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Tackling the World's Hidden-Debt Problem

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WASHINGTON, DC – From the COVID-19 pandemic to advanced-economy interest-rate hikes, developments over the last few years have left many developing economies struggling to repay their debts. But the problem might be even bigger than the world realizes, as many sovereign debts are hidden, undisclosed, or opaque. This prevents policymakers and investors from making informed decisions.

Some low-income countries have made progress on disclosing their debts: the latest Debt Reporting Heat Map shows a rise in disclosure from 60% in 2021 to 80% today. But some countries have regressed, and significant gaps and weaknesses remain. For example, information might not be released swiftly enough or in adequate detail, and countries might disclose only central-government debts, leaving out other public and publicly guaranteed liabilities.

Consider domestic debts: many low-income countries, shut out of financial markets, have resorted to issuing such debt to meet their financing needs – often without reporting these instruments. Similarly, opaque currency-swap lines are being used to prop up heavily indebted borrowers. The World Bank's 2021 comprehensive report on public-debt transparency in low-income countries anticipated both of these trends.

Boosting debt transparency requires action in three key areas. First, we need to improve the software that records and manages public debt. Just as individuals use internet banking to manage their personal finances, governments rely on specialized software to manage their debt portfolios.

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But whereas advanced economies design their own systems – typically as part of an integrated information-technology solution that manages budgetary, accounting, and treasury processes – most low-income countries rely on “off-the-shelf” software subsidized by the international community. These arrangements are often inadequate to deal with countries' increasingly complex debt portfolios, let alone to deliver comprehensive, timely debt reporting.

This became starkly apparent during debt-reconciliation efforts under the G20's Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative. The debt records of the four countries that applied to the Common Framework – Chad, Ethiopia, Ghana, and Zambia – were sometimes incomplete and often inaccurate. To resolve these issues, Excel spreadsheets had to be manually reconciled – a months-long process that significantly delayed restructuring negotiations.

We recommend creating a task force to coordinate the design of better debt-management systems. With the involvement of all the main service providers, task-force members would standardize debt definition and computation methods, and lead the development of user-friendly IT solutions. That way, national authorities could focus on debt analysis and management, rather than remaining bogged down by data entry and reconciliation.

The newly designed software could also allow for input from creditors on loan disbursements and payments, as suggested by the 2023 UNCTAD Trade and Development Report. This would enable the real-time generation of World Bank International Debt Statistics and other statistical reports, based on fully validated data.

The second crucial measure needed to strengthen debt transparency is the creation of incentives for public borrowers to disclose their debts at both the national and international levels. This will require reforms of national legal frameworks as well as efforts by multilateral organizations to promote debt-transparency initiatives.

Already, the World Bank's Sustainable Development Finance Policy includes debt-disclosure incentives for low- and lower-middle-income countries receiving support from the International Development Association. This has contributed to improvements in debt reporting and coverage in more than 40 low-income countries.

Debt restructuring also creates opportunities to implement such incentives. The necessary and often arduous debt-reconciliation process can be used to provide detailed information on outstanding debt, as in the case of Zambia. It also gives countries a chance to wipe the slate clean and organize their debt records from scratch. Eligibility criteria for the provision of debt relief could include minimum transparency requirements to encourage the provision of data until debt relief is fully provided.

The third area where progress is needed is improved reporting by creditors. To facilitate transparency in official bilateral lending, creditor countries should follow the recommendations of the G20 Operational Guidelines for Sustainable Financing, such as improving data collection and publishing more information on new and existing loans.

Bilateral creditors should publicly disclose both outstanding debts and the core terms of foreign exposure, including direct loans, guarantees, and Export-Credit Agency insurance. The US Treasury's loan-by-loan repository offers a good model for creditors seeking to boost the transparency of their portfolios. To support these efforts, creditors should avoid including confidentiality or secrecy clauses in new loan agreements, as a 2022 World Bank paper argues.

Among the debt challenges facing low-income countries, strengthening debt transparency is one where concrete and meaningful progress is within reach. Success will require a combination of practical technical solutions and full cooperation from every stakeholder.

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