Guaranteeing Sustainable Development
About DRGR

The Debt Relief for Green and Inclusive Recovery (DRGR) project is a collaboration between the Boston University Global Development Policy Center, Heinrich-Böll-Stiftung and the Centre for Sustainable Finance, SOAS University of London.

Utilizing rigorous research, DRGR seeks to develop systemic approaches to both resolve the debt crisis and advance a just transition to a sustainable, low-carbon economy in partnership with policymakers, thought leaders and civil society from around the world.

Stay Connected drgr.org  Media Inquiries Maureen Heydt, mheydt@bu.edu
DRGR
Co-Chairs

Shamshad Akhtar
Former Governor, State Bank of Pakistan and Finance Minister of Pakistan

María Fernanda Espinosa
Politician, Diplomat and Human Rights Advocate

Kevin P. Gallagher
Director, Boston University Global Development Policy Center

Jörg Haas
Head, International Politics, Heinrich Böll Foundation

Yuefen Li
Senior Advisor, South-South Cooperation and Development Finance, South Centre

Ulrich Volz
Professor, Economics; Director, Centre for Sustainable Finance at SOAS, University of London

Anzetse Were
Senior Economist, Financial Sector Deepening Kenya
Key Findings
Key Findings

Emerging market and developing economy (EMDE) external debt levels and service payments have more than doubled since the 2008 global financial crisis. Between 2008-2021, EMDE sovereign debt increased from $1.3 trillion to $3.6 trillion.

Climate vulnerable countries have some of the most significant debt distress. A higher climate vulnerability correlates with a lower sovereign borrowing space and high debt service payments against exports.

More than $812 billion in debt needs to be restructured across all creditor classes for 61 countries ‘New Common Framework Countries’. We estimate that public and private creditors will have to grant haircuts between $317 billion to $520 billion in debt relief.
Key Findings (cont.)

Between $37.1 billion to $61.9 billion is needed to fund the guarantee facility that would provide enhancements for newly issued ‘green and inclusive recovery’ Brady bonds that private and commercial creditors can swap with a significant haircut against old debt.

At least $30 billion in debt needs to be suspended over for the next five years to allow these 61 countries immediate relief, provide financial assurance to new creditors and compel reluctant creditors to the negotiating table.
‘It’s Now or Never’
The Proposal
DEBT RELIEF FOR A GREEN & INCLUSIVE RECOVERY

International financial architecture reform aligned with the UN 2030 Sustainable Development Goals and Paris Agreement finance needs.

All creditors receive comparable treatment

PUBLIC & MULTILATERAL CREDITORS

Comprehensive debt relief for 61 eligible countries.
Range: $143.7 billion to $235.8 billion

PRIVATE & COMMERCIAL CREDITORS

Private and commercial creditors swap old debt with a haircut for new sustainability-linked bonds.
Range: $173.3 billion to $284.4 billion
A guarantee facility backs up new bonds.
Range: $37.1 billion to $61.9 billion

CREDIT ENHANCEMENT

For countries not in debt distress but that lack fiscal space, credit enhancement should be provided by international financial institutions to lower the cost of capital for a green and inclusive recovery.

New Common Framework Countries

Countries not heavily indebted

Enhanced Debt Sustainability Analysis

Note: The ranges of haircuts mentioned in the figure reflect net present value (NPV) and are based on the Historical and HIPC-like scenarios.
By the Numbers

$1 trillion per year is needed in EMDEs (other than China) to accomplish the Paris Climate Agreement targets and achieve the UN 2030 SDGs

8 countries are currently in default (emerging markets)

61 countries already in and at risk of debt distress

The G20 Common Framework Falls Short

1. Leaves middle-income countries out of relief.
2. Doesn’t compel all creditors to the negotiating table.
3. Not linked to climate and development goals.
Understanding the Crisis
Composition of Developing Country Debt Stock, 2008-2021

Source: Compiled by authors using World Bank (2022).
A High Cost of Capital Challenges EMDEs in Making New Investments

Source: CountryRisk data and authors’ calculations.
Climate Vulnerability and Sovereign Borrowing Space

Source: Chamon et al (2022) and Meattle (2022).
The Proposal Explained
61 countries

many among the most climate vulnerable, are acutely at or near debt distress and need immediate debt relief alongside other measures.
Source: Compiled by authors using World Bank (2022).
DEBT RELIEF FOR A GREEN & INCLUSIVE RECOVERY

International financial architecture reform aligned with the UN 2030 Sustainable Development Goals and Paris Agreement finance needs.

All creditors receive comparable treatment

PUBLIC & MULTILATERAL CREDITORS

Comprehensive debt relief for 61 eligible countries.
Range: $143.7 billion to $235.8 billion

PRIVATE & COMMERCIAL CREDITORS

Private and commercial creditors swap old debt with a haircut for new sustainability-linked bonds.
Range: $173.3 billion to $284.4 billion
A guarantee facility backs up new bonds.
Range: $37.1 billion to $61.9 billion

CREDIT ENHANCEMENT

For countries not in debt distress but that lack fiscal space, credit enhancement should be provided by international financial institutions to lower the cost of capital for a green and inclusive recovery.

New Common Framework Countries

Countries not heavily indebted

Enhanced Debt Sustainability Analysis

Note: The ranges of haircuts mentioned in the figure reflect net present value (NPV) and are based on the Historical and HIPC-like scenarios.
Ensuring Private-Sector Participation
$30 billion should be suspended for the more than 60 countries needing immediate debt relief. This would incentivize creditors to participate in the negotiations and reduce short-term debt payment stress.
Debt Relief and Remaining Resource Mobilization Needs

Source: Chamon et al (2022) and Meattle (2022).
It is time for a new Bretton Woods moment. A new commitment to place the dramatic needs of developing countries at the center of every decision and mechanism of the global financial system. A new resolve to address the appalling inequalities and injustices laid bare once again by the pandemic and the response. A new determination to ensure developing countries have a far greater voice in global financial institutions. And a new debt architecture that encompasses debt relief and restructuring to vulnerable countries, including middle-income ones in need—building on the momentum of the Bridgetown Agenda.

UN Secretary General Antonio Guterres
New Common Framework Countries

Afghanistan
Angola
Argentina
Belarus
Belize
Benin*
Burkina Faso
Burundi
Cabo Verde
Cameroon*
Central African Republic
Chad
Comoros
Congo, Rep.
Cuba**
Djibouti
Dominica
Ecuador
Egypt
El Salvador
Eritrea*
Eswatini
Ethiopia
Gabon
Gambia
Ghana
Grenada
Guinea-Bissau
Haiti
Iraq
Kenya
Kiribati**
Kyrgyz Republic
Lao PDR
Lebanon
Liberia*
Madagascar
Marshall Islands**
Malawi
Maldives
Mali
Mauritania
Micronesia
Moldova
Mozambique
Nicaragua
Niger
Nigeria
Pakistan
Papua New Guinea*
Samoa
São Tomé and Príncipe
Sierra Leone
Solomon Islands
Somalia
Sri Lanka
St. Vincent and the Grenadines
South Sudan**
Sudan
Tajikistan
Tonga
Tunisia
Tuvalu
Venezuela**
Ukraine
Zambia
Zimbabwe

*High risk or actively in debt distress and low sovereign fiscal space according to the IMF; **No International Debt Statistics data available.
Developing Country Debt Stock

$3.6 trillion

- Bondholders: $1.7 trillion (47%)
- Multilateral Development Banks: $808 billion (22%)
- Other Private Creditors: $501 billion (14%)
- Paris Club (Bilateral): $246 billion (7%)
- China (Bilateral): $149 billion (4%)
- Other Bilateral Creditors: $72 billion (2%)
- Use of IMF Credit: $141 billion (4%)

Source: Compiled by authors using World Bank (2022).
Estimated Debt Service Comparison, 2010-2023

Source: Compiled by authors using World Bank (2022).
Climate Vulnerability, Debt Service and Government Revenue for New Common Framework Countries

Source: Compiled by authors using Chen et al. (2015) and World Bank (2022).