

“RELEASE G20”
A FLEXIBLE MECHANISM FOR DEBT CONVERSION, SUSTAINABLE DEVELOPMENT
AND THE RELAUNCH OF INTERNATIONAL COOPERATION

A proposal for the G20 Italian presidency

(Abstract)

Funding the international cooperation for Sustainable Development suffers from further sustainability issues and it is worsening because of the consequences of the Covid-19 pandemic. The technical assistance to investments, so indispensable for sustainable development, and including the ODA grants for blended finance, can be re-launched in-line with the SDGs, at next year G20 under Italian Presidency as the expansion of the suspension of payments (DSSI¹) decided already this year by the G20.

RELEASE G20 initiative calls for the partial or total debt reduction with the creation by the debtor country of a counterpart fund in local currency for Sustainable Development - SDG FUND - nominally equal to the value of the net reduction of capital owed (future interest would be automatically declared as a rebate).

The aim is to help towards SDGs achievements the most vulnerable countries facing economic crisis caused by the pandemic that add to and amplify the existing structural limitations of poverty and underdevelopment, and to accelerate medium and long-term sustainable investment in resilient infrastructure and services for sustainable development, through public investment and incentives for the private sector. Promoting investment, especially in developing countries with high demographic potential such as on the African continent, could boost economic growth, promote global trade, provide basic services and generate employment. Hence, debt relief and debt restructuring will be needed to avoid widespread defaults and to facilitate investments in recovery aimed at the SDGs.

Debt conversion may be gradual in order to increase, in time, the leverage the impact in phase with the country's policy shaping. Indebted country reduces its public expenses to service the debt in exchange for an engagement **to invest the equivalent amount in local currency in an agreed time into own economy.**

Conversion of debt might and should be paralleled by the adaptation of development assistance (ODA) through blending to ensure economic growth, create decent jobs and achieve higher level of sustainability. Country moving into RELEASE G20 will have a chance to leverage more funds from other sources that need to be additional to ODA commitments, which remain essential especially for LDCs and should not be crowded out.

Advantages of converting debts into national investment funds are self explanatory. In particular, it ensures to program and develop projects consistent with the SDGs, increases the ownership of the respective country; it urges to take full responsibility for the management of the funds, thus helping to build up the administrative capacity of the country; it is easier to convince creditors in order to strengthen relations.

At the country level, all resources recovered from the G20 countries, the EU, the IMF, the WB and other IFIs will be channelled into the counterpart SDG FUND. The aims of the fund should in principle be bound to make investments in local currency aligned with the SDGs, in line with the country's development plan and, if in Africa, with the African Union's Agenda 2063, and present quantitative impacts in terms of SDG

¹ G20 Debt Service Suspension Initiative (April 2020) to support the suspension of debt for 76 low-income developing countries (40 sub-Saharan African) eligible to the World Bank's International Development Association (IDA).

targets. These investments (already identified and planned in many cases) can be co-financed by the fund or the Fund can serve as a guarantee fund for leverage on other funds and investors mainly for private investments and with the overall goal to create decent jobs and sustainable development.

The SDG Fund managed at governmental level, country by country, under the supervision of the Minister of Finance of the country of operation and with the involvement of both Intergovernmental country delegations and national CSOs representatives, will be equipped with a defined **monitoring and control mechanism so that transparency, accountability and effective programming are ensured**. It should be negotiated on the basis of current practices and in agreement with the creditor countries somehow involved in a minority stake in the Fund. It will be important to keep a balance between accountability and efficiency, but the ownership will be fundamental. G20 could provide guidelines on governance to be adapted case by case as it will also depend from the number of participant creditor countries to the national SDG Fund.

The conditions attached to funding should be simple, transparent and easy to track by all involved institutions². The aspect of monitoring and the **clear criteria for the use of the Funds** will be particularly important as there is a need to reassure the discipline and the good use of the conversion of the debt as often high indebtedness concerns countries with leadership that needs credibility and trust. Creditors could be attracted by the idea to convert what is no more recoverable into funds that could be a step towards sustainability of a given country, with a degree of monitoring attached to it. Arms trading and purchase as well as violation of human rights should be considered as impediment to alleviate the debt burden from the country. Engagement to achieve more climate resilience and climate neutrality as incentive for increase the tenor of RELEASE G-20.

Indeed, within the flexibility spirit of RELEASE G20, in some particularly fragile cases of highly indebted countries that are considered not to have sustainable debt levels due to the consequences of the pandemic, partial or total cancellation of the debt should remain an option.

RELEASE G20 could be the G20 winning proposal to the international community to find a long-term agreement for the permanent reduction of the burden of the debt, and to locate a process of systematic and sustainable sovereign debt restructuring in the most fragile highly indebted countries, tied to SDGs investments. The initiative will be of great impact both on the international political scene, as a crucial step to fulfil commitments in the Financing for Development outcomes, as well as on programming and operations in the field of international cooperation, for debt restructurings to be fair, orderly, timely and efficient, and give room for countries to invest in the SDGs, as per the Addis Ababa Action Agenda's call.

G20 countries could have a political and operational advantage in proposing a combined action of conditional debt reduction of poor countries in favour of blending sustainable and strategic private investments originating from their private sector. Sustainable and balanced growth is prerequisite to achieve sustainability and to lower dependency on foreign financing.

Full text in [English](#), [French](#), [Italian](#)

² One ideal partner in the EU will be the External Investment Plan and the European Fund for Sustainable development which is aimed exactly at the reduction of risks for investors and co-invest with the SDG funds generated by RELEASE G20.