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**ENSURING DEBT
SUSTAINABILITY FOR LOW-
INCOME COUNTRIES**

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**Harnessing Parliamentary Diplomacy for the Realization of Global Solidarity,
Equality, and Sustainability**

List of Abbreviations

AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
CADTM	Committee for the Abolition of Illegitimate Debt
CSO	Civil Society Organisations
DSSI	Debt Service Suspensions Initiative
EMDE	Emerging Market and Developing Economies
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GHG	Greenhouse Gas Emissions
HIPIC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
IISD	International Institute of Sustainable Development
LIC	Low-Income Countries
LMIC	Low- and Middle-Income Countries
MDB	Multilateral Development Banks
NDC	Nationally Determined Contribution
NDI	National Democratic Institute for International Affairs
ODA	Official Development Aid
OECD	Organisation for Economic Cooperation and Development
PBO	Parliamentary Budget Office
TISA	The Institute for Social Accountability
TI	Transparency International
SOE	State Owned Enterprises
SDG	Sustainable Development Goals
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNEP	United Nations Environment Programme
UNFCC	United Nations Framework Convention on Climate Change
US	United States
WB	World Bank
WFD	Westminster Foundation for Democracy
WTO	World Trade Organisation

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KEY CONSIDERATIONS

Debt is increasing globally due to needs of meeting development goals such as Sustainable Development Goals (SDGs) by 2030. Climate change has exacerbated the costs of dealing with disasters as well as implementing 'Just transition' strategies. Low-income countries are faced with low economic growth and high borrowing costs resulting in debt distress. All stakeholders must reach consensus on how to deal with these issues in order to avert a human development crisis.

- There is an increase in public debt globally amidst stagnant economic growth among LICs.
- The surge in borrowings led to global debt reaching US\$226 trillion in 2021 or 256% of global GDP, while debt service costs reached US\$1.4 trillion by 2023.
- Debt service costs are increasingly crowding out investment and frequently surpass spending on essential social sectors such as health and education. More than half of developing countries now allocate at least 6.5% of their export revenues to servicing debt.
- The need for meeting SDGs and climate change commitments have contributed to the increase in public debt compounded by the economic impacts of the COVID 19 pandemic.
- The number of countries in debt distress is increasing.
- The international debt architecture has prevented LICs from securing meaningful relief, with debt relief measures failing to deliver expected outcomes, leaving many LICs in a perpetual state of debt distress.
- All role players such as parliaments, civil society organisations and international organisations have a role to play in ensuring that the global financial architect favours both developing and developed countries.

1. BACKGROUND

Developing countries are faced with a myriad of challenges resulting in increased demand for government services from citizens. Slow economic growth coupled with other economic and social challenges contribute to the low tax base and expenditures rising faster than tax revenues leading to fiscal deficits. This propels governments to borrow in local and international markets to bridge the gap in social spending such as education, healthcare as well as investment in infrastructure to stimulate economic growth. This has contributed to the rise in public debt.

Global public debt has risen astonishingly from US\$22 trillion in 2000 to US\$92 trillion in 2022, implying that about US\$70 trillion has been added to the debt stock within two decades. Out of the value recorded in 2022, developing countries account for about 30 % of the total debt. Low and middle-income countries' (LMIC) debt levels rose to US\$8,8 trillion and total debt service costs reached an all-time high of US\$1,4 trillion in 2023.

The need to achieve Sustainable Development Goals (SDGs) by 2030 coupled with the setbacks from COVID 19 have pushed countries to borrow to mitigate the health and economic effects of the pandemic. This situation is worse for low-income countries (LICs) at risk of debt distress. Climate change and Just Transition initiatives have brought debt sustainability to the fore by showing that, in times of global crisis, there are no sufficient and equitable safety nets in place for

low-income countries. The rise in public debt will likely heighten the trade-off between meeting important development goals and containing debt vulnerabilities. There is also a realisation that the slow progress in attaining SDGs or 2015 Paris climate targets is linked to gaps in global financial systems. This is particularly serious on the African continent which has 34 of the world's 39 most indebted countries.¹ It is estimated that developing countries require about US\$5,4 – US\$6,4 trillion per year to meet their SDGs financing needs from 2020-2025, indicating that the current resources mobilised in the current GFA are inadequate to meet the increasing financing needs to support global public goods.

The high costs of borrowing that LMIC pay exacerbate the issues of debt distress that countries face. The United Nations (UN) crisis response group's report on the growing global debt burden stresses that the global financial architect (GFA) 'constrains developing countries' access to development finance and pushes them to borrow from more expensive sources, increasing their vulnerabilities and making it even harder to resolve debt crises'.² The situation has already reached a crisis level because access to healthcare and education has been severely affected in highly indebted countries.

The SDG Goal 17, "*Partnership for the Goals*", states that developing countries must be assisted in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring. This sub-goal of the 17th SDG (Strengthen the means of implementation and revitalise the global partnership for sustainable development) therefore ties in with the initiatives by the United Nations (UN) in the field of sovereign debt restructuring and responsible lending and borrowing. The paper will focus on the burden of debt sustainability for LICs due to SDGs and climate financing as well as the roles that different stakeholders can play in order to achieve debt sustainability for LICs.

2. INTERNATIONAL, REGIONAL AND HEALTH PRESSURES AFFECTING DEBT SUSTAINABILITY

Various factors have contributed to the rapid growth in developing countries' public debt since 2010. These include increasing development finance needs due to SDGs and climate change, the COVID-19 pandemic, a cost-of-living crisis, high-interest rates, the changing composition of public debt and high exchange rate.³

Poor debt sustainability has been shown to be a key obstacle to development. Severely indebted countries have often had to make radical cuts to social spending and investments in infrastructure due to high debt services.⁴ The example of Greece showed this to be the case. The debt crisis in Greece resulted into a situation where social spending was cut drastically to pay for borrowing costs.

¹ Gwaindepi (2024)

² Gwaindepi (2024)

³ Ibid

⁴ German Development Institute (2015)

2.1 Sustainable Development Goals and other regional agreements on development

In 2015, 193 countries adopted the 17 **Sustainable Development Goals (SDGs)** as an overarching policy roadmap through 2030.⁵

The Sustainable Development Goals Report reports notable achievements on SDGs since its inception ten years ago. Notable achievements include a decline in new HIV infections by 40 per cent since 2010, malaria prevention efforts have averted 2.2 billion cases and saved 12.7 million lives since 2000 and 110 million more children and youth have entered school, with completion rates rising at all levels, and the gender gap in education continuing to narrow.⁶

Despite these notable achievements, the report finds that only 35 percent of SDG targets are on track or making moderate progress. Nearly half are moving too slowly and, alarmingly, 18 per cent are in reverse. In addition to these important gains, conflicts, climate chaos, geopolitical tensions and economic shocks continue to obstruct progress at the pace and scale needed to meet the 2030 target.

The implementation of SDGs depend on the availability of development funds. For middle- and low-income countries, that have limited resources, debt is inevitable. The overall downward trend in total official development assistance (ODA) from 2023 to 2025 raises concern that there are not enough resources to fulfil the SDGs.

In addition to the SDGs, there are regional policies such as the European Development Policy in Europe, US Development Policy, the Asian Development Policy, the Agenda 2063 for the African Union, amongst others are in line with the SDGs.

2.1.1 Development Financing needs for SDGs

Rising debt contributes to the slow implementation of SDGs and climate change commitments

In 2017, the implementation of SDGs faced major challenges due to rising public debt in some developing countries. A number of low-income countries face high risk of debt distress or are unable to service their debt fully. It is estimated that developing countries require about US\$ 5,4 – 6,4 trillion per year to meet their SDGs financing needs from 2020-2025 (UNCTAD, 2023), indicating that the current resources mobilised in the current GFA are inadequate to meet the increasing financing needs to support GPGs.⁷ At least 21 % of LICs were in this category in 2020 which increased to 40% in 2025. Several developing countries are also falling behind in terms of per capita income, due to factors such as fragility and conflict. Vulnerable countries like Haiti, D.R. Congo, and Chad are particularly hit hard. The overreliance of these countries on extractive industries, low tax base severely constrained by tax evasion and weak tax administration exacerbate this problem.

⁵ United Nations (2018)

⁶ Sustainable Development Report (2025)

⁷ European Union (2024)

2.1.2 High costs of capital for developing countries

Amid global uncertainty and recurring external shocks, the cost of capital for developing countries has risen, undermining their capacity to achieve SDGs. High debt costs are draining vital public resources needed for development. If developing countries want to access international capital markets for loans, they must endure interest rates of around 14%. In other words, African countries pay four times more than the USA and eight times more than Germany.⁸ This demonstrates huge differences in the cost of capital between developed and developing countries.

Research shows that there are huge differences in the cost of capital between developed and developing countries. Furthermore, as GDP growth is way below the cost of capital (interest rates) for most developing countries, this implies that economic growth is below the rate of interest payment, making it difficult if not impossible for these countries to honour their debt obligations, hence debt accumulation and increasing default risks. Accordingly, attaining higher GDP growth rates would not only compensate for high-interest rates but also increase the ability to honour the debt obligations, thus helping to reduce debt levels and default risks.

At high levels, public debt may undermine growth. Debt financing can have a positive impact on investment and growth if it produces sufficient return to service the debt. However, at high debt levels, the anticipation of higher and progressively more distortionary taxes needed to repay the debt may dampen investors' (after-tax) returns and hence reduce investment and growth.⁹

2.1.3 Spending on costs of capital vs social spending

According to the United Nations Conference on Trade and Development, developing countries spend more on debt servicing than on essential public spending in areas like healthcare and education. For instance, in the early years of the COVID-19 pandemic, regions such as Africa and Asia and Oceania (excluding China) allocated more funds to interest payments than to healthcare. Altogether, approximately 3,3 billion people reside in countries where spending on interest payments surpasses that on either education or health. In 2023, net interest payments on public debt for developing countries reached US\$847 billion, and 54 developing countries allocated 10% or more of their government revenues to interest payments.

2.2 Climate Change initiatives

2.2.1 UNFCCC

The foundational international legal framework on climate change is the **United Nations Framework Convention on Climate Change** (UNFCCC), which aims to encourage global efforts to combat climate change. The central goal under the UNFCCC is to stabilise the atmospheric greenhouse gas emissions (GHG), the ultimate goal being their reduction. While the framework does not establish binding targets, it advocates the principle of “Common but Differentiated Responsibilities” among nations, emphasising that countries share a collective duty to tackle climate change, but their liabilities and capabilities vary. Hence, more of the burden of climate action should be placed on developed countries that have historically contributed more

⁸ Gwaindepi (2024)

⁹ Beddies, M and Le Manches, M (2009)

significantly to GHG emissions. Signatory countries have a responsibility to comply with decisions under the protocols and agreements adopted under the UNFCCC.

Other efforts to mobilize affordable long-term financing for LIC countries is inadequate. The United Nations Framework Convention on Climate Change (UNFCCC) COP29 meeting at Baku promised US\$300 billion per year for developing countries, but from all sources—including private finance—and for all countries (UNFCCC 2024).

2.2.2 The Paris Agreement

The Paris Agreement, a legally binding international treaty on climate change, establishes long-term goals to guide all nations in significantly reducing their global GHG emissions. It aims to keep the rise in global temperature well below 2°C above pre-industrial levels and to pursue efforts to limit it to 1.5°C, increasing adaptation capabilities, fostering climate resilience, and aligning finance flows with low-emission, climate-resilient development pathways.

However, it is insufficient to achieve the GHG emission reductions, enhance adaptation, scale up finance and uphold international cooperation.

Lack of access to climate finance due to exclusion criteria especially for developing countries is the main impediment towards implementation of climate action

2.2.3 Climate finance and green economy initiatives

Climate finance has been a significant challenge in climate action, as developed countries have not honoured their US\$100 billion annual pledge towards global climate action. During COP15 in 2009, developed countries committed to mobilising US\$100 billion a year by 2020 in the Copenhagen Accord for climate finance to support low- and middle-income countries.¹⁰ However, bureaucratic and exclusionary criteria imposed during the application process effectively prevented many African countries from accessing the funds, with only a few countries on the Continent being exceptions.¹¹ Without urgent, coordinated action that includes debt restructuring, increased climate finance, and stringent enforcement mechanisms, global climate goals may remain out of reach.

The 2023 Oxfam Report found that:

- Developed countries restructured up to one-third of official aid as climate finance instead of new funding;
- Allocated more funds towards mitigation;
- Converted more than half of the grants into loans;
- Provided inadequate funding for adaptation, and
- Employed misleading accounting practices.¹²

As a result, many developing countries have found the climate financing process to be lacking in transparency, genuine accountability mechanisms, and the ability to incorporate local

¹⁰ OECD (2024).

¹¹ Zagma *et al*, (2023).

¹² Ibid

considerations, ownership, and responsiveness to the needs of the communities it is intended to reach.¹³ On the contrary, developed countries celebrated fulfilling their Copenhagen commitment, although it was only achieved in 2022 through complex schemes and processes.¹⁴

At the COP29 in Baku, Azerbaijan, developed countries pledged to triple climate finance to developing countries, from the previous goal of US\$100 billion annually, to US\$300 billion annually by 2035. This pledge is voluntary, and countries can withdraw, hence it is not enforceable. Least developed and developing countries remain sceptical based on their experience when the pledge was US\$100 billion.¹⁵ The pledged amount is significantly less than the required amount, according to the 2023 African Economic Outlook Report by the African Development Bank. The report estimates that Africa will need between US\$2,6 trillion and US\$2,8 trillion by 2030 to fulfil its climate commitments outlined in the countries' recent NDCs.¹⁶ This translates to an estimated annual total climate finance need for Africa of US\$277 billion. Additionally, the United Nations projects that Africa requires US\$1,3 trillion annually to achieve the Sustainable Development Goals (SDGs).¹⁷ Therefore, closing Africa's climate finance gap and achieving the SDGs solely through domestic sources is not feasible.

Research has also shown a correlation between debt distress and climate vulnerability. Almost 75% of debt-distressed countries are climate-vulnerable and thus susceptible to low yields with a corresponding decline in export revenues. This affects Global South countries as they require climate finance to cover finance losses from climate change. African countries which still rely heavily on agriculture will be the worst to be affected by climate change. Drought will have devastating effects on tax revenue and exports as a result, these countries will need finance to cover the gap created by the losses.

Due to limitations on climate finances for the LICs, the following effects have been highlighted¹⁸:-

- A human development crisis is brewing. Already, UNESCO and Education Ministers from the Global South have revised targets for educational achievement by 2030 downward. Their minimum allocations **recommend an increase of at least 0,7% points of GDP in incremental spending by 2030.**¹⁹In a similar vein, the pandemic has made clear that the US\$9 per capita that low-income countries currently spend on health should be increased multiple times to **achieve a minimum level of primary health outcomes.**
- A clean energy revolution- Although LICs contribute little to greenhouse gas emissions, the precipitous drop in the price of solar panels and wind turbines makes these the least cost option for accelerating access to modern electricity for hundreds of millions of people in LICs.

¹³ Freitas & Mwaniki (2024).

¹⁴ OECD (2024).

¹⁵ Wei et al., (2025).

¹⁶ AfDB (2025).

¹⁷ Freitas & Mwaniki (2024).

¹⁸ Kharas (2025).

¹⁹ UNESCO (2024).

- With climate change already wreaking destruction through storms, floods, droughts and other natural disasters, adaptation and resilience activities are a priority. The United Nations Environment Programme (UNEP) assesses the adaptation finance gap at **10–18 times as great as current expenditures**.²⁰ Proportionately, LICs have the greatest need for incremental adaptation investments, up to 2% points of GDP. With high estimated returns of up to 6:1, adaptation is a priority. Without additional adaptation spending, **the costs to LIC economies of natural disasters will continue to rise.**
- Agreement on the Kunming-Montreal global biodiversity framework put the protection of nature at the centre of development for all countries. Old-style ‘develop first, clean up later’ models are wasteful as a long-term strategy. With the advent of climate change and the importance of nature-based solutions for adaptation and resilience, **the priority of investing in nature has only grown over time.**

2.3 Health crisis- COVID 19

Globally, governments implemented extensive fiscal measures to counter the impact of the

The COVID 19 pandemic has led to an increase in public debt, with levels reaching 256% of global GDP

COVID-19 pandemic. According to the IMF, these responses led to a surge in borrowing, with global debt reaching US\$226 trillion, or 256% of global GDP.²¹ Government borrowing made up just over half of the total increase, with the global public debt ratio rising to a record 99% of GDP. Due to a constrained fiscal space, the borrowing needs were significantly higher than during the global financial crisis (GFC) in 2008. The OECD estimates that the deterioration in the fiscal balance as a percentage of GDP during the pandemic is two and a half times

greater than what was seen at the peak of the GFC in 2008/09.

Low and middle-income countries (LMIC) debt levels rose to US\$8,8 trillion and total debt service costs reached an all-time high of US\$1,4 trillion in 2023. The increase in debt levels was predominantly driven by a 3,4% rise in short-term stock to US\$2,3 trillion, and a moderate 2% rise in long-term debt stock to US\$6,5 trillion.²² This change in the composition of debt is indicative of the trade-offs faced by low-income and emerging economies – the choice between paying a higher risk premium on long-term debt and the rollover risk associated with shorter debt maturities.

The World Bank proffers that short-term debt is a debt management response when LMIC require flexible financing options to cover liquidity requirements, especially during periods of uncertainty and prevailing high interest rates.²³

Official Development Assistance (ODA) has become more volatile, and private financing flows have diminished, making it harder for LICs to access affordable financing. This is evidenced by

²⁰ UNEP (2023a)

²¹ World Bank (2024)

²² Ibid

²³ Ibid

the 6,8% rise in obligations to multilateral creditors, to US\$1,3 trillion, equivalent to 20,4% of total long-term debt stock in 2023.²⁴

Table 1: External Debt Stock of Low- and Middle-Income Countries, 2013 - 2023

(US\$ billion)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt stock	5,712.6	6,290.7	5,901.5	6,124.8	6,884.9	7,381.9	7,753.7	8,173.4	8,819.3	8,630.7	8,836.5
Long Term	3,850.8	4,268.0	4,370.5	4,641.8	5,076.1	5,354.0	5,705.2	6,111.6	6,478.2	6,366.6	6,495.9
Official Creditors	998.5	1,005.3	1,031.5	1,088.8	1,190.8	1,268.6	1,331.3	1,498.5	1,700.0	1,732.0	1,822.9
Bilateral	367.0	371.4	377.8	404.3	443.4	470.2	477.4	508.0	504.0	492.4	499.0
Multilateral	631.5	634.0	653.7	684.5	747.4	798.4	853.9	990.5	1,196.0	1,239.5	1,323.9
World Bank	264.3	269.1	278.6	289.3	312.5	322.1	340.5	376.2	388.8	406.5	437.2
IMF	106.1	97.9	100.7	104.0	114.7	142.2	162.3	215.3	387.6	382.2	382.8
Private Creditors	2,852.3	3,262.7	3,339.0	3,553.0	3,885.3	4,085.4	4,373.9	4,613.1	4,778.2	4,634.7	4,673.0
Bonds	1,017.3	1,211.9	1,237.2	1,351.0	1,641.4	1,762.5	1,976.6	2,198.2	2,298.8	2,162.0	2,140.7
Banks & Other Private	1,835.0	2,050.8	2,101.8	2,202.0	2,243.8	2,322.9	2,397.3	2,414.9	2,479.3	2,472.6	2,532.3
Short Term	1,861.8	2,022.7	1,531.0	1,483.0	1,808.8	2,028.0	2,048.4	2,061.9	2,341.1	2,264.0	2,340.6

Source: World Bank (2025)

Since the pandemic, tighter monetary policy has led to higher interest payments on both public and private debt. At the same time, fiscal policy is operating in a highly volatile environment, challenged by rising inflation and interest rates, sluggish economic growth, and elevated debt and borrowing costs—factors that are making budget constraints increasingly difficult to manage.

As seen in Table 1 above, LMIC are beset with high debt burdens; however, the adjustments to monetary and fiscal policy have increased the cost of debt. Interest rates for LMIC hit a two-decade high and debt service costs reached US\$1.4 trillion (US\$971.1 billion excluding China) in 2023, an increase of 19.7% over the previous year and almost double the amounts seen a decade ago.²⁵ According to the United Nations Conference on Trade and Development (UNCTAD), half of developing countries were spending at least 6.5% of export revenues to service external public debt – more than expenditure on healthcare and education.²⁶ It is evident that the burden of debt servicing hampers investment spending, making fiscal consolidation and counter-cyclical fiscal policy more difficult. This, in turn, deteriorates the fiscal position and raises the sovereign risk premium.

According to the IMF, economic growth in low-income countries (LICs) is slowing, with an average growth rate of 3.7% in 2023—well below the 5.1% average seen during the 2010s.²⁷ As growth slows and interest rates rise, the gap between interest rates and growth (the r–g gap) is widening. To stabilize debt levels, LIC governments will need to implement significant fiscal adjustments and achieve higher primary budget balances. Long-term interest rates are expected to rise, signalling a potential sovereign debt crisis. Therefore, pro-growth structural reforms are urgently required in the near future as growth will be the main driver of debt stabilisation.

²⁴ Ibid

²⁵ Ibid

²⁶ UNCTAD (2025)

²⁷ Ibid

3. DEBT RELIEF MEASURES

Debt accumulation by emerging and developing economies (EMDEs) experienced its fastest increase in a single year, with government debt rising by 6% to 63% of GDP in 2020.²⁸ This recent debt increase has come on the heels of a decade of rising debt in EMDEs amid slowing growth, exacerbating debt vulnerabilities. The stock of debt for LMIC (excluding China) has doubled, while the debt service costs have quadrupled, reaching a record of US\$971,1 billion in 2023, an increase of 19,7% over the previous year and almost double the amounts seen a decade ago.²⁹ The surge in debt accumulation has led to liquidity and sustainability issues in LICs, resulting in increased requests for debt repayment suspensions and debt rescheduling agreements. As a result, the percentage of countries eligible for International Development Association resources and at high risk of debt distress or in debt distress has more than doubled since 2015.³⁰

Numerous coordinated debt stock relief initiatives were preceded by failed efforts to provide debt flow relief for servicing unsustainable debt. The Paris Club had facilitated debt restructuring for an estimated 101 countries through 470 agreements. The initial response to heightened debt vulnerabilities in LICs was not debt forgiveness or the reduction in the net present value of debt obligations but rather rescheduling of Paris Club debt on non-concessional terms. In the early 1980s, this led to the implementation of macroeconomic adjustment programs designed to enable debtor countries to stabilize their economies and re-enter global financial markets.

Over the last four decades, four major debt initiatives — the Brady Plan, the Heavily Indebted Poor Countries (HIPC), Debt Service Suspension Initiative (DSSI), and the Common Framework — have influenced the global strategy for tackling debt problems. The first major initiative was the Brady Plan which introduced market-based solutions to address the Latin American debt crisis of the 1980s. Approximately US\$61 billion in debt was forgiven, significantly reducing debt burdens of participating countries.

3.1 Brady Plan

The Brady Plan was implemented in 1989 to resolve unsustainable sovereign debt in mostly Latin American countries, primarily to US-based private financial institutions that had lent heavily to governments during the 1970s and early 1980s.³¹ The impetus of the Plan was motivated by concerns over US financial stability, as it involved debt securities held by more than 100 private sector creditors.³² Creditors had three options to provide debt relief under the Plan:

- i. issuing discount bonds with a haircut of 35 %,
- ii. issuing par bonds which kept their face value but had interest rate reductions and maturity extensions, and

²⁸ Melecky (2021)

²⁹ World Bank (2024)

³⁰ Ibid

³¹ Kose et. al. (2021)

³² Reinhart et. al (2016).

- iii. issuing new lending to countries.³³

Participation by the private sector was incentivised by offering collateral for the “Brady bonds” in the form of US Treasury bonds, paid for by the debtor countries and financed through loans from the IMF and the World Bank.³⁴ Furthermore, the debtor countries undertook tax and regulatory reforms, such as changing write-down and provision rules around the new bonds.³⁵

Mexico’s Brady Bonds

The oil shock of 1979 triggered a global recession, leading to a drop in non-oil exports and a rapid devaluation of the Peso. By 1982, Mexico’s debt service costs far exceeded its monthly foreign exchange income, putting the country close to default.

The initial response from creditors, mainly commercial US banks, was to suspend debt payments for two years and extend new loans to Mexico. The hope was that with renewed foreign exchange liquidity and an IMF adjustment program, the country could “grow into its debt”. However, capital outflows and inflation persisted, and investment declined, resulting in stagnant growth and rising external debt.

By 1989, it was clear stronger measures were needed, prompting the launch of the "Brady Plan." Under this plan, Mexico’s creditors agreed to reduce the debt service burden—cutting both the principal and interest payments—along with implementing economic reforms to foster a period of improved economic growth for Mexico.

3.2 Heavily Indebted Poor Countries Initiative

The *Heavily Indebted Poor Countries (HIPC)* initiative, launched by the International Monetary Fund (IMF) and the World Bank, in 1996 provided approximately US\$76 billion in debt relief to 37 countries (31 of which were in Africa) faced with unsustainable debt burdens. Eligibility for debtor countries was predicated on a demonstrable track record of implementing reforms and sound policies through IMF- and World Bank-supported programs and developing a Poverty Reduction Strategy Paper (PRSP) outlining the policies and programs it would implement to promote growth and reduce poverty.³⁶ While HIPC was successful in reducing bilateral debt, the multilateral debt burden continued. Thus, the *Multilateral Debt Relief Initiative (MDRI)* was established to reduce 100% of debt obligations owed to the IMF, the World Bank’s IDA, and the African Development Bank (AfDB). While the process has been protracted, debt relief has been substantial: debt reductions have been estimated to average about 60 percent of the eligible debt stock, with additional relief offered on maturities, grace periods, and interest rates.³⁷ To assuage losses to financial institutions, donors agreed to compensate multilateral creditors for losses attributable to relief under the MDRI. However, in recent years, this arrangement has accrued considerable arrears – for instance, the United States has unmet MDRI commitments estimated at US\$2 billion

³³ Nagle (2022).

³⁴ Ibid

³⁵ Stiftung (2021).

³⁶ Aboneaaj et. Al (2022).

³⁷ IMF (2021)

owed to the African Development Fund (AfDF) and World Bank Group's IDA.³⁸ By 2013 debt levels had started rising once again in many of the countries that received debt relief under the HIPC initiative and MDRI.

3.3 Debt Service Suspension Initiative

In response to the debt accumulated due to COVID-19 in 2020, the *Debt Service Suspension Initiative (DSSI)* aimed to improve liquidity by postponing debt payments from LICs to G20 bilateral creditors. Along with DSSI, the World Bank and the IMF advised on debt management and transparency practices and monitored public spending in participating countries. When the initiative ended in 2021, 48 out of 73 eligible countries received suspensions of US\$12,9 billion in debt service payments. More than half of the low-income countries (LICs) eligible for relief under the DSSI are either in debt distress or at high risk of it.³⁹ In November 2020, the G20 adopted a *Common Framework for Debt Treatments*. This framework is a partnership between the G20 and the Paris Club to facilitate negotiations between creditor countries and DSSI-eligible debtor countries on debt treatment. The framework has seen very limited success, with only four countries (Chad, Ethiopia, Zambia, and Ghana) seeking relief. A major concern is that the framework is hindered by ambiguity and uncertainty, lacking clear steps and timeframes for achieving debt restructuring agreements. For instance, the debt restructuring process in Zambia left the economy stagnant for over 3.5 years, with limited access to much-needed finance.⁴⁰ The International Institute for Sustainable Development (IISD) suggests that, for an initiative to succeed, certain requirements from both creditors and debtors must be met. Debtors need clear, predictable, and substantial debt treatment (meeting the initiative's objectives), low participation costs, and the benefit of participating must outweigh the costs of maintaining the current status quo. For the creditor countries, low participation costs and minimal leakages are among the pertinent considerations.

Running up to the expiry of the DSSI at the end of 2021, there were concerns regarding a potential wave of defaults and if such defaults materialised, the International Financial Architecture would be ill-equipped to facilitate timely restructurings. The Framework provides a coordinated and tailored approach to debt restructuring for LIC facing unsustainable debt burdens. The Framework advocates for "Comparability of Treatment (CoT)" by requiring that debtor countries seek debt treatment from all creditors (official and private) that is at least as favourable as that agreed upon with participating creditor countries.

Some progress on speeding up debt resolutions in the context of the Common Framework has been made, and process improvements through dialogue in sovereign debt roundtables continue, but country coverage is low. Only 5 countries are participating in the Common Framework so far, compared to the 31 LIC countries assessed as being in debt distress or having a high risk of debt default according to the IMF's debt sustainability analysis.

³⁸ Ibid

³⁹ Ibid

⁴⁰ Grigorian et. al (2024)

3.4 Alternative options to alleviate debt burdens

Both in the advent of the Brady Plan and the eve of the HIPC initiative, heightened debt vulnerabilities were initially characterized as liquidity problems (Chuku et al., 2023; Shenai & Bolhuis, 2023). The correct assessment is that structural shifts in debt composition and external financing conditions create acute balance of payments pressures for LIC countries, thus posing fundamental risks to external sustainability.⁴¹ The World Bank agrees with these views and further contends that LICs face a metastasizing solvency crisis that continues to be misdiagnosed as a liquidity problem.⁴² The provision of sufficient financing to service current debt obligations extends the debt burden of LICs; but rather, what is needed is financing to achieve meaningful growth that shrinks debt.

More recent debt relief interventions include the Bridge Initiative and the **Debt Relief for Green and Inclusive Recovery (DRGR)**. The Bridge Initiative aims to provide a countercyclical response for the official sector to neutralize the procyclical behaviour of the international private sector, prevent leakages, and ensure that international financial institutions' lending is invested in nationally determined growth plans to restore economic growth. The DRGR seeks to develop systemic approaches to both resolve the debt crisis and advance a just transition to a sustainable, low-carbon economy. Recent estimates suggest that additional debt financing to address the climate crisis will threaten debt sustainability in 47 LICs and limit liquidity and fiscal space for climate and development in 19 emerging markets and developing economies.⁴³

Other proposed initiatives include the IISD's Debt for Resilience (D4R) relief programme. The D4R initiative reframes debt relief by re-centering balance of payments stability and external debt sustainability over the nearly exclusive focus of ongoing debates on liquidity fixes. Through substantial NPV reductions, targeted leakage prevention, and IMF enforcement, it aims to restore external sustainability without triggering contractionary adjustments.

4. THE ROLE OF PARLIAMENT

Managing public debt is a major challenge for most countries and requires coordination among several key institutional actors. Effective debt management involves collaboration among a wide range of stakeholders- parliament, civil society, government (executive), private sector, multilateral organisations and central banks. Fiscal transparency provides clear, timely, and reliable reporting on public finances. It is essential for sound fiscal management and accountability. It enables informed economic decisions, highlights risks, and allows stakeholders like legislatures, markets, and citizens to hold governments accountable. Improved transparency also boosts the credibility of fiscal plans and strengthens market confidence.⁴⁴

⁴¹ IISD (2025).

⁴² World Bank (2025).

⁴³ Ibid

⁴⁴ IMF (2019).

4.1 Parliamentary oversight

In many countries, the role of Parliament is founded in both the national constitutions and public finance management laws. Parliaments' constitutional role is establishing legal and regulatory frameworks, authorising the budget, and holding governments to account as they are central actors in efforts to enhance debt accountability, especially in Africa where debt vulnerabilities are escalating. Parliaments are responsible for overseeing the executive's budget proposals by reviewing, approving, amending, or drafting budgets, depending on the system of government.⁴⁵

Parliamentary oversight ensures the executive branch acts lawfully, serves citizens' interests, and implements policies effectively. It prevents abuse of power, corruption, and inefficiency by holding the government accountable. This oversight balances power between branches, enables informed legislative input, and promotes transparency, accountability, and democratic governance for the public's benefit.⁴⁶ Parliament should hold the executive accountable for how it balances spending between immediate social needs and investments that support long-term economic growth and fiscal sustainability.

4.2 Debt transparency

Debt transparency is central in maintaining and monitoring debt sustainability.⁴⁷ The 2021 World Bank debt transparency report indicated that 40% of low-income countries had not published any debt data but stands at 25 % with the latest data available in 2025.⁴⁸ While loan-level data is still rare, it is essential that Parliament in **their oversight responsibilities** ensure that no hidden debts resurface later and trigger economic collapse.⁴⁹ Parliamentarians are entrusted with the responsibility of amplifying the voices of citizens and ensuring government takes the rights decisions in the interest of the people.

A case of Mozambique:

The failure of not reporting and disclosing borrowings led to the country being classified as debt distressed by the World Bank and entering into debt agreements which were unsustainable. This was largely caused by two financial institutions who sold loans to speculators totalling US\$1,15 billion, equal to about 9% of the country's GDP. The debt was contracted between 2013 and 2014 by three SOEs and backed by a guarantee by the Ministry of Finance, without the notification or approval of Parliament

Source: Dubrow, G (2022); NDI & TI (2024)

Parliaments therefore can potentially contribute to enhanced public debt transparency and accountability by integrating debt management considerations into routine law-making and

⁴⁵ Molepo & Jahed (2023)

⁴⁶ Ibid

⁴⁷ Afrodad (2022).

⁴⁸ World Bank Report (2025).

⁴⁹ World Bank Report (2025).

financial oversight functions.⁵⁰ While law making is deemed necessary, there is need for developing countries for greater capacitation of Parliamentarians required in exercising oversight.

Parliaments are showing growing interest in overseeing debt management, but the complexity of borrowing and debt policy has made effective scrutiny challenging. Unlike the well-established guidance for governments, there is limited direction available on how parliaments should engage in debt oversight, whether as part of broader public finance monitoring or as a separate activity.⁵¹ Some options can be considered such as an independent fiscal council, such as the Parliamentary Budget Office (PBO) could oversee and report to parliament, or parliament could build its own technical capacity as mechanisms of oversight.

Parliaments in Kenya and Uganda play strong roles **in debt management** by reviewing draft public debt strategies and monitoring their implementation. They are supported by Parliamentary Budget Offices and receive regular reports from debt management offices.⁵²

In many countries, including Ghana, parliaments play a **key role in approving external loan agreements**, which are often treated as international treaties. In Ghana, Parliament approves loan terms and individual external borrowings, while the Minister of Finance (through the Debt Management Office) submits an Annual Debt Report for review and publication. Loan contracts are also made publicly accessible online. These practices enhance transparency and accountability. However, requiring approval for each loan can delay implementation, suggesting a need for more flexible mechanisms, such as pre-authorizing loans within an approved annual plan or setting approval thresholds.⁵³

Furthermore, it would be essential to have a clear separation between the legislative and executive branches. Loan approvals should be included in the annual budget, once parliament approves the budget, the executive can proceed with borrowing. Requiring separate approval for each loan creates unnecessary duplication, as the deficit and its funding have already been approved in the budget.

As mentioned above, information on debt requires greater oversight from Parliament especially with misreporting cases of borrowings and ensuring countries are transparent and have sustainable financing. The World Bank Report titled *Radical Debt Transparency* recommends:⁵⁴

- Parliaments to improve debt authorisation processes by giving the debt management office greater oversight of new public sector borrowing or guarantees. Implement stricter approval and review measures—especially for unconventional debt instruments like collateralized debt—by involving parliament in the process.
- Enhance debt management oversight by implementing regular reporting to Parliament.

50 O'Brien, M (2023).

51 World Bank (2025).

52 World Bank (2025).

53 World Bank (2025)

54 World Bank (2025)

In a study published by AfRODAD, where they focused on East African legislatures one of their recommendations suggests that Parliaments should adopt a public debt transparency model where there is full disclosure by all stakeholders involved in debt ecosystem. They also advocate for governments to annually publish debt statistics including terms of loan contracts.

5. THE ROLE OF CIVIL SOCIETY ORGANISATIONS

Civil Society Organisations (CSOs) are playing a more active and constructive role in society especially supporting global debt relief efforts by promoting transparency, enhancing parliamentary oversight, and improving debt management in low- and middle-income countries.⁵⁵ Over the years, they have become very prominent in playing diverse and impactful roles throughout the budget cycle especially during public hearings and in matters of public debt. CSO participate in public hearings by submitting reports and appearing in committee meetings to give presentations.

They advocate for civil society by contributing informed perspectives- more so undertaking public education campaigns and educating the public. Through these efforts, CSOs promote debt transparency, enhance parliamentary oversight, and encourage public participation.⁵⁶

Below are several initiatives lead by CSO's in leading and supporting debt relief measures

The Committee for the Abolition of Illegitimate Debt (CADTM) is a global activist network focused on educating the public and promoting international efforts to cancel multilateral and bilateral debts. One of its educational initiatives is an annual summer university program that raises awareness about debt-related issues.

The Jubilee Debt Campaign research global debt issues and advocates for debt cancellation. During the COVID-19 pandemic, they argued that cancelling debt would enable heavily indebted countries to prioritize health over repayments

The African Forum and Network on Debt and Development (AFRODAD) advocates on debt-related issues in Africa and has created an African Borrowing Charter that promotes sustainable, transparent, and accountable borrowing practices.⁵⁷

Source: NDI & WFD (2022)

Advocacy groups have a history of holding those in power accountable. A coalition of Kenyan civil society organizations, led by the Institute for Social Accountability (TISA) and including Transparency International (TI) Kenya, launched the Okoa Uchumi campaign to address Kenya's debt crisis. The campaign has helped shape policy by generating evidence and raising public awareness about the debt's impact on citizens. It has become a trusted platform that regularly engages government officials and international financial institutions. The coalition was invited by the Kenyan National Assembly to present on debt issues, recommending annual debt audits and stronger parliamentary oversight of debt management.⁵⁸

⁵⁵ NDI & WFD (2022)

⁵⁶ *ibid*

⁵⁷ NDI & WFD (2022).

⁵⁸ NDI & TI (2024).

6. THE ROLE OF DOMESTIC AND INTERNATIONAL LENDERS

Multilateral Development Banks (MDBs), such as the World Bank, IMF, African Development Bank (AfDB) and regional banks, provide loans, often at low interest, and grants to support infrastructure and social-economic development. They also help countries improve debt management. Over the years, countries have moved away from concessional loans to more private sector non-concessionary (capital markets) financing. This has however led to some challenges, case in point is Mozambique where Parliament was bypassed causing debt escalation in the fiscus.⁵⁹

6.1 International Financial markets

It is evident that as global debt increases, sovereign borrowers have gained greater access to international financial markets, leading to a rise in the number and complexity of lenders. Private sector lenders, such as banks, now play a larger role in public debt, with their share of external public debt growing to US\$4,6 trillion in 2023. This proliferation of debt creates new challenges for sovereign states and as such the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing published in 2012 outlines a framework for both sovereign debt lenders and borrowers. The principles emphasise the application of soft law and international legal norms to help prevent sovereign debt crises.⁶⁰

6.2 Credit Rating Agencies

Credit Rating Agencies (CRAs) play an essential role in the international financial system by evaluating the creditworthiness of countries and corporations. Credit ratings assessments heavily impact investment choices, interest rates and the ability to secure private capital needed for developmental funding by countries.⁶¹ It is reported that private credit lenders hold 62 % of the debt owed by developing countries which increases the power of credit rating agencies, since their assessments shape how private lenders view the financial risk of lending to sovereign nations.⁶² As Official Development Assistance (ODA) declines, African countries will turn further into private credit lenders.

Furthermore, sovereign credit ratings do not rate LMICs correctly, which means that these countries are paying too much for their debt. Developing countries pay three times more in interest on external borrowing than developed nations. For African governments, borrowing from capital markets costs 500% more than from official lenders, diverting funds from vital services like healthcare and education.⁶³

⁵⁹ *ibid*

⁶⁰ UNCTAD (2025).

⁶¹ Cash and Khan (2024)

⁶² Cash (2025)

⁶³ *ibid*

7. THE ROLE OF INTERNATIONAL ORGANISATIONS

7.1 Advocate for more resources towards LICs

The international community, including the LICs themselves, has a lot of work to do to ensure that the LICs can recover from the pandemic and make meaningful progress towards achieving the SDGs. The recently adopted Doha Programme of Action (DPoA) for the LICs for the Decade 2022-2031 opens a new window for DPoA to help set a framework to alleviate poverty.

Within one of its key priority areas - mobilizing international solidarity, reinvigorated global partnerships and innovative tools and instruments - UN member states agreed, among other things, to take action to facilitate sustainable and innovative financing for the LICs, including through:

- Ensuring the fulfilment of respective ODA commitments to LICs;
- Addressing the debt distress of LICs by 2025 and providing coordinated and appropriate debt solutions, in order to work towards sustainable debt levels;
- Significantly scaling-up support in the form of concessional financing and equity for existing financing mechanisms that deliver catalytic investment capital to mobilize sustainable private investment to aid achievement of the SDGs

7.2 Advocate for strong institutional capacity to manage debt and establishment of DMOs

Developing economies must strengthen institutional capacities to manage debt effectively, ensuring that it becomes a tool for development rather than a source of vulnerability. Despite decades of establishment, debt management offices (DMOs) often face capacity gaps, such as inadequate organizational structures and limited integration with other financial governance bodies. Debt management should be approached as a holistic process involving not only DMOs but also broader institutional and regulatory frameworks. Many countries also lack the capacity to conduct their own debt sustainability analysis or interpret those of the International Monetary Fund.

State capacity to effectively utilize financing opportunities and various debt instruments is also impacted by existing power imbalance between debtor countries and their creditors throughout the debt cycle. Many countries aim to enhance their understanding of the complex risks, costs, and political-economic factors involved in choosing debt instruments to support their green and inclusive economic transitions. This requires a comprehensive approach that accounts for factors impacting debt, such as investment needs, tax collection potential, spending needs, interest rates on debt, and debt maturity profiles.

Linking these strategies to climate-focused initiatives like Just Transition Energy Plans is crucial, as they provide key insights into the investment requirements for sustainable energy transitions.

7.3 Advocate for equitable and effective international financial architecture to take cognisance of SDG and climate needs

For developing countries, the challenges of meeting the SDGs, addressing climate change and investing in a green and inclusive transformation are compounded by the difficulties of managing sovereign debt. Strengthening state capacity is essential for aligning debt management with development and climate goals while avoiding overexposure to financial risks. Equally important is the need to reform the international financial architecture, which often creates an uneven playing field. The international community must support both national efforts and changes to the financial system, ensuring that global financial structures are conducive to the long-term success of these countries.

IISD's debt program works alongside developing countries to strengthen debt management and enhance debt sustainability. The program strengthens DMOs and the broader fiscal policy regime in selected countries by optimizing their structures and processes and offering targeted trainings for different actors with debt management functions. It also promotes coordination among ministries, central banks, and parliaments while building oversight capacity. Through foundational courses and multistakeholder platforms, they help debt managers improve their use of debt sustainability analysis and foster trust in revenue and investment estimates.

Together with capacity building, research is key to support developing countries in using debt sustainably and enabling a green and inclusive economic transformation. IISD's debt program conducts innovative and impactful research, that sheds light on necessary domestic and international reforms that contribute to long-term, sustainable economic transformations. Finally, greater coordination among debtors is crucial to reduce the power imbalances characterizing the international financial architecture.

Strengthening existing networks, fostering knowledge exchange, and amplifying the voices of developing countries in international policy-setting processes can drive the shift toward a more equitable and effective global financial system. Such efforts are crucial in reducing power imbalances and ensuring that financial structures better support developing countries in achieving their climate, biodiversity, and development goals.

8. CONCLUSION

Developing countries are striving to implement SDGs and climate change initiatives such as 'Just Transition' amidst financial challenges associated with COVID 19 pandemic. This has pushed public debt globally, but this is compounded in developing countries which have a low tax base at home. In addition to this, high borrowing costs for developing countries in particular LICs constrain social spending as well as public resources and push LICs into debt distress. Low economic growth experienced by low-income countries which is usually lower than the borrowing costs pushes these countries into debt distress. Higher economic growth and low borrowing costs can ensure debt sustainability.

The developing world must reduce constraints to finance and ensure that the global finance architecture is conducive for LICs as well in order to avert a global humanitarian crisis. Furthermore, credit rating agencies should review their cost of capital for developing countries and fairness should prevail in the global arena.

Glossary/Terms

Sovereign debt: The money that a sovereign nation (country) owes to its creditors, including both principal (the money borrowed) and interest (the cost of borrowing)

Debt service: The money needed to pay the principal and interest of an outstanding debt over a given period

Debt distress: When a sovereign has trouble servicing its debt

Sovereign default: When a government stops paying its debt service, usually followed by a credit rating downgrade and loss of access to additional borrowing

Debt restructuring: Changing the terms of sovereign debt to make paying debt service more manageable (can involve changing maturities, adding grace periods, reducing the principal amount of the debt, reducing the interest rate, debt service suspension, etc.)

Paris Club: An informal group of 22 official creditor countries that provides a forum for restructuring the sovereign debt of countries that are facing repayment difficulties. Other creditor countries may participate in specific negotiations on a case-by-case basis if they have claims on the debtor country.

Multilateral Debt Relief Initiative (MDRI): A debt relief program that provides 100% cancellation of eligible debts for countries completing the Heavily Indebted Poor Countries (HIPC) Initiative.

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