THE BROOKINGS INSTITUTION

SAUL ROOM

# FINDING A WAY OUT OF THE DEBT MORASS:
# A CONVERSATION FEATURING THE UNITED NATIONS EXPERT GROUP ON DEBT

Washington, D.C.

Wednesday, April 23, 2025



WELCOMING REMARKS:

HOMI KHARAS
Senior Fellow, Center for Sustainable Development, The Brookings Institution

PANEL AND Q&A:

MODERATOR: MAHMOUD MOHIELDIN
Chair, U.N. Expert Group on Debt
Nonresident Senior Fellow, Global Economy and Development, The Brookings Institution

PAOLO GENTILONI
Co-Chair, U.N. Expert Group on Debt
Nonresident Distinguished Fellow, Economic Studies, The Brookings Institution

INDERMIT GILL
Chief Economist and Senior Vice President for Development Economics, World Bank Group
Nonresident Senior Fellow, Global Economy and Development, The Brookings Institution

REBECA GRYNSPAN
Secretary General, U.N. Trade and Development

TREVOR MANUEL
Co-Chair, U.N. Expert on Debt, Former Minister of Finance, South Africa

VERA SONGWE
Chair and Founder, Liquidity and Sustainability Facility
Nonresident Senior Fellow, Global Economy and Development, The Brookings Institution

* * * * *

**KHARAS:** Good morning, everyone. My name is Homi Kharas. I'm a senior fellow in the Center for Sustainable Development here at Brookings. And it's my great pleasure to welcome you all to this wonderful panel that will discuss the ongoing issue of debt service problems and lack of fiscal space in developing countries. So my longtime comrade in arms on these matters, Mahmoud Mohieldin who is the co-chair of the U.N. Secretary General's expert group on debt will moderate the session and he'll be joined on the panel by his fellow co-chairs Paolo Gentiloni and Trevor Manuel, by the World Bank Chief Economist, Indermit Gill, the Secretary General of the United Nations Conference on Trade and Development, Rebeca Grynspan, and last but not least, the Chair and Co-Founder of the Liquidity and Sustainability Facility and a nonresident scholar at our program here at Brookings, Vera Songwe.

So before turning to the panel, I thought I would offer three quick framing thoughts. And the first is that the external environment has deteriorated quite sharply for developing countries. In the IMF-WIO that came out yesterday, the estimates for GDP growth for emerging markets was lowered by 0.5 percentage points compared to their January estimate. Export growth has been cut even more sharply. Everybody knows that aid is being slashed. Interest rates are going up. So all of these would tend to really worsen debt servicing issues and conditions in developing countries, but I took a quick look at what was happening in markets. And if you compare the 10-year yield today, actually on Monday, compared to January, I think it was January the 28th, which was the last time we'd run these numbers.

What you see is in some countries, like Turkey and Cameroon yields have really gone up pretty steeply and in other countries, Nigeria, Brazil, Mexico, yields have actually gone down and, in most countries, not much has happened to yields. So I think the first conclusion I wanted to draw from that is that there is so much variation in the condition and situations of developing countries that it's very difficult to talk about the developing country debt servicing problem. And that raises some real issues about exactly how one deals and tries to tackle these kinds of things. There is one feature that almost all of these countries have in common, however, and this is my second point. And that is that almost all of them are experiencing a local peak in debt servicing obligations. For some of them, it was last year. For some, it was this year.

But these next few years are years of historically high debt service obligations. And after a few years, they will tend to fall off, especially because a lot of the private sector debt which has got the heaviest debt service burdens would have been paid off. So the implication I think of that is that the typical way in which one deals with these kinds of peaks is by re-profiling and I that the IMF has a large data set of what they call debt events. They've traced 700 cases of what they call debt events, which are interruptions in regular debt servicing between 1950 and 2021 in developing countries. And of those, 80% involved reprofiling. So it's the normal way in which one addresses these kinds of problems.

The benefits of reprofiling, and this is my third and last point, the benefits of the reprofiling really depend on what is done with the money that is being saved. And I think we now have ample evidence that there are really good investment opportunities. Including in things like adaptation and resilience, which yield avoided costs for countries that can be very valuable in enhancing the benefits of that. So that basically, I think, frames the question, can we actually have debt relief? More borrowing for the needed investments, and affordable lower cost of capital for developing countries all at the same time. So Mahmoud, I think that's the exam question for you and your panel, and I hope you have some fresh solutions on that to help us. Thank you.

**MOHIELDIN:** Right. Thank you so much, Homi, and good morning to you all. Many thanks for the introductory remarks and getting us well prepared to solve the problems related to that. We'll identify and emphasize if we have just problems to solve or is it a crisis or is it a disaster. And we'll try, as you mentioned, we'll try to pass these exam questions to the excellent panelists. To solve the problem or the crisis. And if we are finished on time or before time, we may have time as well to solve the current trade war crisis or a problem as we are at it. But as you said, we have excellent panelists, and I'll ask them please to take their seats.

I have Trevor, Rebeca, Indermit, Vera, and Paulo, the intention is to emphasize in our discussions pathways of reforms and solutions after you highlighted the challenges facing us. And we have the usual time constraints, suffering from it myself for many times, especially at the boards of the IMF and the World Bank. So I'll pass the suffering as well with the limits of three minutes, four minutes maximum of that extra minute. Will give additional tips on how to deal with the issues of concern.

In addition to the excellent participants in person here, we have as well participation online and they can, I was told that they can send online questions to events@brookings.edu. And okay, so back again to the excellent remarks by Homi on dealing with the 1.4 trillion-dollar problem of debt service, citing figures back to 2023, and have been articulated in different ways, including most recently by a plea from the African leaders. There is a group of African leaders for debt relief, and as many others, they have an initiative, but they are emphasizing in a statement.

That they shared during the ministerial meeting at Cape Town, the last one took place back in February and March, that debt was strangling development. And I think they were inspired, perhaps, by one of your reports, Rebeca, in trying to translate matters not into numbers, but basically on how that impacting the welfare and the investments in the human capital and human development on health, in education, and essential services. So I didn't have a planned order for speakers, but why don't I give the floor first to you, Rebeca, and then I'll ask after you, Indermit, to intervene, and we'll focus on the solutions as well by the three speakers after you.

**GRYNSPAN:** Thank you, thank you very much, Mahmoud, and it's a pleasure to be with this wonderful panel, and I think that Homi made a wonderful introduction, so let me maybe make three points, yes? What we call the debt problem in three acts. First of all, let's remember that before COVID, we were not talking about the debt problems. You know, more or less the debt ratio in the developing countries to GDP was 54 percent. After COVID, 64 percent. So let's be clear that this problem has developed stronger after systemic shocks. So we had COVID, we had the interest rates hike in the developed world that made servicing very costly for the same debt and so in after that we had the cost of living crisis.

So in a way because we know that when we talk about debt and let's make that first point. The first thing we think is that is to blame for what we used to blame is policy makers. Yes, they made the wrong choices and then they got into debt. I'm not saying that that's not the case everywhere, but what I'm saying is that the global problem of debt has come because of systemic shock, so we need to treat them in a different way. My second point is that we thought in 2024 that the problem was going to go away because we thought growth was going up and interest rates were going down.

And so we were hopeful that that was going to take, you know, care of the main problem of debt in most of the countries and so the faults were not coming in. So that is not happening and so we have to know that the problem will worsen. And it's true that we haven't seen more defaults, but what we say, as Mahmoud was saying, is that countries are not defaulting on the debt, but they are defaulting in development.

And so this is the number that we have put forward, that 3.3 billion people live in That spend more in service and the debt than on education or health. So it's so painful to go through a restructuring process that they prefer to pay and not to go into any kind of default or restructurings. And then my third point is that it's true what Homi said that there is a huge diversity of situations, but we know that in Asia and in Sub-Saharan Africa yields and premiums are going up, and are going up by 3 percentage points. It's not a marginal thing. So maybe Brazil is not, but the most vulnerable countries are going, the premium is going up. So the possibility of them to finance themselves is really being restricted. And on the other hand, tariffs, if they are finally coming in.

As Trevor was saying when we were talking there, will hit them dramatically. And so this is my final point. Most of the countries that will be hit by tariffs have no real impact on the deficit of the U.S. You know, if you want to calculate how much they contribute to the deficit of the US, it will be close to zero. 56 countries will be below 0.5. percent of the deficit of the U.S. So this will be another shock that these countries will suffer and so the debt problem will grow and not go down.

**MOHIELDIN:** Right. Well, so you are confirming, then, the concerns of the African leaders and others that the debt problem or the debt crisis is strangling development. And I encourage everyone, if you haven't seen the reports of the UNCTAD, especially on the updates of debt service related to what we spend on education, health, and essential services. We can get an update on that. And then, if I finish with this, there is an update as well on the impact of the trade war, especially on the low-income and the vulnerable economies. But unlike what happened before of what the late queen of the UK, Elizabeth, was very unhappy with the economists that they didn't see the global financial crisis coming. When she was opening an expansion or extension of the London School of Economics.

Many of us, including your excellent team, back in 2020 in the Global Economic Prospects Report, you were anticipating a kind of a cycle of debt that is reminding us of the Latino crisis or the emerging markets crisis. Now in recent updates you are calling what we have today that it's a silent debt crisis and there are reasons for that. First politically is it good to keep it silent or is it helpful to say well yes, we have a crisis let's confront it because there are two views about that and if there are any benefits being practical and pragmatic we're happy to call it well a problem a challenge but if it helps to solve it if we confront it as a crisis, tell us first, what are the updates? What are your best tips, especially in the current environment? And we can use super political diplomatic language that whatever is happening in the, may I will do that, I'll leave you the freedom of speech, what is happening and trade war is going to impact growth negatively and inflation as well negatively. That definitely is not going to be helpful to any kind of debt workout or solution.

**GILL:** I think that you've actually summarized my points pretty well, so I'll just repeat them. I guess the first is, is there a debt crisis? It depends on how you – if you see it as a development problem or do you see it as repayment problem, which is a purely financial issue. If you see as a development problem, I'd say that actually there is a debt – there is a serious debt problem. Can you hold it closer? Yes. The, the, the simplest way to see that are what are the channels through which debt affects growth and development. There are these three channels. The first one is fiscal space. It crowds out other spending, development spending.

The second one is crowding out. It actually, to the extent that governments are borrowing, especially domestically, then other people can't borrow, especially investors, and so you end up lowering private and then the third thing is that you can end up creating an uncertainty because of this debt overhang in the sense that even if everything looks fine, people start to worry that there is a crisis coming, and as a result, they start to sort of take action. One of them, of course, is again, is private investment and so on. So I would actually say that all three of these channels are pretty active right now. So in that sense, I would say there is problem. So then you say, okay, how does one fix this problem? The way that we think about it at the World Bank is that there are these three aspects of it.

The first one is debt transparency, right? So in the sense you need to know what are the debt levels, you need know at what terms this debt has been contracted. And just so you all know, we have an obligation of all the countries that owe money to the World bank also have to report the external debt to the world bank, it's called the debt. It's called the debtor reporting system. And what we've done is we've tried to make this more transparent by not just publishing those data, but actually publishing a report that actually summarizes the big trends and so on. It's called the International Debt Report. The problem with that debtor-reporting system is, of course, these countries don't have to report domestic debt, or they're not obliged to. So we are trying to fix that problem. But until we fix that, problem you should see the external debt problem as just a partial picture.

The second issue is debt sustainability. I think the points that you're talking about, roughly speaking, I mean, very broadly speaking, you need to know whether a country is going through a liquidity problem or a solvency problem. And the IMF World Bank. Debt sustainability framework for low-income countries and the IMF market access, the same DSF for market access countries, this is the fundamental instrument that is used to see whether it's one or the other, okay? It's a lousy instrument. It needs to get fixed, okay, and I think we are improving that too. So we're improving debt transparency, we're improve the debt sustainability. Then the third part is, let's say that you get to this and you say, okay, what treatment should be given? Is it a solvency issue, is it a liquidity issue, and so on? That's when the debt restructuring mechanisms come.

And right now, for the low-income countries, the debt-restructuring mechanism that we have is the common framework. And I used to be asked a lot about the common framework, are you optimistic about the common framework? And until about a year ago, I would say, when that framework disburses one dollar of debt relief, I'll actually start to become optimistic about it. So it has dispersed more than $1 of debt relief, so I am becoming optimistic about that. What I'm worried about is that given the things that Homi mentioned and that you mentioned, there was a structural slowdown that was happening in emerging markets and developing economies. So emerging markets potential growth rates in the first decade of this millennium was 6 percent, second decade 5 percent, third decade 4 percent. It was going down.

On top of this structural slowdown, on the secular slowdown has come a sudden slowdown because of all of the tensions related to trade, et cetera, et cetera. I think because of that, my worry is that the pace at which we are improving those three pillars of good debt management, transparency, sustainability, and restructuring, those improvements are not quick enough.

**MOHIELDIN:** Right, we'll come back to that, and you gave us great practical tips on how to deal with the matter, emphasis on transparency, debt sustainability analysis and the debt sustainability framework and the common framework as well, and lots of suggestions on how to improve the debt-sustainability analysis and related framework, including the signaling issues, including the bias against long-term investment when it comes to DSA, the kind of lack of recognition of the role of local capital markets, the issues related to being in many cases very optimistic about growth performance in some countries, and then it disappoints when that doesn't happen. But we'll come back to that.

**GILL:** I mean, it's really important to do two things, any good debt sustainability framework ought to look at R minus G, what's happening to the cost of borrowing and what's happening to growth rate. That's the first thing. The second one is you have to see this as a public finance problem, not an external debt problem. You have to it as a domestic imbalance between savings and investment, which means that you have to look a domestic debt as well. If you don't do that, I mean the World and the IMF correctly have encouraged these countries to develop domestic – to actually develop domestic credit markets. In rough, I would sort of say that they have got developed and that space has been taken largely by governments. Governments have been...

**MOHIELDIN:** Very good. Happy to come back to that as well. I followed an interesting conversation the other day between Larry Summers and Olivier Blanchard on the R&G kind of interesting dynamics in the advanced economies, U.S. And Europe, and how the economists and the modelers are struggling with that. Perhaps we have more than a fair share of that problem, but we'll come back at you on that as well. So, Trevor and then Paolo, you are members, along with Professor Yan Wang and yourself on that committee or commission that the secretary-general formed back in December, again, trying to provide solutions, practical solutions. By that, we mean feasible measures and at the same time, they need to be politically feasible. So there are two filters. Not just one. So what are the progress in that work and any kind of reactions to what Homi, Rebeca, or Indermit just shared with us? And then I'll go to Paolo and then to you.

**MANUEL:** Thank you very much. The challenge of debt right now is that it is one of the most over-researched issues. I counted seven different report initiatives as we speak now. So there's no paucity of data, there's not paucity of ideas, there is a paucity of action. But I want to come back to the source of the problem, the original sin, if you must. And that is inadequate discussion of the fiscal issues. Ajay Banga's focus on jobs draws attention to what the problem is. We aren't going to lift the quality of life of people. Homi and Patrick a few weeks ago had this debate. Is this a systemic crisis? Now, in global terms, not. But if you happen to be poor in a poor country, then the impact on your everyday life is, indeed, systemic. We can debate for a long time what the definitions are. But this is the problem we have to solve. There are two watermarks. The one is the health spending watermark, and the other is the education.

And if you cross the expenditure line, then you are in deep, deep, deep difficulties. And this is happening increasingly at the rate of knots. And it may not be the aggregate levels of borrowing. It's the entire calculus of what goes into the repayment schedules. That's what we must talk about. That's we have to unpack. And You know, you have to go through all of these issues, and there's a myriad of things. As an African, we know that each African country pays more for debt given the same value measures as other countries, we pay more. From the rating agencies through, we paid more. So the poverty is much greater and it's intergenerational as a consequence of a system that's designed. Favor the poor least, and this, I think, is what the discussion needs to be about. And so I plead for a wider discussion. I want to accept all of the work done. We can detail, we can debate nuances. I want accept the broad thrust of the approach on debt and debt service and get into the key issues of the public finance variables. That focus on the quality of life, because that is the only measure that matters.

**MOHIELDIN:** Right. Paolo, with your great experience as Prime Minister of Italy, part of the Commission in Europe, and of course your country and the Commission very active in the G20, the Common Framework was mentioned and there are some proposals related to it. This is the restructuring part. Do you see progress especially in two aspects of the Common that could be more inclusive by bringing the middle-income countries to be dealt with in their problems? Can we have a better approach as well to include the private sector better and incentivize it? So this is on the common framework, if you wish to say something about that, in addition to the other aspects of the work that you and your colleagues are doing now for the UN Secretary General.

**GENTILONI:** Yes, good morning. I think Trevor is right when he says we don't need a new report, a new analysis. We need action. Is action possible? Well, to be seen, because we have a gloomy picture coming also from the IMF World Economic outlook. I understand the point of variation that Homi was making, but overall, we will have higher interests for longer. This is, I think, quite sure at the moment. And we have not a good atmosphere on ODA. We had a very bad decision in U.S., but we have pressure for bad decisions also and in another place of the world. So the situation is really serious. More countries will be forced to choose between honoring their debt and safeguarding their future. And this is the alternative on the table.

And a last pessimistic point before coming Possible solutions is that this is also within a more broad difficulty in our UN agenda and in our SDG agenda because we all know that since a few years the process is slowing down and it is not a crucial point in the global conversation that we have, if we go to the IMF and World Bank meetings, the discussions are on trade war, understandably, of course, but not exactly on the depth of low-income countries. So is there anything feasible? Because the task of our group is identify feasible solutions, realistic solutions, not provide a new report. Is there anything visible in this environment? Paradoxically, my answer is yes. I think that the fact that the biggest economy in the world is, in a certain sense, undermining the global order, sorry to say this in this way, is creating a reaction.

And I think we can work for this reaction on three possible items. One is, of course, re-profiling debt services. Here, we have a certain kind of overture coming from China. There is no overture from China on debt relief in itself, but on maturities. And even on debt swaps for environment or education, this is not impossible. Second, speed, efficiency of the common framework. And third, maybe connected with this second, is this idea that we are discussing frequently of more political, of a sort of borrower's club. A borrower's platform that could give an impetus to a political push towards solution. All difficult things, but in my view, without building anti-U.S. Coalition, which could be stupid and impossible. But to create cooperation, I see in the European Union tendencies, first, well, ODA is too much. The pressure from extreme right against ODA in governments is very strong. But at the same time, I see in the EU the will to open much more than one year, two years ago, two solutions for the debt in the Global South. So we should use this opportunity of the difficult situation that we have also for the trade war. For the good, and it is possible in my view. Paradox is not possible.

**MOHIELDIN:** Okay, thank you so much. So we have five minutes until the fun begins with the Q&A, and so you have part of the five minutes to provide solutions, including reactions to what was shared. Two things. You were caught as saying that debt is not bad. You are caught as saying that part of that problem that we're facing, that we leave matters until they are to insolvency stage and that trap. And we could have done better in the liquidity management stage. So what's new and different in both? Did you change your view on that, be it bad or good, and what can you offer on liquidity?

**SONGWE:** No, thank you. Thank you very much and pleasure to be with this distinguished and august panel and thanks for coming. I think, let me start by agreeing with everybody and so the first thing is it's not only emerging market growth that is going down, trend growth across the world is going up, European growth is going, emerging market and African growth going on. Overall, we are looking for growth. I actually posit that the reason why we have the trade wars is because America is looking for growth. And so we have this sort of overall cloud on how do we find growth.

So that's the first problem. The second one is, yes, I agree that health and education expenditure are going down, but the replacement rate of capital in Africa, the cost of the replacement of the continent. Is actually higher than the amount of capital it's getting on the continent which means that we are not even investing enough to upgrade the investments that we have done or to maintain the investments we have. So there is no growth happening. Our capital is depreciating. So if you take those two things, if you need growth you need to at least keep your quality of capital where it is and keeping it where it actually is not growing. Then you have to do more and right now that's not the case. And so you don't even have any resources.

To sort of respond to the fiscal question that Trevor was talking about. So we do need to focus on investment. And to focus an investment, you need debt and you need equity. So essentially, these are needed things. Debt is good. It is the cost of debt and the use of debt that are not so good, depending on how you do it. And this is a very important point. The cost of debts, and Trevor mentioned a little bit, the rating agencies and what we need to do and how a lot of work is doing that. So that's one sort of solution, we must address the issues of the cost of debt and how we can make the cost of that different. I'm doing some work with S&P which essentially shows that for the same credit rating, you have different cost of capital for five countries.

So it's not the credit rating, the investors are differentiating on those countries, right? And so there is something in addition to the credit ratings. So, if you look at, for example, Benin and Nigeria, they're both BB. But Benin borrows at 600 basis points and Nigeria at 800. So that's not a credit rating issue, it's something else. Benin happens to have a very good debt management office, clarity and transparency on its debt and all of those things, which we also need to put in place. So that is another solution. Strengthening debt management offices, making sure that there is some transparency that happens there. And then finally, third solution and issue. I'm doing a paper now that is looking at debt defaults. And what happens. And I'll give you four examples very quickly. Barbados, 198% debt to GDP. They decided to declare default.

They went into a restructuring, substantial restructuring. They were junk stages by the rating agencies, and Homi and I have been discussing this. The paper will come out in Brookings, I hope, so you can read it. And then what happened? Credit ratings, they went to BBB. So they were junk for one year, and then we've got cheaper capital and a lot more capital to develop. So there is a worry among developing countries, we don't want to default because it's bad. So Barbados did that and came out really well. Sri Lanka has done it. But the problem with the Sri Lanka default resolution But Sri Lanka went from 128% debt to GDP to 100% debt to GDP debt resolution. The private sector is not coming. It's not credible. So essentially, even we, World Bank, IMF, have to have a credible debt restructuring process, and that has to work.

Final thing, liquidity. Liquidity is so important. There are so many countries that are not yet in the solvency problem. They're in the liquidity problem. We can help them. We can fix them. We can get them out, and they can start growing again. Cote d'Ivoire is the best example. The World Bank just did a liquidity program, finally. And this is what we need to do more of, is re-profiling, not, you know, let's wait for them to collapse and figure out if the common Framework is working and we don't want $1 disbursed, we want all of it disbursed quickly. We actually want commitment, pre-commitment of disbursement before it happens and that's not happening yet. So I think that my five minutes are up, but if you do this, and the difference between Cote d'Ivoire is Kenya. Kenya didn't do a liquidity and Kenya is in trouble and they are just chugging along and not spending enough. So there are solutions and we know them. We just need to do a lot more of them, do more Cote d'lvoires.

**MOHIELDIN:** Solutions, solutions, I hope that your questions will come exploring more solutions, emphasizing some, challenging some of the solutions shared by the panelists. And I have a list as well of questions coming online. And there are a couple of things that are coming from the experts group. Many thanks to the excellent technical secretariat supported by Penelope and the excellent team at UNCTAD, UNDESA, UNDP, and the regional economic commission. Do I have a microphone there? So please raise your hand, I have here. First question, please introduce yourself. Okay, your second and your third. Introduce yourself and your question or comment, please.

**AUDIENCE MEMBER:** My name is Ulrich Hever, I very much enjoyed this talk and I congratulate you in summarizing the key issues in such a short period. I very agree with you that you pointed out that in the end we have to see this problem of borrowing on the capital markets for raising the quality of life, health, education in the countries that need to borrow. I was a little bit surprised that none of you really. Mentioned the role of the two key players in this, one the ones who borrow and the other one who lend. When I worked at World Bank many years ago, the World Bank in African countries often went along with the government to prepare, who were prepared to borrow for new roads rather than maintaining the existing roads.

And that is often the case for many other issues for the private sector also. I mentioned only the World Bank as one example. So maybe you can talk a little bit what is the responsibility? Is the World bank or the capital markets, are they responsible to lend only if and when they are convinced that the purpose for this capital borrowing is useful for these people whom you mentioned, the actual citizens who live there?

**MOHIELDIN:** There is a proposal in the finance for development outcome document that's being discussed now at the UN on the principles of the responsible lending and borrowing and trying to revive it and to make it more practical. The UNCTAD at some stage had ideas and proposals on that. That could be one of the mandates of that platform or club that Paolo mentioned about sharing knowledge on best practices of borrowing and lending. And that club started to have some interesting names. If we have creditors club like Paris and London in the past, now some people call it the South Club. We just made that up the day before yesterday with just trying to entertain the idea. Right, so I have a question here and a question there and I'll go back to the panel after the third speaker and then we'll go to you. Please, sir.

**AUDIENCE MEMBER:** Great. Thank you very much. I'm Whitney Schneidman. I am a non-resident senior fellow here at Brookings. And Trevor, I'd like to pick up on your focus on action and really go to the G20 this year and ask, you know, what can we expect? President Ramaphosa has put out a number of priorities for the South African chairmanship of G20 and alleviating debt distress is one of them. So what should we as the community who writes all those reports, be advocating what's achievable in terms of the common framework of moving that forward? How can we get more action on alleviating debt distress out of this G20?

**MOHIELDIN:** And the third question is here, the gentleman here, and then I am asking each one of you to give quick reactions in addition to Trevor who had two pointed questions to him.

**AUDIENCE MEMBER:** Thank you so much. My name is Carl. I'm speaking on behalf of entrepreneurs, especially the SMEs. And I'm so concerned, especially when we talk about debt, because I feel like we, the entrepreneurs, we are affected because we feel the impact at the level of cost of production, because we can have inflation, or it's difficult to trade, at the time the government will increase taxes. So I'm concerned about the foreign exchange that comes with foreign debt. To

African countries, like Cameroon, or take example like Nigeria, who are currency devaluated, like the currency losing value. And then I'm asking myself, is there a sort of innovation or an aiding system that helps to avoid the fluctuation that comes with a change in currency when our nation borrow externally? That's basically the concern.

**MOHIELDIN:** I will ask Vera to answer this question on the risk mitigation tools and how countries and entrepreneurs can hedge again these fluctuations. Can I just add as well, if you are reacting to these questions and comments, can you put it in the spirit that we are not in Kansas anymore after the 2nd of April, whatever happened of these measures, because most of the discussions so far could have taken place before the second of April. Now in a different world, some people say it's not cyclical, it's not even structural shift, it's a systemic shift to what in a completely different world. Can we put some sort of political reality in what could be feasible in the answers? And yes, can we go with the same order, but perhaps with you first, Trevor, and then Rebeca.

**MANUEL:** I think one of the issues that we've got to deal with is greater transparency and I know in our country and this is the story in many countries, our constitution requires us to have debt as the first charge against revenues. It also requires us, to ensure that, what's the second point I was going to raise, but there's a constitutional provision that ensures that you can deal with these issues but the bankers are sorted first. Now, one of the proposals we have to deal with is greater transparency. What is in the incentive structure of the lenders? Do we know that? If we know, how does that begin to change the equation? Because the bankers are always provided for and the people not. That's part of the discourse that we have get through.

On Whitney's question, I mean, look, it's a difficult question, Whitney, because part of where we're sitting now, hopefully I indicated last night that there might be prayers now from South Africa hoping that some representatives of the U.S. Government will attend meetings today because we need them to attend meetings so that there's a troika for the G20. You need a tweaker because that constructs a continuity of the G20. We haven't had participation from the incoming chair thus far and that presents us with a problem and that impacts on the outcomes there for and it's not just South Africa's views. It has to be the views of Brazil, South Africa and the U.S. Together. That's I think the big challenge for us. In the meantime, we're working on a wonderful Africa panel. I'll stop there.

**MOHIELDIN:** Right. Rebeca, attempts in the past to form a club in Latin America to coordinate and to align positions and to do knowledge sharing were opposed by the creditors then. Do you see this time is different positively that such a platform or a club could really work in getting countries of the South getting their act together for better technical assistance, military, and perhaps operationalizing the updated work on the responsible borrowing and lending principles in addition to any reaction that you may have to the Exxon 3 interventions now.

**GRYNSPAN:** The main point is this again? The main... The main obstacles for the club, the South Club, the Boroughs Club, is the problem of the stigma.

**MOHIELDIN:** Stigma.

**GRYNSPAN:** Not so much the opposition of the creditors. Countries are worried to come to the club because they will be stigmatized. And so that's the main obstacle, I think, that we have for the borrower's club. But I think that is a very good idea. And we know that the creditor's coordinate, and so they are much stronger when they come to table than the countries that come to this table in the discussion. So we need to find a way. To make it happen, that's the first point. I think that the principles have to be revised and brought back to the table for transparency. And so. Is a very important part, and in transparency, let me say that for the debt system with the World Bank, we already are in 60 countries where we have a debt platform that will help transparency.

If you help us to expand that, that will help and will help also in that part of the rating that is not the rating agencies but the capacity of the countries to be able to put their case better, the capacity building of the countries to make their case better. My final point is private money won't – private investment won't come to these countries at scale without the World Bank or the multilateral development banks. You know, if we see this as a private sector on the one hand and public international money on the other, it won't happen, and it has not happened. And so we need really to crowd in private investment with the public money of the multilateral development banks for this to happen. I think that the World Bank is going that direction and is making, you know, a big effort and also on the liquidity. That has to continue.

**MOHIELDIN:** So, building on the questions and the answers just now, so the World Bank is the custodian of data and knowledge and technical expertise, and at the same time, it's a lender itself. So, to this important point about the responsibility of the lender, and that was part of debates a few years ago when I was at the World Bank, and say, well, if a country comes to you borrowing for an airport or a seaport, you can always direct them to public-private partnership that the IFC could be doing a better job. A bit of funding from IDA just could help as well. But what's happening in that field? And whether we can just have a good minister, like the many who are attending now, coming with a good proposal, tell them, well, no, thank you so much. I can identify another way of handling the matter, rather than adding to your debt.

**GILL:** So you know, so I can tell you that there is no deep state at the World Bank in the Ah, well, good to know. Good to know, yeah. The World Bank does what its shareholders ask them to do, okay? So you have to sort of go back to the shareholders and say, what are you asking the World bank to do through IDA, through IBRD, okay. And so I don't want to question Trevor because he knows so much more about these than I do. But I think that I need to learn from you why you are saying what you're saying. But to actually summarize, basically what you are saying is that private markets discriminate against Africa. I guess implicit is that Western governments, they actually discriminate in favor of Africa. I question both premises. I question, both of them. And I think they're actually, it's probably the opposite.

**MOHIELDIN:** So this is the past, again, forward-looking. What kind of bias we're seeing? This is in the past or the present, but again, with matters unfolding with the two. Is that going to see more unfairness, more...

**GILL:** No, I think there'll be more fairness. I think they'll be fairness in part because I feel like, so I think the future of development is in development finance, not aid. Aid is too much in the interests of the giver and not enough in the interest of the receiver, right? But I think development finance balances that. Now the issue there again is if you don't have a good mechanism for quickly resolving debt problems when they happen, then you have to be conservative. It's that simple. You have to conservative. You can't be asking to go to the limit in the sense don't skate so close to the edge because if you go over the edge, there's nobody who will actually pull you up again. When a country gets into debt distress, terrible things happen to it. Everything goes into reverse at that time. So I think that that's the first thing I want to say. The second thing is that there is this whole belief about the U.S. undermining the economic order.

It assumes that, pick your date, like was it election day? Was it the inauguration day? Was it liberation day? There'll be 100 days like this. It's not. I mean, if you looked at things before, in the last four or five years or the last 10 years, you've seen a slow slide towards this problem. So yes, there weren't people talking about the debt crisis before COVID, except people like me. I mean I was writing in the Brookings Pages and so on about this. I was also showing that aid was declining a lot. So I think these things have been changing for a while. They're just these punctuation points right now. I see my mind over here telling me to shut up now, so I'll shut up. It's not you telling me to shut-up, he's telling me to shut it up.

**MOHIELDIN:** Well, it's always good to have technical assistance from the floor in managing the panel. That's very much appreciated, but we'll always enjoy your wisdom in the bit. Well it's interesting as well what you said about days. We are living through very interesting days, reminding us of Mr. Lennon and when he said that decades pass, nothing happens, and then certain times in weeks, decades happen. Actually in days now, decades happened.

**GILL:** I'll tell you, whenever there's a debt problem that has been solved relatively quickly, the U.S. Treasury has been involved. Yeah. So if you don't get the U. S. Treasury on board, you're not going to get any quick solution to anything, okay? If you have the Paris club and so on, they're doing it, I don't think, I think they like the status quo.

**MOHIELDIN:** Sorry to come back to you, and I think Vera is eager to take the floor as well, but that was relevant when the share of the Paris Club and using your data was 40 percent of the debt, but now it's less than 10 percent.

**GILL:** So why there is still a... So why is there still a Paris club?

**MOHIELDIN:** For principles, for guidance, for standards, for – and actually because of inertia perhaps. We need to be reminded that we are not fighting the old war here. But anyways, I agree with you. So far there was an instrumental fund bank, U.S. Treasury and Paris club references until we see better restructuring mechanism, as Paolo has mentioned. Vera and Paul.

**SONGWE:** No, I fully agree with Indermit. The only time when we have had sort of international scum to debt resolution was actually when if the debt resolution problem was not resolved, a G7 or G20 country would get into trouble. Today, if you don't resolve the debt of the sort of low-income countries, nobody is going to get into problem. Right? The savings and loans crisis, the Latin American crisis was. Savings and loans in America, right? The Greek crisis was Germany. We can match every serious debt crisis to a G7 country that will get into trouble if that was not solved. Today, there is nobody that will be getting into trouble, if this little thing that we're worrying about is not solved, and so...

**MOHIELDIN:** This is the problem, that's why the crisis is silent?

**SONGWE:** That's why it's going to continue, and that's it's silent. And until the countries themselves, and I go back to what Trevor said. What happened to building good fiscal frameworks that we can live with them and that we can be disciplined enough on. Because we keep sort of waiting for somebody else to sort of fall in there and, you know, provide us with a solution. We haven't spoken about domestic resource mobilization, which countries are not doing enough of, right? They are underperforming, grossly underperform on domestic resource, and this is not about raising rates.

This is about broadening the base, right, and making sure there is subsidies. 4 or 5 percent in many countries, oil prices are lower now, so maybe this is the time to do some of those reforms and we do need to talk about them. Otherwise, I think we are kidding ourselves, but let me just say two things. I think on the issue of the private sector, one of the reasons why we talk a lot about debt and the raising agencies is that there is nobody behind the border that can borrow internationally for lower than the sovereign. This is an international law, right? So it is so important, the sovereigns rating, because it determines everything else that happens behind the border in terms of access to capital.

And so one of the things that we're working at is to say, can we work with international institutions to one, lower the cost of borrowing in foreign currency, but maybe begin, and I think the World Bank has started that, actually doing some of this, particularly for health and education and those things. In local currency because the rate of return of them is not that high and it is much more long-term investment in some sense. And I think this is quite important that we begin to work a little bit more on can the developing institutions, the MDBs, have a window that is actually local currency lending that is going to help improve also the ability to access markets? And I'll stop there.

**MOHIELDIN:** Thank you so much. Paolo, there is a great debate now about the role of new regionalism and Europe is the second biggest region and in answering the questions and reacting, do you see a bigger role for Europe going forward in dealing with debt issues and doing better with Africa given the old or new neighborhood policies?

**GENTILONI:** Potentially, yes, the awareness is gradually there. Of course, the EU is also affected by its lower growth. We saw yesterday Germany projecting zero growth for next year, so this is not a problem not affecting the EU. But at the same time, you can't live without free trade. And this is also the interest of Europe to rebuild better relations with the Global South and to be more connected to the conversation we are having. Just one remark from my side. I understand what Rebeca was saying about the stigma, risk of the Boer Club. I have to tell you what happened in Europe when a Southern Europe, Mediterranean Europe club was born.

They were described as pigs because of a strange acronym. An important Northern Europe leader said that this was a club-made meeting. But at the end of the day, these kind of meetings were useful. So, I think we should work for this. This could be something new coming.

**MOHIELDIN:** Perhaps we can borrow from Homi's comment on the variation, so we can have not just a club of desperate cases or basket cases, but we have different scales, different credits. I have two handed. Okay. So, 15 seconds each.

**GILL:** So Google somebody called Enrico Mattei. So actually the thing that Paolo said, so I agree with his second intervention, that you need to have a different way to interact with countries that are trying to develop. So, Enrico Mattei is the person on whom the Mattei plan of Italy is named. And he had a very simple proposition, which was that the country that owned the resources ought to get 75% of the profits. So he just wanted to change that. And I think for that reason, because he proposed that maybe at a time when these things weren't popular, he got blown up in flight. But I think that that idea is a really good one, and that should be the basis of this new government.

**MOHIELDIN:** Perhaps we can discuss it here as well later.

**SONGWE:** So two things have happened. One is that we have seen that when there is uncertainty, even in the U.S. Markets, the markets react negatively. This is advice that we've been giving countries forever, and they've thought this is just advice that is good for the low-income countries. But I think what we have now seen is that even in U. S., when the U.S. does bad policies, the market says no. The second thing which I learned from busy last night is the tariffs on Lesotho. At 200 or 400 million but Africa imports almost 15 billion of clothing. So essentially, we could buy Lesotho's clothes. Lesotho does not have to import to the United States and we will fix the problem. So the African continental free trade area agreement which delivers growth is something that we have to talk about more.

**MANUEL:** The MAGA T-shirts won't do so well in Africa.

**MOHIELDIN:** Well, so this is another point of emphasis.

**GRYNSPAN:** We'll change the name of the T-shirt so that we can buy them.

**MOHIELDIN:** So before getting this panel out of control, it's good that I had the sign that I have to wrap it up. And again, Brookings, you are very much inclusive. I'd like as well to recognize the excellent questions coming online and the active participation. I'd like to thank the panelists, and this is, to be continued, very helpful comments, suggestions, and practical ideas going forward. And, well, it's not, we don't have the evidence that the Chinese ever said, may you live in interesting times, but regardless of the source, enjoy whatever you can of these interesting times indeed, and we will all go through it and thrive after. Thank you.