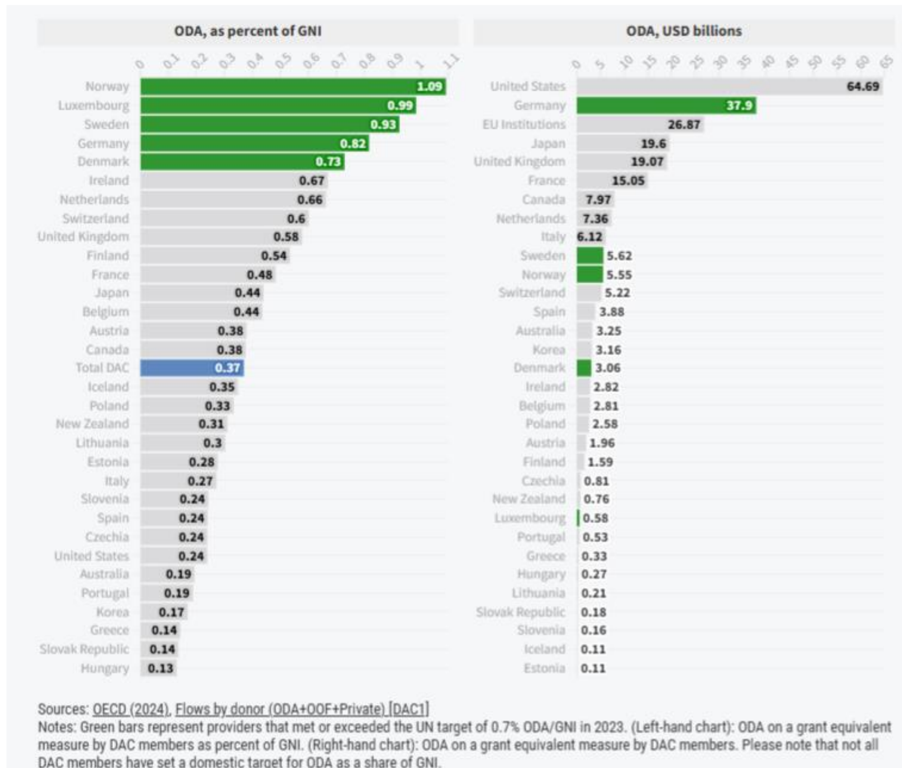


Figure 3. ODA in 2023, by members of the Development Assistance Committee



It is not obvious how this crisis in ODA will be handled in Sevilla. The most recent developments are not reflected in the most recent draft outcome document. How could they be? Besides routine pledges to make greater efforts to mobilize additional ODA resources, the Sevilla draft pays greater attention than in Addis to welcoming and encouraging more South-South cooperation and to ongoing efforts as in the G20 to strengthen the lending capacity of international financial institutions. But this is not likely to replace the drop in funds from developed countries.

In fact, the diminished prospect for international financial cooperation has worrisome implications for people everywhere, not just in the Global South. The COVID-19 pandemic showed just how integrated the whole world had become, but also how unprepared it was to face such a global health threat. Somehow, the world got through the pandemic, although it lost seven million lives and COVID continues to take small numbers of additional lives. An international effort to deal better with the next pandemic depends on having emergency financing arrangements at the ready for developing countries, and it depends on finishing negotiation of a treaty, adopting it widely, and thoroughly implementing its processes to "prevent, prepare for and respond to pandemics." And yet, globally agreeing to a treaty has proved elusive despite several rounds of negotiation, which are set to conclude this coming May, if they do conclude.[20] Even if successful, implementing such a treaty will be complicated as it is being negotiated at the World Health Organization, from which the United States is withdrawing. The world must plan better how to produce and globally distribute vaccines, supplies and treatments. But will it?

The outlook is not better for global warming investment. The President of the United States announced on his first day in office that he is withdrawing from the Paris Agreement on Climate Change, and US commitments to reduce global warming have been replaced by a promise of "drill, baby, drill" in the search for additional oil and gas supplies within the United States.[21] Indeed, the threat to the public financing of "global public goods" in general is as worrisome as the threat to international development cooperation.

Sovereign debt difficulties in a Jubilee year

One chapter of the Sevilla outcome will be on sovereign debt, addressing issues both in helping governments manage their borrowing and in helping them to extract themselves when they fall into insolvency crises. Both sides of the debt issue were also foci of the first FfD conference in 2002, and of each one since. The contested negotiations, unsurprisingly, have been on the policies for debt crisis workouts.

But is there currently a sovereign debt crisis? That depends on what one means by "crisis." According to the joint IMF/World Bank assessments, over half the 68 low-income countries (LICs) are either at high risk of debt distress or are already in it (figure 4). However, adding together the LICs and the middle-income countries, the IMF counts only 14 countries in debt distress or having "unsustainable" debt or are undergoing debt restructuring negotiations.[22] So, whether you believe there is currently a sovereign debt crisis depends on whether you count the countries deemed to be

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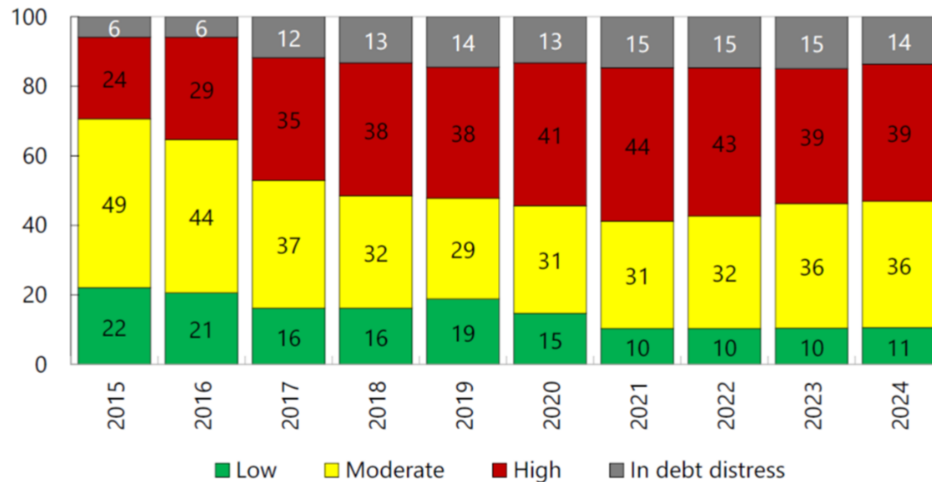
[20] "Pandemic Agreement Negotiators Assert They Can Finish By May Deadline," *Health Policy Watch*, 21 February 2025 (https://healthpolicy-watch.news/andemic-agreement-negotiators-assert-they-can-finish-by-may/).
[21] "What Trump's exit from the climate deal really means," *Politico*, 20 January 2025 (https://www.politico.com/news/2025/01/20/trumps-exit-climate-deal-means-00199406).
[22] IMF, "Debt Vulnerabilities and Financing Challenges in Emerging Markets and Developing Economies—An Overview of Key Data," 6 February 2025 (https://www.imf.org/en/Publications/Policy-Papers/Issues/2025/02/19/Debt-Vulnerabilities-And-Financing-Challenges-In-Emerging-Markets-And-Developing-Economies-562218).

at risk or only those already trapped in a debt crisis.

Figure 4. Percentage of low-income countries judged to be at low, medium or high risk or in debt distress, 2015-2024



Source: IMF, 2025.

One reason for taking the cautious optimism view is that many countries have already reduced their dependence on borrowed funds by cutting back on fiscal expenditures. However, as the IMF put it in a recent report, those "efforts to rebuild fiscal sustainability have led to a crowding out of critical growth-enhancing development spending and social priorities."[23] Thus, in this sense, at least some of the social pain of future debt crises has already been experienced in seeking to reduce vulnerability to a sudden cutoff of any new lending to the government.

The IMF expression of concern about the social cost of efforts to rebuild fiscal sustainability is well taken and they are not alone. That is, one sentence in the first draft of the FfD4 outcome document says, "We welcome and encourage further efforts to strengthen the consideration of social protection and social spending in IMF-supported macroeconomic adjustment programs."[24] Indeed, it is time for the IMF to more actively promote social spending, not curtail it. That will be the only way to silence its critics who focus on what has been its standard approach, but should no longer be.

However, to promote social and other SDG spending and not expose the country to the riskiness of excessive sovereign borrowing requires more tax revenue. The risks of not raising more domestic public revenue are real. We learned this from the COVID-19 experience, from the consequences of furious storms in small island economies, and from the sudden disruption of international financial markets in 2008-9. Indeed, we were reawakened to vulnerability to global financial crises only recently in 2023 by an unexpected set of bank bankruptcies in the United

[23] Ibid., p. 7.
[24] Op cit. [footnote 2].

States and Switzerland.[25] Moreover, the current unpredictable trade policy of the United States, which can shut down exports, has to be a concern. So, even if one would deny that there is currently a debt crisis, it seems that the time to figure out how to address a possible future wave of defaults is now.

Reform of how sovereign debt crises are resolved is inescapably complex, as is outlined in the annex to this note. The draft UN text being prepared for Sevilla proposes a number of adjustments to how unsustainable sovereign debt should be addressed under current processes and two quite far-reaching proposals that would lead to a new approach to sovereign debt workouts.

One such proposal would request the Secretary-General to convene in consultation with Member States a working group to develop a "model law" that would be adopted in all the major credit market countries. That model law would have to be modified as necessary to conform to distinct national legal systems but then should be adopted into law in capital-market countries. That would stipulate common rules for negotiating a debt workout with multiple classes of private creditors, who could be possibly joined by the government creditors if they so choose. The thinking behind the model law proposal is that credits issued under the laws of different jurisdictions (primarily under English and New York State law, but also the laws of other major capital market jurisdictions) could be treated simultaneously in any one of those jurisdictions, giving certain protections to the debtor and its creditors, as in national bankruptcy regimes.[26]

The second proposal is even more ambitious but less precise. As per the proposed UN draft for FfD4, it would "initiate an intergovernmental process at the UN with a view to closing gaps in the debt architecture and exploring options … including but not limited to a multilateral sovereign debt mechanism." The latter might take the form of a new international court for sovereign debt. We will watch whether either of these proposals survives the succeeding rounds of negotiation before the meeting in Sevilla.

Conclusion

The imperative to mobilize more domestic public resources, the fraught prospects for official development cooperation, and the vulnerability to sovereign debt crises send a blunt message that global solidarity for development is not in a good place. The rules and practices and programs that characterize international cooperation have long worked to disproportionately benefit the affluent and powerful within and among countries, albeit behind a more inclusive rhetoric. That rhetorical covering has been pulled down this year, and what it reveals is not pretty. Perhaps the FfD conference in Sevilla presents an opportunity for the international community to say "Stop! This is not what we want. We can do better." Sevilla could send such a message this year, while agreeing to fix at least some of the problems that have been highlighted during its preparations.

Annex. How to resolve sovereign debt crises

We should learn a lesson from the 1990s, when the government creditors, which meet

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[25] Ignazio Angeloni et al., *Much Money, Little Capital, and Few Reforms: The 2023 Banking Turmoil*, Center for Economic Policy Research, 2024 (https://cepr.org/system/files/publication-files/212212-geneva_27_much_money_little_capital_and_few_reforms_the_2023_banking_turmoil.pdf).

[26] Barry Herman, "Comprehensive, Fair and Speedy Resolution of Sovereign Debt Crises through New Law in Capital-market Countries," *Development*, 2024 (https://doi.org/10.1057/s41301-024-00413-7).

together as the Paris Club, approved a drawn out series of increasingly deep debt relief steps for a set of heavily indebted poor countries (HIPCs).[27] Those steps not only did not solve the debt crises of the low-income countries, but they left the people in the debt-crisis countries to absorb a high social and economic cost. It took the Jubilee campaign in 2000 to drive home the inadequacy of that relief, and ultimately, the Paris Club creditors responded by agreeing to cancel almost all the debt owed to them.[28] By the time of the FfD conference in 2002, attention was on fully implementing the "HIPC Initiative," although as it turned out, even that was not enough relief and beginning in 2005 the obligations owed to the IMF and the international development banks also were reduced.

The important point to note here is that the HIPC Initiative primarily involved monies owed to other governments or official international institutions. Some of the HIPCs had borrowed from commercial banks and a few issued bonds in international markets, but the creditors were mainly official. Even as late as 2010, only 6% of the external debt of the low-income countries (LICs) was owed to private creditors (figure 5). Middle-income countries borrowed less from other governments and more – indeed virtually half – from private sources in 2010, mainly by selling government bonds (figure 6). By 2023, the private share for these countries had risen to 58%.

The problem with the developing countries sourcing more and more of their debt from private finance is that there is nothing at international level equivalent to national bankruptcy courts. While official creditors can take political decisions to change or cancel financial obligations of other states, private creditors do not act "politically" and they will fight you in court if they cannot informally resolve a debt problem.

Sovereign bonds, which became the major form of private lending to governments, are usually restructured through negotiation of the debtor with a committee appointed by the bondholders. How that negotiation should proceed to change the terms of a bond is stated in clauses in the bond contract. Usually, the solution is for the government to issue a new bond with lower value and more affordable terms. If the requisite majority of the bondholders accepts the proposal, the deal is closed and the old bond is exchanged for the new one. Over time, as experience accumulated in such bond restructurings, clauses of the bond contracts that govern the process were improved. Apparently, there is now general satisfaction in the international creditor community with the current standard clauses and how the negotiations proceed.[29]

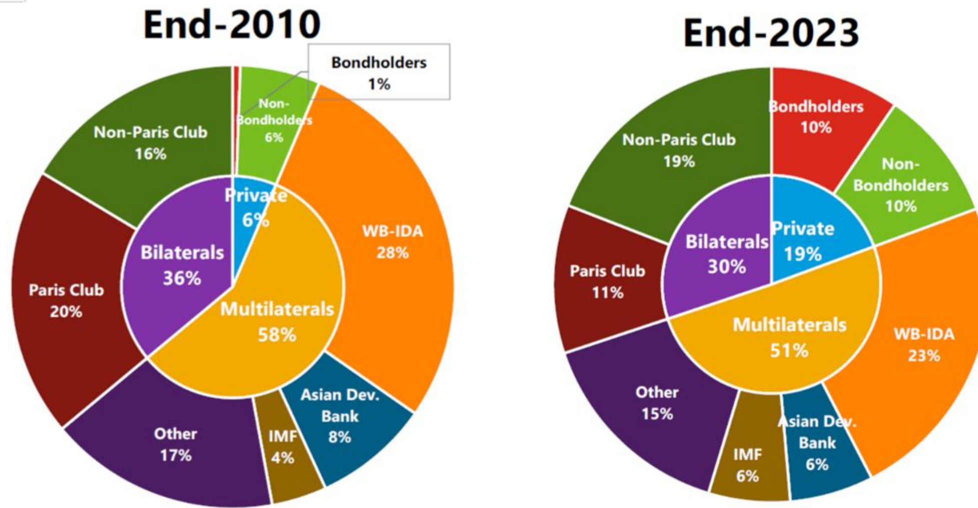
But everything is not OK. After the HIPC relief was largely completed, the HIPCs and other LICs went back to borrowing heavily, increasingly from foreign private sources (figure 5). Countries on the "frontier market" found they could sell their bonds to international investors because the alternative of purchasing the risk-free bonds of developed countries paid them virtually no interest. Accumulating debt in this form made future LIC debt relief more complicated.

When the pandemic began, many countries could no longer pay the interest and principal on their external debt. The G20 responded with a new policy for low-income countries, a "Debt Service Suspension Initiative" (DSSI), to temporarily postpone debt servicing. They invited the

[27] Enrique Cosío-Pascal, "Paris Club: Intergovernmental Relations in Debt Restructuring," in Barry Herman et al., *Overcoming Developing Country Debt Crises* (Oxford, 2010), 231-276.
[28] Elizabeth Donnelly, "Making the Case for Jubilee: The Catholic Church and the Poor-Country Debt Movement," *Ethics and International Affairs,* 21(1), 2007: 107-133.
[29] Investors apparently demand lower interest rates on bonds that have these clauses (Kay Chung and Michael G. Papaioannou, "Do Enhanced Collective Action Clauses Affect Sovereign Borrowing Costs?" IMF Working Paper, August 2020, https://www.imf.org/en/Publications/WP/Issues/2020/08/07/Do-Enhanced-Collective-Action-Clauses-Affect-Sovereign-Borrowing-Costs-48960).

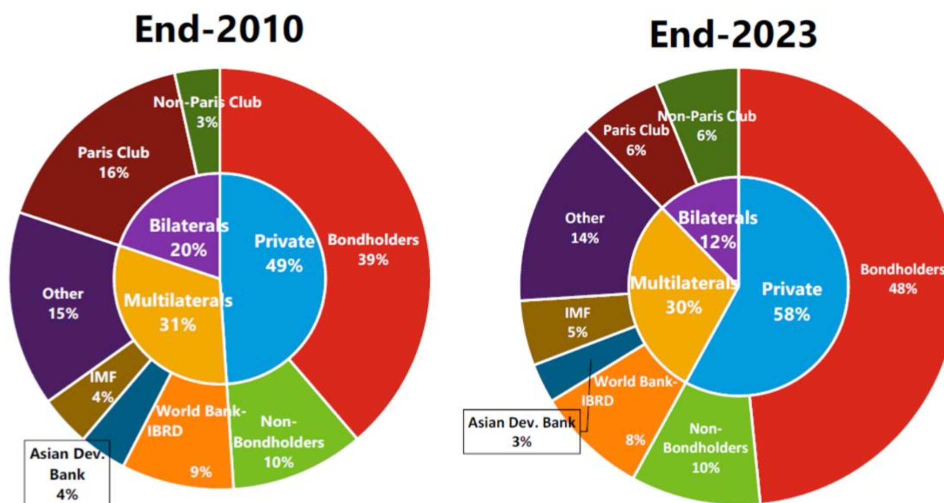
bondholders to join them, but none of them did (nor did any international institution). The only payments that were postponed were those owed to the Paris Club countries, plus China and other G20 member countries. As the damage of the crisis came to be better understood, and the financial pressure on the low-income countries remained unremitting, the G20 created a new path to reduce and not just postpone outstanding obligations. But this time they insisted that the private creditors had to give "comparable" relief.

Figure 5. Creditor composition of external debt of low-income developing countries



Source: World Bank and IMF, 2025, as per IMF, op cit. [footnote 22]

Figure 6. Creditor composition of external debt of emerging market economies



Source: World Bank and IMF, 2025, as per IMF, op. cit. [footnote 22].

The G20 thus devised a new debt crisis process, called the "Common Framework for Debt Treatments Beyond the DSSI."[30] It begins, as do all sovereign debt workouts, with a government negotiation with the IMF on a path to get the country from debt crisis to sustainability. The usual scenario is that for one reason or another, the government needs to reduce (or eliminate) what it borrows, that is, to cover the gap between what it is spending and what it is taking in as tax revenue. Typically, the gap had grown too large for too long and the country's usual creditors refuse to lend more to cover the gap and then the country has to miss a principal or interest payment, a signal of bankruptcy. At that point, if not before, the IMF will offer to assist the country but only on condition that it adopt an austerity program so it will not need to borrow so much. This usually requires substantial cutbacks in expenditure and possibly at a later stage, an increase in taxation.

In the past, the IMF had been fairly indifferent to what expenditures the government decides to cut. The staff are macroeconomic and monetary specialists, for whom the most important part of a government's budget is how much it needs to borrow. They also see debt contracts as embodying legal obligations that governments need to take seriously, as do the finance ministries. Indeed, the governments will want to borrow again in the future and thus maintain a good standing as reliable borrowers. It is at this point that crisis resolution becomes most contentious (or should be), because the less interest and principal that governments have to pay, the less they will have to cut back non-debt related expenditures.[31]

The IMF's primary focus is on being confident that the country can complete its budget correction over the time period programmed and cover its expenses thereafter. During the adjustment period, the IMF and possibly other official institutions will lend to the government, as no one wants to force the budget correction to zero immediately. When the judgment is made that there would be too much debt to carry post crisis, the correction plan includes some form of debt reduction. The adjustment period can generally be up to three years (albeit renewable), with repayment to the Fund after completing the program possibly stretched to 10 years.

Once the adjustment program is settled and the "financing envelope" is agreed, then the challenge is how to divide up how the financing envelope is filled. It will include some new lending by multilateral lenders and sometimes debt relief by government and private creditors. Historically, low-income countries that required debt relief have mainly had to seek relief from their government creditors. In fact, the government creditors are also powerful members of the IMF Board of Directors, so when the IMF country program is approved, it will likely be approved as well by its government creditors, albeit from different government departments. The officials from

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[30] Yunnan Chen and Tom Hart, "Common framework, uncommon challenges: lessons from the post-COVID debt restructuring architecture," ODI Global, 21 February 2025 (https://odi.org/en/insights/common-framework-uncommon-challenges-lessons-from-the-post-covid-debt-restructuring-architecture/).

[31] The dispute is technically phrased, in part, as the size of the "primary" budget surplus that the government should seek to achieve at the end of its adjustment period. That indicator is the difference between tax revenue and non-debt related expenditures. If the primary balance is zero, the government only needs to borrow enough to cover its debt servicing. If the primary balance is in surplus, it needs to borrow less to cover its obligations to its creditors. With a high-enough primary surplus, it will need no net borrowing. However, the government's debt carrying capacity depends not only on the primary balance but also on whether it can resume economic growth, which itself will raise tax revenues along with the rising incomes. The problem is that the greater the austerity pursued to produce a larger primary surplus, the less income is in the hands of people and the less economic growth is likely. For a critique in these terms of the IMF program in Sri Lanka, see Peter Doyle, "The pivotal IMF program target is indefensible," *Daily Mirror, Online*, Colombo, Sri Lanka, 24 June 2024 (https://www.dailymirror.lk/news-features/The-pivotal-IMF-program-target-is-indefensible/131-285513).

the creditor agencies then negotiate how each of them will provide the debt relief so that their losses are comparable. Some will reduce interest rates, others will extend maturities and perhaps others will cancel some claims.

However, the government creditors do not actually give the relief just yet. They withhold it until they are satisfied that the private creditors have agreed to give "comparable" relief. Unlike the government creditors who intend to have a continuing relationship with the debtor government, the bondholders are "in it for the money." When their bonds go bad, they prefer to get their money – or as much of it as possible – and as soon as possible and move on, even if that means accepting a lower value bond as a result. Thus, the way the relief is given will be very different for the two groups of creditors, although it still must be judged comparable. How to make that judgment is complicated technical matter on which financial experts love to disagree.

The key point is that the government creditors will withhold their relief until the bondholders agree to a "haircut" that the government creditors decide is comparable to their own relief. Because the debtor will not have the funds with which to pay the private creditors if the government creditors withhold their relief, the G20 Common Framework has devised a powerful tool.

Nevertheless, it is a limited tool. First, the private creditors that are not bondholders have been less quick to settle, including two Chinese state banks that operate on commercial principles in the case of Zambia. Second, even if the effective majority of bondholders agree to a restructuring, it is still possible for individual creditors (sometimes called "rogue creditors" or "vultures") not to take the swap offer of new lower-valued bonds for their old bonds and seek full repayment from the courts in the legal jurisdiction under which the bond contracts were written (the case currently of Hamilton Reserve Bank and Sri Lanka in the New York courts). Third, the power of the government creditors to force a deal only works when a large share of the government's debt is owed to other governments. In middle-income countries with little owed to such creditors (e.g., Argentina), they would not be able to challenge the deal worked out with bondholders. And finally, governments are increasingly borrowing from different private creditors in less standard ways that are not well addressed in the standard approaches (e.g., much of Chad's debt obligations were based on future delivery of oil exports).

In short, despite the reforms undertaken since the pandemic, there is need for further reform of how sovereign debt crises are resolved and the proposals in the draft text for Sevilla embody interesting ways to tackle the problem.