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The impact of sovereign debt on inequality

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Abstract [En]: With reference to the 2030 Agenda for Sustainable Development, the study examines the impact of sovereign debt on inequality, finding that: 1) a high level of debt leads to worsening inequality within the state; 2) the current high debt levels in low- and middle-income countries widen the existing gap with high-income countries. The study therefore highlights the need for a new debt restructuring mechanism that, combined with sustainable financing, would support the achievement of the Sustainable Development Goals.

Titolo: L'impatto del debito pubblico sulla disuguaglianza

Abstract [It]: Prendendo come riferimento l'Agenda 2030 per lo Sviluppo Sostenibile, il contributo analizza l'impatto del debito sovrano sulla disuguaglianza riscontrando che: 1) un elevato livello di indebitamento comporta un peggioramento delle disuguaglianze interne allo Stato; 2) l'attuale elevato indebitamento dei paesi a basso e medio reddito amplifica il divario esistente con i paesi ad alto reddito. Il contributo rileva quindi la necessità di un nuovo meccanismo per la ristrutturazione del debito che, accompagnato da finanziamenti sostenibili, favorisca il raggiungimento degli Obiettivi di Sviluppo Sostenibile.

Keywords: Inequality, Sustainable Development Goals, sovereign debt, debt restructuring, G20

Parole chiave: Disuguaglianza, Obiettivi di Sviluppo Sostenibile, debito sovrano, ristrutturazione del debito, G20

Table of contents: 1. Introduction. 2. Sovereign debt as a driver of inequality within countries. 3. Sovereign debt as a driver of inequality among countries. 4. Conclusions.

1. Introduction

The defining principle of the 2030 Agenda for Sustainable Development¹ is “Leave no one behind”, a shared promise by UN member countries to cooperate to secure the rights and well-being of all people on a healthy and thriving planet.

While 2030 is fast approaching, we are failing that promise. The mid-term review of the implementation of the UN Sustainable Development Goals (SDGs), which was conducted last year, presented a sobering assessment: in 2023, progress on more than half of the SDGs was weak or insufficient; and, for one third of key SDG targets related to health, hunger, poverty, and climate, progress either stalled or reversed.²

These are indeed difficult times. Our world is facing a polycrisis³ that threatens the achievement of the SDGs: adding to the Covid-19 pandemic and the climate crisis, to the Russian aggression on Ukraine and

* Articolo sottoposto a referaggio.

¹ United Nations, General Assembly Resolution, *Transforming Our World: The 2030 Agenda for Sustainable Development*, U.N. G.A. Res. 70/1, U.N. Doc. A/RES/70/1.

² United Nations, *The Sustainable Development Goals Report 2023: Special edition – Towards a Rescue Plan for People and Planet*, 2023.

³ The definition was first used by A. TOOZE, *Welcome to the World of the Polycrisis*, Financial Times, 28 October 2022.

new geopolitical tensions, tight financial conditions and the surge in inflation have led to a global growth slowdown and have intensified the debt crisis that emerging and developing countries are facing.⁴

In this new context, years of sustainable development gains are being erased. And the picture is particularly dramatic when considering the goal to reduce inequality within and among countries (SDG 10) and its targets (on which see Box 1).

BOX 1

Sustainable Development Goal 10: Reduce inequality within and among countries

Target 10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

Target 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Target 10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

Target 10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality

Target 10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations

Target 10.6 Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions

Target 10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies

Target 10.a Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements

Target 10.b Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes

⁴ Inflation, which has always been an effective method of debt reduction, is not effective to reduce external debt denominated in foreign currency. In the last few years, many developing and emerging economies' currencies have fallen steeply against the USD, raising the costs of servicing dollar-denominated debt.

Target 10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent

While the different SDGs of the Agenda 2030 have an integrated, universal and indivisible nature, it must be acknowledged that the fight against inequality cuts across all of them horizontally. In fact, inequality magnifies the uneven and negative impacts of shocks across SDGs, potentially leading to long-term consequences. Unfortunately, this is exactly what has been happening since the Covid-19 pandemic.

According to the UN Department of Economic and Social Affairs, even if during 2009-2022 incomes of the poorest 40% of the population have generally grown faster than the national average in many countries, the gap in per-capita income growth between the poorest and richest countries has widened over the past five years.⁵

At the same time, discrimination based on race, gender, age, religion or belief remain pervasive, together with discrimination on ground of social origins and socio-economic or marital status.⁶

Furthermore, the World Bank reports that the Covid-19 pandemic has caused the largest increase in income inequality among countries in three decades, with a rise of 4.4% in the period 2019-2020, compared with the pre-pandemic 0.8% reduction.⁷

Given the current scenario, additional resources are therefore essential to reduce inequality both within and among countries. The 2030 Agenda itself recognizes that achieving its ambitious goals requires a revitalized global partnership, uniting governments, civil society, the private sector, the United Nations system, and other stakeholders to mobilize all available resources (SDG 17).

Yet many developing nations are grappling with a silent debt crisis, where mounting debt burdens threaten their ability to finance essential projects, deepening inequality and undermining long-term sustainability.

Some data are required to gain a more profound understanding of the present situation.

Between 2008 and 2022, external debt levels of African countries surged by 240% due to external shocks such as climate-related impacts, spikes in energy and food prices, and interest rate hikes by central banks in advanced economies.⁸

⁵ United Nations, *The Sustainable Development Goals Report 2023*, cit., p. 32.

⁶ *Ibid.*, p. 32.

⁷ D. G. MAHLER et al., *The Impact of COVID-19 on Global Inequality and Poverty*, World Bank Policy Research Working Paper, No. 10198, 2022.

⁸ B. KENEWENDO, P. NJOROGE, A. DRYDEN, *Giving Voice to the Silent Debt Crisis*, Boston University Global Development Policy Center; Centre for Sustainable Finance, SOAS, University of London; Heinrich Böll Foundation, October 2024, p. 6.

In 2022, according to the United Nations Development Programme (UNDP)⁹ and the World Bank,¹⁰ as many as 54 countries were either at high risk of debt distress or already in default (*i.e.*, nearly two-thirds of low-income countries and around one-third of middle-income countries).

Nowadays, even if the debt position of certain countries has experienced a marginal improvement, 47 emerging and developing economies are projected to face insolvency problems in the next five years.¹¹

While default might provide temporary respite from overwhelming debt burdens, it is not a panacea. Its long-term consequences – like loss of access to capital markets and higher borrowing costs – often outweigh the immediate benefits, making default a risky solution.

Thus, as highlighted in SDG Target 17.4, immediate action is essential to support developing countries in achieving long-term debt sustainability, particularly through measures such as debt restructuring and the provision of debt relief.

Unfortunately, the sovereign debt restructuring legal framework is not fit for purpose. It is common knowledge that, even if sovereign defaults are a structural phenomenon typical of the global economy,¹² no comprehensive mechanism – akin to domestic bankruptcy laws – has ever been established.

When sovereign debt restructuring becomes necessary and unavoidable, the different categories of creditors (bilateral creditors, commercial banks or bondholders) are grouped together and, for each category, debt is treated using a dedicated vehicle.¹³ In practice, the form of the negotiations is set by the legal nature of the debt instruments being restructured. In the past, sovereign debtors used to negotiate mainly with two creditor groups: with commercial banks through the creation of *ad hoc* creditor committees, and with official bilateral creditors through the so-called ‘Paris Club’.¹⁴

⁹ See UNDP, [Avoiding ‘Too Little, Too Late’ on International Debt Relief](#), October 2022.

¹⁰ See World Bank, [International Debt Report 2022](#), Washington D.C., 2022. See also C. CHUKU, P. SAMAL, J. SAITO, D. S HAKURA, M. DE CHAMON, M. D. CERISOLA, G. CHABERT, and J. ZETTELMEYER, [Are We Heading for Another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the pre-HIPC Era](#), IMF Working Paper, April 2023.

¹¹ M. ZUCKER-MARQUES, K. P. GALLAGHER, U. VOLZ et al., [Defaulting on Development and Climate: Debt Sustainability and the Race for the 2030 Agenda and Paris Agreement](#), Boston University Global Development Policy Center; Centre for Sustainable Finance, SOAS, University of London; Heinrich Böll Foundation, April 2024, p. 33.

¹² See C. M. REINHART AND K. ROGOFF, *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press, Princeton, 2009.

¹³ On sovereign debt restructuring, see among others K. NAKAJIMA, *The International Law of Sovereign Debt Dispute Settlement*, Cambridge University Press, Cambridge, 2022; A. VITERBO, *Sovereign Debt Restructuring: The Role and Limits of Public International Law*, Giappichelli, Torino, 2020; M. MEGLIANI, *Sovereign Debt: Genesis, Restructuring, Litigation*, Springer, Berlin, 2015; M. WAIBEL, *Sovereign Defaults before International Courts and Tribunals*, Cambridge University Press, Cambridge, 2011.

¹⁴ The Paris Club remains an informal group of 22 wealthy countries (all the G7 countries and most of OECD members). In fact, its functioning is neither regulated by a treaty, nor by the attribution of competences. Had the Club become a fully established international organization, this would have entailed admitting debtor States, something that creditor States have never considered desirable, for fear of losing power and influence on the process. Developing countries, on the other hand, never managed to show cohesion (not even the 11 Latin American countries which in 1984 created the Cartagena Group) and form their own club.

Things however have changed. Over the last decade, the creditor base of developing countries has grown more diverse: sovereign bondholders have become the largest creditor group (41%), followed by multilaterals (24%) and China¹⁵ (12%), with Paris Club members and commercial banks coming only afterwards.¹⁶ In particular, China – which has shown no willingness to join the Paris Club – has been providing more loans to the developing world than the International Monetary Fund (IMF), the World Bank and all the 22 Paris Club members combined.¹⁷

The growing fragmentation of the creditor landscape has rendered the process exceedingly complex to the extent that, even at the height of the Covid-19 crisis, the G20 could not reach consensus on establishing a permanent and comprehensive sovereign debt restructuring framework that would secure the broadest creditor participation and an equitable burden-sharing. The only initiatives that the G20 was able to adopt – initially the Debt Service Suspension Initiative (DSSI), later replaced by the Common Framework for Debt Treatment beyond the DSSI – have proven ineffective.¹⁸

Before addressing the shortcomings of the Common Framework (the only mechanism currently in place), it is crucial to explore how the unfolding debt crisis is intensifying inequality both within and among countries.

2. Sovereign debt as a driver of inequality within countries

There are two main dynamics that make inequality grow in highly indebted countries: a) the diversion of resources to debt service, to the detriment of the budget allocated to poverty reduction measures, development priorities, and critical climate investments and b) the adoption of fiscal consolidation policies, commonly known as ‘austerity measures’.

a) Over the past decade, the cost of servicing debt has soared, particularly for countries of the Global South. For instance, World Bank data indicate that, while economic growth in developing countries over the next five years is expected to be the lowest in 30 years, interest rates on their government bonds have reached the highest levels in four decades.¹⁹

¹⁵ China is not a member of the Paris Club but is the third largest member of the IMF.

¹⁶ See UNDP, *Avoiding ‘Too Little, Too Late’ on International Debt Relief*, *op. cit.*, p. 10; World Bank, [World Development Report 2022: Finance for an Equitable Recovery](#), Washington DC, 2022, p. 212 (figure 5.5).

¹⁷ See C. REINHART, C. TREBESCH and S. HORN, [China’s Overseas Lending and the Looming Developing Country Debt Crisis](#), CEPR, 4 May 2020.

¹⁸ In the wake of the pandemic crisis, the G20 and the Paris Club first agreed on the Debt Service Suspension Initiative (DSSI) and then, recognising that a debt standstill was not enough, adopted the Common Framework. Under the DSSI, 48 out of the 73 eligible countries – *i.e.*, countries eligible to receive funding from the International Development Association (IDA) and countries classified by the United Nations as Least Developed Countries (LDCs) – were able to benefit from a temporary suspension of payments on their bilateral debt. Regrettably though, while providing a welcome breathing space, the DSSI only postponed the debt problem. Therefore, in November 2020, the G20 and the Paris Club adopted the Common Framework for Debt Treatment beyond the DSSI.

¹⁹ World Bank, [International Debt Report 2023](#), Washington D.C., 2023, p. 13.



Even more concerning is that, in 2023, low-income countries and least developed countries (LDCs) spent nearly 20% of their government revenues to meet external public debt obligations, a four-fold increase since 2013.²⁰ These States are now facing unprecedented repayment demands from external creditors, with more than USD 1 billion needed each day for debt servicing in 2024.²¹

In particular, the debt-service-to-export ratio – measuring external debt service as a proportion of exports of goods and services – has surged significantly across all countries, with the exception of high-income economies. For LDCs the debt-service-to-export ratio raised from 2.9% in 2008 to 13.2% in 2023.²² Indeed, this ratio is a key indicator of a country's external debt sustainability, as it reflects the proportion of export revenues required to service debt obligations. A persistent deterioration of the debt-service-to-export ratio signals in fact an inability to generate enough foreign exchange income to meet external debt obligations, pointing to potential debt distress.

The severity of today's crisis is further highlighted by the fact that over 3.3 billion people – nearly half of the global population – live in countries where debt service payments exceed spending on education or healthcare.²³

b) Countries in debt distress cannot but turn to the IMF for financial assistance. The Fund has a key role as a balance-of-payments lender for troubled economies and often acts as a lender of last resort.

IMF lending, though, comes with attached conditionality, that is conditions intended to assist the borrowing country in restoring growth and stability in a manner that is consistent with the IMF Articles of Agreement and that establishes adequate safeguards for the temporary use of the Fund's resources.

In other words, the term 'conditionality' refers to the economic and financial policies and structural reforms that the programme country is required to implement to be able to obtain IMF lending. Such policies are typically rooted in neoliberal principles and involve reducing government expenditures, cutting subsidies, and raising value-added taxes.

Moreover, conditionality measures imposed on debt-laden countries are often regressive, placing a disproportionate burden on the most vulnerable segments of society and exacerbating existing inequalities.

For instance, eliminating fuel subsidies can raise transportation costs for people in remote areas, reducing their ability to reach hospitals and significantly undermining access to healthcare. Similarly, increases in electricity tariffs can drive up costs for hospitals and clinics struggling to provide uninterrupted care, while forcing households to choose between essential needs such as food, electricity, and medicine. These

²⁰ UNCTAD, *SDG Pulse 2023*, p. 75,

²¹ Erlassjahr, *Global Sovereign Debt Monitor 2024*, Düsseldorf, April 2024.

²² UNCTAD, *Escalating Debt Challenges Are Inhibiting Achievement of the SDGs*, 2024.

²³ UN Global Crisis Response Group, *A World of Debt: A Growing Burden to Global Prosperity*, July 2023.

measures disproportionately impact poorer consumers, who spend a larger share of their income on these basic necessities, increasing within-country inequality.²⁴

To prevent this outcome – namely, rising inequality – fiscal consolidation measures must at least be paired with robust social safety nets. Without this support, the reduction in the State’s redistributive capacity – made evident by cuts to subsidies and social spending – will pave the way for worsening inequality within the country.

It is therefore important to acknowledge that, in more recent years, the IMF has begun incorporating the strengthening of social safety nets into its programme conditionality and policy advice, while also paying greater attention to the impact of food and energy subsidy reforms on vulnerable groups.²⁵

This shift holds promise for fostering more inclusive growth and supporting long-term resilience among those most affected by economic adjustments.

3. Sovereign debt as a driver of inequality among countries

Inequality among countries – in particular, between low- and high-income countries – arises from various factors, including unequal access to technology, financing, and trade. This disparity is further exacerbated by the disproportionate impact of the climate crisis on developing States (despite their minimal contribution to its causes) as well as by a) the unsustainable levels of sovereign debt in developing countries and b) their unequal representation in international financial institutions.

a) Indeed, financial resources are increasingly flowing from indebted poor countries to foreign creditors of advanced economies.

Alarmingly, in 2022, total net debt flows to low- and middle-income countries became negative, meaning more money was being repaid than was received through new loans. This shift was caused by a decline in both short-term and long-term debt inflows from private creditors. In turn, the contraction of private lending reflected a significant reduction in sovereign bond issuance by developing countries and a decrease in financing from commercial banks.²⁶

Moreover, from another troubling perspective, we can observe that the number of countries paying more in debt service than they receive in new debt or grant disbursements from providers of Official Development Assistance (ODA)²⁷ is set to double in 2025 (from 26 to 44 countries), raising significant

²⁴ On these issues, see among many K. JENKINS, *Energy justice: A Conceptual Review*, in *Energy Research & Social Science*, 2016, p. 174 ff.

²⁵ See Independent Evaluation Office, *The IMF and Social Protection*, Washington D.C., 2016 and IMF, *IMF Engagement on Social Safety Nets*, Washington D.C., 3 October 2022.

²⁶ World Bank, *International Debt Report 2023*, *op. cit.*, p. 14.

²⁷ Within SDG 17 “Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development”, target 17.2 calls on developed countries to implement fully their ODA commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of ODA/GNI to developing countries

concerns about their financial stability and long-term development prospects. In fact, despite the record high of USD 223.7 billion reached by ODA flows to developing countries in 2023, they remained well below the target of 0.7% of gross national income outlined in the Addis Ababa Action Agenda, achieving only 0.37% in 2022.²⁸

The persistent gap between ODA flows and commitments made by developed countries remains a key contributor to the underfunding of the SDGs in LDCs. On top of that, however, it is crucial to assess whether ODA flows take the form of grants or loans, as loans add to the debt burden of LDCs and can thus fuel a problem in one area of sustainable development while aiming at solving a problem in another. Therefore, it is concerning that, in the period 2012–2021, the share of grants in total ODA to LDCs declined to 76% from the 85% of the preceding decade 2002–2011.²⁹

b) On a different plan, SDG Target 10.6 calls on countries to ensure enhanced representation and voice for developing countries in decision-making processes at international economic and financial institutions, aiming to create more effective, credible, accountable and legitimate organizations. SDG Target 10.6 seeks to enhance the inclusivity of global governance systems, enabling developing countries to exert greater influence over policies that impact them, thereby addressing power imbalances and promoting fairness in global economic systems.

The urgency of reforming the international financial architecture has been reaffirmed by the UN General Assembly in September 2024 through the adoption of the Pact for the Future.³⁰ The Pact – which covers a broad range of issues (from peace and security to digital cooperation) – includes in fact renewed commitments to deliver on the implementation of the SDGs and finally reform the multilateral organizations created at the end of the Second World War (Action 48).

However, strengthening representation and voice for developing countries in the IMF and the World Bank remains challenging, as both organizations use a weighted voting system that favours advanced economies.

In practice, applying a widely criticized formula,³¹ each member State is assigned a quota in the IMF (or a number of shares in the World Bank) that reflects its relative position in the global economy. The voting rights of each member are then determined on the basis of its quota or shares.

and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries.

²⁸ Total ODA in 2023 rose by 47% compared to 2015. This was the fifth consecutive year ODA reached a new high. The increase was primarily due to aid for Ukraine, humanitarian aid and contributions to international organisations. Source: UNDESA, [Progress and info on SDG 17](#), 2024.

²⁹ UNCTAD, [The Least Developed Countries Report 2023](#), Geneva, 2023, p. 26.

³⁰ United Nations, General Assembly Resolution, *Pact for the Future*, U.N. G.A. Res. 79/1, U.N. Doc. A/RES/79/1.

³¹ The current quota formula is a weighted average of GDP (weight of 50%), openness (30%), economic variability (15%) and international reserves (5%) expressed in shares of global totals. The quota formula has remained almost

Moreover, while member States with the larger quotas in the IMF (or greater shares in the World Bank) are able to appoint their own Executive Director, other Directors are elected by groups of countries known as ‘constituencies’. Notably, an Executive Director elected by a constituency casts his/her votes on behalf of the entire group, representing the combined voting power of all the constituency members. Since votes within a constituency cannot be split – meaning they cannot be partially cast for and against a decision – the voice of developing countries is *de facto* absorbed by that of the medium or advanced economy leading the group. As a result, smaller economies have minimal influence over the decision-making process of the IMF/World Bank Executive Board.

Despite ongoing discussions about adopting a new quota formula, and even if a further quota realignment aimed at protecting the voting power of the poorest members will finally be agreed upon in 2025, the voice and representation of the developing world would likely still remain limited.

Structural imbalances in voting power and the influence of larger economies mean that, even with reforms, developing countries will continue to face significant barriers to shaping decisions within the IMF and the World Bank. This underscores the need for deeper systemic changes to ensure fairer and more equitable representation for all member States.

4. Conclusions

As a silent debt crisis unfolds across nearly 50 low- and middle-income countries, the achievement of the SDGs drifts even further out of reach, with developing States locked in a struggle to avoid default.

As outlined in this brief, unsustainable debt levels exacerbate inequality both within and among countries.³² In turn, inequality affects the effective enjoyment of human rights, leading to forms of discrimination that are prohibited under international law. When debt service payments consume a significant portion of government revenues, the debtor State often becomes unable to meet its minimum core human rights obligations, jeopardizing the progressive realization of economic, social and cultural rights.³³

On the opposite perspective, economic studies have demonstrated that rising income inequality within a country increases the probability of default in a significant way.³⁴

unmodified for decades, failing to keep up with the developments of the world economy. The last modification was agreed in 2008 but discussions continue on a new comprehensive review of the formula.

³² See also, from an economic perspective, A. E. APETI, *Sovereign Debt Default and Inequality*, in *Industrial and Corporate Change*, 2023, pp. 502-521.

³³ J.P. BOHOSLAVSKY, *Economic Inequality, Debt Crises and Human Rights*, in *The Yale Journal of International Law Online*, 2016, n. 2, p. 177 ff., at 180. The Author discusses also how inequality affects sovereign debt both directly and indirectly.

³⁴ K. JEON and Z. KABUKCUOGLU, *Income Inequality and Sovereign Default*, in *Journal of Economic Dynamics and Control*, 2018, pp. 211-232.



To avoid losing another decade of development, the vicious circle between sovereign debt and inequality must be broken. To address this, comprehensive debt restructuring mechanisms, fairer lending practices, and increased financial support for sustainable development are essential.

To address these challenges, many are advocating for enhanced cooperation and for a deep reform of the international financial architecture. These voices include the UN Secretary-General António Guterres³⁵ and the 2024 Brazilian presidency of the G20, which committed to put at the centre of the international agenda the fight against hunger, extreme poverty and inequality in all its forms together with the provision of debt relief to highly indebted countries.³⁶

Even if initiatives are multiplying, they often remain dead letter.

Unfortunately, even the most recent G20 initiative – the Common Framework for Debt Treatment³⁷ – has failed to live up to its promises.

The goal of the Common Framework was to provide a coordinated and orderly process for restructuring the debt of low-income countries facing unsustainable debt burdens.

However, the G20 initiative has faced significant challenges and is widely considered to have fallen short of its intended goals.

One of the primary issues is the slow pace of negotiations and debt restructuring under the Common Framework. The process has been extremely time-consuming, leading to protracted delays in providing relief to countries in urgent need (eg. in the case of Zambia and Chad).

Second, while the Common Framework aimed to bring together traditional bilateral lenders (e.g., Paris Club members), new bilateral creditors (such as China) and private creditors, the lack of coordination among these groups has caused complications. China, in particular, has been hesitant to fully align with the processes, often prioritizing its bilateral negotiations over multilateral agreements.

Moreover, private creditors have resisted participation in the debt restructuring process and the Framework lacks any legal mechanisms to compel them and enforce creditor participation or compliance. Without the involvement of private sector lenders, debt relief efforts are incomplete and reaching debt sustainability remains a challenge.

Transparency in debt negotiations has been another issue. The Framework relies heavily on voluntary participation and good faith negotiations, but many debtor countries and creditors have been criticized

³⁵ A. GUTERRES, [UN Secretary General's Briefing to the General Assembly on Priorities for 2023](#), 6 February 2023.

³⁶ See [Leaving No One Behind: G20 Development Ministerial Declaration for Reducing Inequalities](#), adopted at the G20 development ministers meeting in Rio de Janeiro, 23 July 2024.

³⁷ The G20 and the Paris Club adopted the Common Framework in November 2020. Under the Common Framework, DSSI countries with an unsustainable debt will receive debt relief on a case-by-case basis, with a reduction in the net present value of debt sufficient to restore sustainability. See [Statement of the Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting](#), 13 November 2020 (Annex I: Common Framework for Debt Treatment beyond the DSSI).



for the lack of openness, particularly with respect to debt terms, which makes it harder to build trust and streamline the process.

The Framework is also overly bureaucratic, with numerous layers of negotiations between different types of creditors. Each group has different interests, making it difficult to reach consensus. For example, China's preference for specific terms, such as extending payment deadlines rather than writing off part of the debt, can conflict with other creditors' strategies, further complicating resolutions.

Last but not least, the Common Framework only applies to low-income countries eligible for International Development Association (IDA) assistance and least developed countries as defined by the United Nations, which limits its reach. Many middle-income countries with high debt burdens are excluded, even though they also face significant financial distress.

These factors combined have limited the Common Framework's ability to provide timely and effective debt relief to struggling countries. Despite its ambitious goals, its slow progress and inability to manage the complexity of inter-creditor equity issues have hampered its success.

The challenges presented by the Common Framework and by the fragmented nature of sovereign debt – with sovereign bonds held by a diverse array of creditors, ranging from retail investors to hedge funds and sovereign wealth funds – complicates consensus building. This notwithstanding, the global community must prioritize collaborative efforts to establish a more cohesive approach to debt restructuring, accompanied by a strong commitment to the principles of transparency, equity, and sustainable development.

Debt relief alone will not suffice though: addressing inequality both within and among countries requires implementing a multifaceted approach that includes a major injection of low-cost financing as well as comprehensive reforms of the global financial architecture.