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COOPERAZIONE IN RETE

RELEASE G7
A FLEXIBLE MECHANISM FOR DEBT CONVERSION AND SUSTAINABLE DEVELOPMENT AND THE RELAUNCH OF INTERNATIONAL COOPERATION

A win win proposal for the international community
and a perfect match for Mattei Plan for Africa

(Abstract)

Funding the international cooperation for Sustainable Development suffers from further sustainability issues, has worsened 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, and including 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 for Africa.

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 owed.

The aim is to help towards SDGs achievements the most vulnerable countries facing 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 G7 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: 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.

At the country level, all resources recovered from the G7 and 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 targets. These investments 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. G7 and G20 countries 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 institutions. 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 G7.

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.

RELEASE G7 could be the G7 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.

Full text in English, Italian, French