the Pontifical Academy of Social Sciences

The Jubilee Report

A Blueprint for Tackling the Debt and Development Crises and Creating the Financial Foundations for a Sustainable People-Centered Global Economy

Commissioned by Pope Francis

IPD
Initiative for Policy Dialogue
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I. Introduction

The developing world is facing dramatic debt and development crises. A debt crisis should not be narrowly defined as a matter of countries defaulting on their obligations to creditors. For many nations, the real default is not a legal or financial one, but a social and development one: They are defaulting on their people, their environment, and their future. The historic commitments made in 2015 with the Sustainable Development Goals (SDGs), solemnly resolved by the UN General Assembly, are being voided. In the current geopolitical context, they are being repudiated by many governments in practice, and by some even in principle.

To meet obligations to their external creditors, debt-distressed countries are sacrificing investments in education, healthcare, infrastructure, and climate resilience. Core aspects of national sovereignty are put into question as economic policy serves creditors rather than citizens. National politics is delegitimized if fiscal and financial policies are in the service of finance rather than in the service of development.

Unresolved debt crises have both short- and long-term adverse effects on human development. In the face of sustained uncertainty, aggregate demand and economic activity typically decline, leading to rising poverty, malnutrition, and labor market exclusion. Vulnerable families are more likely to break down, and the erosion of hope spreads across communities. Human and physical capital deteriorates, undermining long-term development prospects and deepening social fractures.

All sides share responsibility for the current debt situation: Debtor governments that borrowed too much, often at too high rates and too short maturities, failed to adopt capital account regulations to deter destabilizing speculative flows, prioritized the short term, and now are not doing all they could be to resolve their debt crises—typically shying away from the international "fights" that may be required to protect their citizens from excessive demands of their creditors; creditors that provided excessive financing, seeming experts on risk that knew they were lending under conditions that implied that there was a significant risk of default, but now, when the risks have materialized, are reluctant to provide the relief needed to restore debt sustainability; and international financial institutions (IFIs) whose lending policies enable these behaviors on both sides—policies that put off dealing both with today's debt and with the underlying flaws in a global financial architecture that repeatedly gives rise to such development and debt crises while an entire generation in the affected countries loses hope for development.

There is also a broader reason for the debt situation—the international community failed to address the flaws in the global financial architecture and to enable and embolden the IFIs to take stronger measures to prevent and resolve these recurrent debt and development crises.

The consequences are particularly acute in Africa, where debt distress is most severe. It is the only region where public debt has been growing faster than GDP since 2013. Approximately 57% of the continent's population—751 million people, including nearly 288 million living in extreme poverty—reside in countries that spend more on servicing external debt than on education or healthcare. Given the legacies of slavery, colonialism, and anti-Black racism, the concentration of poverty and underdevelopment in Africa calls into question the sincerity of our collective commitment to universal norms of human rights and antiracism. With its rapid demographic growth, Africa holds unique significance for the coming decades, as its share of the global youth population (aged 15 to 24) is projected to rise from 23% in 2023 to 35% by 2050, according to the UN World Population Prospects.

Furthermore, climate change—a crisis born largely of historical emissions from advanced economies—is imposing an additional, crushing burden on developing countries. The consequences of climate change are especially devastating for small island states and low-income nations, which have contributed the least to it but suffer the most from its effects. Rising sea levels, extreme weather events, and ecological degradation threaten not only their economies but also their very existence. This injustice is compounded by the stark disparity in consumption: It is the wealthiest individuals and nations—those with the highest carbon footprints—who have contributed most to the climate crisis while the poorest, who consume least, endure the gravest consequences. It is a profound injustice that those least responsible are now paying the highest price.

In response to this urgent reality of debt, development, and climate crises, a group of leading experts in debt, development, and the global financial system came together at the request of Pope Francis to form a Jubilee Commission for the year 2025. A quarter century ago, on the occasion of the last Jubilee, Pope John Paul II advocated for debt relief for the Highly Indebted Poor Countries (HIPC). In the years that followed, large-scale debt reductions were achieved through the HIPC Initiative and the Multilateral Debt Relief Initiative, bringing enormous benefits to many low-income countries. But now, twenty-five years later, the world confronts another debt crisis, and to solve it requires deeper and longer-lasting reforms of the global financial architecture. Pope Francis again called for solutions that will require debt relief, but asked for more: for reforms of the global financial system.

The Commission's purpose is twofold: first, to offer practical and principled recommendations to address the current crises; second, to advance a vision for a reimagined international financial architecture that is capable of preventing future crises and enabling sustainable, inclusive development. The Commission affirms that development inherently involves risk—whether from long-term investments, exposure to commodity price fluctuations, or vulnerability to external shocks—and that sustainable development requires these risks to be distributed globally in an efficient and equitable manner. The burden should be borne by those most capable of absorbing it, which is not what the current system delivers.

This report marks the first step in a broader initiative convened by the Pontifical Academy of Social Sciences (PASS) and Columbia University's Initiative for Policy Dialogue (IPD). It seeks to contribute to a comprehensive rethinking of the global rules governing finance, taxation, trade, and the sharing of knowledge. At its heart lies a clear and urgent goal: to help build a global economy that serves people, especially the most vulnerable, and truly leaves no one behind.

"The development of a global community of fraternity based on the practice of social friendship on the part of peoples and nations calls for a better kind of politics, one truly at the service of the common good."

— Pope Francis, Fratelli Tutti, §154

II. The Current Debt Situation in Developing Countries

The fiscal numbers for the developing world paint a stark picture: According to the United Nations Conference on Trade and Development (UNCTAD), 54 developing countries now spend 10% or more of their tax revenues just on interest payments. Since 2014, the average interest burden for developing countries—measured as a share of tax revenues—has almost doubled.

Today, 3.3 billion people live in countries that spend more on interest payments than on health, and 2.1 billion live in countries that spend more on interest payments than on education. Interest payments on public debt are therefore crowding out critical investments in health, education, infrastructure, and climate resilience. Governments—fearful of the political and economic costs of initiating debt restructurings—prioritize timely debt payments over essential development spending. This is not a path to sustainable development. Rather, it is a roadblock to development and leads to increasing inequality and discontent.

The longer-term economic consequences of today's debt and development crises are becoming clear: Since 2015, gross capital formation in low-income countries has stalled at just 22% of GDP—well below the 33% average for middle-income countries. To emerge from their poverty and to catch up even with middle-income countries they should be investing a larger, not a smaller, percentage of GDP. External borrowing in many of these countries has not been an instrument for building productive capacities or domestic value chains. Instead, under current conditions, financial flows as a whole have discouraged long-term investment while increasing vulnerability to volatility and capital flight.

The current debt and development crisis in developing countries is not an isolated fiscal misfortune. The fact that excesses of debt have afflicted so many countries, with debt and development crises occurring so often suggests that are systemic causes and consequences. Accordingly, it should come as no surprise that so shortly after the previous initiatives for debt relief for low-income countries, the world is once again confronting debt and development crises.

One defining characteristic of this dysfunctional system is that, for developing countries, capital flows are procyclical: During global financing booms, money floods in; in busts, it flows out even more quickly. Successive phases of promising development cannot be counted on to continue. More often than not, a positive phase is a prelude to a painful contraction, especially when they are financed by debt. For advanced economies, the reverse holds true. In times of crisis, capital flows toward them. In a storm, safe financial "havens" become all the more attractive. This asymmetry enriches the rich, impoverishes the poor, and reinforces itself, as the procyclical movements weaken the poor and the countercyclical movements strengthen the rich, making them an ever more attractive safe haven.

Another defining characteristic of this dysfunctional system is chronic underinvestment in innovation, human capital, and infrastructure. The patterns of underinvestment in developing countries are exacerbated by the financial conditions imposed by volatile and procyclical capital flows and been further exacerbated by the policy constraints associated with high debt burdens. The episodic crises are regularly accompanied by episodic bouts of austerity.

There is often a vicious circle at play. In many cases, these dynamics have eroded state capacity and weakened the ability of policymakers to even conceive of development strategies that could enable structural transformation and sustained economic self-determination.

These structural vulnerabilities are compounded by the actions of both creditors and borrowers. Sovereign borrowers may take on excessive debt under terms incompatible with development financing—sometimes driven by short-term political incentives or misaligned vested interests, and often without the institutional capacity to channel borrowed funds into productive transformation. On the other side, private creditors frequently engage in excessive and expensive lending during boom periods, motivated sometimes by expectations of preferential treatment in restructuring vis-à-vis official creditors. Sometimes they lend because, in the event of a shortage of foreign exchange required to service the debt, the IFIs will provide the requisite funds, a *de facto* bailout.

This dynamic has often resulted in excessive debt, met with limited accountability.

After the 2008 financial crisis, the 2009 world recession, and the bailout of Western banking systems, private capital poured into low- and lower-middle-income countries, where returns were high and capital account regulations were weak or nonexistent. This wave of capital inflows fueled optimistic narratives of development, epitomized by the "billions to trillions" slogan. But while the inflows appeared promising, they were fundamentally misaligned with long-term development goals. Governments borrowed under unfavorable terms: short maturities and no assurances of continued access to funds when the debt needed to be rolled over, and rates that were significantly above those of loans provided by international financial institutions. These are not the conditions under which investments in education, infrastructure, and industrial capacity—which take decades to mature—can be sustainably financed.

Even before the COVID-19 pandemic and the war in Ukraine, many countries had already accumulated unsustainable debts. The pandemic necessitated unprecedented public spending to protect lives and livelihoods. The war then triggered spikes in food and energy prices, exacerbating external imbalances. When advanced economies responded by sharply raising interest rates, financing conditions for others tightened dramatically. In 2023 alone, the net financial transfer from low- and lower-middle income countries to private creditors in advanced economies reached $30 billion.

Ironically, it was the IFIs—whose mandate is to support development, reduce poverty, and stabilize economies—that stepped in to finance these outflows. Rather than providing countercyclical development finance, they underwrote capital flight. In doing so, they shifted the cost of private-sector bailouts onto citizens in the developing world—many of whom now face not only higher debt stocks, but also rising interest payments on official loans.

Beneath this crisis lies a deeper structural failure, which is the chronic weakness of public finances and the persistent underinvestment in economic transformation. The ability of states to mobilize domestic resources has been undermined by international tax avoidance, illicit financial flows, the under-taxation of corporate profits—especially involving multinational firms—the unfair exploitation of extractive resources, and the heavy repatriation of dividends. Yet responsibility cannot lie solely with external actors. In many cases, domestic political and economic elites have also played a role—by failing to strengthen public institutions, by tolerating or enabling rent-seeking behavior, and by avoiding reforms that could have built greater resilience and accountability.

In 2025, global markets remain fragile amidst geopolitical and trade conflicts. The IFIs now project lower global growth for the coming years, particularly for developing countries. This further undermines debt sustainability, as a country's debt is obviously more sustainable when the country grows more rapidly and, specifically for external debt, when there is more availability of foreign exchange. Refinancing prospects for distressed economies are increasingly uncertain, while the debt overhang continues to depress investment, growth, and human well-being.

In this context, solutions must go beyond temporary relief or modest reductions in debt service. What is needed is a new economic model centered on strengthening long-term investment. Public investment and financial strategies should not be treated just as short-term countercyclical tools but as instruments for promoting sustainable development. Using credit simply to create fiscal space is not enough. The priority must be to use that space to finance coherent, long-term sustainable development strategies that align fiscal, financial, and productive development policy, under the guidance of capable public institutions. This requires anchoring investment plans around development missions. The goal is not mere stabilization. It is structural transformation.

Much of the debt sustainability risks in developing countries are related to external factors over which they have no control. These risks are compounded by the weaknesses of the multilateral financial system to provide sufficient flows at competitive terms that accurately reflect actuarial risk and which move countercyclically and not procyclically, and which when a debt crisis arises, resolves it swiftly, fairly, and efficiently. A global financial system that enables vast resource transfers from the developing countries to the creditors, while denying sustainable investment in a country's future, is not only inefficient, but also unjust and extractive.

Shared responsibility. Our analysis of the origins of this and other debt crises and what to do about them suggests a shared responsibility. The international community writ large, the multilateral institutions, and the developing countries have not done what they should. And, unfortunately, it is true even of those with the best of intentions who sought to enhance stability and poverty reduction. Worse, there are those who have not had the best of intentions but rather sought gain without taking into account the costs imposed on some of the poorest people in the world. Our purpose here, however, is not to assess blame but to propose a plan of action that details what can and should be done by multilateral institutions, financial institutions, and governments at the national level and in the particular jurisdictions where debt contracts are written. We want to alleviate the current debt and development crisis and make it less likely that there will be further crises, so that countries will finally be able to finance sustainable development.

As Pope Francis has reminded us, *"Inequality is the root of social ills"* (Evangelii Gaudium, §202). If we are to meaningfully address the development and environmental crises, we must begin by confronting this injustice—understanding how the global financial architecture contributes to these crises, acknowledging shared responsibility, and advancing solutions that shift the system toward greater equity, efficiency, and shared prosperity.

III. The Systemic Flaws in the Global Financial Architecture Undermining Development

The international financial system is not well designed to serve the needs of developing countries. Instead, it reflects and reinforces deep structural asymmetries between developing and advanced economies that in turn shape the conditions under which countries borrow, the costs they face when they do, and the consequences of that borrowing. These asymmetries are not just economic; they are historical and political, preserved by an international order shaped by the most powerful and structured in ways that favor them.

Many developing economies face enormous investment needs, limited financing opportunities, and heightened vulnerability to external shocks. This predicament is given contemporary urgency by rapid demographic growth in many of the poorest countries, but it is rooted in historical patterns. The colonial era left behind economic structures geared toward the extraction and export of raw materials, with low levels of productive diversification and heavy dependence on imported consumer goods. This dependency has proven difficult to overcome for many societies. In many cases, the global trade architecture has been one of the impediments.

Global financial markets penalize these inherited weaknesses. Countries that depend heavily on the export of primary commodities are, and are perceived as, riskier borrowers. As a result, they are charged higher interest rates in international credit markets, which according to the empirical evidence are higher than can be justified by the higher risk of default. This further increases their risk of default and constrains their capacity to invest in the economic transformation they need—reinforcing a self-perpetuating cycle of underdevelopment and inequality.

One might have thought that rich countries, being in a better position to absorb risk, would transfer risk away from developing countries. External capital flows would presumably help de-risk development and serve as a buffer. This is what standard economic theories of efficient markets would have predicted. But the opposite has occurred. Rather than being a source of sustainable growth, global capital markets have often proven procyclical and destabilizing. Sudden stops and surging interest rates have repeatedly interrupted investment needed to diversify economies and build resilience. In good global times, capital flows to developing countries; when turbulence hits, it flees back to advanced economies perceived as safer. As discussed earlier, this is the key asymmetry in the global financial system. Capital mobility acts as a stabilizer for the Global North and a destabilizer for much of the Global South and the developing world. We are witnessing these effects today. Global financial and capital regulations—or the lack thereof—have contributed to this problem. Thus, even those governments in developing countries that borrow to invest, but at relatively short maturities, and grow sufficiently not to see their debt ratios rise, are still unable to refinance those debts when global uncertainties rise and international capital markets tighten for the developing countries.

This dysfunctional behavior reflects deeper flaws in the architecture of global finance. Misaligned incentives—or "agency problems"—affect both borrowers and lenders. Many debtors pursue short-term gains, including the immediate political advantages that access to funds now might provide, even when certain debt policies impose large long-term costs. Likewise, individual creditors disregard how their lending might affect exchange rates or financial stability; and the managers of financial institutions may get rewarded more on the basis of the amount lent than the accurate assessment of the risk of the borrower and its capacity to repay.

Meanwhile, central banks in advanced economies—the primary engines of global liquidity— following their mandates respond almost exclusively to domestic concerns, disregarding the global ripple effects of their policies. In periods of low global interest rates, such as after the 2008 international financial crisis, the resulting search for yield led to excessive lending to developing countries and emerging markets.

The excesses of deregulation—especially capital account liberalization—removed key tools that developing countries once used to manage volatile financial flows. From the 1980s onward, market-driven ideology encouraged governments to open their economies and borrow abroad in hopes of establishing credibility, gaining market access, and boosting investment. Even short-term flows were welcomed, under the belief that such flows would lead to higher real investment. In reality, the volatility of short-term capital often proved counterproductive.

As noted earlier, IFIs—created after World War II by the international community to stabilize the global economy and promote development—have at times exacerbated the problem. Though their mission is to prevent collapse and support growth, they have repeatedly bailed out private creditors and imposed austerity on debtor countries to ensure repayment to creditors from advanced economies. In practice, they have too often prioritized financial interests over sustainable development.

Moreover, a significant portion of multilateral lending carries procyclical features. Loan interest rates are closely tied to policy rates set by the central banks of economically advanced countries. This explains why the cost of borrowing from multilateral institutions has risen sharply over the past three years, driven by monetary tightening in the economically advanced countries in response to inflation following the war in Ukraine.

Certain banking regulations, including those intended to ensure the safety and soundness of banks but which treat sovereign debt from developing countries and emerging markets as risky assets, also contribute to the procyclical nature of capital flows to developing countries.

There is a second aspect of IFIs' lending that may be counterproductive. We note in this report that they have systematically provided a *de facto* bailout for private creditors and are doing so now. Such bailouts encourage excessive lending and/or lending of the wrong kind, contributing to the episodic debt and development crises facing developing countries.

In sum, the global financial system fails to offer the kind of long-term, stable, countercyclical financing that developing countries need. Nor does it provide adequate protection from external shocks—whether triggered by global interest rate hikes, commodity price spikes, or climate-related disasters.

With all the reservations noted concerning the IFIs, credit from Multilateral Development Banks (MDBs) remains among the most helpful forms of financing for developing countries, given its terms and that it attempts to link finance with development. Moreover, the International Monetary Fund (IMF) provides financing when private creditors do not, which provides the main rationale for its preferred creditor status.

Some argue that too little money flows to developing countries through debt channels, given their vast investment needs. But a more accurate assessment is that there is too much of the wrong kind of debt, and too little of the kind that supports sustainable development—too much focus on short-term capital, and too little on long-term investment. Moreover, attention to reforming the international financial architecture in ways that would shift risk from developing to advanced economies is woefully inadequate. In fact, many long-standing policies—such as those promoting capital market liberalization—often have the opposite effect.

The importance of the "quality" of debt cannot be overstated. Critics of some of the reforms proposed in this report will argue that the result will be less lending. There will (hopefully) be less lending of the wrong kind, of the kind that gives rise to debt distress. But if our analysis is correct, it may well lead to greater flows of productive long-term capital, the kind that will contribute to rising living standards and a more shared prosperity in developing countries.

In the absence of a fair and reliable global financial safety net, developing countries often adopt suboptimal strategies that deepen their dependence. The least damaging is to accumulate reserves for self-insurance—but this limits investment and imposes recessionary effects on the global economy. In more dire circumstances, countries turn to private capital markets at unsustainable rates. And too often, to meet creditor demands, they implement austerity policies that deepen structural deficits in education, health, infrastructure, and innovation.

Ultimately, the current design of the international financial architecture does not merely reflect global inequalities—it amplifies them. A system that claims to support development must not entrench cycles of debt and dependence. As Pope Francis urged, the task before us is to *"rethink the whole economic system… to guarantee the dignity of the human person and the common good"* (Fratelli Tutti, §168). That task begins with acknowledging and addressing these dysfunctions in the global financial architecture.

IV. The Inadequacy of the Current Global Governance Framework for Resolving Over-indebtedness

When the Bretton Woods Institutions were created in the aftermath of World War II, the global community aspired to build a system that would promote peace, stability, and shared prosperity. Yet that system remains both inadequate and incomplete. At the heart of the problem lies a hole in the international economic architecture: **the absence of a sovereign debt crisis resolution**

mechanism. While mechanisms exist for corporate bankruptcy within countries, there is no equivalent framework for sovereign debtors. Instead, in each crisis, debt restructurings must be negotiated. These negotiations are governed not by fairness or efficiency, but by power, with the result that the outcomes are typically neither fair nor efficient. Sovereigns in distress must negotiate with a complex array of creditors—public and private, bilateral and multilateral—without a guiding framework that ensures equitable, efficient, and timely resolutions. The creditors often have long experience in such renegotiations—they have become a regular feature of sovereign debt markets; that is not the case for the debtors. The creditors are typically well-diversified and can withstand long negotiations; the debtors typically face a crisis—lack of access to foreign exchange may mean lack of food or energy for their people. The imbalances of power, information, and incentives can be enormous.

Often, fights among creditors for the distribution of the burden of debt relief result in even longer delays in restructuring. And when restructurings do occur, they are often not deep enough to restore sustainability, so one debt crisis is too often followed by another, imposing enormous costs on those in the afflicted country.

Meanwhile, prevailing legal systems—notably those of England and the United States, the major jurisdictions for the issuance of government international bonds—permit specialized financial speculators, known as vulture funds, to purchase defaulted debt on secondary markets and sue for full repayment. This financial play turns a society's suffering into a source of profit. Under current rules, a handful of speculators can effectively hold tens of millions of people hostage.

Making matters worse, some holders of unsustainable debt may benefit from default through their positions in financial derivatives. While citizens of debtor countries endure austerity and at times accept external oversight that diminishes national economic sovereignty, private parties often obscure their true interests and exposures, undermining the transparency of negotiations and making debt resolutions still more difficult.

Against this backdrop, new concerns are emerging that further complicate the landscape of sovereign debt and development finance.

First, the emergence of major new creditors has made restructurings more complex. Since the 2010s, developing countries have increasingly borrowed not only from traditional Western governments and IFIs, but also from bond markets and non-Paris Club official creditors. This fragmentation has increased inter-creditor disputes for the distribution of debt relief and prolonged restructurings. There is a need for mechanisms that ensure fair burden-sharing among creditors, such as would be provided by an international bankruptcy court.

Second, the turn toward blended finance and public-private partnerships (PPPs) (sometimes argued to be substitutes for official development assistance) has created a new wave of contingent liabilities—typically opaque, procyclical, and difficult to restructure. These mechanisms promised to mobilize large volumes of private capital by using public resources to insure investors against losses.

In practice, however, they have largely failed to deliver transformational investment, with the result that scarce public resources have been diverted into ventures that frequently deliver weak developmental returns. Concessional public funds are often tied up in low-risk, low-impact projects typically in middle-income countries, rather than directed toward industrial policy, technological upgrading, or critical infrastructure. Since 2015, less than 8% of globally mobilized blended finance has reached low-income countries.

There are several factors contributing to these failures. These tools frequently socialize risk while privatizing reward: Public actors absorb the downside risk, especially in the presence of limited liability, while private actors reap the benefits when things go well.

Furthermore, the logic behind these mechanisms too often revolves around de-risking existing market structures, rather than using public finance to shape markets toward transformative objectives—such as employment creation, technology transfer, climate resilience, and social inclusion.

Without a fundamental shift in governance, much of the current private finance agenda, including that centered around blended finance, risks becoming a quiet engine of future debt distress. Contingent liabilities can accumulate off-balance sheet, with limited transparency and little room for renegotiation in times of crisis. Their increasing prominence compounds fiscal vulnerability and complicates sovereign risk management, especially when shocks materialize. Unless these tools are embedded within a public purpose framework—with clear accountability, equitable risk-sharing, and developmental conditionalities—they will erode fiscal space and weaken state capacity.

Third, the problems just discussed have been amplified by the proliferation of bilateral investment treaties that have subjected developing countries to a rising tide of costly legal claims, becoming another source of opaque contingent liabilities. These agreements have empowered corporations to sue sovereign states in private arbitration courts. The case of Philip Morris suing Uruguay for its anti-smoking legislation is emblematic. Such cases erode economic sovereignty, impose high fiscal burdens, and elevate investor rights above public welfare, yet have not produced any of the growth benefits promised.

Fourth, credit rating agencies (CRAs) exert outsized influence on sovereign debt dynamics. The fear of downgrades discourages timely restructurings and reinforces stigma, and even the MDBs have circumscribed their activities over worries about downgrades. While investors need to know the risks associated with different investments, the evidence of the accuracy of CRAs remains weak.

Fifth, developing countries face a host of new and large risks, from climate change to the unraveling of the post-war international economic architecture. After fifty years in which inflationary pressures have been contained, inflation has once again returned to the global scene, increasing the risk that a higher global interest rates environment prevails for longer than previously anticipated by debtors and creditors. These risks will make it all the more difficult for developing countries to manage their debt well, with prospects of an increasing incidence of debt distress.

Sixth, rich countries have not only failed to live up to their promises in providing assistance to developing countries, but recent years have seen a marked decrease in flows, especially those directed primarily at enhancing growth and poverty reduction.

This has contributed to the persistent and systemic gap in financing for development—one that is especially acute in the domain of climate investment. And it has contributed to the economic fragility of many countries, an important factor in increasing the risk of default. This shortfall directly undermines the ability of developing countries to achieve the SDGs and to adapt to the accelerating consequences of climate change—consequences for which they bear little historical responsibility. Addressing this gap is not simply a question of distributive justice; it is also a matter of global economic efficiency and stability. A world in which vast populations are excluded from development is one in which growth is constrained and risks are amplified.

Many advanced countries, to justify these declining expenditures, are now claiming that they do not have the fiscal capacity to provide assistance, with slowing global growth, increased demands for defense expenditures and for Research & Development, with heightened competition among countries, and aging populations. But for most rich countries, their fiscal constraints are a result of choices. They could, for instance, raise substantial revenues by imposing environmental taxes, progressive taxes—especially on large corporations and the wealthiest—and digital taxes. There is no comparison between their fiscal capacity and that of developing countries. Moreover, advanced economies, having been the primary contributors to climate change over the past two and half centuries, have a major responsibility for the *ecological debt* that creates severe intra- and inter-generational inequalities; they should take a leading role in closing the gap in development finance.

These concerns underscore a broader failure of global debt governance: It is neither aligned with the goals of sustainable development nor equipped to respond to the intersecting debt, development, and climate crises. The current architecture has evolved primarily around the interests of creditors and not the needs of people or the planet.

As Pope Francis emphasized, *"It is no longer possible to affirm that politics and the economy are unrelated"* (Fratelli Tutti, §177). We must bring principles of justice, solidarity, and sustainability into the governance of international finance. In his 2024 message to the Vatican meeting on "Addressing the Debt Crises in the Global South," Pope Francis called for *"an international mechanism for debt restructuring based on the solidarity and harmony of peoples," grounded in good faith, truth, and ethical dialogue.*

V. Principles for Resolving Debt Crises

Addressing today's debt crises in developing countries requires immediate action and a reorientation of global financial practices toward principles of sustainability, justice, and economic recovery. The guiding objectives must be to arrest the outflow of financial resources from debt-distressed countries and to restore debt sustainability in a manner that supports, not undermines, human development and environmental stewardship. Many of the reforms suggested below not only provide better conditions for debt resolution but also enhance incentives for good lending.

Solutions must reflect the following principles:

1. Country-specific approaches, but common principles.

While debt-distressed countries share many characteristics, such as high interest payments and loss of access to capital markets, there is no one-size-fits-all solution. Each country's situation must be evaluated individually, with attention to whether the country is facing a problem of flows or a problem of both stock and flows. However, four core principles must remain inviolable: (a) No net transfers out of debt-distressed countries. (b) There should be no bailouts of private or bilateral creditors by IFIs, especially not by the IMF. Using public money to shield private creditors from losses is not only an unjustifiable use of public funds; it also distorts incentives for both the creditors and the governments to negotiate sustainable debt deals. (c) Debt restructurings, when they occur, need to be sufficient to ensure that the debt is sustainable. Inadequate debt restructurings that simply paper over the problem are invitations for more costly debt crises, which have been a feature of debt restructurings in recent decades. And debt restructurings should be done in a timely way. Delay can be costly, exacerbating the duration and depth of debt crises. Debt restructurings have repeatedly been "too little, too late." (d) Any restructuring should include an equitable treatment of all creditors. What this entails is complex, especially since public creditors have typically provided credit at low or even concessional rates, while private creditors have typically charged sufficiently high interest rates to have been well compensated for the risk of default. But at the very least, private creditors should not receive favorable treatment.

2. Shared responsibility between creditors and debtors. Governance and institutions matter.

Debt contracts are voluntary arrangements between creditors and debtors, and as such, they are equally responsible when matters go badly and there are problems in repayment. Indeed, in some ways, creditors, who typically have more expertise in risk assessment and management, might even have greater responsibility. The behaviors of both sides are affected by incentives, and those in turn are affected by the rules that govern debt and the policies and behavior of institutions, like the IMF, that are central to debt markets. Much of the discussion below concerns changing rules, laws, and practices in ways that would create a more efficient sovereign debt market that would serve better the needs of those in poor and developing countries.

3. No more net transfers out of debt-distressed countries.

The starting point must be simple: Countries in distress cannot be expected to transfer net resources to their creditors, whether private, bilateral, or official. Instead, there must be positive net transfers from MDBs and IFIs to support recovery, and private creditors will need to accept a stay in recovering what is scheduled in the contracts.

There are two different ways this can be achieved. One, that could apply to future debts, is to design contracts with automatic stays in payments when countries face debt distress. The other is some form of debt exchange, where obligations are reduced and/or postponed, with the aim of reducing current debt burdens and restoring sustainability. The principles for the implementation of those debt exchanges are articulated below. To make either of these operational, legal wording is needed as enforceable clauses in loan agreements, with clear rules on the criteria for restarting payments.

The debtors' fear of the stigma that occurs when they restructure debt could be ameliorated if the debt crises that occur in different countries at the same time are addressed simultaneously under the umbrella of a comprehensive international solution.

The IMF, which has provided funds to countries in crises, may have contributed to the problem of perverse capital flows: By providing countries with the foreign exchange they need to pay off foreign creditors, bailouts of private creditors have been financed through those loans. When this happens, it leaves the country indebted to the IMF, with an obligation that is especially hard to restructure, and there have been very few write-offs.

To begin resolving the ongoing debt crises in the developing world, there should be a "no bailout from international financial institutions" condition, especially for the IMF. No bailout means that funds provided in these times of distress should not de facto be used for the payment of foreign currency debts. If the country does not stop the payments of unsustainable debts the IMF should not lend. Doing so would violate its own rules, which forbid financing unsustainable debt. In such circumstances, for the IMF to provide funds would, in effect, constitute a bailout of private creditors with global taxpayers' money.

Bailouts—including the potential of a bailout—have worsened the current debt crisis by delaying necessary restructurings, misallocating funds meant for development and poverty reduction, and providing perverse incentives for the private sector for meaningful constructive participation in timely restructurings.

Instead of providing bailouts, the IMF should signal clearly that it will support only those country programs in which private creditors bear appropriate responsibility. This shift would encourage meaningful creditor participation in restructuring processes and would change governments' incentives to initiate those processes and demand appropriate debt and interest rate reductions and maturity extensions. While such debt renegotiations are going on, the IMF can provide support through appropriately designed policies of lending into arrears—a policy tool that allows the Fund to lend to countries when they are not repaying creditors as long as they are taking appropriate steps to resolve defaults.

Without this change in the application of the policy, there can be no hope of realigning global finance with the goals of development and economic stability. The loss for debtor countries would be small in cases where IFI financing is used primarily to repay unsustainable debts, while the gains from redirecting such financing toward development and recovery would be substantial.

More broadly, the IMF should redefine its lending policies to promote just burden-sharing and ensure its resources are not used to perpetuate unsustainable debt dynamics. Similar principles should apply to all of the MDBs.

4. Restructurings often must include principal reductions.

If a country's debt is so high that even rolling over obligations at low interest rates (e.g., close to World Bank rates) would still require unfeasibly large budget surpluses—surpluses that would suppress recovery and compromise long-term development—then restructuring must include a reduction of the debt's face value.

These reductions could be achieved through a framework that defines debt relief objectives similar to those of the HIPC Initiative launched in 1996. The international community has a moral obligation to advance a "HIPC II." However, the challenges of implementing such a comprehensive solution today are greater than those faced during the original HIPC initiative. The evolving landscape of creditors means that a new initiative would have to go beyond political agreements among creditor governments and involve private creditors, who now play a significantly larger role in the debt portfolios of low- and lower-middle-income countries (LLMICs) than they did in the 1990s.

Various recent initiatives such as the Common Framework for Debt Treatments and the IMF's Global Sovereign Debt Roundtable have fostered important dialogue among creditors. While some progress has been made—such as through the Debt Service Suspension Initiative—these measures remain insufficient to deliver the level of debt relief required to restore debt sustainability, a necessary condition for resolving the current debt and development crisis.

A HIPC II would require a multilateral framework, supported by governments, that is accompanied by changes in lending policies and the legal frameworks of countries or States in which sovereign debt is issued. Such reforms are essential to realign incentives and encourage meaningful participation of all creditors in debt restructurings and exchanges.

5. Sometimes interest rate reductions and maturity extensions are enough; but maturity extensions have to be long enough and interest rate reductions have to be large enough.

For countries with less debt (reflected in a low debt/GDP ratio, for example), a debt exchange that includes long extensions of maturity and a reduction of interest rates to near the World Bank level may suffice. The justification for the lower interest rate is straightforward: If the debt exchange reduces the probability of default, then the risk for creditors is lower, and thus the interest rates they receive should be lower, too. Creditors who were previously compensated for higher default risk must accept lower returns once that risk has been mitigated, an outcome that market-based decentralized negotiations will not guarantee. The Brady Bond exchanges that played an important role in resolving the Latin American debt crisis of the 1980s (the so-called Lost Decade) offer an encouraging precedent, although the Brady Plan came relatively late: seven years after the beginning of the debt crisis that led to a lost decade for the economic development of the continent. It is imperative to avoid similar delays now for the future of the countries suffering the current crisis.

Contrary to what we have suggested above as a principle for resolving the crisis, private creditors have routinely demanded high interest rates in restructured bonds, even when they argue that there has been enough of a debt reduction/restructuring to make the debt sustainable. But too often the high interest rates in fact make the debt unsustainable.

What is required is that all outstanding bonds and loans—not just those coming due—participate in the exchange. This is fair: the exchange improves the value of remaining claims by making the debt sustainable.

The length of maturity extensions should reflect the reality of access to global credit markets for developing countries. Given the procyclicality of capital flows and today's heightened global uncertainty, it is likely that many debt-distressed countries will not regain access to international capital markets at sustainable rates for years. Accordingly, the presumption is that in most cases maturities should be extended by at least 20 years to provide the fiscal space necessary for recovery and long-term investment.

This reality makes the need for more international official "bridge" financing even more imperative—and the contributions of the richer countries to enable, facilitate and incentivize it more necessary. Making bridge financing conditional on meaningful private sector participation through appropriate rate reductions and maturity extensions may incentivize such constructive behavior.

6. Growth rather than austerity.

Simultaneously, the architecture of international lending should promote growth rather than impede it. Countries with high debt-to-GDP ratios can attempt to reduce them, either by increasing GDP or by slowing down the growth of debt by imposing growth-reducing austerity policies. Experience has shown that the latter strategy almost never works, while the former strategy has a credible record of success. Any fiscal consolidation required by IFIs must adhere to a fundamental principle: It must not undermine a country's long-term development trajectory or exacerbate existing inequalities.

For countries indebted in foreign currency, sustainability critically depends on the investment in the sectors of the economy that can generate foreign exchange revenues.

7. Delaying restructuring by borrowing at exorbitant interest rates only makes matters worse.

Borrowing under such conditions merely delays crisis resolution while worsening the underlying problem. Access to international markets at exorbitant interest rates is not access in any sustainable sense. True market access must be defined not by availability alone, but by affordability and sustainability, including alignment with the SDGs.

The principles laid out in this section reflect a broader moral imperative: to place the well-being of people and the planet above short-term financial gain. This approach also recognizes the inherent incomplete nature of sovereign debt contracts, as they generally do not explicitly account for unforeseen shocks such as pandemics, wars, or climate disasters, even if they include a compensation for risk in the form of higher interest rates. In such contexts, rigid enforcement of repayment is far from always being optimal. Debt relief can be an efficient response to the limitations of sovereign debt contracts.

VI. Actions to Resolve the Current Debt Crisis

Guided by these principles, there are a number of actions that need to be taken to help resolve the current debt crisis.

1. Extend and expand debt suspension initiatives.

Members of the Commission recognized recent efforts to address the debt crisis. For instance, some members recommend extending the Debt Service Suspension Initiative that was established in 2020 and expired in December 2021, which allowed low-income countries to suspend debt service payments to official bilateral creditors.

The Initiative could be expanded to also include middle-income countries facing comparable distress, ensuring that more countries have the fiscal space they need to invest in recovery and resilience. Where debt is clearly unsustainable, treatment must go beyond suspension to reduction.

But as laudable as these initiatives are, most members of the Commission thought that even if the initiatives were expanded, they do not suffice. The limited participation of the private sector in these earlier initiatives was not a hopeful sign.

2. Quick policy action to change incentives.

Elsewhere in this report we have discussed a number of changes that would incentivize the private sector to take debt restructuring more seriously, which is necessary for any successful debt restructuring. These include the "no bailout" by the IMF and MDBs discussed in section V and the legislative reforms in section XII.

3. Use debt-for-nature swaps carefully, transparently, and equitably.

Debt-for-nature swaps can be a valuable tool in the development finance toolbox. By allowing countries to redirect a portion of debt repayments toward conservation projects such as biodiversity protection or climate adaptation and mitigation, they offer a dual dividend: fiscal relief and environmental stewardship. However, to fulfill their promise these instruments must be well designed. They should not restrict development priorities, such as by diverting scarce resources from urgent needs like poverty reduction or investments in infrastructure. Transaction costs should be kept low, and private intermediaries must not extract excessive profits. Above all, these agreements must be transparent and aligned with national development strategies. Importantly, debt-for-nature swaps are not substitutes for restructurings of unsustainable debts.

4. IMF/MDB enticement of private sector cooperation: towards a HIPC II.

The international community could go further by offering bridging loans and other finance to contribute to economic programs for short-term recovery and long-term development, provided the private sector fully cooperates, including in accepting interest rates that reflected the low default rate associated with a sustainable debt restructuring, and, in the case of the bilateral official creditors, accepting comparable write-downs on their non-concessional debt. This would, in effect, be laying the foundations for a second HIPC.

VII. Avoiding and Resolving Debt Crises in The Future

Much of the discussion around development finance centers around how to increase the flow of funds to developing countries. But, as this report emphasized earlier, there is a concern about the "quality" of financial flows as well as the amount. There is too much money of the wrong kind and that is why there are debt crises. Much of the financing that went to developing countries was not productively employed and came with unsustainable terms.

1. Improve the "quality" of lending.

We have discussed several reasons for "bad" lending—too much money going for purposes that do not generate the growth that would facilitate its repayment, a problem that is the consequence of the behaviors on both the debtor and the creditor side. We have also discussed how certain key aspects of the current global debt architecture mean that creditors may not bear the full consequences of bad lending decisions, for instance because of partial or full bailouts. The reforms listed elsewhere in this report affecting incentives for debt restructuring typically also improve incentives for ensuring good lending.

Responsible borrowing

One way to reduce the risk of politically motivated and short-term lending that often leads to debt crises is to ensure that lending/borrowing and debt restructurings are transparent and have broad societal support. Greater involvement of national legislatures might help address the bias toward short-termism that often affects government borrowing decisions, which are often influenced by the political cycle. This comes at the cost of some flexibility in the practice of public financial management.

Governments must uphold high standards of responsibility in their borrowing practices, recognizing their duty is not only to current citizens but also to future generations, and guided by the principles of equity, transparency, and long-term value creation. Debt should be used strategically for investment, not for short-term political gains. Over-borrowing beyond debt service capacity should obviously be prevented. Legal reforms that strengthen sovereign debt management, increase legislative oversight, and foster public debate over borrowing decisions are critical to aligning debt policies with national priorities. In this era of low trust and high risks, offering more radical transparency helps rebuild trust. Citizens should be able to "follow the money" and track resources raised against their futures, whether through public debt data registers or increased transparency for privately-held public sector bonds.

Part of the strategy to avoid over-indebtedness entails reducing hidden contingent liabilities to the extent possible: for instance, by withdrawing from investment agreements and financial arrangements (like PPPs and blended finance) that might impose large obligations, especially in a deep economic downturn.

More generally, domestic legislation should aim to ensure public oversight of international borrowing and contingent liabilities—especially borrowing associated with conditionalities that carry long-term consequences for economic and social development. But because private debt is often transformed into public debt in crises, and considering the limitations on making commitments to avoid this outcome, there also needs to be oversight of private debt accumulation.

Responsible lending

Earlier, we noted the shared responsibility for debt crises between debtors and creditors. There need to be reforms in practices not only of borrowers but also of lenders. The IMF, for instance, should ensure that its lending decisions are guided strictly by economic fundamentals, and that there be full transparency and widespread support within the country for its program. In recent years, concerns have been raised, including by the IMF's own Independent Evaluation Office, about the use of exceptional access programs, the perception of unequal treatment of countries facing similar macroeconomic conditions, and excessive (imprudent) lending by the IMF. If lending is influenced by geopolitical considerations or electoral timelines, it can lead to unsustainable lending, with further adverse effects, including compromising both the sovereignty of debtor nations and the credibility of multilateral institutions. Even the appearance of a lack of even-handedness and politically motivated lending can undermine the credibility and effectiveness of these institutions.

2. Address the fundamental dysfunctions in global financial markets.

Earlier in this report, we suggested that a fundamental source of the dysfunction of global debt markets is a result of the fact that capital moves procyclically to developing countries, countercyclically to developed, forcing poor countries to bear the risk burden of global shocks. The Commission did not find any simple solution to this fundamental problem. Part of the problem arises from the behavior of the dominant central banks, which have not fully taken on board the global consequences of their policies (like quantitative easing, or QE). Some of the risk-sharing mechanisms described elsewhere in this report would reduce the riskiness of developing countries, thereby mitigating the flight to safety that has been a feature of global financial markets. The growth-oriented policies we have advocated elsewhere in this report would enhance the attractiveness of investing in developing countries and emerging markets, and hence reduce the asymmetries in the underlying economics between these countries and the advanced countries, thereby reducing the procyclicality of capital flows.

3. Promote the adoption of capital account regulations to prevent destabilizing capital flow movements and reduce the procyclicality of global financial flows in developing economies.

Regulations that assist in the management of international capital flows can play a critical role in enhancing macroeconomic stability in developing countries by helping to safeguard their economies from speculative and destabilizing capital movements. Thoughtfully designed capital flow management policies can significantly enhance the benefits—and reduce the risks—of integrating developing countries into global capital markets. Such regulations can also help reduce the procyclicality of capital flows and thereby the asymmetries in global financial markets that have contributed to debt crises. Addressing what underlies recurrent debt crises requires going beyond debt policy to broader global structural changes in global financial markets, including the regulations that govern capital flows. The regulation of capital flows is a sovereign prerogative—a matter of domestic policy—and countries have the right, and indeed the responsibility, to do so.

4. Designing better contracts.

In recent years, there have been important improvements in the design of sovereign debt contracts, which have made some headway in preventing vulture funds from taking advantage of others through enhanced collective action clauses. These innovations, while useful in bringing order to restructuring, have shown themselves to be insufficient because they do not solve the fundamental problem of conflict between a debtor and its creditors that arises when debts become unsustainable.

There are promising innovations that can help align the interests of creditors and debtors, such as more extensive use of GDP-linked bonds or instruments tied to the international prices of a country's main exports. When designed well, such instruments share risk more equitably and consequently reduce the probability of default. The contracts that only provide for a delay in payment when bad shocks are realized will not suffice in the case of large shocks. And while even well-designed contracts might significantly reduce the risk of default, defaults will still occur, and when they do, there is a need for a better way of resolving the debt crisis than the current system affords.

5. Creating a framework for the resolution of sovereign debts.

The most important reform would be the creation of an international bankruptcy court, akin to the bankruptcy court in most countries, for adjudicating fair and efficient debt resolution. There is much to say about the appropriate institutional and governance arrangements, which will be reserved for future work. It must be acknowledged, however, that the challenges of building such a mechanism on sound principles and governance are immense. Debtor and creditors and the countries which represent their interests would naturally advocate for different governance structures, and—consistent with the history of international institutions, it will be extremely difficult to insulate the design and evolution of governance from the dynamics of power. This entanglement could ultimately undermine the very objectives the mechanism is intended to serve. Still, the analysis in this report suggests that such a framework for resolving sovereign debt crises could be beneficial for both responsible debtors and creditors, and that with sufficient good will, mutual interests could lead to an agreement.

Short of a fair and effective international mechanism for the restructuring of unsustainable sovereign debts, an international mediation service could be created based on the United Nations *Basic Principles on Sovereign Debt Restructuring Processes* approved by the UN General Assembly in 2015, which would help establish norms and practices, with the hope that eventually an international court might be established.

VIII. Reforming Debt Sustainability Frameworks

Debt sustainability analyses (DSAs) are intended to assess whether, under a country's current policies, its debt is sustainable. If the debt is not sustainable, the analysis should examine whether alternative policies exist that are compatible with both debt sustainability and sustainable development. If no such policies are available, the DSA should then determine the amount of debt relief required to restore sustainability, doing so in ways that do not compromise the country's prospects for sustainable development.

DSAs play a critical role both in lending and restructuring because they define how much debt a country can sustain without a significant risk of default. Creditors, including in the private sector, clearly should not demand repayments beyond what a country can pay; accordingly, credible DSAs, accompanied by policies described elsewhere in this report that would incentivize private creditors to engage more meaningfully in debt restructuring, can play an important role in facilitating timely restructurings.

DSAs are a tool. While it is important to distinguish the tool from its use, it is still important to identify possible systemic failures in modeling. Despite progress in recent years, further reforms could make it a more useful tool for the prevention of crises and their resolution. Besides being more transparent and participatory, with broader consultation and independence from lending operations, there are a number of technical reforms that would be desirable.

1. Improve the recognition of endogeneity and climate vulnerability in DSAs.

The results of DSAs depend on what assumptions are made about the future. Current DSAs often assume trajectories for critical variables such as GDP growth, tax revenue, and foreign exchange earnings that do not recognize the full set of determinants of debt sustainability, such as the strong dependence of output (on both the demand side and the supply side) on the amount and nature of debt restructuring itself and on the quality of public investment and, increasingly, the impact of climate shocks.

Ignoring the interdependencies among these variables leads to dangerously flawed assessments. Rather than offering realistic tools for planning, the scenarios projected by DSAs may become tools in the hands of vested interests, who use overly optimistic projections to minimize the burden of debt restructuring.

DSAs should evolve to better capture the positive-sum dynamics of debt relief, constructive economic policy, and sustainable development. They should also more effectively balance the long-term interests of both debtors and creditors, helping to foster a more efficient and equitable sovereign debt market. In doing so, they should clearly distinguish local currency from foreign currency debt and treat them differently, given the disparate nature of those classes of liabilities and the implications for the domestic economy and the development of local currency debt and capital markets.

While DSAs have moved forward to include climate risks, they still often fail at considering the impact that investment in climate resilience and adaptation can have on debt sustainability.

2. Shift the framing of DSAs from debt stabilization to growth and sustainable development, and use them as a tool for computing the debt repayment capacity that is compatible with sustainable development.

The prevailing approach of debt sustainability analysis and the policies that follow from it—subordinating fiscal policy to stabilizing the debt-to-GDP ratio—has proven counterproductive in many contexts. Instead, DSAs should assess what level and structure of debt is compatible with sustained economic growth and social progress. In line with the shift toward inclusive and green development, sustainable public borrowing can be growth-enhancing, especially when directed toward innovation, climate investments, infrastructure, education, and healthcare.

Because debt sustainability frameworks need to assess the country's future growth prospects, they have to assess the country's investment program. There is a need to distinguish between productive and unproductive debt, with the former increasing expanding debt sustainability, the latter contracting it. While such judgments are hard, it is inevitable that they may be made; in practice, those engaged in DSAs make judgments in formulating the growth projections that are an essential ingredient in any DSA.

The DSAs can help assess the extent of debt write-offs required to restore sustainability, the necessary extension of maturities in the case of debt-reprofiling, and the appropriate reductions in interest rates. Well-designed DSAs can also assess the consequences of delay in restructurings. Such information can help incentivize timely and appropriately deep restructurings.

On the other hand, systematically overly optimistic growth forecasts will systematically result in too little debt forgiveness, which will, systematically, lead to a recurrence of a debt crisis. Similarly, overly optimistic assumptions about the impact of debt relief on growth lead to inefficiently frequent restructurings when the projected growth does not materialize.

The risk could be mitigated by including contingent clauses in restructured debt agreements that link scheduled payments to indicators of a country's debt repayment capacity. DSAs are forward-looking exercises that naturally lend themselves to disagreement as expectations, views, and interests may differ across stakeholders and practitioners.

Debtor countries can improve their debt management practices and strengthen their bargaining power in negotiations by producing their own DSAs, based on modeling assumptions of their choosing, which can be contrasted with the models and frameworks used by external analysts. The international community should provide support for developing countries in these efforts.

3. Reforming the role of private credit rating agencies.

Private CRAs, de facto, are engaged in DSAs. Their ratings are supposed to reflect the results of their analyses of risks of default. They are relied on by investors and thus their ratings have major implications for access to credit and interest rates paid, and this is true even though the quality of their ratings has been questioned, particularly in the context of the 2008 US financial crisis. The lack of full trust in the ratings of these private institutions motivates other DSAs, as for instance those from the IMF.

Advanced countries have delegated responsibility for risk assessment to these private bodies in their regulatory frameworks, for instance allowing certain fiduciaries to invest only in securities for which these private bodies give an investment-grade rating. This gives enormous power to these agencies, whose interests typically do not coincide with a broader public interest or the interests of developing countries. Conflicts of interest abound, perhaps contributing to CRAs' poor performance and perhaps explaining the accusations of fraud that were leveled against them in the 2008 US financial crisis.

In spite of complaints against the CRAs for decades, little has been done. But one partial remedy is the creation of a global public credit rating bureau and legislative reforms that allow this public rating body to serve as a substitute for the private rating. This bureau would reverse the question asked by DSA of "what is a sustainable level of debt at a given probability?". Instead, it would ask, "what is the probability of default given the current level of debt?."

IX. Changes in the Policies of the IMF and other Multilateral Institutions

1. End the approach of promoting austerity to maximize the repayment of external debt.

In a highly unequal world economy dominated by the rich countries and their currencies, IMF-supported programs have often emphasized import compression and fiscal austerity in times of recession. These policies may generate foreign exchange in the short term but undermine long-term development and recovery. They exacerbate poverty, stall climate action, and erode social trust. Instead, rather than amplifying external shocks, multilateral institutions should support counter-cyclical programs that stimulate recovery, reduce vulnerability, and support investment in a just and green transition.

2. Further reform the IMF's lending rate and surcharge policies.

Existing IMF practice has often imposed unacceptably high interest rates on those countries most in need of help, with high levels of debt they could not repay over long periods of time. Despite claiming for itself the position of super-senior creditor that gets priority for the repayment of debts over other creditors, the IMF levies additional charges on borrowers. Hence, it demands both maximum security and a hefty interest rate. The reform of the IMF's basic lending rate and surcharge policy in 2024 marked a step in the right direction. However, the work is not finished. The IMF should eliminate surcharges entirely, consistent with its role as a preferred creditor. These charges impose regressive and procyclical costs on countries in distress and contradict the institution's mission of promoting global economic stability.

3. Replenish and reform the IMF's Catastrophe Containment and Relief Trust (CCRT).

Several Commissioners recommend replenishing the IMF's Catastrophe Containment and Relief Trust (CCRT)—a mechanism that allows the IMF to provide debt service relief to eligible low-income countries hit by natural disasters or public health crises. It should be replenished, potentially through the strategic use of IMF gold reserves, to ensure that countries facing climate shocks are not required to fully repay IMF loans when their resources are most needed for emergency response and recovery.

4. Make more extensive use of Special Drawing Rights to promote global development, including debt sustainability—and, if necessary, create a new system of SDRs.

The IMF has a powerful instrument that it has only occasionally made use of—the ability to create Special Drawing Rights (SDRs), a global reserve asset that works as a form of financing. An issuance of approximately $650 billion during the pandemic proved critical in enabling many countries to respond to that exigency. A regular issuance of additional SDRs, as urged by the 2008 Commission of Experts appointed by the President of the UN General Assembly on Reforms of the International Monetary and Financial System, could simultaneously promote development, help address climate change, and strengthen global aggregate demand and macroeconomic stability.

However, for SDRs to truly serve their purpose, there is a need for significant reforms. Under current rules, allocations are tied to IMF quotas, meaning that the lion's share goes to advanced economies that need them least. A technical issue must be noted: Under the IMF rules, the high-income countries cannot convert their SDRs to hard currency. Thus, this skewed distribution does not mean that the high-income countries get most of the benefit from a new SDR issuance—contrarily, they get little from it. Still, a more equitable original distribution would be desirable. Short of that, a larger reallocation—through voluntary on-lending of unused SDRs from richer to poorer nations and multilateral institutions—can help correct this imbalance.

In the absence of sufficient support for this initiative (and other IMF-related initiatives in this report) within the IMF, given a voting structure that does not reflect today's economic realities, a coalition of the willing could create a new monetary fund that could issue its own SDRs, using them to support global public goods and, at the same time, enhance global macroeconomic stability.

5. Establish a fund for the repurchase of debt in distress to reduce unsustainable debt levels.

As part of the lead-up to the 4th International Conference on Financing for Development, the Government of Spain is proposing the creation of a Multilateral Support Fund to reduce unsustainable debts—a trust fund at an IFI, backed by SDRs, to facilitate debt buybacks for countries facing unsustainable debt burdens. This initiative, a "Jubilee Fund," represents a promising step toward addressing the current crises.

Unlike loans contracted with banks or other creditors, debt obligations that are issued in the form of bonds are traded in financial markets. Distressed debtors see the value of their debts depreciate. This makes it more expensive to issue new debt. But it also opens the possibility of achieving a de facto restructuring by means of debt buybacks. In these operations, a country repurchases its own debt from investors on the secondary market, often at a significant discount to its face value. For example, if a bond with a $100 face value is trading at $50, the government could buy it back for that lower price—immediately reducing its debt stock to $50 and avoiding future interest payments. This mechanism provides a powerful opportunity for countries to regain control over their financial futures without resorting to painful austerity measures.

The problem is that a country in debt distress, whose bonds are trading at heavy discounts, generally does not have the funds necessary to make substantial debt repurchases. If it were to have such funds, creditors might reasonably ask them to be used to service debts. The Jubilee Fund would provide external financing with which to repurchase debts.

The Jubilee Fund would provide loans on favorable terms to eligible countries that seek to repurchase foreign currency debt trading at steep discounts on secondary markets. In doing so, it would allow governments to reduce both their outstanding debt stocks and their future interest payments, freeing up fiscal space for essential investments for their short-term recovery and long-term development.

For the proposal to succeed, it may require some adjustments to current IMF policies, such that the IMF can reallocate part of its lending capacity to this new Fund.

X. More and Better Finance and Risk-Sharing from the International Community

Earlier in this report, we noted that the global economic architecture forced developing countries to bear risk disproportionately. There are at least two proposals to help mitigate risk.

1. Create a global climate fund.

The advanced countries have, at various times, agreed to provide funds for loss and damage, mitigation and adaptation. They should also help create a fund or mobilize unused funds from existing lending facilities at IFIs, that help those particularly vulnerable to the consequences, such as small island states, some of which have been repeatedly ravaged, for instance, by hurricanes, and bear no responsibility for its occurrence. The consolidation of the existing scattered climate lending facilities could be a complementary action to support this objective.

Relatedly, central banks and other financial regulators should develop stronger regulatory frameworks to reduce the flow of credit to climate and biodiversity damaging activities, following the principle of double materiality.

2. Create a global fund to stabilize commodity prices.

Developing countries, many of which rely heavily on the export of a narrow range of primary commodities, are particularly vulnerable to volatility in global commodity markets. Sudden drops in prices can have severe economic and social consequences, undermining fiscal stability, disrupting public investment, and intensifying poverty and inequality. To mitigate these destabilizing effects, the international community could establish a global fund dedicated to stabilizing commodity prices. By reducing the volatility that currently constrains long-term planning and development, the fund would enhance resilience and promote more inclusive and sustainable growth in commodity-dependent economies.

XI. Broader Reforms of the Multilateral Development Lending System

The multilateral lending system should be a powerful enabler of development, stability, and climate resilience. But to function as such it must be profoundly reformed. That means not just doing more, but doing things differently by reimagining the structure, incentives, and governance of multilateral finance to ensure it truly serves people and the planet.

1. Expand capital, but rethink the model.

MDBs need to significantly increase their lending volumes if they are to meet the scale of today's development and climate needs. The best way to do this would be by means of increased capital contributions from shareholder countries, especially the richest.

However, a lack of political will among shareholder countries and concerns about realignment of voting rights has led MDBs to rely, instead, on increased borrowing from private capital markets. This approach is problematic. MDBs may have super senior creditor status when it comes to lending, but if they themselves depend too much on capital markets for funding they become more risk averse, fearing credit rating downgrades that would raise their cost of borrowing. Development, however, is inherently a risky enterprise. Structural transformation requires ambition, experimentation, and bold investment— aspirations that are undercut when financial conservatism takes precedence over developmental impact. A capital increase remains essential to achieve the SDGs and the targets of the 2015 Paris Agreement on climate change.

In the current climate, it may be difficult to get such a capital increase for the World Bank and some of the other MDBs. While government contributions should remain the primary source of capital for MDBs, it is important to recognize that, within current frameworks where raising funds from private capital markets plays a significant role, regional development banks have demonstrated their ability to borrow at low interest rates—sometimes even lower than those of their member sovereigns—and to allocate capital effectively. It may be desirable not only to expand the capital of these banks, but also to establish new development banks.

2. Shift from project-based lending to mission-driven investment.

MDBs must also rethink the architecture of their financing. The prevailing model—reactive, project-based, and often bureaucratic—is not suited for enabling long-term transformation. Instead, MDBs should adopt a mission-oriented approach, proactively supporting countries and regions that pursue clear, strategic development goals. If a country designs a comprehensive innovation or climate resilience policy, MDBs should have the tools and mandate to finance it at scale. Development is not a collection of disconnected projects—it is a path that must be planned and supported holistically.

Public finance should be transformative. That requires embedding directionality into MDB operations: using debt, public investment, and concessional finance to drive long-term missions such as decarbonization, health equity, or digital inclusion. MDBs must also support structural economic transformations by helping countries manage exposure to external shocks and particularly commodity price volatility, which continues to destabilize many economies in Africa and elsewhere.

Development strategies should be grounded in multi-sectoral plans with clear goals. The objective is not just to grow, not just to increase GDP, but to grow with purpose: to sustainably increase the wellbeing of all citizens.

3. Strengthen the global financial safety net and increase the voice and vote of developing countries.

Multilateral lenders, especially MDBs, should become pillars of a reimagined global financial safety net, providing stable, long-term, countercyclical finance to developing economies. This is especially important today as developing countries are increasingly buffeted by the multiple overlapping crises of climate change, pandemic risks, and geopolitical shocks.

At the same time, the governance of these institutions must become more democratic. Developing countries must have greater representation in the decision-making processes that determine global financial rules.

4. Harnessing the role of MDBs to expand lending in local currencies.

Many commissioners underscored that borrowing in local currencies is less risky for developing countries than borrowing in foreign currencies, especially when capital account regulations to discourage hot money speculative flows are in place. When nations borrow in a currency they do not control, they expose themselves to devastating exchange rate shocks—crises that too often result in increases in poverty and unemployment and the erosion of critical investments for economic development. While there has been welcome progress in increasing local currency financing, it remains far too limited. The absence of appropriate capital account regulations has, in some cases, imported the very vulnerabilities that foreign-currency borrowing was known to produce. But this is not inevitable.

MDBs could use their influence and resources to support a shift toward lending in local currencies.

These broader reforms are steps toward a more just and sustainable global financial system that demand courage from institutions, governments, and the global community.

XII. Reforming Creditor Jurisdiction Legislation to Support Fair Sovereign Debt Workouts

A central obstacle to just and efficient sovereign debt resolution lies not only in international institutions but in the domestic legal frameworks of creditor countries—particularly in New York

State and England, where the majority of sovereign bonds from developing countries are issued. These legal systems, designed decades ago in an era without the complexity of today's global debt landscape in mind, now act as structural constraints on equitable and timely debt relief.

To restore balance and legitimacy in sovereign debt restructuring, reforms are urgently needed in the legal foundations governing debt contracts in these key jurisdictions.

1. Curb predatory litigation by vulture funds.

One of the most harmful distortions in sovereign debt markets is the practice of predatory litigation by so-called vulture funds—specialized financial actors that purchase distressed sovereign debt on secondary markets at deep discounts with the intent of litigating for full repayment. This behavior undermines collective resolution efforts, exacerbates delays, and shifts scarce public resources from essential services to court-ordered payouts.

Legal reforms in creditor jurisdictions should explicitly discourage such practices. Statutes should be introduced or amended to limit the ability of vulture funds to recover windfall profits from distressed debt, especially in cases where good-faith restructuring efforts are underway.

2. Reduce the outdated and punitive pre-judgment interest rate.

The current pre-judgment interest rate in New York State—set at 9%—dates back to 1981, when inflation in the United States was 8.9%. Over four decades later, this rate remains unchanged despite vastly different macroeconomic conditions. It now serves primarily to benefit litigating creditors by inflating the value of their claims the longer a case remains unresolved. It incentivizes delay and rewards litigation rather than encouraging cooperation and compromise.

Reducing this rate to a level that reflects today's economic reality would remove a perverse incentive and help encourage quicker, more constructive restructuring processes.

3. Introduce recovery caps to ensure comparability of treatment in debt restructurings.

A core principle of sovereign debt resolution is the equitable treatment of creditors. Yet under current legal frameworks private creditors can demand, and often receive, far more favorable terms than official creditors. This is unfair to the taxpayers of creditor countries, especially because bilateral and multilateral lenders have typically lent at much lower interest rates than the private creditors. Indeed, by the time a crisis has occurred, they may have been fully compensated through the high interest rate charges. A system where private creditors strive to get more than public creditors undermines the resolution of sovereign debt crises and in effect implies a cross subsidy from the public to private creditors. And because private creditors don't bear the full consequences of a default, they may be less prudent in lending, even enticing countries to borrow beyond their ability to repay.

A legislated cap on recoveries by private creditors—linked to the terms accepted by official creditors—for the restructurings of low- and lower-middle income economies would help ensure comparable treatment and foster greater private sector engagement in coordinated debt solutions. It would also reduce the incentive to hold out and litigate, making restructurings more timely and less conflictual.

New rules regarding "comparability of treatment" (CoT) should include appropriate differentiation between local currency debt and foreign currency debt, taking account of the very different impacts on the indebted countries.

XIII. Improving Local and Regional Financing Conditions in Developing Countries and Regions

Strengthening local and regional financing is essential to achieving economic sovereignty, long-term development, and shared prosperity in the developing world. Too often, developing countries remain trapped in patterns of financial dependence—relying on volatile foreign capital flows, foreign-denominated debt, and external financial institutions whose interests may not align with local needs or goals. Breaking this cycle requires building resilient domestic financial systems, promoting domestic savings and ensuring that those local savings are channeled to local investments rather than accumulation of foreign assets, and fostering South-South cooperation grounded in mutual trust and solidarity.

1. Promote local currency financing, deepen domestic capital markets, and enhance regulatory oversight.

Reducing dependence on foreign currency-denominated debt is critical for stability and development. Developing countries should invest in building robust domestic capital markets and promote financing in local currencies to reduce exposure to currency mismatches and external shocks. Regulation should support market stability, ensure accountability, and safeguard financial stability. Private debt often gets transformed in a crisis into public debt, so there has to be careful oversight of the accumulation of private debts, especially in hard currency, with special attention paid to currency mismatches, particularly by financial institutions. Macro-prudential regulations for the lending and borrowing of domestic institutions are useful tools for preventing excessive currency mismatches and capital account regulation, as we have already noted, can help stabilize capital flows.

To support this agenda, countries could also develop trade settlement systems that facilitate the use of local currencies in regional transactions, which would reduce dependency on external currencies and enhance regional integration.

By the same token, in spite of the recognition of potential advantages in returns and diversification, investments abroad by pension funds of developing countries weaken domestic financial markets as does excessive reliance on advanced countries' financial markets for the provision of financial services, including the allocation of capital.

This goal of strengthening domestic financial markets could also be advanced through the creation of an IMF or MDB facility designed to purchase or lend against the local currency debt of developing countries in distress. The facility would be financed by issuing new SDRs to other developing nations, thereby pooling the risks associated with debt distress across countries and improving risk-sharing—particularly when those risks are not perfectly correlated. By intervening in local currency debt markets during crises, the facility could reduce currency depreciation and capital flight, raise the ex-post value of domestic bonds—making local currency instruments more attractive for savings—and facilitate risk-sharing across developing countries through SDR holdings.

The facility could operate either ex post, in response to distress, or ex ante as a form of development financing that avoids currency mismatch. Proper design would be essential to mitigate concerns about moral hazard on the part of debtor governments. While this approach would require the IMF or MDB to assume some exchange rate risk, it could serve as a catalyst for the development of deeper domestic capital markets, thereby addressing a root cause of recurrent debt crises and the chronic lack of financing for development.

2. Foster debtor coordination and cooperation.

Collective action among debtor countries is essential to building bargaining power, sharing knowledge, and pushing for more equitable rules in the global financial system. Coordinated platforms for dialogue and technical exchange can help developing nations learn from each other's experiences, improve negotiation strategies, and avoid common pitfalls.

3. Strengthen South-South financial integration.

More lending between developing countries and expanded use of currency swap lines—arrangements that allow central banks to exchange currencies—can facilitate regional trade and reduce reliance on international reserve currencies. In addition to regional swap arrangements to bridge immediate liquidity constraints, reserve-pooling (reserve funds) can help to mitigate medium-term balance of payment problems, while regional payment systems and clearing unions allow participating central banks to extend credit to each other through the regular offsetting of accumulated (trade-related) debts and credits between member states.

These tools may support South-South trade and investment by providing some respite from exposure to destabilizing global—capital flow and trade—shocks. The effectiveness of intra-regional credit creation to facilitate members' marshalling of their own financial resources depends on the strength of macroeconomic, political, and institutional cooperation between developing countries and their governments. Critically, such arrangements should be supported by long-term and affordable lending through regional and South-South multilateral development banks as well as sub-national and local credit schemes that facilitate smaller-scale production, as well as organizational and technological learning.

To build a truly inclusive and sustainable global financial system, reform must begin at home. But national efforts require regional cooperation. As Pope Francis reminds us, *"We must regain the conviction that we need one another, that we have a shared responsibility for others and the world"* (Laudato Si', §229). That spirit must also animate how countries within a continent or region work together to shape a future grounded in dignity and justice.

XIV. Conclusion

Resolving a sovereign debt crisis is a deeply political and moral undertaking. It is, at its core, a question of how losses are distributed across societies, generations, and international actors. And like all questions of distribution, it can be a source of conflict.

How difficult the conflict may become depends on who holds the debt. In the case of bilateral or multilateral official creditors, as with the HIPC Initiative launched in 1996, coordinated relief efforts have sometimes succeeded in restoring hope and enabling progress. Since then, borrowing has shifted to private channels and to new bilateral relationships with states outside the Paris Club. When debt is owed to private creditors, the absence of an international mechanism for sovereign debt restructuring turns crisis resolution into a power struggle—often resolved in ways that are inefficient, unjust, and harmful to the people most in need of protection. Private creditors use fear of the consequences of default to extract terms that protect their profits while forcing debtor countries into further hardship. The result is often a prolonged negotiation, during which economic conditions deteriorate, and the cost of delay is borne by those with the least voice in the process—workers, families, children.

Continuing to pay unsustainable debts may appear to avoid conflict in the short term, but it is, in reality, the worst of all possible paths. It perpetuates stagnation, erodes public trust, and destroys the hope that debt resolution should help to restore. It simply kicks the can down the road; delaying default leads to deeper economic and social crises, with even more adverse effects on the afflicted countries.

In the absence of a global legal framework for sovereign debt restructurings, the possibility of just debt resolutions depends, in large part, on the will of all, including the most powerful, to act in the spirit of solidarity. We write at a time when the absence of such a spirit is all too evident, at least on the part of some. But that should not stop us. It is urgent that those who share this spirit coalesce, that they form a coalition of the willing to work to relieve the stress so many developing countries face. They can provide funds, participate in meaningful debt restructurings, change laws, influence the multilateral institutions to change policies, form plurilateral institutions that can issue their own SDRs. There is much to be done, and sometimes a smaller coalition of those with a shared mission can do even more than a universal group with powerful countries that are reluctant to take the right global collective action. Even in the current dark mood, there is reason for hope.

In this **Jubilee year** we ask the world to extend a hand to the people of countries in distress. We must offer them the opportunity to rebuild their hope. It is time for a HIPC II.

But addressing the crises of the moment, however urgent, is not enough. If we do not reform the system itself, we will continue to reproduce the very dynamics that led us here. The international financial architecture must be redesigned to create sustained access to the financing needed for inclusive growth, climate, and structural transformations, as well as to enable just and efficient debt resolutions.

Yet even that will not be enough. Debt is only one pillar of a global economic order that is not conducive to lasting peace, sustainable development and shared prosperity for the global community. If we are to reach those goals, we must go further. We must reform the entire architecture of the global economy and the systems that shape opportunity and distribute risk across the world: the rules for taxation, for trade, and for the creation and diffusion of knowledge. A true Jubilee of multilateralism.

This **Jubilee Report** is the first step in a more ambitious endeavor to propose a comprehensive framework of just and sustainable Jubilee rules, rooted in solidarity, to guide the transformation of the global economy in service of the prosperity and peace of the peoples of the world.

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Finally, we express our profound and enduring gratitude to Pope Francis, whose moral leadership and call to action inspired the creation of the Jubilee Commission. His vision of economic justice and commitment to addressing the debt burdens of the world's most vulnerable are deeply embedded in the spirit of this Report. It is our hope that this work contributes to his legacy of justice and dignity for humanity—and that it helps ensure that, by the next Jubilee in 2050, we are no longer confronting the same crises.

Following Pope Francis' call to action, the time has come for those who share this spirit to come together—to form a coalition of the willing, committed to alleviating the suffering and distress faced by so many developing countries. There is much work to be done, and even a small coalition united by a common purpose can achieve meaningful progress. If such collective action can be forged, there is reason for hope.