COOPERAZIONE IN RETE

RELEASE G7

A FLEXIBLE MECHANISM FOR DEBT REDUCTION AND SUSTAINABLE DEVELOPMENT

DRAFT CONCEPT TO RELAUNCH INTERNATIONAL COOPERATION

A win win proposal for the international community

and a perfect match for Mattei Plan for Africa

Introduction

Funding the cooperation for Sustainable Development suffers from further sustainability issues and has worsened with the Covid-19 pandemic and it is suffering even more with wars and military expenditures all over. The support to investments, so indispensable for sustainable development, which includes the ODA grants for blended finance, can be re-launched in-line with the SDGs by Italy with its Presidency of G7 in 2024 and the launch of the Mattei Plan. This is in line with the same leadership of Italy on G20 in 2021 through the expanded suspension of payments by indebted countries.

This year in line with the objectives of the Mattei Plan presented to African Leaders by Prime Minister Meloni at the end of January, promoting investments in developing countries with high demographic potential such as in Africa, could boost European and global economic growth, promote global trade and generate at scale decent and sustainable employment for young people, of which is rich the African continent.

With just under seven years left to achieve the Sustainable Development Goals, G7 countries can encourage the advancements of the agenda 2030 by promoting and supporting a credible and concrete implementation of the UN sustainability goals in compliance with the Paris Climate Agreement not only in their own countries but in developing economies as well.

Their leadership should be able to involve not only the other OECD countries but the G20, the BRICS, and Gulf countries at large.

With the aim to help towards SDG achievements the most vulnerable countries subject to the aggravation of the existing structural limitations of poverty and underdevelopment have also faced further economic stress caused by the pandemic and are under an ever-increasing negative impact from climate change. Under these circumstances a combination of partial debt relief and boosting investments will be needed to avoid widespread defaults and to facilitate sustainable economic growth and the achievement of the SDGs.

Nevertheless, as the UN DESA argued, "[…] any debt relief should be part of a broader strategy that takes SDG investment needs into consideration**.** The assessment of relief required should consider medium-term financing gaps for the SDGs (rather than short-term liquidity constraints only) and inform comprehensive financing strategies to close them, e.g. in the context of integrated financing frameworks".

G7 and G20 countries could play a strategic role to serve this purpose which is now very urgent. Following indications from the G7, in April 2020 the G20 announced a debt service suspension initiative (the DSSI) and has agreed to support the suspension of debt for low-income developing countries (40 sub-Saharan African) eligible to the World Bank's International Development Association (IDA). "All official bilateral creditors - reads in the note released at the margins of the meeting of financial ministers and governors of the central banks - will participate in the initiative".

We have now to move on the same line started in 2020 but evolve from the suspension of payments into a strategy that matches ambitions of the Mattei Plan and (for the EU) the Global Gateway.

RELEASE G7 is an initiative for a flexible conversion, total or partial, of the sovereign guaranteed public and private debt, in line with guidelines that can be developed and discussed by a specific working group under the formation G7 Development Ministers and endorsed by the G7 summit 2024 becoming an ongoing initiative hopefully joint G7-G20.

Indeed, within the flexibility spirit of RELEASE G7, in some particularly fragile cases of countries highly indebted that are considered not to have sustainable debt levels, partial cancellation with extensive conversion of the debt should remain an option.

Background

At the turn of the century, the debt forgiveness of about one hundred billion dollars showed that debt cancellation alone is not enough to pave the way to economic stability and sustainable investment. It is necessary to operate within countries by focusing on sustainable investments and externally by renegotiating for public financing in change of sustainability. Often public debt, contracted to promote and encourage the economic and productive development of a country, can become, through the effects it generates (or the lack of them), a factor that damages the social fabric. Debt forgiveness is also a matter of interest for security and to avoid further destabilizing the North-South divide.

The composition of sovereign debt changed in many developing countries. Both public and private debt are currently at record levels, with private debt in emerging markets having grown particularly fast following the 2008 crisis. Also, while official debt remains the most significant portion of the external debt of most IDA-eligible low-income developing countries (those countries eligible for the G20 bilateral debt moratorium), commercial credit increased more than three-fold from 2010 through 2019, rising from 5 to 17.5 per cent[1]. This increased access to commercial financing while providing much needed resources in the short term, this has also resulted in higher debt servicing costs, and heightened interest rate, exchange rate and rollover risks.

The G20 initiative (DSSI) for 76 low-income developing countries in 2020 has responded to an immediate need for liquidity from debtor governments and only temporarily shifted the problem. In fact, the problem was made worse as debtor countries faced a big debt crisis already in 2021 and their risk had already been rising. The gross public debt of almost all middle and low-income

[1] The increase was particularly pronounced in so-called "frontier economies" (low-income and least developed countries with international bond issuance). Thirty-eight per cent of the so-called these countries' external public debt is owed to private creditors, with 32 per cent in bonds. Source: UN-DESA 2020, *Responding to COVID-19 and Recovering Better*, Policy Brief series Spring/Summer 2020.

countries is mostly international and peaked at 55.7% of their GDP in 2020. The Institute of International Finance estimated that in March 2020 alone $83 billion of capital left emerging markets due to increasing risk aversion from investors and that debt service payments owed by DSSI-eligible countries amount to approximately US$11 billion for official bilateral lenders, US$7 billion for multilateral lenders and US$13 billion for private creditors just in 8 months of 2020.Some countries are already in default and more will join in the near future.

As a moratorium will not suffice for many highly indebted countries, debt relief from all creditors and a more comprehensive action by the international community should include revisiting debt sustainability to be reassessed in a consistent and coherent manner, particularly fronting increasing negative impacts from climate change, to create space for SDG investments.

Without investments there is no economic development, there is no tax revenue, there cannot be debt repayment.

The RELEASE G7 initiative

RELEASE G7 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 owned** (future interest would be automatically declared as a rebate).

RELEASE G7 could be the winning proposal to the international community to find a long-term agreement for the permanent reduction of the burden of the debt, releasing finance for development. RELEASE G is a process of systematic and sustainable sovereign debt restructuring in the most fragile highly indebted countries, tied to SDGs investments, with quantitative indicators of impact based on the targets of the SDGs.

Indebted country reduces its public expenses to service the debt in exchange for **a firm institutional and political engagement to invest the equivalent amount in local currency in an agreed time into own economy**.

Advantages of converting debts into investment funds are self explanatory: it 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 to strengthen relations.

The initiative can 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.

G7 and G20 countries in general could have a political and operational advantage in proposing a combined action of conditional debt reduction of developing 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.

The SDG Fund generated from the initiative RELEASE in country X can generate counterpart funds locally owned and manged to complement Foreign Direct Investments such as those foreseen within the framework of Piano Mattei of Italy or, in greater scale, under the Global Gateway of the European Union or other multilateral investment schemes.

The impact of the proposal is certain. Suffice it to say that 64 countries in the World (34 in sub-Saharan Africa) spend more on paying back public debt than on health.

Conversion of debt might and should be paralleled by development assistance through blending to create decent jobs and achieve higher level of sustainability. Country moving into RELEASE G7 will have a chance to leverage more funds from other sources than ODA, which remains essential especially for LDCs and should not be crowded out. The conditions attached to funding should be simple, transparent, and easy to track by all involved institutions. One ideal partner in the EU will be the External Investment Plan and the European Fund for Sustainable Development within the framework of the Global Gateway, which is aimed exactly at the reduction of risks for investors and co-invest with the SDG funds generated by RELEASE G7.

For this initiative to be acceptable and sustainable, we need to look at the public and policy makers of **creditor countries**, and for the operation of Financial Institutions and private banks to participate (also coming in large part from same countries). We need also to look at the **debtor countries** to accept that the outflow even if not going back to the creditor countries will be mobilised (from the general budget) into a **domestic fund for sustainable development with the aim to promote and facilitate investments for sustainable development and the achievement of the SDGs involving inter alia actors from the original creditor country.** RELEASE G7 must show how it can generate aspects of win-win for all participants.

Debt conversion may be gradual to increase, in time, the leverage the impact in phase with the country's policy shaping. Further and deeper conversion may be envisaged according on how the funds have been used by respective country. Gradual approach allows to modify development strategy and gives creditors some leverage. Moreover, in adverse cases of bad governance of funds, debt conversion could even be suspended.

Expanding the availability of the IMF's Special Drawing Rights (SDRs) is another element of the RELEASE G7 action. One of the functions of the SDRs is to allow the most fragile states to access foreign currency liquidity without having to sell their reserves (which almost always entails a devaluation of the currency resulting in imported inflation). IMF is called upon to promote actively this expansion on its member base, which is broader than G7 and G20. This expansion must look at Africa.

Furthermore, as part of the RELEASE G7 proposal, the creditor countries could increase funding to the Poverty Reduction and *SUSTAINABLE*[2] Growth Trust of the IMF that connected to the funds SDG

[2] It could be also proposed here to change its name adding “sustainable”.

to create via the resource RELEASE G7 country to country, it will contribute to feed the investment gap and the risk-taking gap on investments for sustainable growth.

Part of RELEASE G7 will be the strong involvement of Private actors summoned by G7 and G20 leaders via the various platforms at UN or other levels that are available to promote the dialogue on privately owned debt.

It is necessary to avoid private creditors taking advantage of the moratorium, and then the cancellation, to prevent that the resources freed up by the suspension of payments for the debt to public entities are used for the reimbursement to private. For this reason, it is necessary that the G7 and G20 through G7 business leaders' forum will do the necessary advocacy and agreements with debtors to effectively stimulate the private sector, identifying significant champions as the World Business Council for Sustainable Development, the World Economic Forum and others.

RELEASE G7 will also call the involvement of the G20 group, the IFIs of the Paris Club (the informal organization of creditor financial institutions) and large groups of private investors with the support of the B20 (finance sector) for the private sector and of IMF and the WB. The European Union as a full member of the G20 could be a special guest and a strong partner of the Italian leadership of G7, with the strength of the EIB and the EBRD and the EDFIs in supporting the investments co-funded by SDG funds coming out of RELEASE G7.

In the advocacy campaign for RELEASE G7, it is desirable through a combination of spiritual, intellectual, researchers and scientific leaders, Nobel laureates for peace and economics, personalities of global importance in culture, economy and finance, religious leaders (the Holy Father Francis has already expressed himself very clearly on this). Essential as well it will be the voice of the Global Civil Society Organizations.

Italy as a natural bridge between Europe and Africa and, furthermore today as initiator of the Mattei Plan, can and should take leadership and the G7 Italian presidency in 2024 would be a window of opportunity to encourage and flag the initiative.

Draft operational proposal: a practical approach scenario

It is necessary to organise advocacy actions with events to involve institutional leaders in view of G7 Development Ministerial and G7 Summit. The final version of RELEASE G7 must be reinforced by financial analysis of the measures at stake, with the help of data and expertise from the financial track of G7 Sherpa (MEF and DFIs for Italy as CDP Group) to support Development cooperation operational proposals and supported by advocacy from leaders, CSOs, and champions. Regional and International Financial Institutions should be fully involved and part of RELEASE G7 by Development Cooperation Deputy Minister and by officials from MEF and CDP.

The proposal should be taken up by the experts at the Mission structure for Piano Mattei as the funds can complement investments in line with the Mattei Plan in view to examine, public finance scenarios to arrive at recommendations on reduction by stages, with incentive mechanisms to elaborate scenarios of work country by country.

A debt matrix of African countries by individual G20 creditor members and by their private banks according to financial and macroeconomic data also using UN poverty indices starting from LDCs, landlocked, SIDS etc. The debt/SDG investment matrix will then be compared with the economic indicators and on some targets for reference SDGs. Incentives may be linked to the National Determined Contributions of agreements on emissions or biodiversity protection, or other international agreements aligned with SDGs targets.

Monitoring mechanisms for how countries use the conversion of debt should be put in place. Arms trading and purchase as well as violation of human rights should be considered an impediment to alleviate the debt burden from the country. Engagement to achieve more climate resilience and climate neutrality linking to carbon credits and biodiversity credits as incentive for increase the tenor of RELEASE G7.

Some different scenarios for the preliminary political decision for the G7 can be prepared.

A first draft for **RELEASE G7 guidelines** is being developed, which would then be given to G7 structures for further discussion. Once approved, the guidelines will be the basis on which bilateral negotiations will take place in combined G7-G20 groups. Negotiations at the request of the parties may, where appropriate, be assisted by the IMF WB UN or other multilaterals as well as by the outgoing and incoming G7 and G20 presidencies.

Likely, bilateral negotiations can result in the few important actions.

1. Discussion and agreement between debtor and creditor on the partial or total debt reduction with the creation by the debtor country of the counterpart SDG FUND in local currency.

2. At the country level, all resources recovered from the G7 and G20 countries, from the IMF, the WB and other IFIs will be channelled into the counterpart SDG FUND managed by the host government. The aims of the fund should be to make investments and co-investments (for example with Mattei Plan, Global Gateway or similar initiatives) in local currency aligned with the SDGs. These investments shall be in line with the country's development plan, the African Union's agenda 2063, etc.) and present indicative quantitative impacts in terms of SDG targets. These investments (already identified, planned with feasibility studies 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 but not only for private investments with the overall goal to create employment.

The SDG Fund managed at government level, country by country, under the supervision of the Minister of Finance of the country of operation which will be assisted by a specific advisory board (or even better using as advisory board existing platforms of consultations for National development Plan and similar structures) comprising both Intergovernmental delegations and national CSOs representatives, will be equipped with a defined monitoring and control mechanism so as to ensure transparency and accountability.

The governance is variable and can be negotiated based on 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. G7 and G20 structures helped by OECD officials could provide guidelines on governance to be adapted case by case as it will also depend on the number of participant creditor countries.

The aspect of monitoring and the guiding 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 which need to restore 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 and with a degree of participation of their private sector.

For the African Union it could be also foreseen, with contributions from different countries, an African Union continental SDG fund that will work to leverage and hedge risks for cross border and continental investments. In fact, the continental dimension is important in Africa as it is in Europe and the Agenda 2063 is an important reference.

3. A report on the results of the RELEASE G7 initiative and SDG Funds from the various participating countries will be presented at each G7 and G20.

4. RELEASE G7 will also be piloted at other international platforms and initiatives dealing with sustainable development.

5. For the implementation of operations with parallel memoranda of understanding, creditor countries will be invited to establish new generation of protocols of cooperation for sustainable productive investments which will depart from colonialist and paternalistic approaches of the past and which will necessarily include local private companies.