Briefing on the Global Sovereign Debt Roundtable

Oxfam welcomes the work of the Global Sovereign Debt Roundtable (GSDR) to build consensus on a set of rules to expedite debt restructuring exercises. This note lays out Oxfam’s views on the GSDR’s agenda, in response to the latest GSDR’s progress report of October 2023.1

Oxfam is a global organization that fights inequality to end poverty and social injustice. We offer lifesaving support in times of crisis and advocate for economic justice, gender equality, and climate action. Cancelling excessive debt is critical to give low and middle-income countries the fiscal space necessary to achieve the Sustainable Development Goals and Paris climate goals.

GSDR process

The GSDR is an informal group of selected officials and private sector actors who, in effect, make global public policy. Although it includes some debtor countries, its membership is biased toward creditors, and it excludes both the United Nations and civil society. Although civil society is briefed at regular intervals and invited to selected workshops, the process could be made more transparent and inclusive, yielding a more productive debate, if the following measures were taken:

- Publish the schedule, agenda, and participants of all meetings (of principals, deputies, and working groups) in advance.

- Publish the working papers produced as input into these meetings.

- Organize workshops open to civil society on the whole range of topics on the GSDR’s agenda.

- Continue the practice of producing progress reports after meetings of the principals, indicating areas of emerging consensus and areas where disagreements persist among the various constituent groups (debtors and multilateral, Paris Club and non-Paris Club bilateral, and private creditors).

---

Restructuring perimeter

Multilateral debt: We understand that the GSDR took an early decision at its first meeting last year to exclude multilateral development banks’ loans from the debt to be restructured, but to require them to provide new grants or concessional finance instead. However, the issue is not going to go away because (i) the share of multilateral debt is very high for some countries at high risk of debt distress, making the exclusion impractical in those cases, (ii) requiring multilateral lenders to increase concessional lending instead of cancelling debt complicates the vexing issue of comparable treatment (as, for instance, some of them cannot statutorily provide grants or concessional loans), and (iii) it is in the multilateral development banks’ own interest: they can’t lend to over indebted countries and giving grants instead undermines their business model that relies on future principal reimbursements. Moreover, each taxpayer dollar of debt relief conceded through multilateral development banks leverages $7 of total debt relief.\(^2\) Multilateral development banks’ concern about losing their AAA-credit rating can be addressed by their shareholders footing the bill of debt cancellation (which is not necessarily more expensive than increasing grants or concessional loans).

Domestic debt: Oxfam welcomes the GSDR’s approach to the inclusion of domestic debt in the restructuring perimeter on a case-by-case basis and without comparability of treatment with external debt. Domestic debt usually carries high interest charges that represent a transfer from taxpayers to bondholders, which can increase inequality. However, workers’ pension funds, which also hold domestic debt, should be spared as much as possible.

State-owned enterprises’ debt: While it makes sense to include the debt of state-owned enterprises in debt sustainability analyses for surveillance purposes, solvent state-owned enterprises must be excluded from the restructuring perimeter. That will encourage responsible lending to power and water utilities and other revenue-generating companies that are poised to play a critical role in the climate transition.

Comparability of treatment

Comparability of treatment formula: The long delay in clinching a deal for Zambia has highlighted that the Paris Club’s flexible approach to distributing the burden of debt relief is not working with a more diverse set of creditors. The GSDR must adopt a simple and clear rule to align all creditors’ expectations and expedite debt restructuring negotiations. As the IMF defines debt sustainability in terms of both stocks and flows, all creditors should meet two debt cancellation targets: a reduction in the debt’s net present value at a 5% discount rate and a proportional reduction in debt service payments during the IMF program. Creditors could

\(^2\) https://www.bu.edu/gdp/2023/09/25/debt-relief-by-multilateral-lenders/
trade among each other more effort on one metric in exchange for less on the other, but only provided that they do so within a short timeframe. Moreover, the reduction in the debt’s net present value must be measured relative to the debt’s face value, as that is fairer to concessional creditors.\(^3\) That is particularly important if multilateral development banks are added to the restructuring perimeter. Official creditors must impose this rule on private creditors if no consensus is reached.

**Clawback clauses:** Official creditors must add clawback clauses in their debt restructuring agreements to ensure that debtors implement comparability of treatment on private creditors.

**State-contingent instruments**

Oxfam supports the use of state-contingent instruments in cases of stark disagreements about the debtor’s macroeconomic outlook. However, recent experience shows that such instruments have been biased in favour of creditors, as they typically only include upside scenarios. That contrasts with the historical record of over-optimism that the IMF itself has acknowledged and that has led to too little debt relief, too late, and to prolonged and repeated debt crises.\(^4\) Whenever they are used, state-contingent instruments must include both upside and downside scenarios.

**Debt service suspension and treatment of arrears**

**Debt service suspension:** Oxfam supports the automatic suspension of debt service once a country applies for debt relief under the Common Framework or other multilateral initiative. It is critical for that suspension to apply to all debt within the restructuring perimeter, not just bilateral debt, otherwise taxpayers would be bailing out private creditors.

**Treatment of arrears:** No penalty must be applied on arrears accumulated after the cut-off date.

**Climate-related debt provisions**

After the last progress report, the GSDR ran a workshop on debt and climate change, which was entirely devoted to two topics: debt-for-climate swaps, and climate-resilient debt clauses. Most participants acknowledged that these instruments can be useful, while emphasizing that they are no panacea for neither the debt nor the climate crises. Oxfam echoes that sentiment and warns that these issues claim a disproportionate amount of attention within policy circles.

---

\(^3\) [https://www.lazard.com/research-insights/how-to-make-sovereign-debt-restructurings-more-effective/](https://www.lazard.com/research-insights/how-to-make-sovereign-debt-restructurings-more-effective/)

including the GSDR, and distract policymakers from the real solutions: debt cancellation and grants for the climate transition.

**Governance**

*Transparency:* Oxfam urges GSDR to add debt transparency to its agenda. Sovereign borrowers must publish details (e.g., creditor, currency, governing law, amount, interest rate, repayment schedule) of all their public and publicly-guaranteed debt on a loan-by-loan basis. Lenders must likewise publish basic data on a loan-by-loan basis. Private lenders must be regulated to do so. All that data must be centralized in a database accessible to the public.

*Odious debt:* The GSDR must recommend creditor countries to adopt legislation requiring loans to sovereign borrowers to be disclosed in a centralized international registry and approved by the borrower’s parliament in order to be enforceable in their courts.