Debt challenges in Pacific Island countries and resolution options

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Introduction

Pacific countries are currently facing two interrelated challenges. First, a regional debt crisis that has been exacerbated by the Covid-19 pandemic. Seven Pacific low-income countries have been classified by the International Monetary Fund (IMF) as being at high risk of debt distress. Second, the increasing impacts of the climate emergency. Sea level rise and increasing incidences of climate-related extreme events mean that governments in the region are in dire need of financial support to make their countries more climate resilient.

In the context of these two challenges, in July 2021 the Pacific Islands Forum[1] announced its intention to hold a regional debt conference. The conference is due to take place between 5 and 8 of April 2022 in Suva, Fiji. Attendees of the conference will include representatives of all Pacific Small Island Developing States[2] (PSIDS), their bilateral and multilateral creditors, targeted donors and development partners, private sector actors and civil society organisations (CSOs).

The conference is intended to provide a forum for debtors and creditors to discuss sustainable regional and national options and to explore innovative financing mechanisms to address both the debt and climate finance challenges facing these countries. The conference will be convened by the Pacific Islands Forum Secretariat (PIFS) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

The purpose of this paper is to raise awareness of the imminent debt and climate crises in the Pacific, and to inform the policy debates and discussions for those who will be attending the conference, particularly the Pacific countries that are facing these twin crises.

1. The Covid-19 crisis and the Pacific economies

The Covid-19 crisis has had a significant impact on the Pacific economies. Several factors have driven the decrease in Gross Domestic Product (GDP) in Pacific countries, including the impact on tourism and trade from the closure of borders, as well as the impacts from the economic slowdown in the region's trading partners.

Whereas the impact has been uneven across the region, it has been most pronounced in tourism-dependent economies such as Fiji, Palau, Samoa, Tonga and Vanuatu, which saw a collective fall in GDP of 6.6 per cent in 2020 and a projected fall of 6.5 per cent in 2021. Fiji, the powerhouse of regional tourism, saw a staggering 15.7 per cent fall in GDP in 2020. The two countries that rely on commodity exports, Papua New Guinea (PNG) and Solomon Islands, fared slightly better, with a 4.4 per cent fall in GDP.

[1] The Pacific Island Forum was created in 1972 as a political and economic policy organisation that aims to foster cooperation between governments, by collaborating with international agencies and representing the interests of its 18 members: Australia, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. More information at https://www.forumsec.org/

[2] PSIDS are: Federated States of Micronesia, Fiji, Kiribati, Nauru, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga Tuvalu, and Vanuatu.

The economic global slowdown has also produced a fall in remittances, which is significant given the dependence of many Pacific countries on these payments. Some Pacific countries receive up to 10 per cent of their GDP from this source.

Naturally, Pacific countries needed to respond to the pandemic, as other countries did, with additional emergency public spending to help communities and households weather the Covid-19 storm. In 2020, the six largest Pacific countries saw government spending increase from the previous year ranging from half to one per cent for some of the bigger countries (PNG, Fiji) to around four to six per cent for the Solomons, Vanuatu and Tonga. This was all just in 2020, to support vulnerable populations and keep their national economies afloat.

When the pandemic first began, there were fears of a lost decade of development for the region, with some analysts predicting that it may take until 2028 for Pacific countries to regain the projected GDP losses. It is unclear at this point whether these projections will turn out to be prophetic, but the early signs are that GDP loss may not be as dramatic as first thought.

According to the IMF, the region's output declined by 3.7 per cent on average in 2020 and an expected additional 2.4 per cent in 2021 (October 2021 projections). On the other hand, the regional decline (as opposed to the average decline per country) would be much higher, given that PNG and Fiji make up 80 per cent of the Pacific economy and their outputs both fell to larger extents. Moreover, we do not yet have figures for 2021, and thus do not yet know how much of an impact the second shutdown might have had on GDP.

Finally, it is important to say that GDP figures in Pacific countries do not tell the whole story, and there is not a straightforward relationship between GDP falls and declines in living standards. The foundation of most Pacific countries (PNG being the paradigmatic example) is the informal economy, based on household and village food production for personal consumption or for sale in local markets. Much of this economic activity is not captured by standard GDP measurements. Therefore, falls in GDP may have less of a negative impact on, say, household living standards than in countries in other parts of the world where the informal agricultural sector is less significant.

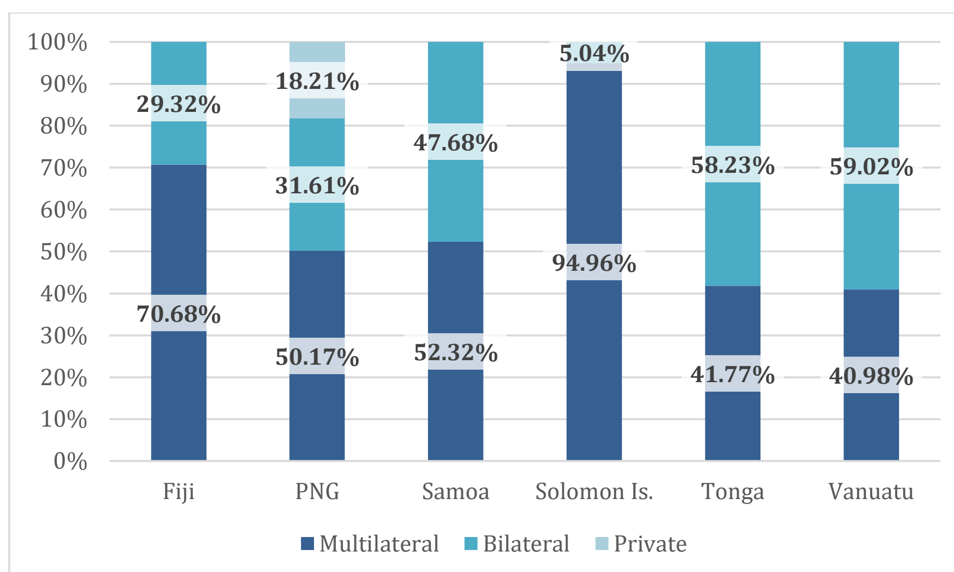
1.1 The Pacific debt situation

The Pacific countries' public debt had already been on the rise for the past decade, but, as it has happened in other regions of the world, with falling GDP and a rise in public spending, it should be no surprise that the pandemic has seen sovereign debt burdens in the Pacific rise considerably.

This has been part of a general trend. After a decade of soaring public and private debts globally, the Covid-19 pandemic heightened the debt vulnerabilities in most countries, leading to the highest global debt levels in half a century. According to the World Bank, "this build-up has been broad based, with rapid growth in both government and private debt; advanced-economy and emerging market and developing economies debt; and external and domestic debt". The very limited fiscal space, particularly in global south countries, to tackle the ongoing pandemic and support the recovery, is being threatened not only by increasing debt payments, but also by rising interest rates, as well as food and energy prices.

The IMF-World Bank debt sustainability analysis for low-income countries now lists seven Pacific countries as being at high risk of debt distress: Kiribati, Marshall Islands, Micronesia, PNG, Samoa, Tonga and Tuvalu. Although both Solomon Islands and Vanuatu are rated by the IMF as only being at moderate risk of debt distress, both are considered to only have a limited space to absorb shock. Among the middle-income countries, Fiji, Nauru and Palau, the IMF assessment indicates a sustainable debt in the three cases, although in the case of Fiji the Fund alerts that the debt situation is subject to high risks. No countries in the region are considered by the IMF to be at low risk.

Graph 1: External public debt (public and publicly guaranteed) by type of creditor (2020)



Source: Eurodad based on World Bank and IMF data (2021)

The countries for which there is disaggregated debt data available[3] at the World Bank International Debt Statistics have a majority of their debts in the hands of multilateral and, to a lesser extent, bilateral creditors. The main single creditor for these countries is the Asian Development Bank (holding 37.68% of all foreign debt claims), followed by China (with 22.22%), the World Bank (with 12.97%), bondholders (7.04%), Australia (5.63%) and Japan (5.60%), among other creditors with smaller claims. Private creditors altogether, including bondholders and other commercial lenders, hold a total of US$ 931 million from PNG, which represents 18.21% of debt in this country and 13.11% of debt in the six countries for which there is detailed data.

Four countries (PNG, Samoa, Solomon Islands and Tonga) have requested emergency financing from the IMF during 2020 and 2021, amounting a total of US$424.08 million (85.7 per cent of which corresponds to the financing requested by PNG).

Table 1: IMF emergency Covid-19 financing to the region

Country	Type of emergency financing	Amount approved in US$	Date of approval
Papua New Guinea	Rapid Credit Facility (RCF)	363.6 million	9 June 2020
Samoa	Rapid Credit Facility (RCF)	22.03 million	24 April 2020
Solomon Islands	Rapid Credit Facility (RCF) Rapid Financing Instrument (RFI)	9.5 million 19 million	1 June 2020
Tonga	Rapid Credit Facility (RCF)	9.95 million	25 January 2021

Source: IMF Covid-19 Lending Tracker, February 2022

[3] There are six countries in the region for which there is data available at the World Bank International Debt Statistics: Fiji, Papua New Guinea, Samoa, Solomon, Tonga and Vanuatu.

2. Impacts of climate change

2.1 Pacific climate vulnerability

The Pacific's 7,500 islands, scattered across 30 million km^2, and their approximately 11 million inhabitants (0.3 per cent of the population of Asia Pacific) are particularly vulnerable to climate change. Historical data (1970-2019) indicate that storms will be the main cause of mortality and economic losses for Oceania, and in a warmer world, precipitation is projected to increase. Immediate and indirect climate change impacts for the Pacific include: rising sea levels, reduced nutrition levels in food, saltwater intrusion, internal migration and displacement, higher inundation levels, rising water tables, more extreme flood frequency, greater erosion, detriment to flora and fauna, changes to weather patterns, decreasing water quality and reduced recovery times to secure water to an acceptable point. This adds to the natural hazards the Pacific is exposed to, e.g., earthquakes, electrical storms, extreme winds, landslides and volcanic eruptions.

These climate threats demand that societies are better prepared to withstand sudden, rapid and exponential climate threats. The most recent Intergovernmental Panel on Climate Change (IPCC) report stated that continued inaction in our current trajectory will mean that climate change impacts and risks will surpass our capacity to adapt, resulting in damage and loss. Even though some climate change impacts will not be avoided by mitigation and adaptation, at the last United Nations Framework for Climate Change Convention (UNFCCC) in November 2021, support for a funding facility for loss and damage, which includes loss and damage to lives, livelihoods, homes and territory, was denied. The lack of new, needs-based predictable finance targeted and channelled to vulnerable people means that communities will have to bear the cost of loss and damage, thus worsening their economic, mental and physical well-being.

Climate change impacts also affect water security, which in turn affects the Pacific's potential for development. Low-lying land countries like Kiribati and Tuvalu are at most risk. As people are forced to seek alternative water sources, human health security issues and inequalities will become more evident. In general, the Pacific has the lowest national water security index[4] in the Asia Pacific region. Its geographic location, diverse realities (urban, peri-urban, regional and remote) and limited financial resources augment water security issues in the Pacific;[5] and these issues are exacerbated by the difficulty of access to supply chains and markets. Consistent with the low level of implementation of dedicated water sanitation and hygiene policies, rural household water security in the Pacific is in a 'nascent' stage, which could mean that responses to climate change events will be reactive, and planning secondary to water shortages, water pollution and uneven water distribution.

2.2 Climate finance

The recommended operational definition of the UNFCCC Standing Committee on Finance is as follows: "climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts". There are various financial mechanisms (e.g. Green Climate Fund, Global Environmental Facility, Adaptation Fund, Climate Investment Fund, Special Climate Change Fund, among others) for both developed countries to contribute to, and for developing countries to access the much-needed financial support to mitigate and adapt to climate change. These funds provide grants, loans, risk mitigation instruments and equity.

[4] While the definition of water security of the Asian Water Development Outlook is comprehensive, the fact that the five key dimensions comprising the national water security index are defined and evaluated as standalone dimensions reduces the impact of the analysis.

[5] Countries included are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Excluded from these references are American Samoa, French Polynesia, Guam, New Caledonia, Northern Marianas, Pitcairn, Tokelau, and Wallis and Futuna.

Although the aim of these financing mechanisms was to mobilise as much as US$100 billion annually, there are some serious caveats. Oxfam reports that climate finance grew from US$44.5 to US$50.5 billion between 2015/16 to 2017/18. However, only three per cent went to Small Island Developing States (SIDS). Moreover, loans accounted for the majority of this: between 60 per cent and 88 per cent of multilateral climate finance between 2013 and 2019. When we consider that, on average, two thirds of climate finance received needs to be returned with interest, poorer countries are clearly not getting a great deal.

Given the insufficiency of the current mechanisms, it is not surprising that communities and voices in the Pacific are becoming increasingly frustrated at the lack of financial support from wealthy countries for addressing a crisis that those very countries are responsible for. Requests from the Pacific Islands Climate Action Network for a drastic upscaling of finance for the Pacific focusing on grant-based sources and allocated to adaptation, so the Pacific can meet its climate targets and Sustainable Development Goals (SDGs), has not resulted in action thus far.

The April 2022 Pacific Debt Conference is premised on the assumption that the debt and climate challenges facing the Pacific are interrelated. At a June 2021 dialogue on access to finance, the Fijian Minister for the Economy Aiyaz Saiyed Khaiyumi described the Covid-19 and climate threats as constituting a 'perfect storm' for Pacific countries. These countries need only look to the Caribbean to see a similar phenomenon: there, according to the United Nations Economic Commission for Latin American Countries (ECLAC), "natural disasters" have caused more than US$40 billion in damage and loss over the past three decades, and regular annual disaster losses in the Caribbean are estimated at US$3 billion.

The ECLAC therefore concludes that "sustainable debt reduction cannot be divorced from a long-term adaptation strategy (and an accompanying mechanism for its financing) in the Caribbean". Such sentiments could just as easily be expressed with respect to the Pacific.

3. Challenges for PSIDS' indebtedness in the coming years

As mentioned above, PSIDS urgently need to increase their fiscal space so they can invest in economic recovery as well as in adaptation and mitigation measures. Fiscal space will also be needed, particularly for countries that depend on food and energy imports, to face the rise in commodity prices.

However, the persistence of fiscal deficits and high debt levels could lead governments in the region to adopt contractionary fiscal policies in order to achieve fiscal consolidation. This would not only worsen poverty and inequality and undermine the achievement of economic and social rights, but rapid consolidation would also hinder economic recovery and the creation of new jobs by deepening the economic downturn. More importantly, fiscal consolidation driven austerity will not deliver a just transition towards climate resilient economies either.

In order to build up the fiscal space needed for recovery, SDGs and investment in climate adaptation and mitigation, the countries in the region would need to have access to substantial resources in the form of grants or in concessional terms. Access to concessional bilateral and multilateral financing will be particularly crucial for countries graduating from low-income to middle-income status.

Finally, in a context of increasing energy and commodity prices, countries in the region might be tempted to increase the exploitation of natural resources – including fossil fuels, mining or forests – in order to increase exports and use the revenue to repay the increasing debts. Several Pacific countries are already pursuing this agenda. The Fijian mining sector has seen a boom during the pandemic, and some in the Fijian government are talking up mining's "potential to support the Government in economic recovery". Likewise, in June 2020 the Solomon Islands Government announced a plan to fast-track mining leases in response to the pandemic – indeed, licences have been granted for three new nickel mining projects in the provinces of Isabel and Choiseul. In PNG, there is a continued push for the opening of new mines, such as the enormous Wafi-Golpu mine in Morobe Province. In the meantime, the Cook Islands, Kiribati, Nauru and Tonga have sponsored exploration by companies for mining in the deep sea trench that is encompassed by or adjacent to their territorial waters. The economic and environmental failures of such an approach in PNG (and the Solomons) should be evidence enough that extractivism as a response to economic downturn and indebtedness could only be counterproductive.

3.1. Shortcomings of the existing debt architecture

The calls to improve the existing international financial architecture, and particularly debt architecture, are becoming increasingly frequent, not only from CSOs, but also for UN agencies and representatives, international financial institution (IFIs) representatives, global south countries as well as, lately, the mainstream financial media. Similarly, the limitations of the initiatives that the G20 put in place for dealing with the debt distress enhanced by the pandemic, namely the Debt Service Suspension Initiative (DSSI) and the Common Framework (CF) for debt treatments beyond DSSI, have been highlighted by civil society as well as by the IMF and the World Bank.

For the Pacific Island countries, the limitations of the existing debt architecture are highlighted in the following:

- Two countries in the region are excluded from the DSSI and CF eligibility, Nauru and Palau.

Table 2: DSSI and CF eligibility

DSSI eligible and participated	
Fiji	Samoa
Papua New Guinea	Tonga
DSSI eligible but did not participate	
Kiribati	Solomon Islands
Marshall Islands	Tuvalu
Micronesia	Vanuatu
DSSI non-eligible	
Nauru	
Palau	

Source: World Bank, Covid-19 Debt Service Suspension Initiative, 2021

- Of the 10 eligible countries in the region, only four ended up applying to the DSSI (Fiji, Papua New Guinea, Samoa and Tonga), with a total saving of approximately US$462.3 million.
- For those that applied for DSSI, only 25 per cent of debt payments in 2020 and 2021 were covered. These temporary savings are to be paid from 2023 onwards, added to existing and new debt commitments.
- Multilateral debt is excluded from both DSSI and CF, and from most debt restructuring operations. This is key for most countries in the region, as multilateral debt represents a high percentage of their external public debt. For Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu, debt to multilateral institutions represents more than 40 per cent of the total public external debt (see Graph 1).
- The uncertainties and lack of clarity regarding the implementation of the CF remains high. Both the IMF and the World Bank have called for a clearer timeline for the framework, as well as more clarity on the implementation of the comparability of treatment clauses. They have also vouched for a debt payments standstill for the duration of the debt restructuring negotiations. So far, the G20 has not reached an agreement on any of these.
- Finally, the existing debt sustainability analysis methodologies (Market Access Countries Debt Sustainability Framework -MAC DSA-, and Low-Income Countries Debt Sustainability Analysis -LIC DSA-) also remain a challenge to countries facing multiple vulnerabilities. The IMF and World Bank approach to debt sustainability is still merely based on the capacity of payment, while the financial needs and risks linked, for instance, to climate vulnerabilities or structural income inequality, are not considered in the methodology to assess debt unsustainability. The updated MAC DSA allows for specific vulnerabilities to be included in the long-term analysis, including climate risks, but these are not part of the actual assessment of over-indebtedness risks.

Table 3: Pacific Island participation in DSSI

Country	Potential DSSI savings (May 2020 - December 2021 US$ millions)	Potential DSSI savings (May 2020 - December 2021 % of GDP)	Total debt service (2020-2021 US$ millions)	% DSSI savings / Total debt service
Fiji	40	0.7	311.65	12.8
Papua New Guinea	377.4	1.5	1,463.74	25.8
Samoa	26.2	3.1	53.16	49.3
Tonga	18.7	3.7	23.93	78.1
Total US$ millions	**462.3**		**1,852.48**	
Average % of GDP		**1.4**		**25.0**

Source: IMF, Pacific Islands Monitor, October 2021

Between April 2020 and December 2021, the IMF provided debt payment cancellation to a set of countries through the Catastrophe Containment and Relief Trust (CCRT), paid by contributions from donor countries. Only one country in the region has benefited from this debt relief, Solomon Islands, with only US$440 thousand of debt payments cancelled.

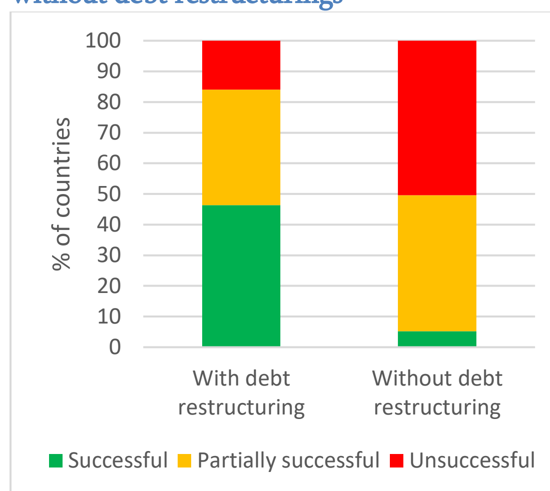
4. Options for debt resolution and debt crisis prevention

4.1 The importance of timely and comprehensive debt restructuring

We understand that the present international financial architecture does not offer an optimal framework or guarantees for a fair, lasting, comprehensive and timely resolution to the debt challenges in Pacific Island countries. However, even within the current system it is better to undertake early and strong debt restructurings when there are debt problems, rather than continuing to pay debts in full, which makes the crisis more protracted and more severe. As the IMF has stated: “debt restructurings have often been too little and too late, thus failing to re-establish debt sustainability and market access in a durable way”. A 2018 review by the IMF found that, of 33 IMF programmes in countries with high debt vulnerabilities,[6,7] only 40 per cent of them had seen any kind of debt reprofiling or restructuring carried out. However, in high debt countries where there was a restructuring as part of the IMF programme, 45 per cent were successful, 40 per cent were partially successful and 15 per cent were unsuccessful. In contrast, in programmes in high debt countries without a restructuring, just 5 per cent were successful, 45 per cent were partially successful and 50 per cent were unsuccessful (see Graph 2).[8]

Debt restructuring is also a means to be able to borrow from private markets again. As Scope Ratings has said: “If an economy’s debt sustainability is adequately enhanced via public and private sector debt relief, this could support stronger market access and lower borrowing rates longer term and, with this, potentially a stronger credit rating long term”.

Graph 2: IMF evaluation of the success of its programmes in high debt countries with and without debt restructurings



Source: IMF (2019) 2018 Review of program design and conditionality, May 2019

All countries facing debt distress should have a timely and comprehensive process available to restructure their debts, including debt cancellation when needed, based not only on payment capacity analysis but also on the financial needs to cope with the climate crisis and to advance towards the SDGs

Beyond that, lender and borrowing countries should consider the following recommendations, **including short-, medium- and long-term options for improving the debt crisis prevention and resolution framework**:

1. **Debt swaps for climate and/or development**: The history of debt swaps goes back to the 1980s, with multiple experiences of different types of debt for development swaps. This instrument is gaining momentum as debt-for-climate swaps (where liberated funds are invested in climate adaptation and mitigation measures) or debt-for-nature swaps (where funds are invested in conservation goals) are seen by some as ‘win-win’ solutions that will both relieve some of a country’s debt burden and free up

[6] The IMF does not make clear which the 33 countries are.

[7] This is made up of 17 General Resources Account programmes where debt was viewed as “unsustainable” or “sustainable but not with high probability”, and 16 Poverty Reduction and Growth Trust countries with a debt risk rating of “high risk” or in “debt distress”.

[8] For General Resources Account countries, the IMF defines success as ending the need for balance-of-payments support and reducing medium-term macroeconomic vulnerabilities. For Poverty Reduction and Growth Trust, the IMF defines success as reducing external debt vulnerabilities and making progress on increasing social expenditure, increasing tax revenue and achieving stable inflation and real GDP growth. More detail is available at Supplement Section III: Assessing Program Success.

resources at a national level to address the climate crisis. However, experience tells us that debt swaps have not been efficient when it comes to reducing debt significantly, particularly in cases of unsustainable debt levels. While well-designed debt swaps can indeed free up resources for climate resilience investments and other development related projects, there are risks and challenges that should be taken into consideration when promoting debt swaps. For instance, debtor governments can face challenges in mobilising counterpart resources, particularly if they were unable to repay the original debt in the first place. Debt swaps have also traditionally seen high transaction costs, so modalities that reduce those (such as trilateral debt swaps) or options for scaling up should be explored. When promoting debt swaps, country ownership should always be protected, avoiding any kind of conditionality or tied aid imposed by the donor. Finally, well-designed debt-for-climate swaps could indeed provide resources for financing mitigation and adaptation investment. However, this should be far removed from the climate finance that is needed in the most climate vulnerable countries and should always be additional to climate finance commitments. In summary, progress on debt swaps can help to free up resources for investment needs, but it should not be seen as a solution for unsustainable debts nor as a substitute for climate finance commitments.

2. Access to concessional finance and multidimensional vulnerability: As we identified, PSIDS will be needing to increase their fiscal space so that they are able to tackle the economic recovery, the reduction of inequalities as well as the fight against climate change. However, it is key that access to more financing does not exacerbate the debt vulnerabilities. Therefore, bilateral public donors and multilateral development banks should be ready to provide the necessary concessional finance. In relation to this, one of the challenges for low- and middle-income countries in the region is graduating to a higher income per capita category, while inequality and poverty, together with the climate emergency, remain a challenge in the country, as graduation has a direct impact on the access to concessional financing. Many voices have highlighted lately the need to leave 'income per capita' as a threshold behind and develop multidimensional vulnerability indicators (MVI) that help to grasp in a much more accurate way the needs and vulnerabilities in a country, and define access to concessional finance based on such needs and vulnerabilities. Advancing towards such a multidimensional vulnerability index could also improve debt restructurings, as it could lead to better access to debt cancellation and debt treatment frameworks to all countries in need, regardless of their income per capita.

3. Debt payments moratorium and comprehensive restructuring in the wake of external shocks (climate extreme events, natural disasters, health pandemic or other): CSOs have been supportive of the development of an automatic mechanism for debt payments suspension, debt cancellation and debt restructuring, covering public and private lenders, in the aftermath of extreme climatic events or natural disasters, in addition to immediate access to non-debt creating resources for loss and damage. Leaving the financial resources available in the country on the ground is simply the easiest, fastest and most reliable way to provide support for emergency relief and the first efforts towards reconstruction. In the wake of such events – such as the recent volcanic eruption in Tonga – debt payments could be automatically and temporarily suspended for a determined period. At the end of this period, a debt sustainability analysis should be conducted, considering the losses and damages, as well as the financing needs for recovery and reconstruction, providing the debt restructuring and debt cancellation needed in each case, involving all creditors.

4. Debt architecture reform: Beyond debt restructuring and cancellation to cope with the current debt crisis, governments and international organisations should support and work towards a reform of the existing international financial architecture. As the UN Secretary-General stated recently, "We need a global financial system that is fit-for-purpose. This means urgent debt restructuring and reforms of the long-term debt architecture."

At a minimum, these reforms should address the following challenges:

- **Global Debt Transparency Registry:** The call for further debt transparency is today wider than it ever was. The World Bank published a comprehensive report recently on the lack of transparency in developing countries' debt and the risks of hidden debts in debt resolution processes. CSOs have been calling for new mandatory rules to ensure lenders and borrowers disclose information on loans and other debt-creating instruments. In terms of partial and creditor-led initiatives such as the Organisation for Economic Co-operation and Development (OECD) Debt Transparency Initiative, CSOs propose the creation of a publicly accessible registry of loan and debt data, housed in a permanent institution, independent of lenders and borrowers (i.e. UN).

- **Review of debt sustainability frameworks:** Developing countries, particularly those affected by a multiplicity of vulnerabilities (including climate impacts), should support an open review of the approach to debt sustainability, with UN guidance and civil society participation. As the V20[9] states, climate vulnerable countries need comprehensive and enhanced Debt Sustainability Analysis (DSA) "that integrate climate and other sustainability risks, climate resilience benefits, as well as estimates of a country's financing needs for climate change adaptation, mitigation, and achieving the broader goals set out in the 2030 Agenda for Sustainable Development Goals. These risks and spending needs must be included to properly assess a country's debt sustainability capacity in the face of the climate crisis and to drive investments toward climate resilience". CSOs have been calling for a new approach to debt sustainability, incorporating human rights and development impact assessments in debt sustainability analyses to widen their focus solely from economic considerations to consider also the impact of a country's debt burden on its ability to meet development goals (including SDGs, climate goals, human rights and gender equality commitments) and create the conditions for the realisation of all universal human rights.

- **Debt workout mechanism:** Governments and international organisations should support and work towards the creation of a permanent multilateral sovereign debt resolution framework that, under the auspices of the UN, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent and durable debt crisis resolution, in a process convening all creditors. As the UN independent expert on debt and human rights puts it: "Debt restructuring is complex, time consuming and costly and, in times of crisis, the lack of an available mechanism often leads to a panicked search for a solution. The pandemic has made it imperative that we not wait for another crisis to renew efforts to have such a multilateral mechanism."

- The above should be accompanied by a number of reforms, including: building a global consensus on binding principles on Responsible Borrowing and Lending, the regulation and supervision of Credit Rating Agencies, regulation and supervision of the asset management industry and a global agreement on the importance of capital account management.

Additionally, in the last few years, we have seen some discussions and proposals on how to promote innovative solutions that help tackle the debt and climate crises together. The following are references to institutional and non-governmental proposals in this direction:

- AOSIS statement on debt (April 2021): The Alliance of Small Island States presented this statement to the UN Secretary-General and Member States, calling for "instruments to provide debt relief including through debt cancellation, debt

[9] The Vulnerable Twenty (V20) brings together the Ministers of Finance of the Climate Vulnerable Forum (CVF), a group of 48 countries from the global south systematically vulnerable to climate change. The V20, created in 2015, cooperates to strengthen economic and financial responses to climate change.

suspensions, debt rescheduling and restructuring, as well as other support measures" for SIDS. The statement included a call for "a multilateral debt workout mechanism to reduce external debt to a sustainable level in the medium term".

- Debt restructuring for climate action (October 2021): Members of the V20 promoted in October 2021, right before the COP26 summit in Glasgow, a statement with a proposal for a major debt restructuring initiative for climate-vulnerable countries overburdened by debt. This type of restructuring should include some level of debt write-off, as well as the commitment from beneficiary countries to devote the freed-up resources on their own plans to achieve climate resilience and prosperity. The statement also includes the proposal for an enhanced Debt Sustainability Analysis, in order to account for climate and other sustainability risks and spending needs for climate action and achieving the SDGs.

- Debt relief for green recovery (June 2021): A report published by Boston University Global Development Policy Center, the Heinrich Böll Foundation and the Centre for Sustainable Finance at SOAS, University of London. Along the lines of the V20 statement, this report proposes four steps to transform the G20 Common Framework: make debt relief available to all countries; perform enhanced Debt Sustainability Analyses also accounting for both physical and transition risks; create a Guarantee Facility to incentivise private creditor participation in the debt restructuring; and build pathways towards green and inclusive recoveries, to which the participation in the debt restructuring would be conditional.

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