



# SOVEREIGN DEBT, THE SUSTAINABLE DEVELOPMENT GOALS AND TRADE UNION RESPONSES

The growing global debt crisis threatens workers' rights and a lost decade in development: trade unions have a key role in achieving sustainable solutions

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## INTRODUCTION: SOVEREIGN DEBT IS A TRADE UNION ISSUE

Countries around the world are facing multiple economic crises that threaten living standards for workers and the achievement of the Sustainable Development Goals (SDGs). The Covid-19 pandemic increased poverty and inequality and led to the loss of millions of jobs worldwide. Ongoing conflicts and recent inflation across food, fuel and farm supply chains have stalled hopes for economic recovery and eroded real wages, while the policy response of higher global interest rates has accelerated a developing country debt crisis that in turn raises the prospect of a lost decade of economic stagnation for many countries.

Internationally there has been no shortage of warnings about the scale of the looming sovereign debt crisis, with key commentators highlighting the problem in unusually stark terms. The International Monetary Fund (IMF) has stated that “the situation is increasingly grave for economies in or near debt distress, including 30 per cent of emerging market countries and 60 per cent of low-income nations.”<sup>1</sup> The head of the World Bank has warned that “many more countries are in a situation where their debt is unsustainable”, and there is “just not going to be enough money for them to pay the debt service.”<sup>2</sup> *The Economist* has said that due to the “high cost of food and energy, a slowing global economy and a sharp increase in interest rates around the world, emerging economies are

entering an era of intense macroeconomic pain. Some countries face years of difficult budget choices and weak growth. Others may sink into economic and political crisis.”<sup>3</sup>

Yet while the IMF has highlighted the large number of countries at risk, it recently has also been reluctant to label the current debt situation around the world as the kind of ‘systemic crisis’ witnessed in the past. This is despite recent research that has shown that Low income Countries are now spending more on debt service than on social protection, education, health and climate mitigation measures *combined* leading some experts to call this ‘the worst ever debt crisis’.<sup>4</sup> As the grim predictions of more and more countries falling into debt crisis are borne out across the world, trade unions have been on the frontline of recent efforts to protect workers against the devastating effects of economic catastrophe in countries including Argentina, Sri Lanka, Ghana, Zambia and Tunisia.

Against this backdrop, trade unions need to act to ensure sustainable solutions are put forward. By standing up for the interests of workers, trade unions can influence responses at the international level and in national policy discussions with governments and employers’ organisations. Sovereign debt distress harms workers in multiple ways, from the initial shock to long term economic damage. Austerity policies implemented by governments, often in consultation with international financial institutions, have in many cases affected unions’ collective bargaining power, limited workers’ rights and freedoms, reduced their wages, curtailed public services, and limited funding for

<sup>1</sup> Kristalina Georgieva, IMF Blogs

<sup>2</sup> ‘China is owed 37% of poor countries’ debt payments in 2022: World Bank’, Devex

<sup>3</sup> ‘The 53 Fragile Emerging Economies’ *The Economist* 20 July 2022

<sup>4</sup> See Debt Service Watch (2023) ‘The Worst Ever Debt Crisis’



social protection and social security. Over the long term, unsustainable debt drains away the scarce resources that are so urgently needed to meet the Sustainable Development Goals (SDGs) and invest in a Just Transition.

This paper outlines why sovereign debt is a trade union issue, and suggests actions that trade unions can adopt at the national and international level. Section 2 will highlight the scale of the emerging sovereign debt crisis and its consequences on workers. Section 3 will look at the key problems to be solved, from the deeply disappointing lack of progress on addressing current crises in struggling countries to fixing the systemic dysfunction in

sovereign debt markets. Section 4 will provide an overview of why, when and how trade unions should and can engage. The paper will demonstrate that we have a narrow window in which to turn the current global debt crisis into an opportunity for fundamental change to meet the challenges humanity faces. This will require strong, pro-worker policy responses aimed at fulfilling a New Social Contract as well as lasting and globally beneficial reforms to the international ‘architecture’ that governs sovereign debt markets, leading in turn to a better use of development financing and domestic resources as tools for achieving the SDGs and a Just Transition.

## THE SCALE OF CURRENT DEBT CRISIS AND THE CONSEQUENCES FOR WORKERS

### CONTEXT AND OVERVIEW

Sovereign debt crises are sadly neither new nor rare – in fact they have been a regular feature of the global economy over the past 50 years. The sovereign debt crisis of the 1980s in emerging markets left deep scars on the countries it affected, firstly in Latin America and then across Africa. The crisis in Latin America was only addressed after the systemic risks to the US economy became clear and incentivised the US government and creditors to act to avert a US banking crisis – by which point many countries had already experienced more than a decade of lost growth under IMF and World Bank ‘structural adjustment’ programmes. The debt crisis of the 1990s in Sub-Saharan Africa only began to be tackled after strong grass-

roots campaigning led the G7 countries to put in place the Heavily Indebted Poor Countries (HIPC) debt relief initiative. Debt issues re-emerged on an even larger scale after the global financial crisis of 2008 with the Eurozone debt crisis, which saw countries across Europe embark on damaging and counterproductive austerity policies. The disturbingly frequent recurrence of debt crises demonstrates why trade unions and their partners need to advocate now for **deep and lasting reforms to how sovereign debt markets are governed at the global level**: once periodic debt crises appear ‘resolved’ with short-term fixes – such as ‘reprofiling’ or restructuring debts by issuing new loans – the political will for deep and sustainable reform disappears, until the cycle begins again.

### *How did we get to the current sovereign debt crisis?*

The sovereign debt crisis unfolding today has multiple origins. Even before the Covid-19 pandemic, the UN among others were warning of a dangerous build-up of unsustainable debt in many countries.<sup>5</sup> The pandemic significantly worsened this picture, forcing governments across the world to increase spending and debt to fund the public health response and provide critical support for their populations in the face of collapsing economic activity. Public debt-to-GDP ratios in emerging economies rose from around 55 to 65 per cent between 2019 and 2021. Yet the post-pandemic situation was made even worse over the course of 2022 and 2023 by surging inflation, driven by international conflict and continued global supply chain weaknesses as well as surging corporate profits. The global policy response to inflation – in particular a rapid increase in developed world interest rates – increased debt servicing costs and led to consequent drops in many countries' exchange rates, further fuelling a quickly deteriorating picture of debt distress across the world.<sup>6</sup>

### *Which countries are most affected?*

While the IMF has suggested that at least 25 per cent of emerging countries and 60 per cent of low income countries (LICs) are at risk of debt distress or are already in debt distress,<sup>7</sup> official debt statistics suffer from significant lags and most likely underestimate the true scale of the

accelerating crisis. Civil society assessments go beyond IMF estimates: Erlassjahr (2023) calculates that fully 136 out of 152 developing countries surveyed are 'critically' indebted, with 40 of those in a 'very critical' situation. The proportion of countries in the 'critical' or 'very critical' range increased significantly compared with before the pandemic.

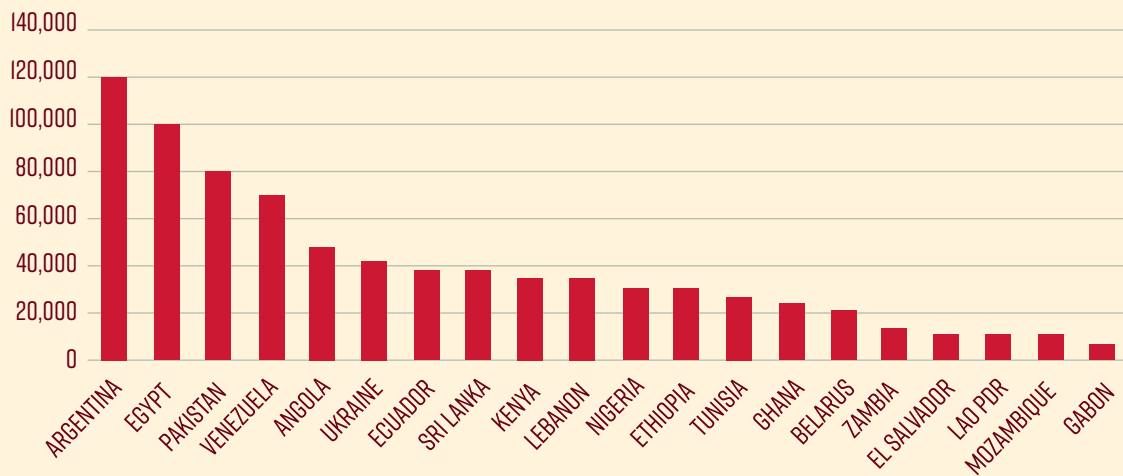
As such, the growing debt crisis threatens both low- and middle-income economies whether they are big or small. The low-income countries are naturally most at risk of rising poverty and hardship: among those currently in the midst of debt crises, Zambia defaulted on its international debt in late 2020 yet at the time of writing is still seeking a comprehensive deal on debt restructuring, alongside Ghana and Ethiopia, which both defaulted in 2023. Republic of Congo, Lao PDR, Malawi and Zimbabwe are also classed as being 'in debt distress' by the IMF, while Kenya, Cameroon, Chad, Mozambique, and Sierra Leone are among those at 'high risk' of distress. A number of middle-income countries (MICs) face the prospect of similar debt-driven declines in living standards, but at a potentially greater scale due to the larger scale of their overall debt burdens: Sri Lanka has been in the midst of a severe debt crisis since April 2022 but other key countries here include Argentina, Egypt, Tunisia, and Pakistan. It is important to note that sovereign debt crises can quickly spread from one flashpoint country to another, for example through a more general loss of confidence.

<sup>5</sup> See e.g. World Bank (2019) *Debt in Low-Income Countries: Evolution, Implications, and Remedies*

<sup>6</sup> *Debt Justice UK* (2023) calculates that external debt servicing costs for 91 countries will average at least 16.3% of government revenue in 2023 and 16.7% in 2024, the highest level since 1998

<sup>7</sup> International Monetary Fund, *Public Debt, Committed to Collaboration: IMF Annual Report 2023*

FIG 1: LARGEST 20 IDENTIFIED 'AT RISK' COUNTRIES IN TERMS OF SOVEREIGN DEBT STOCKS (USDM)



Source: own illustration using data in undp (2022)

### *The changing landscape of debt: new creditors*

A particular challenge with the current situation is that whereas in previous crises the main creditors (i.e. lenders) have been largely Western **official donor governments and multilateral development banks** (MDBs), recent years have seen the emergence of new lenders (or 'creditors') including China, India, UAE and Saudi Arabia. **China** in particular became a major creditor in developing countries in the last decade: among borrowing countries, the proportion of debt owed to Chinese entities varies widely, but the World Bank has estimated that 37 per cent of all LIC debt repayments during the year 2022 were owed to China.<sup>8</sup> Countries with high levels of Chinese debt include Zambia, Lao, Angola and Pakistan. While the existence of a 'Chinese debt trap' is the subject of considerable debate, Gelpert et al. (2021) have found that Chinese debt contracts often contain clauses that potentially make it harder for countries to default and restructure debt when they cannot repay. Any privileges that one lender's debt has over others makes restructuring difficult if one

set of loanees or bondholders (e.g. Western governments) is seen to be taking losses, while others continue to be repaid.

Secondly, recent years have seen growth in the amounts of sovereign debt held by **private creditors**, bringing another dynamic to the table. Private lenders include financial institutions (such as asset management funds and pensions funds) holding internationally-traded bonds, and international banks that have provided loans (such as loans for infrastructure projects or from export development banks). Levels of privately-held debt also vary by country, but the World Bank points to similar levels of private debt owed by LICs overall as Chinese debt. The terms and conditions attached to some private lending can sometimes also be opaque – for example 'commodity-backed loans' have also earmarked future revenues from resource flows as collateral (or 'linked liabilities') against repayments.<sup>9</sup>

Finally, there are increasing amounts of other forms of public debt that pose a threat to

<sup>8</sup> 'China is owed 37% of poor countries' debt payments in 2022: World Bank', Devex

<sup>9</sup> See e.g. 'Commodity traders: lenders of last resort for Africa's oil-producers', global witness

financial stability, including **‘domestic debt’** issued in domestic currency and held either by foreigners or local banks and pension funds. Debt owed by state-owned enterprises or central banks (in foreign currency swap lines) can further complicate the picture, alongside the less visible ‘sub-sovereign’ debt of local government authorities.

Any debt restructuring requires all lenders to agree on the scale of the debt problem and reach a fair settlement between each other and with the borrower. Yet recent experience has shown, just as in past crises, that the current ad hoc international approach to resolving sovereign debt problems is insufficient. Indeed, the trend among countries seeking to restructure their unsustainable debt has been towards long-running paralysis and ‘a cycle of blame’ in discussions between creditors with significantly divergent political and economic interests, even as economies collapse and ordinary people continue to suffer.

### THE CONSEQUENCES OF THE EMERGING DEBT CRISIS FOR WORKERS

While discussions around public debt levels can seem complex and removed from everyday concerns, the consequences of debt crises for workers and populations are severe and immediate. While debt crises are most visible when countries ‘default’ on repayments on their debt and suffer an economic collapse, a growing number of countries face a ‘slow crisis’ due to unaffordable levels of debt, which drain public resources away from other priorities. A 2023 report found that emerging and developing countries spend as much on debt service as they do on education, health, and social protection combined. In sub-Saharan Africa, countries spending on debt service exceeds social spending by half.<sup>10</sup>

Crises can have different initial causes, from an external shock such as a collapse in foreign exchange earnings on exports (such as tourism receipts as a result of Covid-19 shutdowns), spikes in the price of key imports such as fuel, a sudden increase in global interest rates, or poor or corrupt management of public finance over time. In recent years, many factors have combined, making it difficult to determine who is responsible for growing debt.

For ordinary workers, the effects of debt crises are felt through multiple channels across different time frames. These include: (i) the initial shock to both economic production and livelihoods, (ii) the effects of the policy responses undertaken by governments to address debt issues, such as sharp fiscal retrenchments and austerity, and (iii) the significant long-term loss of development opportunities for sustainable development and investment in areas ranging from job creation and social protection to resilient supply chains, modern infrastructure and a just energy transition.

#### *The initial effects of economic collapse*

The **initial effects** of a debt crisis are often devastating. A sharp deterioration in macroeconomic conditions is often accompanied by a severe and sudden currency depreciation and/or a steep loss in currency reserves as central banks attempt to stabilise the exchange rate. A collapsing currency can have serious consequences for workers by immediately raising the cost of imports used for both personal consumption – such as food or fuel – as well as critical supply inputs to industry, such as energy, fertiliser or machinery. Export prices may become cheaper on international markets but the supply response will be uncertain, and any benefits unequally distributed.

<sup>10</sup> Debt Service Watch, ‘The Worst Ever Global Debt Crisis’, 10 October 2023

After years of current account liberalisation, which allows capital to flow freely in and out of countries, currency depreciation in many cases presents a serious risk of capital flight and a rapid loss of investment resources. Currency devaluations also have the self-reinforcing effect of increasing debt service costs in local currency terms (with more local currency needed to be raised to pay the same initial amount in foreign currency) in a self-reinforcing loop. A steep loss of currency reserves (as a result of trying to avoid devaluations) can have similar devastating effects: the starkest recent example was Sri Lanka's inability to import basic necessities such as medicines and fuel during its crisis in mid-2022.<sup>11</sup>

Even as economies collapse under the weight of their debt problems, there are often delays in addressing the initial trigger. Governments often delay moves to suspend debt repayments or request assistance for fear of losing credibility. Creditors themselves often push countries to continue servicing their unsustainable debts by raising the threat that they will lose access to financial markets in the future, though these threats have been shown to be unfounded (FES 2021). When assistance is requested in the form of an IMF emergency (bailout) loan, the onerous conditions attached to the loans often mean that governments are placed in a difficult position. Overall, such delays serve nobody as they tend only to prolong the pain by further depressing growth and tax revenues. As a result, the responses to national debt crises often end up being characterised by a 'too little, too late' approach.<sup>12</sup>

### *The policy and IMF conditionalities*

The national policy response to a sovereign debt crisis generally involves the government taking measures to bring debt levels under control to restore confidence and fiscal sustainability. Yet during a crisis this response

tends to be heavily influenced by the conditions attached to the emergency ('bailout') lending of the IMF. The IMF plays a key role in responses to debt crises based on its role as 'lender of last resort' to governments in emergency situations, but its approach reflects a particular view of how economies should be managed and how debt sustainability should be achieved – a view that has been criticised ever since such bailouts began decades ago. When it comes to workers in particular, research commissioned by the ITUC and work by Ortiz and Cummins (2022) have analysed the effects of IMF-prescribed austerity measures, highlighting several common policy responses that commonly feature in IMF programmes:

- Targeting and rationalising social protection programmes
- Cutting or capping the public sector wage bill
- Eliminating or reducing subsidies without compensatory measures
- Privatisation of public services or and reform of state-owned enterprises
- Pension reforms
- Rationalising and narrow-targeting of social assistance/safety nets
- Labour flexibilisation reforms
- Reducing employers' social security contributions
- Cutting health expenditures
- Increasing consumption taxes or VAT
- Privatisations and restructuring of state-owned enterprises
- Increased use of Public-Private Partnerships (PPPs)

<sup>11</sup> 'Sri Lanka: Why is the country in an economic crisis?', BBC

<sup>12</sup> See Guzman, Ocampo and Stiglitz (2016 (eds.)



- introduction or increases in fees and tariffs for public services.

While all workers are affected by debt-related austerity measures, the effects are not distributed equally. Women are disproportionately affected in multiple ways: through the direct loss of employment (with women affected more deeply by public sector job losses), increased informalisation of the labour market, cuts to social protection funding, and reductions in services that primarily benefit women (extending for instance to girls being withdrawn from education as a result of a cost-of-living crisis). While crises invariably fall hardest on vulnerable groups, the impacts of debt and austerity on women should be a key focus of trade union attention at the national and global level, and policy responses to austerity should be crafted with a gender perspective in mind.

### *The long-term effects: the human cost of debt crises*

For countries that have experienced unsustainable debt, the **long-term macroeconomic effects** are felt for many years afterwards through, among other things, the loss of fiscal space and development opportunities, raising the spectre of ‘lost decades’ in many countries. Long-term investment plans – including investment in public services, infrastructure, and the development of social protection systems – are at risk because of fiscal retrenchment. This is particularly dangerous now, as the current debt crisis is unfolding at a time when countries are in urgent need of additional finance to mitigate the effects of the climate catastrophe and fund investment in a Just Transition.

For workers and the general population, the effects of debt crises are also felt in terms of lost opportunities and long-term reductions in prosperity and living standards. Recent research

on the *Human Costs of the Failing Global Debt System* has shown that “defaults often come with persistent economic scarring, which can impose a drag on growth long past a default’s cure”. (OSF 2023). There is a large body of research on how recession and economic scarring create participation gaps in the labour market that lead to long-term exclusion, with subsequent greater costs to society.

The OSF research highlights anecdotal evidence of additional factors that erode countries’ long-term economic potential, including postponed investment in infrastructure and the emigration of highly qualified workers. It also shows the tragic impact that debt crises have on meeting the SDGs, in terms of lower life expectancy and higher infant mortality:

- **Life expectancy** is “on average 1.5 percentage points lower to how this figure could have improved in the absence of a default over the same period. Using the world average life expectancy in the year 2000 (73.3 years), this equals 1 year, 2 months and 12 days of lifetime lost for each person on average”.
- **Infant deaths** saw an increase of 10 percentage points after 10 years for countries that defaulted (relative to their counterfactual and base year).
- Furthermore, the longer it takes to resolve the debt crisis, the worse the effects. The aforementioned ‘infant mortality gap’ is more than four times greater for defaults lasting more than three years compared with those resolved earlier.

Crises are therefore compounded by unnecessary delays in the coordination and delivery of debt relief to countries in need. Even

following the delivery of initial debt relief, crises often recur due to amounts being insufficient to fully reduce the debt burden over the long term. This can also happen as a result of poorly designed, overly harsh and unrealistic reform programmes that meet popular resistance and are not implemented, or over-optimistic

projections of future growth that allow creditors to argue against deep initial debt relief. The result is a repeated cycle of debt pressure, distress and delayed restructuring. Far from being rare, this repeated cycle of restructuring has in fact been a regular feature of past debt crises (Trebesch *et al* 2022).

## KEY CHALLENGES AND TRADE UNION RESPONSES

The current approach to resolving international debt crises is widely seen as dysfunctional and unfit for purpose, complicating efforts to reach timely and effective solutions. The problem is in part due to the holistic and systemic nature of the debt problem, and the lack of adequate international governance over sovereign debt markets. In addition, the varying circumstances of countries – for example the drivers of indebtedness, the creditor make-up, and the conditions attached to different debt contracts – combine to create a complicated picture at the national level.

In the midst of a debt crisis, all these issues can be difficult to separate – new frameworks and stronger international governance are essential, but potential solutions take different forms and can be slow to achieve. Meanwhile, countries need urgent action, including immediate debt relief. Creditors themselves can exploit the complexity of debt crisis resolution to drag out negotiations, and depending on the nature of the creditor they can have economic or geopolitical motivations. Argentina has paid dearly

due to opportunistic lenders holding up a settlement, and in the past year Zambia and Sri Lanka faced agonising delays in relief due in part to geopolitical jockeying.

Faced with uncertainty around the processes for resolving debt issues and the likely results, countries with unsustainable debts may be reluctant to initiate negotiations, preferring instead to wait and watch each other for any precedents on debt restructuring terms (e.g. levels of relief obtained) agreed elsewhere. In the meantime, they continue servicing their debt, even though experience shows that allowing debt crises to drag on unresolved generally leads to increased losses for both debtors and creditors, and increased long-term economic pain for indebted countries and their populations.

In the midst of this complexity, clarity and focus are important. As such, this section focuses on **three broad objectives** for trade unions to pursue at the international and national level in the current debt crisis:

- (i) securing adequate levels of debt relief now for at-risk countries

- (ii) ensuring that the responses of governments and IFIs to the current and evolving debt crisis protect and prioritise the long-term concerns of workers
- (iii) achieving lasting solutions and much-needed reforms to international governance to prevent debt crises in future.

## SECURING DEBT RELIEF NOW

In light of the current debt situation in many countries, it is **imperative to secure adequate debt relief now and over the coming years**. Despite a complex situation involving different actors, the lesson of the previous debt crises is that a failure to act promptly in the early stages will make the situation worse in the long run.

### *The international response to the current debt crisis has so far fallen short of needs*

The international response to the debt crisis up to now has fallen far short of what is required in terms of comprehensive and lasting solutions. At the start of the Covid-19 pandemic in April 2020, the G20 agreed the **Debt Service Suspension Initiative (DSSI)**, which promised to halt debt service repayments. Nevertheless, the DSSI was flawed for several reasons:

- It covered only the low-income countries (LICs), while middle-income countries were required to continue servicing their unsustainable debts.
- It covered only ‘official’ debt, owed mainly to the G20 governments, excluding the IFIs. Crucially, the debt suspension did not cover private creditors such as investment banks and asset management funds:

although these were asked to suspend repayments on a voluntary basis, the World Bank noted that ‘regrettably only one private creditor participated’<sup>13</sup>

- It merely suspended (i.e. postponed) repayments rather than cancelling any debt. The postponed repayments are now becoming due on top of other repayments scheduled for 2024, threatening a greater debt peak at a time when refinancing costs are now far higher due to increased global interest rates.
- For their part, debtor countries felt unclear about the consequences of requesting a debt suspension under the DSSI. In particular they were afraid of being shut out of international financing markets or receiving downgrades from credit ratings agencies (CRAs). Research has shown how private investors tend to amplify such warnings to dissuade countries that are considering restructuring their debts, even though the evidence suggests that securing sufficient debt relief tends to improve their situation overall (FES 2021).

Ultimately, the DSSI was short-lived: after several short-term extensions, the scheme expired at the end of 2021. While the scheme was not intended as a long-term solution, the effect was that indebted countries identified as needing support during the pandemic were required to restart servicing their debt just as the world entered a new period of conflict-driven uncertainty in early 2022. In the end, only 48 out of 73 eligible low-income countries actually applied for debt suspension under the DSSI, and it delivered far less overall support for indebted countries – in the form of postponement rather than any debt reduction – than was required to address the crisis.

<sup>13</sup> Debt Service Suspension Initiative: Q&As

### *The G20's Common Framework for Debt Treatments is failing to deliver*

Anticipating the end of the DSSI, the G20 agreed on the '**Common Framework**' for Debt Treatments in late 2020. The Common Framework sought to establish a better process for resolving the debt crisis, by promising timely and coordinated action among G20 creditors for those countries in need of debt restructuring. Nevertheless, it repeated many of the same flaws of the DSSI: it again covers only the low-income countries (LICs) and leaves key details about time frames unclear. Anticipated levels of debt reduction are left ambiguous and subject to lengthy negotiations in which power rests overwhelmingly with lenders rather than the crisis-hit concerns of borrower countries.

Attempts to reach solutions to the debt crisis are failing because of **a lack of coordination between creditors and a lack of clear rules to guide all parties on the debt restructuring process**. As highlighted above, the situation is complicated because there is now a more diverse set of lenders than before, including 'traditional' official creditors – International Financial Institutions (IFIs), Multilateral Development Banks (MDBs) and Western foreign governments – and newer non-Western lender governments such as China, as well as significant holdings by private financial institutions of developing country government debt.

Each of the 'traditional' and 'newer' creditors has its own interests and incentives. As noted above, the debts owed by a country to different lenders may have very different terms and conditions with respect to lengths, rates and attached conditions. **A lack of transparency** around debt – how much is owed, to whom, and under what terms – is often a major impediment to progress in restructuring. Without trust and transparency between different parties to the negotiation, coordinating

and agreeing on debt restructuring becomes extremely difficult and lengthy, especially in the absence of a clear set of rules around the process itself.

The Common Framework was created in part to solve the problem and coordinate official creditors, especially China given its new role as a leading lender lying outside of the 'Paris Club' group of Western lenders, and which had not participated in previous rounds of coordinated debt relief. Yet even after agreeing on the Common Framework, coordination (including the formation of 'official creditor committees' to discuss restructurings on the basis of fair burden-sharing) has still been **far too slow to materialise**, while the framework has never addressed the crucial issue of how to encourage or force private lenders to negotiate.

A major problem has been the lack of clarity around the **depth of debt relief** on offer to struggling countries. The Common Framework states that *debt relief* – i.e. reductions of debt stocks through creditors taking losses – should only be considered 'as a last resort, in exceptional circumstances'.<sup>14</sup> As such, the implication is that debt will merely be postponed for repayment in later years rather than reduced, despite the risk that this may prove insufficient to restore debt sustainability over the long term. Meanwhile, governments have continued to service or be liable for unsustainable debts, prolonging the suffering of workers and general populations even after they have begun taking steps on their side to address their debt issues.

At this point, the demonstrable lack of progress on relief for countries that have already begun to implement reforms under IMF programmes sends a poor signal to others. It risks creating a perverse incentive against taking early action to address debt issues, threatening the credibility of the Common Framework and the

<sup>14</sup> 'G20 Statement on a Common Framework for Debt Treatments beyond the DSSI'



entire current sovereign debt ‘architecture’. At the time of writing and more than three years on from the launch of the Common Framework, only five low-income countries have applied for debt treatments through the framework, with none at the time of writing having yet received any comprehensive debt reduction deal that covers all creditors. Any agreement reached is likely to include troublesome clauses that jeopardise future fiscal governance such as claims on future growth.

Despite repeated calls for expanding the eligibility and improving the functioning of the Common Framework,<sup>15</sup> middle-income countries are still left with no similar new international framework for coordinating debt negotiations with their creditors. In fact, some of these countries are being hit badly by the IMF’s ‘surcharges’ policy, whereby the IMF charges higher interest rates for countries that have already high or extended borrowings from the Fund (see Box 1).

### BOX 1: IMF SURCHARGES PENALISE COUNTRIES MOST IN NEED OF EMERGENCY FINANCING

One issue with the emerging country debt relates to the IMF’s policy of adding surcharges (additional fees) on its loans to countries that already have high or extended borrowings from the Fund – i.e. those that require emergency funding the most. On top of its ‘basic concessionary rate’ (which is a floating rate and has itself increased significantly in line with recent international interest rates) the IMF charges an extra 2 per cent interest for countries borrowing more than 187.5 per cent of their IMF quota, and 1 per cent in addition if this threshold has been exceeded for more than three years.<sup>16</sup> In practice, this has meant that countries such as Argentina and Tunisia have paid more in surcharges than regular interest on their IMF loans in recent years.

#### *How can the failing response be improved and what needs to be done now?*

Against a backdrop of continued ineffective coordination and uncertainty around what is on offer, indebted countries have hesitated to take steps to deal with their unsustainable debt burdens. There is strong stigma attached to resorting to the IMF’s bailout funding, as well as a high cost in terms of conditionalities attached to loans. Countries are often highly influenced by dubious warnings from private

creditors and credit rating agencies about losing access to international bond markets in the future.<sup>17</sup> The treatment of debt restructurings by credit rating agencies (CRAs) is currently complex and problematic, since they tend to downgrade after a default but should in theory reward government actions to promote debt sustainability, including restructuring and relief.

At this point, relevant institutions, experts, and affected countries are in agreement that the current response is falling short. The IMF itself

<sup>15</sup> For example the EU has called for the extension of the Common Framework to middle-income countries

<sup>16</sup> See Eurodad ‘A guide to IMF Surcharges’ for more information

<sup>17</sup> See FES (2021) ‘No More Loans: How Creditors Torpedo Debt Relief Initiatives’

<sup>18</sup> Kristina Georgieva and Ceyla Pazarbasioglu, ‘The G20 Common Framework for Debt Treatments Must Be Stepped Up,’ International Monetary Fund, 2 December 2021

has made recommendations for improving and speeding up the delivery of debt relief.<sup>18</sup> These include ensuring that the Common Framework is improved through:

- Providing clear timeframes (for example on setting up creditor negotiating committees), with credible enforcement mechanisms for ensuring that deadlines are met
- Providing clear guidelines that map out the parameters of debt restructurings, clarifying the scope of debt to be restructured and the concept of fair burden-sharing ('comparability of treatment') between creditors
- Extending the approach to middle-income countries faced with debt restructurings
- Better encouragement of countries with unsustainable debt burdens to seek early restructuring, through better signalling and commitments by lenders that requests will be met with timely and significant debt relief with limited conditionality, for rapid recovery and freeing up resources for future spending used to finance a long-term vision of transformative change
- Ensuring that when delays occur in the coordination and delivery of debt relief by creditors, that the costs of this failure are not borne by borrowing countries that have made a clear commitment to confront their debt problems. Specifically there should be protections for countries that have indicated a readiness to restructure their debts, including an immediate suspension ('standstill') of debt service payments, and a stay or prohibition on any litigation by particular creditors (especially so-called 'vulture funds') to recover losses on unsustainable debt during restructuring negotiations.

In early 2023, the Global Sovereign Debt Roundtable (GSDR) was launched to create a forum for a diverse set of creditors (both within and outside the Common Framework), debtor countries, and other stakeholders. Co-chaired by the IMF, the World Bank, and the G-20 Presidency, the GSDR has the potential to build understanding and collaboration on complex issues between different groups of creditors who did not previously coordinate. However, it does not replace existing measures such as the Common Framework and cannot itself resolve the dire issues facing indebted countries.

While these improvements can help to address the current shortcomings in the international response, they would not in themselves be sufficient to fix fundamental issues in the dysfunctional sovereign debt system. A continued lack of progress on debt relief, especially if accompanied by further national crises, may finally lead to the realisation that the current practice needs to be replaced with a more comprehensive solution (discussed below).

One certainty is the need to **mobilise sufficient financial resources for the deep and comprehensive debt relief required at this point**, with the provision of dedicated financing for debt relief and a potential new coordinated round of debt relief for highly indebted countries, similar to the HIPC initiative of the 2000s. One option could be a new issuance of Special Drawing Rights (SDRs). SDRs are a type of reserve currency used by the IMF, and an issuance of SDRs can ease countries' liquidity position without relying on additional debt. The IMF's 2021 issuance of \$650 billion helped countries survive the depths of the Covid-19 crisis, but more relief is needed and further issuances should be considered. While SDRs are allocated by the IMF to each member country in proportion to its quota (based on the size of their economy), they are particularly

valuable to developing countries and can help countries that do not currently have an IMF programme.<sup>19</sup>

Any new finance provided for debt relief needs to genuinely be additional to – rather than at the expense of – the international community’s existing commitments on helping countries to meet the SDGs and address the climate crisis. Trade unions should naturally defend against any attempt to socialise unsustainable developing country debt at the national or international level. This could happen for example if new lending delivered by IFIs and MDBS under the guise of debt relief is ultimately redirected straight back towards repaying existing creditors. Instead, private creditors should be fully obliged to suffer losses or ‘haircuts’ that are at least on similar terms to official creditors (see below).

*Summary: Trade union actions on securing faster and deeper debt relief*

At this point the main impediment to improving the situation is **a lack of political will**. Trade unions can therefore play a valuable role in using their voice to influence leaders in the international forums (such as the G20), their national governments and key creditors including private creditors, holding them to account for the lack of progress and creating pressure on them to step up their efforts for comprehensive solutions to the sovereign debt crisis. Trade unions should:

1. Demand that the G20 and IFIs urgently reverse the failures in their response to the debt crisis and **address the shortcomings of the Common Framework** (as outlined above)

2. Lobby for **deep debt relief** including ‘haircuts’ by official and private creditors with the provision of adequate finance to ensure rapid jobs-led recoveries while avoiding a new cycle of debt
3. Demand for **the removal of IMF surcharges** that punish countries most in need of the global financial safety net
4. Support further issuance of **Special Drawing Rights** by the IMF to ease liquidity pressures without adding onto existing debt burdens.

### OVERHAULING THE IFI RESPONSE TO DEBT CRISES TO PROTECT WORKERS AND VULNERABLE POPULATIONS

When a country’s sovereign debt becomes unsustainable, a policy response is required to ensure that debt is brought back under control and made sustainable for the future. The IMF plays a central role because, under internationally agreed principles and based on its role as ‘lender of last resort’, the adoption of an IMF reform programme is currently a *de facto* prerequisite for any major formal debt restructuring to begin. But when a country turns to the IMF for emergency financing, current IMF rules prevent it from providing that financing unless the country takes steps to restore debt sustainability. This normally includes a combination of ‘policy adjustments’ outlined under an IMF agreement, and securing ‘guarantees’ from public and private creditors of continued financing or participation in any future debt restructuring. Emergency IMF agreements involve a request from the government, generally followed by a period of negotiations on the policy

<sup>19</sup> ECA-ECLAC, ‘Special Drawing Rights (SDR’s) and the COVID-19 crisis’, April 2022

conditionalities attached to the programmes. These negotiations result in a ‘staff level agreement’, which then requires approval by the IMF board before initial funds are disbursed. Governments may commit to initial reforms, while disbursement of the later tranches depends on periodic (e.g. annual) reviews of the government’s performance in meeting its loan conditions.

### *Is fiscal retrenchment actually effective in reducing debt?*

The conditions attached to such IMF agreements have historically involved painful austerity-based fiscal contraction (or ‘consolidation’ in the IMF’s terminology):

- At the overall level, IMF bailout programmes typically seek to achieve a substantial primary budget surplus, often front-loaded. The level of surplus — often at least 3 per cent -- appears to be consistently applied regardless of the situation of the country, and despite the purpose of looking at the specific situation of each indebted country. Yet most developed and developing countries have historically been unable to achieve any kind of surplus. For developing countries where the main constraint on development is a lack of investment, targeting a large budget surplus – and thus draining resources from the economy – is seen by many as inappropriate.
- In a striking contribution, the IMF itself has recently come to the conclusion that ‘partly because fiscal consolidation tends

to slow GDP growth, **the average fiscal consolidation has a negligible effect on debt ratios**’ (IMF 2023). The same analysis also points out that debt restructuring has far more impact than fiscal consolidation, but that countries are reluctant or unable to restructure due to our current dysfunctional sovereign debt restructuring ‘non-system’.

As outlined above, cuts in public expenditure and increases in taxes are often accompanied by measures such as wage bill cuts or caps, reduced subsidies, pension and social security reforms, rationalising and narrow-targeting of social assistance/safety nets, labour flexibilisation reforms, reforms to health care systems, increasing consumption taxes or VAT and privatisations and increased use of Public-Private Partnerships (PPPs).

Recently the IMF has emphasised the increases in social expenditures within its bailout loans that protect vulnerable populations, while arguing that painful measures impact mainly wealthier groups in the middle classes. However the IMF’s ‘institutional view’ of targeted social assistance differs significantly from the International Labour Organisation’s focus on universal protection for all, incorporating social protection floors.<sup>20</sup> Furthermore, recent research indicates that since the Fund’s implementation of social spending floors, fiscal consolidation and the erosion of social protection and social spending have continued to jeopardise workers and vulnerable populations.<sup>21</sup>

<sup>20</sup> ITUC (2019) ‘The IMF should support the financing of universal social protection, health and education’. See also Human Rights Watch (2023).

<sup>21</sup> Human Rights Watch (2023) ‘Bandage on a Bullet Wound: IMF Social Spending Floors and the Covid-19 Pandemic’, 2023; and Kentikelenis, Alexandros and Stubbs, Thomas, ‘IMF Social Spending Floors: A Fig Leaf for Austerity’, Oxfam, 13 April 2023



## BOX 2: CONDITIONALITIES WITHIN ZAMBIA'S EXTENDED CREDIT FACILITY

Zambia defaulted on its debt repayments during the pandemic in November 2020, agreed an IMF bailout in August 2022, and at the time of writing is still trying to restructure its debts. As such, it is widely seen as a key 'test case' of the Common Framework and the international community's response to the global debt crisis.

The bailout loan ('Extended Credit Facility') negotiated with the IMF sought a fiscal 'consolidation' (i.e. contraction) within four years to turn a primary budget deficit of 6 per cent of GDP in 2021 to a surplus of 3.2 per cent of GDP in 2025 – a combined decrease in public spending and increase in tax revenues equivalent to almost 10 per cent of economic output. Few countries come close to running a surplus of this size; EU countries for example have for years struggled to meet their own goal of achieving a 3 per cent deficit. In the context of a developing country looking to grow in a post-Covid recovery and finance investments for a Just Transition, such targets may be unrealistic and counterproductive, with impacts not just on current spending, but also on whether further bailouts may be required in future.

Independent analysis of Zambia's IMF agreement showed that it increased VAT on foodstuffs and included cuts to its agricultural input subsidy programme (Chelwa 2022). Along with VAT receipts, the IMF's own analysis shows that taxes on labour income are also likely to go up in the medium term, at a rate faster than taxes on profits (mining and non-mining). While the IMF highlighted increased social protection spending in its programme, the key measure was only a minimal increase (\$5 USD per month) of a highly targeted benefit aimed at the very poorest, which did little to shield either recipients or the broader population in the way the IMF claimed.

Governments are always in a weakened position when negotiating with the IMF and other creditors in the midst of a debt crisis, but trade unions have made the difference when they have been organised and able to make their voice heard.<sup>22</sup> Trade unions can positively influence these discussions if they are informed and prepared with their demands, while meaningful input from trade unions is vital for ensuring the success and legitimacy of IMF programmes. Nevertheless, unions are not always included in any discussions in a meaningful way, and are often excluded when Fund representatives visit for negotiations or surveillance.<sup>23</sup> They often lack sufficient information on the negotiation process and are approached for support only after agreements

have been made. There is a need to ensure instead that trade unions are fully represented in discussions between governments and the IMF on the design of programmes to guarantee that there is sufficient buy-in and legitimacy for successful implementation.

### *Assessing debt sustainability: who judges how much debt relief a country needs?*

The IMF also plays another important role as 'referee' on how sustainable country debts are, and how much needs to be restructured in any crisis. The IMF's Debt Sustainability Analyses (DSAs) contain calculations on the debt situation facing each country, and subsequently form the basis of any restructuring negotiations.<sup>23</sup>

<sup>22</sup> See for example PSI and UNCTAD (2022)

<sup>23</sup> See for example Oxfam International (2023) 'From Stunt to Substance: An assessment of IMF engagement with civil society'

<sup>24</sup> For a guide to how the IMF's DSAs work, see Erlassjahr (2023) 'Understanding IMF Debt Sustainability Analyses': A Toolkit for CSOs to critically engage with the IMF'

This arguably creates a conflict of interest since the IMF is often a major lender itself to indebted countries, and therefore could be in a poor position to act as an independent judge of country needs and ability to repay. Another issue is that private creditors often reject the IMF's analyses, arguing that countries are able to repay more than its assessments suggest. This tactic has been used for example to delay restructuring negotiations and argue against deeper debt relief, in the process prolonging the suffering of workers of populations.

Ideas for improving the current DSA framework have not been limited to outside commentators. The World Bank itself made a powerful case for reforming the approach in its flagship *World Development Report 2022*. It highlights the need for realistic assumptions about growth, the fiscal path and future interest rates given that 'it is tempting for lenders to buy into overly optimistic forecasts [that] imply that smaller debt write-offs are required to ensure debt sustainability in the future'. They highlight other problems such as the 'misguided approach' of 'postpon[ing] resolution efforts until economic conditions improve', which can instead deepen the pain by prolonging the economic crisis and discouraging new capital inflows. Finally, they argue that 'assumptions should take into account the expenditures needed to achieve development goals – such as reducing poverty, adapting to climate change [and] meeting the SDGS' (World Bank 2022).

As such, changing the approach to measuring debt sustainability to promote long-term sustainability of public debt may require fundamental shifts to existing paradigms that prioritise fiscal contraction and austerity. Instead, a more comprehensive approach is needed that accounts for downside risks but incorporates a human-centred approach to achieving jobs-led recoveries and long-term development over the achievement of narrow

fiscal objectives. There's no need to start from scratch; policymakers can consider approaches such as the 'Guiding Principles on Foreign Debt and Human Rights' endorsed by the UN Human Rights Council.<sup>25</sup>

Alternatives to established debt sustainability assessments are also emerging: UNCTAD (The United Nations Conference on Trade and Development) has worked on an innovative approach to measuring debt sustainability based on countries' long-term developmental capacities and financing needs, including those needed to meet the SDGs and address climate change.<sup>26</sup> Along with this initiative, governments and even CSOs can themselves commission their own debt sustainability assessments (as the Argentinian government has done previously) that challenge the established picture. Such alternative measures of debt sustainability should potentially be supported technically and promoted by stakeholders including trade unions.

*Trade union actions on ensuring the response of international financial institutions and national governments to debt crises protects workers and advances their goals*

Trade unions can:

1. Demand an overhaul of the outdated approach used by IFIs to assess **debt sustainability**, to prioritise long-term growth and productive investment to meet the SDGs rather than short-term fiscal contraction.
2. Fight back against destructive and counter-productive **austerity policies** and attacks on workers' rights and instead encourage job-led recoveries and the mobilisation of domestic tax resources in a progressive manner.

<sup>25</sup> 'Guiding Principles on Sovereign Debt and Human Rights'

<sup>26</sup> See the UNCTAD Sustainable Development Finance Assessment (SDFA)

3. Shift the IFI's approach to **social protection** and ensure that IMF and World Bank programmes align with ILO commitments and programmes in order to build universal social protection systems rather than inefficient and problematic targeted measures.
4. Demand **meaningful participation and dialogue** for trade unions in discussions between governments and the IFIs on the design of loan programmes to ensure that workers' views are heard and reflected, in order to achieve sufficient acceptance in support of recovery efforts.

## ACHIEVE LASTING SOLUTIONS TO RESOLVE DEBT CRISES IN THE FUTURE

In light of the current debt crisis, existing international frameworks and the governing rules for dealing with issues of sovereign debt are wholly inadequate for resolving debt crises and for ensuring that our development finance system is an effective tool for investment and the achievement of the SDGs. At this point, there is a great opportunity to learn from the current crisis and achieve lasting reform on several fronts.

### *An independent, human rights-focused Sovereign Debt Resolution Mechanism*

Along with many other international institutions, policymakers, civil society organisations and governments around the world, trade unions have long supported the establishment of an independent and human rights-focused **Sovereign Debt Resolution Mechanism** (SDRM). This would comprise a clear set of international rules, procedures and institutions that together govern how sovereign debt crises are resolved, akin to an international bankruptcy court for governments. The

aim would be to establish a process for independent adjudication that could bind all parties – official and private – in a swift, predictable, transparent, fair and lasting agreement.

Debates around the establishment of an international SDRM are not new: the IMF itself made detailed and concrete proposals more than 20 years ago in 2001. Proposals finally gained momentum in 2014 when the UN General Assembly passed a resolution (68/304) pledging “to elaborate and adopt ... through a process of intergovernmental negotiations” an SDRM and another resolution (69/247) in January 2015 on negotiation modalities. Despite the broad support at the UN however, progress was then effectively vetoed by G7 countries (the IMF's biggest shareholders) in favour of a set of nine UN principles on the debt restructuring processes, which are nevertheless voluntary and non-binding.

For their part, civil society campaigners have outlined some of the key features that should form part of a new debt workout mechanism, including:

- a set of clear rules that set the boundaries and parameters of sovereign debt treatments, including ensuring fairness ('comparability of treatment') in the results.
- independent adjudication by a well-designed international debt authority (preferably established under the auspices of the UN) to assess specific circumstances, with the ability to impose binding agreement on all creditors.
- a human-rights based approach to debt sustainability.
- an automatic standstill on repayments for any country that triggers the mechanism.

- an automatic stay on litigation for any country that triggers the mechanism.<sup>27</sup>

Without an SDRM, indebted countries are left with the current *ad hoc* ‘country-by-country’ approach that leaves them with little negotiating power, and uncertainty about outcomes. With the shortcomings of that approach clearly visible in the current debt crisis, now is exactly the right time to revisit the SDRM debate and push for a fundamental and lasting reform on how sovereign debt markets are governed internationally.

### *Forcing private sector creditors to contribute fully to debt relief efforts*

In the absence of any new commitment towards an SDRM, complementary reforms can meanwhile be pursued to improve debt resolution processes and help countries in crisis. Firstly, the full implementation and extension of the current Common Framework mechanism as outlined above – including its extension to MICs, improved relief terms, a strengthened set guidelines to operationalise and speed up the approach, and deadlines for achieving objectives – could help countries move closer to a coordinated approach and turn the Common Framework into a model for a long-term approach to creditor cooperation.

Additional reforms can focus directly on forcing **private creditors’ participation** in debt restructurings, ensuring they take the same losses that other creditors are willing to accept. Following the failure of previous attempts to establish a SDRM, the IMF has since favoured a ‘contractual’ approach of reforming the terms and conditions of government bonds to make restructurings easier when needed. This has resulted in the limited but useful progress that followed the previous debt crisis in the 1990s

through the introduction of ‘collective action clauses’. In simple terms, these dictate that in the event of a restructuring, agreement by a certain majority of bondholders could bind all others, and thus prevent ‘hold-out’ behaviour by the private sector.

Collective action clauses are now standard in new sovereign debt contracts, and have evolved with respect to the mechanisms for achieving majorities. However, they are not yet widespread enough to prevent determined bondholders from pursuing claims in court, notably so called ‘**vulture funds**’, which buy up distressed debt specifically to profit in this way. In fact the trend is still leaning towards *increasing* litigation against countries in debt distress: Schumacher *et al* (2018) found that ‘threats of litigation played a role in almost all recent debt distress cases’ and are consequential for resolving debt crises ‘even if lawsuits are filed by only few holdout creditors’. They also found that “Hedge funds now account for two-thirds of new cases, pursuing more aggressive legal strategies compared to other types of creditors. As a result, sovereign debt lawsuits filed have become larger, less likely to be settled early on, and more likely to involve attempts to attach sovereign assets abroad”.

Current efforts to force private creditors to participate in debt relief efforts include lobbying major financial centres (most notably the UK and US) to pass **new legislation** that would force private creditors to the table and bind them into providing debt relief, or would re-establish the previously long-held legal principle that specifically prohibited any speculative purchase of distressed sovereign bonds in order to seek profit via litigation in courts.<sup>28</sup> One important legislative proposal in the State of New York that has been supported

<sup>27</sup> ‘See: Eurodad (2019) ‘We Can Work It Out: 10 Civil Society Principles for Sovereign Debt Resolution’ and Norwegian Church Aid (2023) ‘A Nordic Initiative to Resolve the New Debt Crisis’

<sup>28</sup> This practice (and the legal doctrine preventing it) dates back centuries and is referred to as ‘champerty’. It was assumed to apply to sovereign debt contracts until being challenged in litigation by a vulture fund in the US during Argentina’s restructuring in 2012.



by trade unions and debt-focused CSOs would force private creditors to participate in restructurings on terms that are comparable with agreements between debtors and official creditors.<sup>29</sup>

The IMF could itself also be more aggressive in supporting countries that have committed to a restructuring to suspend payments to private creditors, thus giving the latter a greater incentive to participate. The IMF has previously hinted at using ‘financial incentives’ to encourage bondholders to restructure debts; as in the past, however, trade unions should fervently resist any approach that results in a *de facto* taxpayer-funded bailout of private investors instead of forcing them to accept their responsibilities as lenders.

### *Newer ‘innovative’ reforms to sovereign lending instruments need to carefully assessed*

In the face of unprecedented levels of public debt around the world, there is growing interest in the potential for new types of bonds and debt instruments, not just to alleviate the current debt crisis, but also to meet broader development finance needs. So-called ‘Innovative’ debt instruments (such as GDP-linked or SDG-linked bonds and ‘climate-debt swaps’) have an intuitive appeal in their potential to tackle multiple crises at the same time. Nevertheless, they must be evaluated critically for their actual contribution to providing relief for indebted countries in need, for their stated development or climate goals, and for their potential risks including the creation of new unsustainable debts.

One interesting area of attention is the use of so-called ‘**state-contingent clauses**’ within sovereign lending, in which debt repayments

are linked directly to defined events or the achievement of key benchmarks. Linking **debt repayments more closely to GDP growth**, and thus a government’s ability to repay, could help make repayments pro-cyclical rather than lead to a spiral of debt distress. The G20 International Finance Architecture Working Group examined such linkages and identified potential benefits.<sup>30</sup> However, in practice, results have been mixed: for example Argentina’s recent experience with such GDP-linked bonds led to litigation and defeat in UK courts.<sup>31</sup>

There are also increasing attempts to link GDP growth – or natural resource royalties – to higher future repayments in recent debt restructuring deals. In the case of Chad, levels of debt relief were made dependent on the oil price falling in the future. Within Zambia’s (as yet unfinished) debt restructuring deal there is a clause that means that if GDP grows more than expected, the country will get less debt relief – implying extra GDP growth will in part go to higher repayments to creditors. At the same time, there is no similar mechanism in the deal that would increase levels of debt relief available if GDP falls, for example due to a climate-related disaster or falling export prices. These recent examples highlight how this approach might in fact hinder countries seeking to escape their insurmountable debt burdens, but the precedent for these sorts of mechanisms appears to be growing.

In recent months, so-called ‘**debt-for-climate swaps**’ have risen up the international policy agenda and attracted investor interest. While these again have intuitive appeal, they also need to be properly evaluated, with civil society raising questions around their actual contribution to tackling both unsustainable debt and climate goals.<sup>32</sup> Debt-for-climate swaps sit alongside a range of proposals recently created

<sup>29</sup> The proposed ‘New York Taxpayer and International Debt Crises Protection Act’ has been endorsed by the New York AFL-CIO among others. More information is available at: [Jubilee, The Sovereign Debt Stability Act](#)

<sup>30</sup> [G20 International Financial Architecture Working Group, Co-chairs summary](#)

<sup>31</sup> [Buenos Aires Herald, GDP-linked bonds: Argentina to appeal London court ruling](#)

<sup>32</sup> [Eurodad \(2023\) ‘Miracle or mirage? Are debt swaps really a silver bullet?’](#)

around the twin debt and climate crises (see box 3). Other approaches have attempted to link debt repayments to the fulfilment of key SDGs. In 2020, Benin became the first country to issue an ‘**SDG bond**’ and has also issued debt with insurance under a World Bank ‘Policy

Based Guarantee’. These initiatives represent a potential new lending model for MDBs, but they require debt levels to be under control before lending occurs, and raise the potential for new ways for lenders to impose conditionalities.

### BOX 3: DEBT, CLIMATE AND A JUST TRANSITION: A COLLISION COURSE FOR SUSTAINABLE DEVELOPMENT

Experts are increasingly highlighting the linkages between the debt and climate crises.<sup>33</sup> Achieving climate goals is clearly incompatible with governments in Low income Countries spending more on debt service than on social protection, education, health and climate mitigation measures combined.<sup>34</sup> The threat of more countries requiring IMF loan programmes that feature harsh austerity and attacks on labour rights would only worsen prospects for a Just Transition.

Addressing the climate crisis will clearly require strong policy responses, many of which will rely heavily on spending measures, such as increasing public investment and subsidies for renewable energy. While welcome, such policies entail large costs: the IMF’s most recent *Fiscal Monitor* states that ‘relying mostly on spending measures may raise debt by 45 to 50 per cent of GDP by 2050’ and that ‘high debt, rising interest rates, and weaker growth prospects will further make public finances harder to balance. But prolonging “business-as-usual” leaves the world vulnerable to warming.’

Over the long term, there are also worrying signs of a ‘climate-debt trap’, as countries double down on models of resource extraction – whether continued reliance on fossil fuel exports, or selling new ‘green minerals’ in ways that are disconnected from local supply chains. Recent debt restructurings have explicitly linked debt relief with future extraction, while countries such as Argentina have proposed a large expansion of extractive industries as a way out of their chronic debt problems.

Against this backdrop, a bewildering suite of different financial instruments and policies are being proposed to tackle issues around the debt and climate crises, both individually and jointly. These include ‘**climate-debt swaps**’ and ‘**disaster clauses**’ within new lending and a reassessment of how ‘sustainable debt’ is defined in light of the climate crisis (both in the IMF frameworks, as well as alternative analytical proposals). The IMF has become a strong advocate for **carbon pricing** measures nationally, as well as the idea of an international carbon price floor. A related development on this front is the recent launch of the pilot phase of the **EU’s Carbon Border Adjustment Mechanism (CBAM)**.<sup>35</sup> At the same time, international negotiations have focused on **climate finance**,<sup>36</sup> including funds agreed to

<sup>33</sup> See e.g. UNCTAD (2023) ‘Global debt and climate crises are intertwined: Here’s how to tackle both’ and Climate Action Network (2022) ‘The debt and climate crises: Why climate justice must include debt justice’

<sup>34</sup> See Debt Service Watch (2023) ‘The Worst Ever Debt Crisis’

<sup>35</sup> Carbon pricing has arguably been overlooked compared with other instruments listed above, but is becoming more prominent (e.g. in IMF statements) and should receive relatively more attention in this study.

<sup>36</sup> See for instance LSE and Grantham Research Institute Just Transition Financing Lab

within UNFCCC-COP processes along with the expansion of IFI and MDB lending with a greater emphasis on climate as well as a push for greater private sector finance through various models, incentives and subsidies (for example the Just Energy Transition Partnership approach). Finally, national governments have put forward climate-related plans and policies, including, for example, the differing use of subsidies in energy, climate and industrial policies in developed and developing countries.

The coming period is likely to see important developments that will shape the course of policy both on debt resolution and climate financing, making it urgent that trade unions understand the issues, priorities and potential responses they should advocate for to achieve sustainable, pro-worker solutions. Key concerns for trade unions include: ensuring adequate financing to meet the SDGs; ensuring climate spending contributes to growth and the creation of decent work; ensuring that workers' rights are protected and strengthened; and stronger transparency and accountability so that debt and government spending are growth-generating and that catastrophic debt crises are avoided in future.

*Source: ITUC (2024) Debt, Climate and a Just Transition: A Collision Course for Sustainable Development.*

### *Greater transparency and public scrutiny on how sovereign debt is contracted and used*

Greater **transparency** around sovereign debt would bring benefits not just in helping to establish trust in the event of a required restructuring, but in insuring against excessive debt build-up in the first place through opening public investment to greater scrutiny. Many countries are still paying off historical 'odious' debts – such as those accumulated during periods of dictatorship – while cases still regularly occur of debts linked to corruption. Other 'hidden debts' such as debt that was not recorded or disclosed officially or accounted for in official statistics, or the opaque terms and conditions in debt contracts mentioned above, have played a key role in debt crises. Recent examples of corrupt debt include Mozambique's 'tuna bond' scandal,<sup>37</sup> while hidden debt played a role in Greece during the Eurozone debt crisis.

Transparency around debt at national level is far short of where it should be. National trade unions can argue for stronger legislation to improve processes around approval of debt contracts (especially collateralised debt) including parliamentary assent, publication of debt data, and improved scrutiny processes, including within social dialogue between government and trade unions and employer associations. Trade unions are well placed to spearhead these initiatives: in November 2023 ITUC-Africa launched a new continental-level campaign on sovereign debt with transparency issues at its heart.<sup>38</sup>

At the international level, there should be routine publication and improved tracking of sovereign debt issuance, together with stronger regulation to promote responsible lending and fight against poor practices (such as non-disclosure clauses in sovereign debt contracts). Internationally there are numerous instruments

<sup>37</sup> Africanews, [Mozambique, Credit Suisse secure out-of-court settlement over tuna bond scandal](#)

<sup>38</sup> ITUC-Africa (2023)

such as the UNCTAD (2012) Principles on Promoting Responsible Sovereign Lending and Borrowing, the investor-led Principles for Responsible Investment (PRI) and the legally enforceable UN Convention Against Corruption (UNCAC). Such instruments could be adapted or extended to strengthen binding commitments to ensure debt is used responsibly and transparently in future – including for example by making corrupt and predatory lending illegal.<sup>39</sup>

Greater transparency around sovereign debt should be welcomed by responsible investors, and will be increasingly important in the context of a heightened focus on environment, social and governance (ESG) investment, for example to avoid accusations of greenwashing. Responsible lenders — including those for example that are managing workers’ pension funds or assets — should have a strong incentive to support debt transparency since it can improve their investment decisions. On the issuing side, improving the transparency of debt data — including more detail on what activities debt is used for — will enable proper scrutiny of government investment decisions. Risks around sovereign debt can be further reduced with better overall debt management, including better ‘matching’ of long-term financing sources to long-term investments and liabilities.

### *Broader reforms to build resilience to debt shocks, including establishing Universal Social Protection Systems*

The development of local currency capital markets is a standard policy recommendation of IFIs, however the natural link with well-financed national social security systems is rarely mentioned. In many countries the two are inextricably linked, where national pension and social security funds are key domestic buyers of government debt. A shift towards domestic currency debt may bring benefits in terms

of providing greater stability by eliminating currency risk, laying the basis for a certain form of universal social protection, and building a more diversified investor base for government debt, resulting in a ‘bigger pie’ available for financing investment and development priorities. Unlike speculative overseas bondholders, domestic investors would have a far greater stake in long-term national prosperity and macroeconomic stability.

Yet experience has shown that the recent growth in domestic debt in many countries needs to be handled with extreme caution. When debt becomes unsustainable, attempts by government or external creditors to impose a **domestic debt restructuring** can create not just risks to the domestic financial system, but also **a serious threat to workers’ savings**. While not all domestic debt is held by workers, and domestic financial institutions bear responsibilities to contribute to debt relief efforts, in some countries mandatory pension contributions and rules requiring pension funds to invest in domestic bonds can mean that workers’ hard-earned pension savings are far more exposed than the investments of other creditors. In Sri Lanka for example, independent experts have calculated that restructuring domestic debt will result in a 30 per cent decline in the value of retirement funds over a decade. In a crisis, this compounds the suffering of workers who already bear the brunt of the consequences of the collapsing economy. In response, the ITUC has called for a careful assessment of the costs and benefits of any domestic debt restructuring within a democratic process that involves social dialogue with trade unions, as well as adequate protection for workers affected by debt crises within a fully financed social safety net.<sup>40</sup>

Moreover, the financialisation of social protection can increase volatility and erode the solidaristic effects of spending meant to

<sup>39</sup> See for example Norwegian Church Aid (2023) ‘A Nordic Initiative to Resolve the New Debt Crisis’

<sup>40</sup> ITUC (2023)

advance basic human rights. Trade unions should consider their national context and the situation of financial markets in their own country as they manoeuvre the complex relationships between sovereign debt and social protection.

### *Trade union actions to achieve lasting solutions to resolve debt crises in the future*

Beyond advocating for stronger international action on the current sovereign debt crisis (section 3.1) and challenging standard austerity-driven policy responses (section 3.2), trade unions should advocate for lasting reforms that learn from historic and current crises to ensure that catastrophic debt episodes are a thing of the past. Here, trade unions can:

1. Continue advocating for a proper international **Sovereign Debt Restructuring Mechanism** that can quickly resolve sovereign debt crises and protect the human rights of affected populations.
2. Support ongoing efforts to **force private creditors to participate** fully in debt relief initiatives, including through new

legislation in major financial centres such as New York and London.

3. Fight to improve **transparency** around sovereign debt both internationally (including new binding principles for responsible borrowing and lending) and nationally through strengthened reporting and accountability mechanisms and proper scrutiny of public finance decision-making.
4. Critically assess and monitor proposals for **new instruments for debt financing**, including state-contingent bonds (natural disaster, GDP warrants, SDG bonds, climate bonds), and local-currency bond markets to ensure that debt is used sustainably in the future as a tool for achieving the SDGs and a Just Transition without creating new traps.
5. Ensure that **domestic debt** is handled carefully and separately from claims by foreign creditors, with a careful assessment of the costs and benefits of any domestic debt restructuring — especially where there are threats to the savings and pensions of workers who are already suffering under debt crises.

## CONCLUSION: TRADE UNIONS CAN PLAY A KEY ROLE IN ADVANCING AN AGENDA FOR LASTING CHANGE ON SOVEREIGN DEBT

Trade unions have a unique role to play in helping shape policy responses at various levels of the debt crisis. This report has outlined priorities for trade unions within an agenda for lasting change. Internationally, trade unions should:

### *Support efforts for faster and deeper debt relief for those in urgent need*

1. Demand that the G20 and IFIs urgently reverse the failures in their response to the debt crisis and **address the shortcomings of the Common Framework** (as outlined above).



2. Lobby for **deep debt relief** including ‘haircuts’ by official and private creditors with the provision of adequate finance to ensure rapid jobs-led recoveries while avoiding a new cycle of debt.
3. Demand for **the removal of IMF surcharges** that punish countries most in need of the global financial safety net.
4. Support further issuance of **Special Drawing Rights** by the IMF to ease liquidity pressures without adding onto existing debt burdens.

### *Shift the response of international financial institutions and national governments to debt crises*

5. Demand an overhaul of the outdated approach used by IFIs to assess **debt sustainability**, to prioritise long-term growth and productive investment to meet the SDGs rather than short-term fiscal contraction.
6. Fight back against destructive and counter-productive **austerity policies** and attacks on workers’ rights and instead encourage job-led recoveries and the mobilisation of domestic tax resources in a progressive manner.
7. Shift the IFI’s approach to social protection to ensure that IMF and World Bank programmes truly build universal **social protection** systems as opposed to inefficient and problematic targeted measures.
8. Demand **meaningful participation and dialogue** for trade unions in discussions between governments and the IFIs on the design of loan programmes to ensure that workers’ views are heard and reflected.

### *Achieve lasting solutions to resolve debt crises in the future*

9. Continue advocating for the long-term goal of establishing a proper international **Sovereign Debt Restructuring Mechanism** that can quickly resolve sovereign debt crises and focus on protecting the human rights of affected populations.
10. Support ongoing efforts to **force private creditors to participate** fully in debt relief initiatives, including through new legislation in major financial centres such as New York and London.
11. Fight to improve **transparency** around sovereign debt both internationally (including new binding principles for responsible borrowing and lending) and nationally through strengthened reporting and accountability mechanisms and proper scrutiny of public finance decision-making more generally.
12. Critically assess and monitor proposals for **new instruments for debt financing**, including state-contingent bonds (natural disaster, GDP warrants, SDG bonds, climate bonds), and local-currency bond markets to ensure that debt is used sustainably in the future as a tool for achieving the SDGs and a Just Transition.
13. Ensure that **domestic debt** is handled carefully and separately from claims by foreign creditors within a careful assessment of the costs and benefits of any domestic debt restructuring, especially where there are threats to the savings and pensions of workers who are already suffering under debt crises.

Furthermore, at the **national level**, trade unions can work to put pressure on governments and creditors to ensure that policy responses are shaped to protect workers and vulnerable people. Trade unions can:

- Build their understanding and capacity on debt and public finance, as well as make linkages with national CSO networks on these issues.
- Demand active and meaningful participation in debt discussions and put out clear positions and statements at an early stage in negotiations (e.g. with the IMF or government).
- Support greater scrutiny and transparency of government debt and public finance, for example through enhanced civil society involvement in the budget process and monitoring. In particular there must be greater transparency around ‘contingent liabilities’ (resource-backed loans) and ‘non-disclosure clauses’ in debt contracted by governments. More broadly there is a chance to use debt crises to reform governments’ approaches to development financing, fiscal and investment policies to enhance their impact on growth, job creation and social protection.
- Share information and best practice experiences on engaging on debt and finance related issues with trade unions in other countries and at the regional and global level – whether for example as part of a negotiations on an IMF programme or with governments on planned budgetary measures aimed at reducing debt levels.

### *A fresh start: debt crises as opportunities to reorient policies towards a transformative agenda*

Debt crises can have devastating impacts on workers and populations yet can also be a chance to rethink policies and reorient investment towards long-term goals.

We must remember that **comprehensive debt relief initiatives have a long history of fostering transformative change**. This was seen most notably in the reconstruction of West Germany in the post-war period, allowing it to rebuild and become one of the powerhouse economies of the world today. More recently, the HIPC initiative of the 2000s not only ushered in a period of strong economic growth for many of its beneficiaries in sub-Saharan Africa and elsewhere, but also led to broader shifts in policy towards prioritising poverty reduction in developing countries and supported progress on the Millennium Development Goals.

Such opportunities are lost when the crisis response focuses on a narrow set of short-term fiscal objectives and an accompanying set of austerity measures. Today, the key priorities for developing countries lie in meeting the SDGs, achieving a Just Transition in the face of enormous climate challenges, and delivering on a New Social Contract between workers and governments. Rather than threatening the achievement of these goals, efforts to resolve the current debt crisis can help create resilience and foster progress by building a long term, pro-growth and pro-worker approach based on comprehensive and lasting solutions.

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