

3. Debt Relief for a Green and Inclusive Recovery (DRGR) Project

Why in News?

- Recently, Debt Relief for a Green and Inclusive Recovery (DRGR) Project states that the sovereign debt of emerging markets and developing economies (EDME) increased by 178% from USD 1.4 trillion to USD 3.9 trillion between 2008-2021, indicating a looming debt crisis in the Global South.

Highlights

- The G20's "Common Framework" created to provide debt relief has shortcomings, as it failed to bring all creditors, including private and commercial creditors, on board and link debt relief with development and climate goals.
- Countries vulnerable to climate change tend to face the most significant debt distress.
- Higher climate vulnerability is linked to lower sovereign borrowing space.
- High debt service payments, forcing countries to set aside a significant portion of their foreign reserves to pay off debt.
- Providing immediate debt relief to EDMs could free up their fiscal and borrowing, allowing them to pursue a low-carbon, socially inclusive, and resilient future.
- The report calls for a reform of the Common Framework and proposes three pillars to address the issue.
- The first pillar involves public creditors granting significant cuts in debts to bring a distressed country back to debt sustainability and also helping it achieve development and climate goals.
- The second pillar Involves private and commercial creditors granting debt reductions comparable to public creditors.
- For the remaining debt, the government should issue new bonds for private creditors, backed by a guaranteed fund.
- The last pillar is for countries not at risk of debt distress, for which international financial institutions can provide credit enhancement.
- Debt Restructuring: The report also calls for the restructuring of USD 812 billion of debt owed by 61 countries that are in or at high risk of debt distress.
- At least USD30 billion in debt should be suspended over the next five years for 55 of the most debt-distressed countries, the authors calculated.