Expanding, Creating, and Engendering Fiscal Space: Strategies Toward External Debt, Concessional Finance, and Special Drawing Rights

Background paper prepared for UN Women-ILO Joint Programme on Promoting Decent Employment for Women Through Inclusive Growth Strategies and Investments in Care

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Ilene Grabel*
Distinguished University Professor
Josef Korbel School of International Studies
University of Denver; Denver, CO 80208, USA
Email: Ilene.Grabel@du.edu

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List of abbreviations

BWI	Bretton Woods institutions
CSO	Civil society organization
DSA	Debt sustainability assessment
DSSI	Debt Service Suspension Initiative
G-7	Group of 7 countries
G-20	Group of 20 countries
GDP	Gross domestic product
IDA	International Development Association
ILO	International Labour Organization
IMF	International Monetary Fund
ODA	Official development assistance
OECD	Organization for Economic Co-Operation and Development
SDR	Special drawing rights
SDRM	Sovereign debt restructuring mechanism
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UN-SDGs	United Nations Sustainable Development Goals

Must we starve our children to pay our debts?
--Tanzania's former President Julius Nyerere's public demand during the 1980s debt crisis[1]

3.3 billion people live in countries that spend more on interest payments than on health or education due to severe constraints on public spending. [2]

1. A World on Fire

The challenges of the present moment are overwhelming. Right-wing nationalist and authoritarian political movements have weakened post-war traditions of cooperation and institutions of multilateralism. To be sure, modernization of these practices and institutions was long overdue. But it's difficult today to see how we can sustain the political will necessary to construct a revitalized, relevant, permissive, inclusive, and feminist multilateralism.[3] This political project is essential if we are to meet the challenges of our time, including Sustainable Development Goal (SDG) 5--Gender Equality. This goal is a central driver of this paper.

The already vast human suffering associated with refugee, humanitarian, and climate crises are being compounded by the wars in Ukraine and the Middle East. The African continent has witnessed a

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[1] Quoted in Isabel Ortiz and Matthew Cummins, "End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-2025," September 2022, Initiative for Policy Dialogue, p. 61, https://policydialogue.org/publications/working-papers/end-austerity-a-global-report-on-budget-cuts-and-harmful-social-reforms-in-2022-25/.

[2] UN Global Crisis Response Group, "A World of Debt: A Growing Burden to Global Prosperity." July 2023, p. 4, https://news.un.org/pages/wp-content/uploads/2023/07/ 2023_07-A-WORLD-OF-DEBT-JULY_FINAL.pdf.

[3] Note that compromise and cooperation are frequent descriptors of post-war multilateralism. While these terms capture important attributes of the post-World War II period, especially in comparison with later periods, the terms conceal contestation, not least by actors from the Global South and those in the Global North (particularly Blacks, Indigenous peoples, people of color, and women) who were excluded from the rewards associated with what many see as the "golden age of capitalism." On the former, see Eric Helleiner, *Forgotten Foundations of Bretton Woods* (Ithaca: Cornell University Press, 2014)); on the latter, see e.g., Vincent Bevins, "The 'Liberal World Order' Was Built With Blood," *New York Times*, May 31, 2020; Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America* (New York: W. W. Norton and Company, 2017); Ira Katznelson, *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America* (New York: W. W. Norton and Company, 2005). On feminist approaches to multilateralism, see e.g., Feminist Action Network for Economic and Climate Justice, "Towards Economic and Climate Justice: A Feminist Analysis of Critical Trends," January 2024, https://economictrends.wedo.org/?password-protected=login&redirect_to=https%3A%2F%2Feconomictrends.wedo.org%2F; Ilene Grabel, "Enabling a Permissive Multilateralisms Approach to Global Macroeconomic Governance to Support Feminist Plans for Sustainability and Social Justice," United Nations Women Think Piece No. 5, Series on Feminist Ideas for a Post-COVID World, New York: UN Women, July 2021, https://www.unwomen.org/sites/default/files/Headquarters/Attachments/Sections/Library/Publications/2021/Think-piece-Enabling-a-permissive-multilateralisms-approach-to-global-macroeconomic-governance-en.pdf; Bhumika Mucchala, "A Feminist Social Contract Rooted in Fiscal Justice: An Outline of Eight Feminist Economics Alternatives for Intersectional Justice," Penang, Malaysia: Third World Network, 2023, https://www.twn.my/title2/series/gs/gs03.htm; Emelia Reyes, "Shaping the Future of Multilateralism: Feminist, Decolonial Economic Solution to Address Interconnected Global Crises," Heinrich-Böll-Stiftung, May 2021, https://eu.boell.org/sites/default/files/2021-05/Shaping%20the%20Future%20of%20Multilateralism%20-%20Emilia%20Reyes_FINAL_0.pdf; Laura Turquet, Constanza Tabbush, Silke Staab, Loui Williams and Brianna Howell, "Feminist Climate Justice: A Framework for Action," Conceptual Framework Prepared for Progress of the World's Women Series, NY: UN Women, 2023, https://www.unwomen.org/sites/default/files/2023-12/Feminist-climate-justice-A-framework-for-action-en.pdf.

wave of recent coups that threaten human security. Global food crises are aggravated by the combined effects of the war in Ukraine, supply chain challenges that were exacerbated by the Covid crisis, and currency depreciations in the Global South that increase the cost of imported food. Currency depreciations result from many factors. These include economic slowdowns, capital flight induced by investor worries about unsustainable debt in the Global South, high interest rates across the Global North and, more broadly, a dysfunctional global financial system that reflects rentier power and the outdated dynamics of the post-World War II world.[5] The climate crisis threatens not just food security and livelihoods, but also represents an existential threat. Climate finance in private markets--already inadequate--is becoming both scarcer and more expensive owing to high interest rates across the Global North.[5]

A debt crisis of epic proportions in the Global South is emerging. This crisis is fueled by a toxic combination of high interest rates in the Global North, currency depreciations that increase debt service costs, slow growth in the Global South, and the absence of cooperation among key actors. Some have referred to this as a "silent debt crisis."[6] But it's loud and clear. We are poised on the cusp of a new "lost decade" with vast debt overhangs, widespread debt distress, demands for austerity by lenders, and severe economic slowdowns. All of these bear deeply on the prospects for progress on women's equality and the empowerment of women and girls. The consequences of this debt crisis are likely to be far more disastrous than those of the first lost decade of the 1980s.

The first lost decade serves as a powerful warning of what's to come.[7] That period witnessed economic collapse under radical austerity programs; untold human suffering and setbacks to human development and women's equality, compounding intergenerational social and economic losses, and environmental degradation. The miseries of that period amplified already existing deficits in the care economy and increased the burdens on and threatened the life chances of women and girls the world over. The weakened fabric of multilateralism today--coupled with the messier, more densely

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[5] On the dysfunctions of the global financial architecture, see, e.g., UN Affairs, "UN Chief Calls for Action to Put Out '5-Alarm Global Fire," January 21, 2022, https://news.un.org/en/story/2022/01/1110292 ; UN, "Our Common Agenda Policy Brief 6, Reforms to the International Financial Architecture," 2023, New York: UN, https://indonesia.un.org/sites/default/files/2023-07/our-common-agenda-policy-brief-international-finance-architecture-en.pdf

[5] A shift toward quantitative tightening, which resulted in higher interest rates, began with the US Federal Reserve in June 2022. Successive rounds of tightening in the Global North were driven by a misdiagnosis of the root causes of inflation and its overtreatment (Joseph E. Stiglitz, "How Not to Fight Inflation," *Project Syndicate*, January 26, 2023, https://www.project-syndicate.org/commentary/us-inflation-fed-interest-rates-high-costs-dubious-benefits-by-joseph-e-stiglitz-2023-01).; Isabella M. Weber, "Taking Aim at Sellers' Inflation," *Project Syndicate*, July 13, 2023, https://www.project-syndicate.org/commentary/sellers-inflation-diagnosis-accepted-but-old-interest-rate-policies-remain-by-isabella-m-weber-2023-07). In December 2023, central banks in the Global North paused interest rate increases, and they continued to hold the line in the first quarter of 2024. They also signaled that this policy stance will continue into the second quarter of the year. Even with this interest rate pause, rates remain high by the standards of the recent past and contribute to capital flight from the Global South. High rates in the Global North also make it difficult for central banks in the Global South to lower interest rates, even though inflation has cooled in many contexts and growth slowdowns warrant rate reductions. (Sam Fleming and Mary McDougall, "US Interest Rates Add to 'Silent Debt Crisis,' in Developing Countries," *Financial Times*, November 6. 2023, https://www.ft.com/content/b8a9fd5d-868c-41c8-b03c-e9c0cc01aecd; Alan Rappeport, "World Bank Warns Record Debt Burdens Haunt Developing Economies." *New York Times*, December 13, 2023.)

[6] Fleming and McDougall, "US Interest Rates."

[7] See, e.g., Mucchala, "A Feminist Social Contract," pp. 3-6 (and citations therein); Ha-Joon Chang and Ilene Grabel, *Reclaiming Development: An Alternative Economic Policy Manual* (London: Zed Books, 2014[2004]).

populated landscape of today's global debt architecture--makes addressing the debt crisis simultaneously more urgent and complex than in the 1980s.

The unfolding debt crisis—on top of the Covid, supply chain and other crises—dim the prospects of mobilizing vast quantities of the medium- and long-term financial resources necessary to reverse backsliding and make progress on the full range of SDGs by the looming 2030 target. SDG 5 provides the impetus for this background paper, which is part of a joint programme between UN Women and the International Labour Organization (ILO) on Promoting Decent Employment for Women Through Inclusive Growth Strategies and Investments in Care. Many of the strategies discussed here speak to SDG 5 indirectly, though some address it directly. The strategies on offer also support the SDGs that target green transitions and economic justice (namely, SDGs 6, 7, 10-15).

As with previous debt crises and the pandemic, the burdens of today's debt crises are borne disproportionately by women and other vulnerable groups and nations. These burdens compound the myriad challenges they face, threaten to compromise any gains made in the recent past, and introduce new setbacks.[8] It's therefore crucial that we explore opportunities for expanding and creating the fiscal space that national policymakers can use to support SDG 5. I consider here only strategies that focus on a subset of external financial flows (namely, external debt, concessional finance, and special drawing rights, SDRs).[9] Reducing external financing constraints is largely outside the remit of policymakers in the Global South. But it is within the power of national policymakers to "engender" any fiscal space that is created. Engendering fiscal space means using new fiscal space to support and amplify gender equality.

Prior to the start of the war in Ukraine, UN Secretary-General António Guterres identified failed global financial governance as one element of what he termed a "five alarm global fire." [10] In January

[8] The pandemic amplified existing inequalities, particularly for women, minoritized communities, communities whose livelihoods depend on the informal sector, and those whose ability to thrive depend on the care economy. The pandemic also deepened inequalities between richer and poorer nations. On the myriad (including gendered) effects of the pandemic, see James Heintz, Silke Staab & Laura Turquet, "Don't Let Another Crisis Go to Waste: The COVID-19 Pandemic and the Imperative for a Paradigm Shift," *Feminist Economics*, 2021, 27:1-2, 47-85; Naila Kabeer, Shahra Razavi & Yana van der Meulen Rodgers, "Feminist Economic Perspectives on the COVID-19 Pandemic," *Feminist Economics*, 2021, 27:1-2, 1-29; UN Women, "Beyond COVID-19, A Feminist Plan for Sustainability and Social Justice," In Brief, https://www.unwomen.org/en/digital-library/publications/2021/09/beyond-covid-19-a-feminist-plan-for-sustainability-and-social-justice; UN Women, "From Insights to Action: Gender Equality in the Wake of Covid-19," 2020, https://www.unwomen.org/en/digital-library/publications/2020/09/gender-equality-in-the-wake-of-covid-19; UN Women, "Is This Time Different? COVID-19, Inequalities, and the Prospects for Structural Transformation," Expert Group Meeting Webinar Report, July 2020, New York: UN Women, https://www.unwomen.org/sites/default/files/Headquarters/Attachments/Sections/Library/Publications/2021/Is-this-time-different-webinar-report-en.pdf. On earlier crises, e.g., see Diane Elson, "Gender and the Global Economic Crisis in Developing Countries: A Framework for Analysis." *Gender & Development*, 2010,18 (2):201-12; Stephanie Seguino, "The Global Economic Crisis, Its Gender and Ethnic Implications, and Policy Responses," *Gender & Development*, 2010, 18 (2):179-99; Ilene Grabel, "Global Financial Governance and Development Finance in the Wake of the 2008 Financial Crisis," *Feminist Economics*, 2013,19 (3):32-54; Lourdes Benería, Günseli Berik, and Maria Floro, *Gender, Development, and Globalization: Economics as If All People Mattered*: Routledge New York, 2003; Nahid Aslanbeigui and Gale Summerfield, "The Asian Crisis, Gender, and the International Financial Architecture," *Feminist Economics*, 2000, 6 (3):81-103.

[9] I do not discuss other international capital flows, namely, official development assistance (ODA), foreign direct investment, portfolio investment, or remittances.

[10] UN Affairs, "UN Chief Calls."

2022 and again at the start of 2023, he made the case for global financial governance reform plainly: "Let's tell it like it is: the global financial system is morally bankrupt. It favours the rich and punishes the poor."[11] He also identified what he called a "Great Finance Divide."[12] Guterres delivered a stark assessment of the failed global financial architecture at the June 2023 "Summit for a New Global Financial Pact." It's worth quoting at length. "Nearly 80 years later, the global financial architecture is outdated, dysfunctional, and unjust. It is no longer capable of meeting the needs of the 21st century world: a multipolar world characterized by deeply integrated economies and financial markets. But also marked by geopolitical tensions and growing systemic risks."[13] Guterres' indictment is even more urgent now.

I hope that this background paper contributes to the Secretary-General's broad calls to action. My principal goal is to support development of an analytical and policy framework for expanding, creating, and engendering fiscal space through strategies that ease external debt burdens and increase access to some forms of external finance. Most of the strategies considered in this paper are "gender-indifferent," meaning that they are neither informed by concerns about gender and nor do they directly target gendered inequalities.[14] Gender-indifferent external finance strategies *directly* increase fiscal space and can *indirectly* support gender equality, if national policymakers have the political commitment and tools to use the space created toward this end. I also consider here some gender-informed external finance strategies that can, to various degrees, *directly* support gender equality. And because austerity policies disproportionately affect women and girls, any strategies that ease external financing burdens and constraints necessarily support gender equality.

The mix of external financing strategies utilized depends on external actors, domestic and international economic conditions, and political will. Similarly, the gender equality objectives supported (directly or indirectly) through new fiscal space should always be identified by national policymakers in conjunction with civil society organizations (CSOs). Examples of ways that new fiscal space can support gender equality goals include public spending on social infrastructures that support the care economy and women's employment; increased access to financial services; programs that support equity in the workplace; and those that support women-owned enterprises, such as through procurement practices or lend to women-owned businesses.

This paper is organized in the following manner. I lay the groundwork for my analysis by exploring the empirical scope of today's debt crisis in section 2. I elaborate the connections between external debt crises, inadequate access to external finance, and constraints on fiscal space in section 3. *Debt (and other crises) are always and everywhere a feminist issue because their effects bear disproportionately on women*. I discuss conventional understandings of fiscal space and external debt sustainability in section 4. I also offer an alternative treatment of these matters grounded in Keynesian, feminist, and developmental thinking. The goal of the discussion in this section is to make a case for radically changing the conversation about fiscal space. I argue that fiscal space is mutable; it has lagged and long-term effects; it always reflects political power and policy choices; and what it's used for matters

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[11] UN, "Our Common Agenda."
[12] UN, "Our Common Agenda."
[13] UN Affairs, "Financial System Must Evolve in 'Giant Leap Towards Global Justice': Guterres," *UN News*, June 22, 2023, https://news.un.org/en/story/
[14] I use the term "gender-indifferent" strategies rather than the more common term "gender-neutral." This is because policies that do not target gender directly aggravate existing gender inequalities in a society marked by sexism. For example, a policy that increases access to credit in general can increase the gap between credit access by men and women, owing to gender-biased decision-making by lenders.

deeply. I examine a range of gender-indifferent strategies toward external finance in sections 5 and 6. These can directly expand fiscal space. I consider gender-informed external finance strategies in section 7. These can contribute directly to SDG 5. I offer concluding thoughts and a look ahead in section 8.

It's my intention that those advocating for women the world over will find in this paper a set of attractive and viable strategies for creating, expanding, and engendering fiscal space through strategies aimed at external finance at a time of overlapping crises. I also hope that this paper will be of use to those advocating for green transitions and for a just, inclusive global economy. There's no one-size-fits-all strategy. Today's challenges are vast and complex. It's important that we have the most expansive toolkit possible so that national policymakers can make informed choices. And above all, it's important to think boldly and creatively.

2. The Unfolding Debt Crisis: A Brief Look at the Data

There's no question that we are at the start of a debt crisis that's certain to worsen dramatically in the coming years. Without comprehensive reform, it's equally certain that its scope and severity promise to be far greater than that of the 1980s. *These dismal outcomes can be avoided*. There exists a range of promising, viable strategies to expand fiscal space through strategies targeting external finance . Utilizing them requires the ability to move beyond today's toxic political environment, which frustrates cooperation and the mobilization of external financial resources that are essential to moving forward. It also requires moving beyond tired, incorrect ideas. Before considering these strategies, we briefly set out below the parameters of the unfolding debt crisis.[15]

In 2022 low- and middle-income countries paid US$443.5 billion toward debt service (i.e., principal and interest) on their public and publicly-guaranteed external debt. That's the highest level since 1973 (when these data were first collected) and represents a 5 per cent increase from the previous year.[16] Interest payments by low- and middle-income countries have quadrupled in the last decade. Moreover, the World Bank forecasts that their total principal and interest payments will rise by nearly 40 percent by 2024. The Center for Economic and Policy Research reports that analyses by the IMF and the United Nations Development Program indicate that "[n]early 80 low- and middle-income countries are considered by international institutions as being in or at risk of debt distress."[17]

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[15] Data and the discussion below (except where noted) are drawn primarily from World Bank, *International Debt Report*, Washington, DC: World Bank, 2023, https://openknowledge.worldbank.org/server/api/core/bitstreams/83f7aadd-dc5a-406b-98d4-9624e93993e5/content; World Bank, **"**Developing Countries Paid Record $443.5 Billion on Public Debt in 2022,**"** press release, December 13, 2023, https://www.worldbank.org/en/news/press-release/2023/12/13/developing-countries-paid-record-443-5-billion-on-public-debt-in-2022#:~:text=WASHINGTON%2C%20Dec.,latest%20International%20Debt%20Report%20shows; Alan Rappeport, "World Bank Warns Record Debt Burdens Haunt Developing Economies." *New York Times*, December 13, 2023; Fleming and McDougall**,** "US Interest Rates."

[16] Today's external aggregate (public plus private) debt levels relative to GDP across the Global South are much higher today than during previous periods of debt distress, such as the 1980s-1990s. See IMF, *Global Debt Monitor*, Fiscal Affairs Department, September 2023, Table 1, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwifxrjhjaSDAxXZFzQIHZ56B74QFnoECBEQAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2FFiles%2FConferences%2F2023%2F2023-09-2023-global-debt-monitor.ashx&usg=AOvVaw2to7jftucq-TZUA6n3Y0rL&opi=89978449.

[17] Ivana Vasic-Laloviv Lara Merling, and Aileen Wu,"The Growing Debt Burdens of Global South Countries: Standing in the Way of Climate and Development Goals," Center for Economic and Policy Research, October 12, 2023, p. 3,

The World Bank notes that the combined effects of increased interest rates and a strengthening US dollar have increased the cost of servicing debts. More than one third of all debts held by low-income countries are at variable interest rates (tied to interest rates in the Global North), and more than 80% of public- and publicly-guaranteed debt in low- and middle-income countries is dollar denominated. Since 2020 there have been 19 sovereign debt defaults by 11 countries (namely, Argentina, Belarus, Ecuador, El Salvador, Ethiopia, Ghana, Lebanon, Sri Lanka, Suriname, Ukraine, and Zambia, with Ethiopia being the first country to default in 2024). This is greater than the number of defaults in the previous two decades.

Seventy-five countries are eligible to borrow from the World Bank's International Development Association (IDA), which supports the world's poorest countries. In 2022, debt servicing payments by IDA countries reached record levels at US$88.9 billion, while interest payments alone were at a record level of US$23.6 billion in the same year. Twenty-eight IDA-eligible countries are now at high risk of debt distress and eleven are in distress. Debt servicing costs on public and publicly-guaranteed debt are projected to grow by 10 percent for all countries in the Global South over the 2023–24 period—and by almost 40 percent for the 24 poorest IDA-eligible countries. Conditions in countries eligible to borrow from IDA are likely to worsen further in the subsequent years. Interest payments on their total external debt stock, too, have quadrupled since 2012, to a historic high of US$23.6 billion. Although hard data will not be available until 2024, low-income countries that faced no alternative but to pause their debt payments in 2020 and 2021under the Group of 20's (G-20) failed Covid-era Debt Service Suspension Initiative (DSSI), will soon face the additional burden of repaying the accumulated principal, interest, and fees associated with this program.

Private creditors largely pulled out of lending to the Global South in 2022 as debt distress accelerated and interest rates in the Global North rose. Indeed, in 2022 private creditors received US$185 billion more in principal repayments than they disbursed in loans. That was the first time since 2015 that private lenders withdrew more funds from the Global South than they disbursed. New bonds issued on international markets in 2022 by low- and middle-income countries were less than half the level in 2021 and fell by more than three quarters in IDA-eligible countries in the same period. The fall in bond issuance by governments in the Global South is driven by a lack of demand as investors turned toward bond issuers with more favorable credit ratings. This creates a perfect storm, or what Ayan Kose, the World Bank's Deputy Chief Economist, referred to as a silent debt crisis. These additional costs will only be apparent when governments inevitably try to rollover outstanding, unpayable bonds in the coming years.[18]

The Paris Club is an informal group of 22 official creditors, mainly countries that are members of the Organization for Economic Co-Operation and Development (OECD), plus Brazil, Russia, and South Africa.[19] The debt architecture has changed markedly over the last two decades. Beyond the Paris Club lenders, China and private actors have become significant lenders to governments

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https://cepr.net/report/the-growing-debt-burdens-of-global-south-countries-standing-in-the-way-of-climate-and-development-goals/.

[18] Fleming and McDougall, "US Interest Rates."

[19] These countries have permanent status as Paris Club members. Paris Club member governments made bilateral loans directly to governments and private entities while also making loans through their national institutions, such as export credit agencies. Some of the world's most important multilateral institutions (such as the OECD, the African Development Bank, the BWIs, and the United Nations Conference on Trade and Development, UNCTAD) have observer status in the Paris Club.

(including state and local governments) and private firms in the Global South.[20] China is now the world's largest lender and the largest bilateral lender to the world's poorest countries.[21] It has refused to join or take observer status at the Paris Club. There are also other new bilateral lenders in today's debt landscape—namely, India, the UAE, Saudi Arabia, and Kuwait.[22] Despite recent pullbacks, private lenders represented by the so-called London Club are an important part of the lending landscape. By 2021, low- and middle-income countries owed 61 percent of their long-term public and publicly-guaranteed external debt to private creditors (in contrast to 46 percent in 2010).[23] This more populated landscape has made debt restructurings more complex than in the past when the lending architecture was far simpler.

China is seen by the Group of 7 (G-7) countries and the Bretton Woods institutions (BWIs) as a spoiler in debt restructuring discussions. This is because Chinese lenders have rejected calls to assume losses on their loans, arguing (against traditional norms) that the BWIs should offer debt relief and accept losses.[24] It's certainly true that China's role so far has been decidedly unhelpful. However, it recently reached a tentative restructuring agreement in principle with Zambia, though it has not yet been finalized.[25] This is because of continued conflicts regarding comparable treatment of private bondholders and official creditors, including China itself.[26]

It bears noting that the US and the BWIs have also been spoilers in some of the most promising initiatives targeting debt relief and liquidity support. The obstructionism of the US and the BWIs has compromised their already limited moral authority and global leadership. In addition, "African governments currently owe three times more to Western private lenders than to China, and pay twice the amount of interest to them."[27] Initiatives led by Paris Club lenders, the G-20, and US-led institutions have failed in a variety of ways. They are extremely modest in scope, sluggish, and have been stymied by US and IMF concerns that any breathing room created by debt relief would be used to make full debt service payments on Chinese loans. We will also see below that the single most important response to the debt and liquidity crises of the pandemic, namely, a one-time issuance of SDRs in 2021, offered far less relief than it could have owing to rigid IMF rules dictating allocation

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[20] Nadia Daar and Julie McCarthy (co-conveners), "Reduced Inequalities: An Alternative Action Agenda for Financing the Fight Against Inequality," Center for Sustainable Development at the Brookings Institution and the Rockefeller Foundation, 17 Rooms Global Flagship, Room Document, June 2023, https://www.brookings.edu/wp-content/uploads/2023/06/2022-Room-10-Supplemental-Doc.pdf.

[21] Libby George, "Common Framework, Familiar Problems: Hopes of Debt Breakthrough Fade," June 20, 2023, https://www.reuters.com/business/finance/common-framework-familiar-problems-hopes-debt-breakthrough-fade-2023-06-20/.

[22] George, "Common Framework."

[23] Krueger, Anne O. 2023. "The Coming Debt Crisis." *Project Syndicate*, December 18. https://www.project-syndicate.org/commentary/avoiding-a-debt-crisis-in-low-income-countries-and-emerging-markets-by-anne-o-krueger-2023-12?barrier=accesspaylog.

[24] Rappeport, "World Bank Warns."

[25] Rappeport, "World Bank Warns.

[26] Rachel Savage and Karin Strohecker, "Zambia Dealt Major Setback as Official Creditors Object to Bond Deal," *Reuters*, November 20, 2023, https://www.reuters.com/world/africa/zambia-says-international-bond-deal-cant-be-implemented this-time-2023-11-20/.

[27] Daar and McCarthy, "Reduced Inequalities."

and the intransigence of the US Congress. It also bears emphasis that private creditors have been and remain important obstacles to debt relief and restructuring.[28]

By the end of 2024, the World Bank forecasts that economic activity in low- and middle-income countries will be 5 percent lower than pre-pandemic levels. Growth from 2020 to 2024 is projected to be the weakest of any five-year period since the mid-1990s.[29]

3. How External Debt and Limited Access to External Financial Flows Constrain Fiscal Space, and Why This Is a Feminist Issue

External debt and inadequate access to external finance always constrain fiscal space through several mutually reinforcing channels. Constraints on fiscal space and economic crises are always borne disproportionately by women, as per decades of research by feminist economists. The same can be said about other vulnerable groups and nations. Constraints on fiscal space are already being felt anew across the Global South. Deeper constraints surely lie ahead. Nothing could be more harmful to human flourishing for the world's most vulnerable or to our planet at a time of heightened, overlapping fragilities.

In what follows I consider the channels by which external financial constraints bear on fiscal space, and where relevant how these constraints bear particularly on women.

Direct reductions in funding for social expenditures and investments that support growth and gender equality

A first, obvious channel is that debt service obligations to multilateral, bilateral, and private creditors directly reduce available funding for already under-resourced shock absorbers, social protections (including those that support women's workforce participation, social reproduction, and caring labor), public investment, and investments in physical and social infrastructures that support growth and gender equality. Moreover, as in all previous financial and debt crises, support from the BWIs is conditioned on adoption of austerity programs that entail inter alia fiscal consolidation, public expenditure reductions, increased consumption and value-added taxes, user fees (that, e.g., bear on educational access for girls and women), and measures that contract public sector employment.[30] Advocates of retrenchment programs see them as inevitable, gender-indifferent, and temporary.[31] In practice, austerity programs have significant negative intertemporal economic and social costs and negative multiplier effects. These effects undermine economic growth, productivity, and gender equality (among other things). These points have been amply demonstrated in decades of gender-

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[28] Daar and McCarthy, "Reduced Inequalities." Private creditors in the US have been able to overcome collective action problems when it meets their needs. For example, they mobilized successfully for public handouts during the financial crisis of 2008.

[29] World Bank, *International Debt Report*.

[30] Chang and Grabel, *Reclaiming Development*; Mucchala, "A Feminist Social Contract," pp. 3-6. See the citations in and discussion of the investment character of public expenditures (including expenditures on social and physical infrastructures that support gender equality and economic growth) in Stephanie Seguino, "Engendering Fiscal Space: The Role of Macro-Level Economic Policies," background paper prepared for UN Women-ILO Joint Programme on Promoting Decent Employment for Women Through Inclusive Growth Strategies and Investments in Care, December 2023 and Stephanie Seguino, "Engendering Macroeconomic Theory and Policy," *Feminist Economics*, 2019, 20(2), pp. 27-61.

[31] In recent years the BWIs have become somewhat more sensitive on the costs of austerity, though this is expressed more through rhetoric than in the content of adjustment programs.

indifferent research on debt crises and in a robust body of research by feminist economists (see e.g., citations in the footnotes that appear in this section of the paper).

There's ample evidence that the austerity agenda has already arrived, and it appears likely to be more severe than that associated with the aftermath of crises dating from the 1980s through 2008.[32] Isabel Ortiz and Matthew Cummins show that austerity programs have been implemented in a large number of countries, and they project deepening cuts in social protections and severe austerity until at least 2025.[33] They expect adjustment shock to affect 143 countries in 2023, which would affect 85% of the world's population. In 2023, 94 countries in the Global South are projected to cut public spending (compared to 49 high-income countries). More than 50 countries appear to be adopting "excessive" budget cuts, which the authors define as spending less than the (already low) pre-pandemic levels, including countries with high needs such as Equatorial Guinea, Eswatini, Guyana, Liberia, Libya, Sudan, Suriname and Yemen.

A long list of austerity measures is being considered or already implemented by governments worldwide. This includes eleven types of austerity policies that have particularly damaging social impacts on the most vulnerable populations, especially harming women.[34] There is by now a vast body of empirical literature that demonstrates that austerity and debt crises are deeply gendered in their effects. The damages occur through a variety of channels, such as by pressing women into additional paid and unpaid caring labor, including in the informal sector; diminished access to essential public services and social programs; loss of livelihoods, etc.[35]

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[32] Mucchala, "A Feminist Social Contract," p. 6; Isabel Ortiz and Matthew Cummins, "End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-2025," September 2022, Initiative for Policy Dialogue, p. 9, https://policydialogue.org/publications/working-papers/end-austerity-a-global-report-on-budget-cuts-and-harmful-social-reforms-in-2022-25/.

[33] All data and much of the text in this paragraph drawn from Ortiz and Cummins, "End Austerity."

[34] These austerity policies include (1) targeting and rationalizing social protection (in 120 countries); (2) cutting or capping the public sector wage bill (in 91 countries); (3) eliminating subsidies (in 80 countries); (4) privatizing public services/reform of State-Owned Enterprises (SOEs) (in 79 countries); (5) pension reforms (in 74 countries); (6) labor flexibilization reforms (in 60 countries); (7) reducing social security contributions (or "tax wedge," in 47 countries); and (8) cutting health expenditures (in 16 countries). In parallel, three prevalent measures to raise revenues in the short-term that also have detrimental social impacts include: (9) increasing consumption taxes, such as sales and value-added taxes (VAT) (in 86 countries); (10) strengthening public-private partnerships (PPPs) (in 55 countries); and (11) increasing fees/tariffs for public services (in 28 countries) (Ortiz and Cummins, "End Austerity," p. 16.)

[35] For a summary of some of the literature on the gendered effects of economic crises and austerity programs, see Mucchala, "A Feminist Social Contract," pp. 8-9. Citations to some of this literature include, for example, Gita Sen and Caren Grown, *Development, Crises, and Alternative Visions: Third World Women's Perspectives*, New York: Monthly Review Press, 1987; Diane Elson, "Gender Awareness in Modeling Structural Adjustment," *World Development*, 1995, 23:11, pp. 1851-68; Diane Elson and Nilufer Cagatay, "The Social Content of Macroeconomic Policies," *World Development*, 2000, 28:7, pp. 1347-1364; Roy Rathin, Antoine Heuty and Emmanuel Letouz, "Fiscal Space for Public Investment: Towards a Human Development Approach, " in *Fiscal Space: Policy Options for Financing Human Development*, Roy Rathin and Antoine Heuty (eds.), London: Earthscan Publications, 2009; Stephanie Seguino, Günseli Berik, and Yana Van Der Meulen Rodgers, *An Investment that Pays Off: Promoting Gender Equality as a Means to Finance Development*, Friedrich-Ebert-Stiftung Occasional Paper, 2010; Devaki Jain and Diane Elson, *Harvesting Feminist Knowledge for Public Policy: Rebuilding Progress*, New Delhi: Sage Publications and UNDP, 2011; Stephanie Seguino, "From Micro-Level Gender Relations to the Macro Economy and Back Again," in *Handbook of Research on Gender and Economic Life*, Deborah M. Figart and Tonia L Warnecke (eds)., Edward Elgar Publishing Online, 36, 2013; Stephanie Seguino, "Gender and Economic Growth,", in *The Routledge Handbook of Feminist Economics*, Günseli Berik and Ebru Kongar (eds.), 1st Edition, London: Routledge, 2021; Diane Elson and Anuradha Seth (eds), *Gender Equality and Inclusive Growth: Economic Policies to Achieve Sustainable Development*, UN Women, 2019; Elissa Braunstein, Irene van Staveren, and Daniele Tavani, ""Embedding Care and Unpaid Work in Macroeconomic Modelling: A Structuralist Approach," *Feminist Economics* 2011, 17:4, pp. 5-11.

The proportion of debt service relative to public expenditures underscores the real human costs of unsustainable debt.[36] A 2022 study finds that across all countries in the Global South debt servicing amounts to approximately 25% of total government spending and is twice education spending, 9.5 times health spending, and 13.5 times social protection.[37] A 2023 study finds that across the Global South debt service now "equals combined total spending on education, health, social protection and climate, and exceeds it by 50% in Africa. It is 2.5 times education spending, 4 times health spending, and 11 times social protection spending."[38] UNCTAD warns that the debt crisis and austerity could end any prospect of the SDGs being realized by the 2030 deadline.[39]

The contemporary debt architecture

A second channel by which external debt constrains fiscal space today stems from the contemporary structure of the debt architecture. As earlier noted, the fractured debt architecture is a powerful obstacle standing in the way of meaningful, comprehensive debt restructuring. The pressing need for a sovereign debt restructuring mechanism (SDRM) has been raised and abandoned over several decades. The need for an SDRM is ever greater now. The matter has recently received a great deal of attention, especially by the BWIs, the UN, and CSOs. But the challenge posed by a fragmented architecture remains unaddressed. A coalition of the willing would have to bring together the BWIs, Paris and London Club members, the G-20, the US, China, and other new bilateral lenders. This has not happened.

Credit rating agencies

A third channel by which today's debt distress constrains fiscal space involves the credit rating agencies. There are three major international (private) credit rating firms—Standard & Poor's, Moody's, and Fitch. A credit rating is an assessment of a country's (or, when corporate debt is involved, a corporation's) capacity to repay its debts. Credit rating firms loom large in the lives of finance ministers in nations with access to international private capital markets. A threatened or actual downgrade reduces access to capital markets by triggering sudden stops or reversals. Less dramatically, a threatened or actual downgrade increases the cost of raising new capital. A downgrade can be triggered by defaults, restructuring programs, repayment pauses (even under official channels, such as the G-20's DSSI or Common Framework for Debt Treatment), or expenditures on social protections. Ethiopia, for example, was downgraded after opting into the DSSI.[40] Consequently, even just the threat of a downgrade can reinforce pressures to implement

[36] Mucchala, "A Feminist Social Contract," p. 18.

[37] Matthew Martin and David Waddock, A Nordic Initiative to Resolve the New Debt Crisis, Debt Relief International, 2022, www.kirkensnodhjelp.no/ contentassets/c1403acd5da84d39a120090004899173/a-nordic-solution-to-the- new-debt-crisis-sep22.pdf

[38] Development Finance International, "The Worst Ever Global Debt Crisis, New data from Debt Service Watch Database," October 2023, p. 1, https://development-finance.org/files/Debt_Service_Watch_Briefing_Final_Word_EN_0910.pdf

[39] Bretton Woods Observer, "Debt Overhang Risks Another Lost Decade and Could Derail Progress on Poverty Reduction and SDGs," December 8, 2022, https://www.brettonwoodsproject.org/2022/12/debt-overhang-risks-another-lost-decade-and-could-derail-progress-on-poverty-reduction-and-sdgs/

[40] Ramya Vijaya, "Credit Ratings Are Punishing Poorer Countries for Investing More in Health Care During the Pandemic." *The Conversation*, August 11, 2021, https://theconversation.com/credit-ratings-are-punishing-poorer-countries-for-investing-more-in-health-care-during-the-pandemic-165298.

austerity programs to boost ratings, placing the interests of lenders above human needs (including women's equality).[41]

There is ample evidence of the pro-cyclical nature of credit ratings and of north-south bias in ratings, including what Hippolyte Fofack refers to as the "perception premium" that has unduly disadvantaged African governments.[42] Global South countries received a greater number of and more severe downgrades compared to northern counterparts during the pandemic despite debt levels in the latter having increased to a greater extent.[43] Rating agencies also punished Global South governments disproportionately after they announced increased spending on health care during the pandemic. Moreover, the fear of such punishment caused some governments not to spend as much as they otherwise would have. In addition, some governments cut back on health care spending when ratings fell.[44]

Other structural factors

A final set of factors that broadly connects unsustainable debt to constrained fiscal space are structural in nature. Processes of financialization that emerged in the 1980s have intensified in breadth and depth in subsequent decades. These processes reflect and amplify the power of individual and consortia of creditors, while also encouraging innovations that fuel global liquidity and reify private over public and concessional forms of finance. Consortia of private bondholders, bankers, and "vulture funds" that buy distressed debt on secondary markets have been able to block debt restructurings while earning extraordinary profits from purchasing distressed debts at severely discounted prices.

Debt distress in the 1980s and the 2020s share a common driver – US monetary policy, and monetary policies in the Global North more generally.[45] The enormous contradiction in US monetary policy is that it has global reach, affecting lives and livelihoods everywhere and especially in the Global South, but its decision making is decidedly, stubbornly national. Economists talk of this kind of problem as an externality, but in the context of US monetary policy that term seems

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[41] Small Island Developing States are particularly vulnerable to climate change. During the pandemic, 11 of the 16 Small Island Developing States that are rated faced a downgrade or a negative credit outlook by at least one of the big three credit-ratings agencies. This raised the cost of capital for these countries, some of which presumably could have been used to support climate adaptation. (Emily Wilkinson and Kanni Wignaraja, "Credit Ratings and Climate Chaos," *Project Syndicate*, December 11, 2023, https://www.project-syndicate.org/commentary/credit-ratings-downgrades-catastrophic-for-climate-vulnerable-countries-by-emily-wilkinson-and-kanni-wignaraja-2023-12#:~:text=During%20the%20pandemic%2C%2011%20of,big%20three%20credit%2Dratings%20agencies.)

[42] Hippolyte Fofack, "The Ruinous Price for Africa of Pernicious' Perception Premiums,"' Africa Growth Initiative at Brookings, October 2021, https://www.brookings.edu/wp-content/uploads/2021/10/21.10.07_Perception-premiums.pdf. For further discussion of biases in credit ratings (both cross national and ideological), see Stephany Griffith-Jones and Moritz Kraemer, "Credit Rating Agencies and Developing Economies," UN Department of Economic and Social Affairs (UN-DESA), DESA Working Paper No. 175, December 2021, https://www.un.org/en/desa/credit-rating-agencies-and-developing-economies. One striking statistic from Griffith-Jones and Kraemer is illustrative of north-south disparities. They find that during the pandemic, credit ratings for countries in the Global South were downgraded by a total of 125 notches, whereas in the Global North (where economies contracted to a greater degree and accumulated debt more rapidly) were downgraded by only six notches.

[43] Marc Jones, "COVID-19 Has Caused Rich-Poor Split in Sovereign Rating Cuts, Study Shows," *Reuters*, March 17, 2023, https://www.reuters.com/article/us-ratings-sovereign-idUKKBN2B92OY.

[44] Vijaya, "Credit Ratings Are Punishing."

[45] This paragraph draws on Ilene Grabel, "A World on Fire: Observations and Speculations in a Crottyian Vein, *Review of Radical Political Economics,* 2023, vol. 55, no. 4, pp. 707-713.

woefully inadequate given its outsize influence beyond US borders. As was the case in the 1980s, we do not live in a world where countries of the Global North are challenged or obligated to consider the global spillover effects of their economic policies. The expansionary monetary policies of the Global North from the financial crisis of 2008 through the immediate post-pandemic period flooded the world with liquidity. The low interest rates in the Global North that came about in this context led lenders and investors to look for opportunities in the financial markets in the Global South. The North-South flows of capital that were triggered by the search for yield had strongly negative effects on financial stability and, through their effects on currencies, on trade performance in the Global South. The inevitable reversal in monetary policy in the US and across the Global North, of course, then induced a familiar cycle in the Global South of capital flight, currency depreciations, and rising debt service costs. There is ample evidence by feminist economists that monetary policies have profoundly gendered effects.[46]

Fiscal space is also constrained by the dysfunctional global financial architecture. The architecture is anti-developmental, crisis prone, unfit to address the development and climate challenges of our time, and reflects the power and economic realities of a long-gone post-War environment.[47] The financial architecture is characterized by destructive asymmetries that include the exorbitant privilege enjoyed by the US and other northern economies. This privilege allows them to borrow and lend in their own currencies. It also allows them to pursue quantitative easing when it is deemed necessary without regard for global spillover effects or rating downgrades. It gives them the ability to borrow on global capital markets at far lower rates than countries of the Global South. And it permits them to exercise undue influence and veto power at the BWIs, institutions that operate under outdated, rigid, exclusionary rules and norms.[48] IMF practice exhibits severe dysfunction and inequities. For instance, interest rates on loans from the IMF have long been higher than they should be in view of the capacities of their clients. Interest rates on IMF loans have been rising in recent years because they adjust alongside rates in the Global North.[49] High surcharges on IMF loans to middle-income borrowers--which add 2-3% to borrowers' interest rates—are procyclical. That is, they disadvantage borrowers at a time when needs are greatest.[50] Surcharges necessarily divert resources from other uses, as became apparent in critiques of IMF lending during the pandemic.[51] The number of countries paying surcharges increased from 15 to 21 between 2020 and 2021.[52] Recently released

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[46] See Elissa Braunstein and James Heintz, "Gender Bias and Central Bank Policy: Employment and Inflation Reduction, *International Review of Applied Economics,* 2008, 22(2). pp. 173-186.

[47] The UN Secretary-General has consistently emphasized this matter. For example, see UN, "Our Common Agenda"; UN Affairs, "UN Chief Calls"; UN Affairs, "Financial System Must Evolve."

[48] "Even prior to the recent rise in interest rates, least developed countries that borrowed from international capital markets often paid rates of 5 to 8 per cent, compared to 1 per cent for many developed countries. More recently, rising investor risk aversion has pushed the cost of borrowing above what would be warranted by macroeconomic fundamentals in many countries, with some middle-income countries with investment grade ratings paying between 6 and 7 percentage points above US Treasury yields in 2022." (United Nations, "UN Secretary-General's SDG Stimulus to Deliver Agenda 2030," February 2023, p. 1, https://www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf.)

[49] Tobias Krahnke and Sander Tordoir, "Has the IMF's Lending Become Too Expensive for Its Own Good? The Case for a Lending Rate Cap," Centre for European Reform, September 2023, https://www.cer.eu/sites/default/files/pb_TK_ST_IMF_29.9.23_final_1.pdf.

[50] Francisco Amsler and Michael Galant, "The Growing Burden of IMF Surcharges," Center for Economic Research and Policy, Washington: DC, April 13, 2023, https://cepr.net/report/the-growing-burden-of-imf-surcharges-an-updated-estimate/

[51] Joseph E. Stiglitz and Kevin P. Gallagher, "Understanding the Consequences of IMF Surcharges: The Need for Reform." *Journal of Post-Keynesian Economics, 2022,* 10:348-54.

[52] Patricia Cohen, "Critics Say I.M.F. Loan Fees Are Hurting Nations in Desperate Need," *New York Times*, January 14,

data by the IMF indicate that 22 countries were paying surcharges as of January 2023.[53] Surcharges have become a major source of revenue for the IMF in recent years. Between the start of the pandemic and the end of 2022, the IMF estimated that borrowers paid US$4 billion in surcharges (on top of interest payments).[54] For surcharge-paying countries, surcharges make up on average 36% of all charges and interest rate payments to the IMF (and 40%, on average, for the five most heavily indebted countries).[55] Recent estimates suggest that the IMF will charge over US$2 billion in surcharges per year through 2025.[56]

The US has consistently voiced support for surcharges as calls for their suspension emerged during the pandemic from some Congressional representatives, UN agencies and officials, and human rights organizations.[57] The US Treasury and the IMF have argued that surcharges are necessary to protect the IMF's solvency.

In sum, expanding and creating fiscal space remains unattainable without significant action on external debt burdens and increased access to external finance. Tackling this challenge requires rejecting conventional understandings of fiscal space and debt sustainability and articulating an alternative view. We turn to these matters below.

4. Rethinking Fiscal Space and Debt Sustainability Assessments: A Keynesian, Feminist, Developmentalist Approach

Fiscal space is a central concept in the field of public finance. I consider here the conventional view of fiscal space before turning to the alternative approach that undergirds this paper. As deployed by the BWIs, fiscal space indicates whether (or not) a government has the financial capacity to expand public expenditures. The IMF defines fiscal space as "the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of the government's financial position," or as "the difference between the current level of public debt and the debt limit implied by the countries record of fiscal adjustment."[58] Fiscal space is thus understood as a residual that focuses on the "sustainability and solvency of the fiscal expansion" in line with fiduciary rather than developmental objectives.[59] The conventional view is marked by its

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2022. https://www.nytimes.com/2022/01/14/business/economy/imf-surcharges.html?searchResultPosition=1.

53 The same data release by the IMF (via its new Financial Data Query Tool) indicates that the five countries paying the most in surcharges will spend US$6.1 billion on surcharges in the next five years. Data in the above sentence and in this footnote from Michael Galant and Ivana Vasic-Lalovic, "IMF Lifts Veil on Surcharges," Washington, DC: Center for Economic and Policy Analysis, February 20, 2024, https://www.cepr.net/international-monetary-fund-lifts-veil-on-surcharges/#:~:text=These%20discoveries%20have%20led%20to,Data%20Query%20Tool%20in%202023.

54 Cohen, "Critics Say I.M.F. Loan Fees."

55 Note that Ukraine is the largest payer of surcharges. It's estimated that from 2023-2031 the country will likely pay the IMF US$3.5 billion in surcharges. Other nations with large surcharge obligations include Pakistan and Egypt (Amsler and Galant, "The Growing Burden").

56 Amsler and Galant, "The Growing Burden."

57 Cohen, "Critics Say I.M.F. Loan Fees."

58 The first quote is from Peter Heller, "Understanding Fiscal Space," IMF Policy Discussion Paper, PDP No. 4, 2005, p. 3, https://www.imf.org/external/pubs/ft/pdp/2005/pdp04.pdf; the second is from Jonathan Ostry, Atish Ghosh, Jun Kim, and Mahvash Qureshi, "Fiscal Space," IMF Staff Position Note, SPN No. 11, 2010, p. 6 https://www.imf.org/external/pubs/ft/spn/2010/spn1011.pdf.

59 Rathin Roy, Antoine Heuty, and Emmanuel Letouze, "Fiscal Space for What: Analytical Issues from a Human Development Perspective, UNDP, 2007, prepared for G-20 Workshop on Fiscal Policy, June 30-July 2, 2007, Istanbul, p. 2.

focus on debt and (the limits to) borrowing capacity. The latter is understood as immutable, static, and circumscribed by a country's immediate circumstances. Fiscal space assessments are generally short-term in nature, with the relevant time horizon generally around one year.[60]

The idea that fiscal space can and should be measured is reflected in the World Bank's Fiscal Space Database. It includes data for up to 202 countries, from 1990-2020. The database includes 30 indicators of fiscal space in four categories (namely, debt sustainability, balance sheet vulnerability, external and private sector debt-related risks, and market access).

The BWIs have created measures of fiscal space used in country-level assessments. Fiscal space assessments matter deeply to policymakers and the public in the Global South. This is because these assessments have profound effects on access to new sovereign borrowing and the possibility of debt restructuring by bilateral, multilateral, and private sources. These assessments are also connected to the introduction or deepening of austerity programs. Fiscal space assessments are an input to judgements by credit rating agencies, and consequently influence private external financial flows.

Most measures of fiscal space compare net public debt to GDP. The IMF also uses the ratio of government subsidies or the value of public asset holdings to GDP.[61] Conventional measures of fiscal space quite obviously focus on the numerator in these ratios. The ratio improves if debts are repaid, taxes are raised, government subsidies are cut, privatization is implemented, or if "expenditure switching" increases the efficiency of public expenditures. All of this means that repaying external debts (at whatever the social cost involved) or austerity programs increase fiscal space.

There is much wrong with the conventional view of fiscal space. It ignores the fact that new external borrowing can be a vehicle for expanding or creating fiscal space. The extent to which this happens (or not) depends on how new external finance is utilized. If new borrowing supports expenditures with an investment quality, then it could have positive multiplier, spillover, and crowding-in effects over the medium- and long-term. The interest rate and fees, maturity structure, and currency in which the debt is denominated will affect the extent of fiscal space created by new borrowing. In

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[60] Some fiscal space discussions by the IMF adopt a longer-term view and some recent assessments by the institution take a somewhat dynamic (though still limited) approach. In the IMF's more dynamic assessments of fiscal space, economic growth is understood to affect the public sector budget. But these longer-term, somewhat dynamic approaches do not reflect the view that some types of public expenditures themselves promote growth over time and have multiplier effects. Discussion in this paragraph draws on Seguino, "Engendering Fiscal Space," section II. See also Peter Heller, "Fiscal Policy for Growth and Development: The Fiscal Space Debate Paper," Presented at the G-20 Workshop on Fiscal Policy, Istanbul, 2007, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjYv9iktpCEAxVfHjQIHf2aDRcQFnoECA8QAQ&url=http%3A%2F%2Fpetersheller.com%2Fdocuments%2Fpublications%2F6.doc&usg=AOvVaw1NWzDbI50dgh7PZJjNyyAB&opi=89978449 and Anja Baum, Andrew Hodge, Aiko Mineshima, Marialuz Morena Badia, and Rene Tapsoba, "Can They Do It All? Fiscal Space in Low-Income Countries," IMF Working Paper, No. 110, 2017, https://www.imf.org/en/Publications/WP/Issues/2017/05/05/Can-They-Do-It-All-Fiscal-Space-in-Low-Income-Countries-44889.

[61] Hoi Wai Jackie Cheng and Ingo Pitterle, "Towards a More Comprehensive Assessment of Fiscal Space," DESA Working Paper No. 153, 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3106767, as discussed in Seguino, "Engendering Fiscal Space," section II.

sum, crucial questions that inform an alternative view of fiscal space are "fiscal space for what and for whom?"[62] Equally important are the characteristics of any new debt.

Conventional understandings of fiscal space do not address the ways in which fiscal space can be *created* over time through strategies that expand the denominator in traditional fiscal space measures (that is, by expanding GDP). Thoughtful, targeted programs of public expenditures-- especially those that have an investment character—can over time have multiplier and diverse crowding-in effects, promote GDP growth, and ultimately increase tax revenues. Thus, new external borrowing can promote growth over the medium- and long-term, and consequently can have positive intertemporal effects on fiscal space.[63] The effects on fiscal space can be lagged, have compound and multiplier effects on GDP, and thereby reduce the debt to GDP ratio over time. This view of fiscal space is of particular importance here because research by feminist economists shows that investments in gender equity and women's empowerment have intertemporal, multiplier effects on GDP growth. For example, investments in education, health, employment, social infrastructure, and the care economy boost productivity and GDP, and these effects can compound over the medium- and long term.[64]

The approach to fiscal space in this paper has roots in feminist, Keynesian, and developmentalist thinking. It's grounded in the view that fiscal space assessments should not focus on whether a government can borrow more or whether it has approached or exceeded a particular debt threshold. Fiscal space and borrowing capacity is dynamic, mutable, shaped by policy choices, and should be understood in terms of a medium- and long-term horizon. This approach to fiscal space draws heavily on Rathin Roy, Antoine Heuty, and Emmanuel Letouze. They define fiscal space as "the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives."[65] Roy et al. usefully reframe the concept of fiscal space around resource mobilization for a specific set of developmental objectives, which is defined in this paper in terms of gender equality and women's empowerment.

Reducing external debt pressures, increasing access to external finance, and making critical investments that expand growth over time can directly increase fiscal space. The fiscal space created can indirectly support gender equality if domestic policymakers channel that space to appropriate initiatives. Fiscal space for investments in gender equality can also be supported directly through gender-informed external finance strategies.

There is an important connection between conventional approaches to fiscal space and the debt sustainability assessments (DSAs) conducted by the BWIs. DSAs are predicted on the conventional understanding of fiscal space. DSAs are produced annually by the IMF as part of its routine annual monitoring of member countries. Far more important are the DSAs produced when a country applies for an IMF assistance program or as part of the institution's surveillance of existing financing programs. Debt restructuring negotiations rely on DSAs. In fact, a country must be under an IMF program and undergo a DSA as a prerequisite for negotiations with Paris Club creditors. DSAs are

[62] As per Roy et al., "Fiscal Space for What," p. 2.
[63] Roy et al., "Fiscal Space for What."
[64] Seguino "Engendering Macroeconomic Theory and Policy."
[65] Roy et al., "Fiscal Space for What," p. i.

an input to decisions by the credit rating agencies. DSAs also shape the national policy decisions of countries experiencing debt distress and can be a powerful justification for austerity programs.

The IMF has two debt sustainability frameworks. One is produced jointly with the World Bank for mainly low-income countries that receive funds under the IMF's low-cost financing window. The other is for lower-middle income to high-income countries, also known as "market access countries." The former produces a "risk rating" of external debt distress for low-income countries; the latter produces a "signal on debt sustainability" in market access countries.[66]

The IMF's DSAs attempt to assess a country's ability to repay its public and publicly-guaranteed debts, or what is often referred to a country's "debt carrying capacity." DSAs principally assess the risks to an IMF program. A recent report on DSAs explains what is involved.

> "[I]f a country applies for an IMF assistance program, the IMF first analyzes the financing needs of the specific country and whether these can be met without debt relief. This is because, according to its statutes, the IMF must not lend to countries whose debt sustainability is at risk and must tie its disbursements to debt operations if repayment is otherwise not likely with high probabilities for the borrowing country. In debt restructuring cases under an IMF arrangement, the DSA also identifies the amount of debt relief needed. Central to any DSA are short- and medium-term forecasts of how the debt situation develops in relation to the debtor's ability to generate revenue. This also includes forecasts about whether other donors would make additional funds available in the program period or in relation to the possible extent of fiscal adjustments."[67]

In practice, a chief focus of DSAs is the evolution of the debt-to-GDP ratio, which is widely understood to be a key indicator in assessment exercises.[68]

DSAs use opaque composite indicators. The precise methodology of the composite indicators is not public information. The IMF maintains that the methodology remains "strictly confidential" because it is "market sensitive" since disclosure could lead to "disruptive reactions…particularly if judgement is needed."[69] The IMF reports that the composite indicators consider a nation's historical performance, real economic growth outlook, remittance inflows, international reserves, and other factors.[70] It places countries into categories based on whether they are deemed to be in debt distress, or in high, low, or moderate risk of becoming distressed, or are in debt distress as when arrears or a restructuring has occurred or is considered imminent. Public debt is considered sustainable "if the

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[66] Kristina Rehbein, "Understanding IMF Debt Sustainability Analyses," Friedrich Ebert Stiftung Foundation, October 2023, https://library.fes.de/pdf-files/bueros/tunesien/20619-20231115.pdf. The IMF announced a revised approach to the latter type of DSA in August 2022, though the specific methodology remains privileged information.

[67] Rehbein, "Understanding IMF Debt Sustainability," p. 5

[68] Stephanie Blankenburg, "The UNCTAD Sustainable Development Finance Assessment," UNCTAD 13th Debt Management Conference, 5 December 2022, https://unctad.org/dmfas/system/files/client-area/DMC2022_Panel2_Blankenburg.pdf

[69] Discussion and terms in quotations appear as such in Bretton Woods Project, "IMF Debt Sustainability Analysis in Times of Compounding Crises: Still Unfit for Purpose," 4 Oct 2022, https://www.brettonwoodsproject.org/2022/10/imf-debt-sustainability-analysis-in-times-of-compounding-crises-still-unfit-for-purpose/

[70] IMF, IMF-World Bank Debt Sustainability Framework for Low-Income Countries: Factsheet," 2023, https://www.imf.org/en/About/Factsheets/Sheets/2023/imf-world-bank-debt-sustainability-framework-for-low-income-countries.

government is able to meet all its current and future payment obligations without exceptional financial assistance" (i.e., debt rescheduling or going into arrears) or going into default.[71]

DSAs conducted by the BWIs are political and deficient in many respects. They have long, widely, and rightly been seen by critics as inconsistent in practice.[72] Recent DSAs for Zambia and Sri Lanka, for example, make these inconsistencies quite clear.[73] The methodology of the DSAs is outdated and opaque. The latter sits uneasily with the emphasis that the BWIs generally place on transparency in client economies. DSAs are often unrealistically optimistic.[74] They reflect and valorize short-term, debt-focused approaches to debt carrying capacity, which can make austerity policies seem inevitable. I discuss alternative approaches to DSAs below.

5. Creating Fiscal Space through Strategies that Mitigate External Debt Burdens

The scale and consequences of the debt burdens that confront countries in the Global South is historically unprecedented. It's essential that bold, comprehensive steps be taken—and quickly. The health of the world economy; the prospects for sustained economic recovery; the life chances of women, girls, and vulnerable populations; and the existence of our planet depend upon it. There's no shortage of practical ideas for mitigating debt burdens. It's impossible to think about restoring let alone expanding fiscal space absent significant change.

The approaches discussed in sections 5 and 6 are gender indifferent. All have the potential to expand or (support the) creation of fiscal space directly and immediately. They can also create fiscal space over the medium and long term. The latter is critical to the achievement of the SDGs, including gender equality. I explore the tradeoffs, opportunities, and challenges of strategies to mitigate external debt burdens in section 5. I discuss strategies to increase access to two types of external finance in section 6. Of all the strategies discussed in sections 5 and 6, the most essential are new approaches to DSAs, development of a SDRM, debt cancellation and pauses, creditor haircuts, a Debtors' Club, scaling up concessional finance and grants, and the regular creation and reallocation of SDRs.[75]

The scale of the challenges before us necessitates a multi-pronged, evolving toolkit rather than convergence around a single magic bullet for all countries.[76] It's also the case that the overarching challenge confronting us is neither technical nor intellectual. Instead, it's one of political will on the part of powerful actors in an increasingly fragmented, yet thoroughly interconnected world.

New approaches to DSAs

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[71] Dalia Hakura, "Back to Basics: What is Debt Sustainability?", IMF, September 2020, https://www.imf.org/en/Publications/fandd/issues/2020/09/what-is-debt-sustainability-basics/

[72] Brad Setser, "The Common Framework and Its Discontents," Council on Foreign Relations blog, March 26, 2023, https://www.cfr.org/blog/common-framework-and-its-discontents

[73] Setser, "The Common Framework."

[74] Bretton Woods Project, "IMF Debt Sustainability."

[75] The discussion of strategies discussed in sections 5-7 draw on a wide range of sources.

[76] I take inspiration from Albert Hirschman, who rejected the search for magic bullets that has long marked the history of development economics (Albert O. Hirschman, "Obstacles to Development: A Classification and a Quasi-Vanishing Act" *Economic Development and Cultural Change,* 1965, 13 (4):385-93). See discussion in Ilene Grabel, *When Things Don't Fall Apart: Global Financial Governance and Developmental Finance in an Age of Productive Incoherence* (Cambridge, MA: MIT Press, 2017, chap. 2).

The problems associated with DSAs by the BWIs are clear. Reforms to IMF governance (discussed below) are one important avenue for reducing the extent to which DSA's are marked by cross-national inconsistencies and ideological and other biases. An example of biases in DSAs is that they penalize countries for robust social protection programs, while rewarding them for imposing regressive consumption taxes and cutting subsidies on basic goods.

Some have suggested ways in which conventional DSAs could be made less problematic. The methodology of DSAs should be transparent and consistently applied across countries, including between countries of the Global North and South. DSAs should also incorporate assessments of gender equality, human rights, and climate commitments, as well as the feedback loops between public sector investments and economic growth.[77]

Other modifications would build safety buffers into the baseline scenarios when making the forecasts that underpin DSAs for heavily-indebted countries.[78] This would reduce the downside risk when BWI-generated DSAs are wrong or when conditions change in ways that are impossible to anticipate. Another way of making DSAs less problematic would involve inviting experts independent of the BWIs to conduct their own DSAs. These could either replace those of the BWIs or, more likely, serve as an alternative conducted on a parallel track. In addition, DSAs, or at least the assumptions underpinning them, could be publicly accessible during negotiations. It would also be beneficial to push the BWIs to include in their DSAs a range of alternative scenarios rather than a single outcome forecast (as this makes fiscal consolidation seem like the only option). Alternative scenarios could project the consequences of partial debt relief on debt repayment. Or, DSAs could project a range of effects from expenditures with investment characteristics on economic growth, tax revenues, and repayment capacities. Expenditures with investment characteristics could include those that support SDG 5.

A joint report by the Center for Sustainable Development at the Brookings Institution and the Rockefeller Foundation advances a novel proposal that reframes the IMF's DSA. The authors propose that the IMF introduce an "SDG-carve out."[79] It would exempt all public investment in SDG-related goals from counting toward a country's debt-to-GDP calculation. Debt-to-GDP calculations are a key input to existing DSAs. IMF programs generally aim to reduce a country's debt-to-GDP ratio below 60 percent. Notably, this 60 percent figure is well below that for many countries in the Global North. For example, the ratio was 137 percent for the US in 2021. The SDG-carve out could be an important step toward more equitable treatment. Moreover, it would not force countries in the Global South to cut social and climate-related spending during crises. Instead, it would enable countries to invest in goals that support gender equity and climate resilience. In the carve out approach, the IMF could require that SDG-related carve out spending be financed with long-term sources of capital or could itself offer low-interest rate loans to support carve out spending.

[77] Mucchala, "A Feminist Social Contract," p. 20.
[78] Discussion in this paragraph (except for the last two sentences) from Rehbein, "Understanding IMF Debt Sustainability Analyses," p .19.
[79] Daar and McCarthy, "Reduced Inequalities."

UNCTAD has recently been developing an alternative to the DSA that it terms the "Sustainable Development Finance Assessment."[80] It departs from conventional DSAs by focusing on how countries in the Global South can achieve structural transformation, including achievement of the SDGs. The UNCTAD approach is built on the realistic assumptions that long-run economic growth is necessarily demand led; that balance of payments performance is the dominant economic constraint on growth and development in the Global South; and it emphasizes the development finance requirements for sustainable development. It considers all sources of foreign currency revenues (namely, exports and remittances) and all types of external financing, i.e., external debt and foreign direct and portfolio investment. The UNCTAD approach builds on earlier work by the institution on the possible effects on public debt sustainability of achieving some of the SDGs.[81] The UNCTAD approach aligns with the focus in this paper on growth-enhancing macroeconomic policies and long-term development.[82]

SDRMs: The need for a comprehensive, consistent, binding, timely, and transparent legal framework implemented within a multilateral context

Two efforts were implemented to facilitate the restructuring of debt during the pandemic. Neither was a comprehensive SDRM. One, the G-20's DSSI (jointly implemented with the Paris Club) failed abjectly, quickly, and was rapidly discarded. The G-20 replaced it with the Common Framework for Debt Treatment (hereafter, Common Framework) in November 2020. The Common Framework is still in place, though failing--slowly.

The DSSI was introduced at the start of the pandemic as an emergency measure. It was in place from May 2020 through December 2021. It allowed primarily low-income countries to defer service on official debt to Paris Club creditors. The program was utilized by very few countries, largely because of rightful concerns about the effects of a debt suspension (even one authorized by creditors) on credit ratings or, for unrated countries, on lender perceptions. Moreover, the DSSI—even had it been more widely used--- simply kicked the can down the road since it did not lower debt levels. Worse still (and as earlier noted), countries that did avail themselves of the DSSI are about to find the bill for participation coming due at a highly vulnerable time. Only 48 of the 73 countries eligible for the DSSI secured a temporary suspension, which accounted for less than 10% of the money they continued to pay back.[83] The G-20 also called on private creditors to participate in the DSSI on comparable terms, but only one chose to do so.

The G-20 replaced the DSSI with the Common Framework. The group hoped that it would enjoy greater uptake by formerly DSSI-eligible countries facing insolvency and protracted liquidity problems. It also hoped that the Common Framework would engage a broader range of bilateral official creditors since it was available to non-Paris Club official creditors, including Saudi Arabia

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[80] Stephanie Blankenburg, "The UNCTAD Sustainable Development Finance Assessment," UNCTAD 13th Debt Management Conference, 5 December 2022, https://unctad.org/dmfas/system/files/client-area/DMC2022_Panel2_Blankenburg.pdf. See discussion of UNCTAD's on-going work with this tool in UNCTAD, Trade and UNCTAD, *Trade and Development Report 2023*, Geneva: UNCTAD, chap. V.

[81] UNCTAD, Sustainable Development Finance Assessment, https://mobilizingdevfinance.org/tool/unctad-sustainable-development-finance-assessment-sdfa.

[82] Bretton Woods Project, "IMF Debt Sustainability Analysis."

[83] Jaime Atienza and Charles Birungi. "A Looming Debt Crisis Is Threatening Global Health Security," *Third World Economics*, No. 758, 1-15, November 2022, p.4; World Bank, "Brief: Debt Service Suspension Initiative," March 10, 2022, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

and most importantly China. However, the initiative is also failing. Indeed, the World Bank now refers to the Common Framework as a "slow motion tragedy."[84] The Framework is "common" in name only, both because of its case-by-case rather than a multilateral approach to restructuring and because the DSAs conducted under its auspices have been wildly inconsistent in practice. [85]

There are numerous other flaws in the Common Framework. "Middle-income countries, where the vast majority of the world's poor people reside and where serious debt defaults are taking place, are excluded from the Common Framework, further confirming its operational failure."[86] The Common Framework, as with the DSSI, was marked by magical thinking when it came to involving private creditors in some meaningful way in debt restructuring processes. As one observer noted: "[t]he key dilemma is the inability or unwillingness to enforce or regulate private creditor participation in the Common Framework. Another challenge is that the restructuring is not only protracted but also riddled with uncertainty."[87] Moreover, the Common Framework "stipulated that private creditors would have to provide comparable relief on the debt owed to them [to ensure burden sharing] but without clarity on how this was to be enforced."[88] Finally, to be eligible under the Common Framework a country must be under an IMF program, which is yet another channel by which austerity programs are introduced.

There was an attempt in April 2023 to modify the Common Framework.[89] Chief among this effort was the goal of getting the BWIs to agree to share information on debt distress more quickly and to provide more low-interest and grant funding and stricter timeframes on restructuring. It was hoped that the latter would encourage China to drop its mandate that the BWI lenders take losses or "haircuts" on the loans they had provided or underwritten in countries in crisis. At present, the status and efficacy of these modifications remains uncertain.

There's no question that recent approaches to restructuring debt have failed. Many nations have domestic legal frameworks for bankruptcy negotiations. The development of an international analogue is decades overdue. Chief on the sovereign debt agenda therefore is the pressing need for an international legal framework for an SDRM that is comprehensive, consistent, binding, timely, and transparent, and available to low- and middle-income countries. An SDRM must incentivize *or* force all parties—bilateral, multilateral, and private creditors—to come to the table together in good faith. Participation of private lenders in restructuring negotiations might be forced or incentivized through debt exchanges for longer maturities or lower interest rates.[90]

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[84] Gill Indermit, "It's Time to End the Slow-Motion Tragedy in Debt Restructuring," World Bank Blog, March 1, 2022, https://blogs.worldbank.org/voices/its-time-end-slow-motion-tragedy-debt-restructurings?utm_source=substack&utm_medium=email

[85] Setser, "The Common Framework."

[86] Mucchala, "A Feminist Social Contract," pp. 19-20.

[87] Mucchala, "A Feminist Social Contract," p. 19.

[88] Masood Ahmed and Hannah Brown, "Fix the Common Framework Before It Is Too Late," Center for Global Development, January 18, 2022. https://www.cgdev.org/blog/fix-common-framework-debt-it-too-late

[89] Discussion in this paragraph drawn from Libby George, "Common Framework Familiar Problems: Hopes of Debt Breakthrough Fade," Reuters, June 20, 2023, https://www.reuters.com/business/finance/common-framework-familiar-problems-hopes-debt-breakthrough-fade-2023-06-20/ and Libby George and Marc Jones, "No China, No Deal: Bid to Break Sovereign Debt Logjam Gets Weary Thumbs Up," Reuters, April 14, 2023, https://www.reuters.com/world/no-china-no-deal-bid-break-sovereign-debt-logjams-gets-weary-thumbs-up-2023-04-13/

[90] Note that debt buybacks, guarantees, collateralization, and cancellations were part of the Heavily Indebted Poor Countries Initiative in the 1990s and the resolution of the Latin American debt crisis of the 1980s (United Nations, "UN Secretary-General's SDG Stimulus"

Many actors, such as UNCTAD, the UN, and CSOs, have developed frameworks and have long advocated for an SDRM architecture. Representatives of the Global South and CSOs focusing on human rights and social and economic justice have long pressed within the UN General Assembly for an SDRM that addresses unsustainable (and odious or illegitimate) debt.[91] IMF officials have in the last few years again acknowledged the need for an SDRM, as have World Bank officials. Implementing an SDRM is obviously a matter of political will, and any such efforts must involve UN agencies and CSOs, along with representatives of bilateral, multilateral, and private lenders. The private sector must be forced to the table since voluntary private sector compliance is not going to occur.

Some have suggested that debt restructurings be managed by "a new, more inclusively governed global debt authority, a Global Debt Authority. This has the potential to draw out more obscure private creditors from the shadows that have been difficult to uncover to date and make it easier to spot and pressure private creditors in general."[92] However, in my view, in a time of backlash against multilateralism, the creation of a new multilateral entity seems less desirable than empowering existing but more inclusive and modernized multilateral institutions to take the lead.

According to IMF forecasts, the existing restructuring deals that have been penned or are under negotiation will leave Chad, Ghana, Sri Lanka, Suriname and Zambia over the next three to five years with an overall average debt service of 48 percent of budget revenue.[93] This obviously leaves little to no room for major increases in spending for much needed social protections, let alone to address the SDGs. Indeed, it likely means major cuts. Some observers have noted that debt restructurings associated with previous crises involved targeting debt service to be no more than 11-20 percent of total revenue. It is important going forward to set explicit debt service targets or ceilings, at least as generous as their predecessors, beginning in the first year of relief.

Debt cancellation, creditor haircuts, and a Debtors' Club

In addition to an SDRM, comprehensive debt relief on bilateral, multilateral, and private debt is unambiguously essential. It must involve haircuts and outright debt cancellations, particularly in the poorest countries and those most immediately vulnerable to climate change. Special consideration for odious and illegitimate debt is warranted. At the very least, bilateral, multilateral, and private creditors must be pressed to take haircuts on some portion of outstanding debt. Without debt relief, we consign countries to austerity, constrain policy autonomy, and fiscal space remains unachievable. The Global Action for Debt Cancellation Movement is calling for unconditional cancellation of all external debt repayments, including debt owed to the BWIs and private creditors, along with a fair and transparent UN framework for debt crisis resolution, and national debt audits.[94] Barbados' Prime Minister Mia Mottley recently called for cancelling the debts of countries on the front lines of climate change, namely island and low-income countries.[95] She explicitly referred to the 1990s Debt

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[91] Mucchala, "A Feminist Social Contract," pp. 20-21.
[92] Daar and McCarthy, "Reduced Inequalities." See also the discussion of a Global Debt Authority and a related proposal for an International Loans Repository in UNCTAD, *Trade and Development Report*, chap. V.
[93] Development Finance International, "The Worst Ever Global Debt Crisis."
[94] Bretton Woods Project, "Debt Overhang Risks."
[95] Zia Weise, "It's Time to Cancel Debt for Climate-Stricken Nations, Barbados Leader Says," Politico.eu, February 20, 2024, https://www.politico.eu/article/cancel-debt-climate-change-barbados-mia-

Jubilee (forgiveness) campaign.

There are important precedents for international debt relief. Some programs, such as the Brady Plan of 1989 (developed in response to the Latin American debt crisis), the Heavily Indebted Poor Countries Initiative of 1996, and the Multilateral Debt Relief Initiative of 2005 offered debt relief of different magnitudes and types ranging from haircuts to cancellations, albeit through complicated, slow processes.[96]

More germane is the example of the outright cancellation of 50 percent of Germany's postwar international debt and the transformation of the other half of its debt into "soft loans" that entailed low interest rates and with the condition that debt payments would not be required if the country ran a trade deficit.[97] The political and economic context of the German debt cancellation is obviously unique to that period. It was marked by the common experience of the world war, fear that fascism would return, and the presence of a simple centripetal debt architecture and a US-led multilateral order.

In today's conflicted, multipolar world and complicated debt architecture, collective action by debtors may make a difference when it comes to debt cancellation. In this context, some have proposed the formation of a "debtors' cartel"[98] in which "a group of countries collectively agree to stop servicing the debt owed to public and private creditors until creditors come to the table and agree to a set of terms that enable essential domestic spending." Coordinated action by creditors is not unprecedented. Afterall, that's what the Paris and London Clubs involve. And creditors consistently and collectively press governments for relief during crises. Similar coordination by nations in debt in the form of a "Debtors' Club" could help balance the scales in negotiations over debt cancellations, debt restructuring, and creditor haircuts. UNCTAD suggests that debtor nations take "inspiration" from coordination by private creditors.[99]

Debt standstills, debt-pauses, or suspension clauses

In certain contexts, debt standstills may be a useful stopgap to buy breathing room while a comprehensive SDRM or cancellation process is underway. In such cases, the financial costs of a standstill must be clear to the borrower up front and preferably borne by the creditor. Credit rating agencies must be brought on board at the outset of any standstill discussions (a matter to which we return below).

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mottley/#:~:text=Mia%20Mottley%20has%20been%20leading,financial%20system%20handles%20climate%20funding.&text=AMSTERDAM%20—%20Countries%20on%20the%20front,an%20issue%20long%20considered%20taboo.

[96] In these initiatives, "debt relief was granted by multiple creditors (including in the private sector) to multiple debtor countries on common principles, even if sometimes negotiated on a case-by-case basis. These initiatives shared several commonalities: substantial--but protracted—debt stock reduction and being preceded by a series of less ambitious debt relief efforts" (World Bank, "Resolving High Debt After the Pandemic: Lessons from Past Episodes of Debt Relief," Global Economic Prospects, January 2022, pp. 50-51, https://thedocs.worldbank.org/en/doc/cb15f6d7442eadedf75bb95c4fdec1b3-0350012022/related/Global-Economic-Prospects-January-2022-Topical-Issue-1.pdf.)

[97] India Bourke, "What if Debt Was Written Off to Protect Climate and Nature?" *BBC*, December 13, 2023, https://www.bbc.com/future/article/20231212-what-if-the-world-cancelled-debt-for-climate-and-nature.

[98] Discussion of a debtors' cartel (and the quotation above) are drawn from Daar and McCarthy, "Reduced Inequalities," p. 7.

[99] UNCTAD, *Trade and Development Report*, pp. 136-38.

The World Bank has included a "debt-pause clause" in new and existing lending agreements that permit 45 small island states and states experiencing "qualifying events" to postpone their interest and principal payments.[101] This provision should be extended to all borrowing countries and represents a model on which other lenders should build.

Some observers have made a case for the introduction of "multi-year suspension clauses" for external shocks, including climate catastrophes and pandemics. The government of Barbados has introduced such clauses into its loan agreements.[102] These clauses might be included in loan agreements with official, multilateral, and private lenders. Credit rating agencies should be precluded from downgrading debt when such clauses are activated.

To be clear, comprehensive debt relief in the form of cancellations, meaningful restructuring, and creditor haircuts should be a far higher priority than debt standstills, given present conditions and those forecast for the next several years.

Debt swaps

Debt-for-nature (sometimes called debt-for-climate) swaps have received a great deal of attention of late. The UN Secretary-General's SDG Stimulus makes a case for debt-for-SDG swaps. In general, swaps are relevant for countries that don't have unsustainable debt burdens, but which lack fiscal space for climate-related or other SDG-related investments. "Such swaps can either be done bilaterally between an official creditor and a debtor (such as those done by L'Agence Française de Développement), or by using official or philanthropic funds to buy bonds at a discount in secondary markets as with most existing debt for nature swaps. These can be structured so that the new creditors pass on part or all of the discount to sovereign debtors. Thus far, although there have been examples of successful debt for investment swaps, uptake has been limited, in part due to high transaction costs."[103]

At the 2023 UN Climate Change Conference (COP28) a new global taskforce was created to scale up debt-for-nature swaps. There have recently been high profile debt-for-nature swaps, e.g., a record-setting deal in Ecuador in 2023. [104] It refinanced US$1.6 billion of sovereign bonds at a discounted rate, issuing in its stead a new conservation bond. In exchange, about US$12 million a year of the money saved via this cheaper loan will be channeled to conservation in the Galapagos. The Seychelles, Barbados, Belize, and Gabon have also concluded debt-for-nature swaps. These are all encouraging.

Debt swaps are not a magic bullet. (As we will see in section 7, the same can be said of social impact bonds, including gender bonds.) Debt swaps are *not* a substitute for timely, comprehensive debt restructuring, debt cancellation and lender haircuts, and concessional finance. In the words of Kenyan President Ruto: "We can't fix the climate issue unless we fix the debt issue."[105] Swaps are

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[101] See discussion in Luma Ramos, R. Ray, R. R. Bhandary, K. P. Gallagher, and W.N. Kring, "Debt Relief for a Green and Inclusive Recovery: Guaranteeing Sustainable Development," Boston, London, Berlin: Boston University Global Development Policy Center; Centre for Sustainable Finance, SOAS, University of London; Heinrich-Böll-Stiftung, 2023, https://www.bu.edu/gdp/files/2023/05/DRGR_Report_May_2023_FIN.pdf.
[102] Daar and McCarthy, "Reduced Inequalities."
[103] UN, "UN Secretary-General's SDG Stimulus," p. 7.
[104] Discussion in this paragraph drawn from Bourke, "What if Debt Was Written Off."
[105] Quoted in Iolanda Fresnillo, "Miracle or Mirage: Are Debt Swaps Really a Silver Bullet?," European Network on

best seen as a tool among others and one with limited potential. A benefit of swaps is that they do not affect a country's credit rating. But on the negative side, they are a slow vehicle, legally complex, costly to negotiate, and administering them involves complex reporting requirements. Furthermore, as Jayati Ghosh argues: "[t]he amount of debt relief the country gets is marginal, there is no adequate monitoring of the nature-benefits that will accrue, and the money is nowhere near enough to allow a country to deal with loss and damage costs, or even proper climate mitigation."[106]

A recent study by Iolanda Fresnillo is worth quoting at length here because she describes parameters for maximizing the net benefits of swaps, though she remains on balance very cautious about their efficacy.

> "[D]ebt swaps don't become more impactful just by scaling them up. Impact instead rests on ensuring a sustainable and realistic schedule for the borrowing country to disperse the freed-up resources, that these disbursements are made in the local currency, and other elements determining the governance, transparency, accountability and transaction costs of the operations." She goes to on to explain that "[f]or countries without access to grants or concessional finance, well-designed debt swaps can play a role in mobilising extra funds for the SDGs or climate projects. When the priorities of the impacted communities, not those of the creditors, are at the forefront and these communities are given space to participate from the early stages, then funding local projects via debt swaps can have a positive impact. Without this, the inherent conditionality of debt swaps runs the risk of a loss of sovereignty for debtor nations." [107]

Institutional Changes that Support the Mitigation of External Debt Burdens

The debt mitigation strategies that I've discussed above depend significantly on broader institutional reforms. I discuss these reforms briefly in what follows.

Better BWIs: Overdue changes in governance and practices

There is a great deal to be said about the need for significant change at the BWIs. Since the 2008 financial crisis, many have argued that the resources of the BWIs need to be enhanced and stabilized. [108] Current conditions lend more force to this argument, a not uncomplicated matter in a time of diminished support for multilateral institutions.[109]

The institutions need to be modernized. Leadership selection processes should be transparent, merit-based, and inclusive. Meaningful steps should be taken to increase the voice and vote of countries of the Global South. The institutions should be responsive and accountable to a variety of

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Debt and Development, December 4, 2023, https://www.eurodad.org/miracle_or_mirage.
106 Quoted in Bourke, "What if Debt Was Written Off."
107 Fresnillo, "Miracle or Mirage."
108 Discussion of IMF governance and reform (except where noted) is drawn from Grabel, *When Things Don't Fall Apart*, Chap. 5.
109 On the political complications of increasing capital of the BWIs (i.e., quotas that bear on the distribution of voting rights), see José Antonio Ocampo, "The Global Economy's Unsolved Problems," *Project Syndicate*, December 7, 2023, https://www.project-syndicate.org/commentary/leaders-fail-to-tackle-major-economic-challenges-debt-development-climate-change-by-jose-antonio-ocampo-2023-12?barrier=accesspaylog#:~:text=A%20string%20of%20high%2Dlevel,prominent%20proposals%20are%20deeply%20flawed.

stakeholders who lack traditional representation within these institutions, including CSOs. The institutions should be reformed in ways that reflect the global economic role, needs, and lived experience of their full membership and draw on a wide range of views in decision making and analysis. The institutions should develop equitable internal dispute resolution processes.[110] These changes would help restore the legitimacy of these institutions, their ability to fulfill their traditional mandates, and their capacity to address the multi-faceted challenges of our time.

Debt reprofiling by the BWIs is an important tool that should be utilized, especially in times of crisis. This could involve extending maturity structures (well beyond just a few years), including meaningful grace periods in loan agreements that could be activated in times of crisis, and lowering borrowing costs. High borrowing costs have added fiscal stress to already overburdened borrowers.[111] Lending rate caps are an important tool for lowering borrowing costs.[112] Surcharges on IMF loans should be eliminated permanently.[113]

A new approach to conditionality by the BWI as if people (and the planet) matter

Traditional conditionality programs place intense burdens on borrowers. These burdens constrain fiscal space and have severe intergenerational, gendered, and climatic implications.

We might rethink conditionality in ways that are productive and equitable. For instance, Eric Lonergan and Mark Blyth argue for what they term "radical conditionality."[114] This means that when governments intervene to support the private sector they condition private sector support on concrete commitments to abate various inequalities (such as gendered inequalities) and environmental destruction. This might involve pressing the private sector to take haircuts on debt, provide concessional or ideally grant finance to social protection programs that support gender equality, women's livelihoods, and environmental sustainability.[115] This quid pro quo approach could represent a lever to force the private sector to the table once representatives queue for new hand outs as they invariably do when debt distress accelerates.

Credit rating agencies

The UN High Commissioner for Human Rights has rightly called for the suspension of credit ratings during crises.[116] Credit rating agencies should also suspend the publication of reviews during

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[110] Kevin P. Gallagher and Richard Kozul-Wright, "A New Multilateralism for Shared Prosperity: Geneva Principles for a Global Green New Deal," Boston University Global Development Policy Center and United Nations Conference on Trade and Development, April 2019, https://unctad.org/webflyer/new-multilateralism-shared-prosperity-geneva-principles-global-green-new-deal.
[111] Krahnke and Tordoir, "Has the IMF's Lending."
[112] Krahnke and Tordoir, "Has the IMF's Lending."
[113] Stiglitz and Gallagher, "Understanding the Consequences"; Amsler and Galant, "The Growing Burden."
[114] Eric Lonergan and Mark Blyth, "Radical Conditionality: Rewriting the Rules of Macroeconomic Policy," OECD Forum Network, October 20, 2020, https://www.oecd-forum.org/posts/radical-conditionality-rewriting-the-rules-of-macroeconomic-policy-49d3d1b3-180f-40c5-9368-9e76a50400da.
[115] It is not surprising that some, such as Anne O. Krueger (a former Chief Economist at the World Bank), continue to argue for conditioning debt relief on the adoption of "sound, realistic, and business-friendly economic policies." (Krueger, "The Coming Debt Crisis.")
[116] Emily Wilkinson and Kanni Wignaraja, "Credit Ratings and Climate Chaos." *Project Syndicate*, December 11, 2023,

periods of upheaval to allow markets to adjust new conditions.[117] Reconstituting credit rating agencies so that they function like public utilities would go some distance in reducing their monopoly power and their ability to constrain policy and fiscal space, especially in times of crisis. UNCTAD has long argued for the creation of a global independent public ratings agency to assess the creditworthiness of public and corporate debt.[118]

6. Creating Fiscal Space through Strategies that Increase Access to Concessional Finance and SDRs

I consider here two gender-indifferent strategies to mitigate external financing constraints. There is little to be said about the first of them, which is sustained increases in concessional finance. Accomplishing this goal depends on changes at the BWIs (as discussed above) and new commitments by creditor governments. These may not be terribly likely over the short term unless political sentiments in powerful nations of the Global North change significantly. SDRs are a complex tool, hold great promise to transform fiscal space directly, and require less in the way of propitious changes in politics. Accordingly, we discuss SDRs in some depth. The strategies discussed in this section provide stable, long-term sources of finance. They have direct effects on fiscal space, which governments can choose to deploy in the service of SDG 5.

Concessional finance

The case for scaled up concessional finance has never been clearer. This rests on increasing the capitalization of multilateral and regional banks.[119] Calls along these lines are coming from multiple quarters, including the international business press and the global development community. *Financial Times* columnist Martin Wolf recently argued for the necessity of dramatic increases in concessional finance.[120]

The Debt Relief for a Green Inclusive Recovery Project argues for the extension of ambitious concessional finance, especially to climate vulnerable countries, including middle-income countries.[121] Scaling up concessional finance should not be seen as a stop gap measure to help countries through the current crisis and avert the next one. Instead, sustained annual increases in concessional finance should aim to promote growth, address social ills (such as gender and other inequalities and social exclusion), and should aim to make progress on SDG targets. The World Bank's "Evolution Roadmap" includes a commitment along these lines (i.e., to expand concessional finance beyond the poorest countries to support climate investments).[122] It will be important to see

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https://www.project-syndicate.org/commentary/credit-ratings-downgrades-catastrophic-for-climate-vulnerable-countries-by-emily-wilkinson-and-kanni-wignaraja-2023-12#:~:text=During%20the%20pandemic%2C%2011%20of,big%20three%20credit%2Dratings%20agencies. .

[117] Wilkinson and Wignaraja. "Credit Ratings and Climate Chaos."

[118] Jayati Ghosh, "Credit-Rating Agencies Could Derail Economic Recovery," *Project Syndicate*, March 16, *2021,* https://www.project-syndicate.org/commentary/credit-rating-agencies-could-derail-economic-recovery-by-jayati-ghosh-2021-03.

[119] UNCTAD, *Trade and Development Report*, p. 118.

[120] Martin Wolf, "Poor Countries' Debt Problems Are Keeping Too Many in Destitution," Financial Times, December 19. 2023, https://www.ft.com/content/395f178d-50b4-454a-b971-72116919aa4c

[121] Discussion in this paragraph from Ramos et al., "Debt Relief for a Green and Inclusive Recovery" except where noted.

[122] World Bank, "Evolving the World Bank Group's Mission, Operations, and Resources: A Roadmap," December 18, 2023,

these commitments operationalized. If they are, they should be a model for other multilateral institutions.

SDR issuance and reallocation

SDRs are an international reserve asset that the IMF creates electronically, by fiat, and at no cost to the institution. It must have sufficient support from member countries to do so. When SDRs are maintained by a member solely as a reserve asset they are not considered to be an IMF loan. Therefore, they do not have to be repaid. However, when countries convert SDRs into hard currency (such as the US dollar) they must pay the IMF the annual SDR interest rate.[123]

In the early days of the pandemic, many analysts and CSOs advocated for release of US$500 billion in SDRs to support emergency financing by multilateral institutions. The Trump administration vetoed this initiative.

A similar proposal to release a one-time general allocation of US$650 billion in SDRs was reintroduced by the Biden administration and approved by the IMF in August 2021. This was the largest single release of SDRs in the IMF's history. The goal of this release was to provide a financial lifeline in the face of the pandemic's economic effects. (At the time, some rightly noted that US$650 billion was inadequate and called for the release of US$3 trillion in SDRs.[124])

Owing to IMF rules, the US$650 billion in SDRs were allocated in line with member country quota shares at the institution. Quotas depend heavily on the GDP of each member country. SDRs were therefore allocated primarily to countries of the Global North since they hold the largest quotas at the IMF (and World Bank). This meant that Northern countries received US$450 billion of the SDR allocation, while low-and middle-income countries received just over US$200 billion.[125] Only US$21 billion of the US$200 billion went to low-income countries.[126] Despite this uneven allocation, the 2021 SDR release is widely considered to have been a crucial source of emergency debt-free finance in the form of new foreign exchange reserves at a critical time for low- and middle-income countries.[127]

Countries of the Global North could have amplified the impact of this SDR release by transferring their idle SDRs, which sit in the coffers of their central banks, to the IMF for its use and to the

https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf.

[123] Discussion in this paragraph drawn from Jayati Ghosh, "SDRs Are the Great Untapped Source of Climate Finance." *Project Syndicate*, December 12, 2023, https://www.project-syndicate.org/commentary/bolstering-climate-finance-through-special-drawing-rights-by-jayati-ghosh-2023-12?barrier=accesspaylog.

[124] UN Affairs, "UN Chief Calls for Action."

[125] Jayati Ghosh, "SDRs Are the Great Untapped Source of Climate Finance." *Project Syndicate*, December 12, 2023, https://www.project-syndicate.org/commentary/bolstering-climate-finance-through-special-drawing-rights-by-jayati-ghosh-2023-12?barrier=accesspaylog.

[126] Another stark illustration of the perverse allocation of SDRs in 2021: the US received US$113 billion in SDRs; while Malawi, for example, received US$189 million (Daar and McCarthy, "Reduced Inequalities," pp. 14-15.

[127] See discussion in Ghosh, "SDRs Are the Great Untapped Source"; Daar and McCarthy, "Reduced Inequalities," pp. 14-15.

development finance institutions that are its prescribed SDR holders.[128] Indeed, US Treasury Secretary Janet Yellen argued that Northern countries should channel unneeded, newly released SDRs to countries of the Global South.[129] As of December 2019, countries of the Global North held US$177 billion in idle SDRs, some of which could have been transferred to the IMF and to two special funds for low-income countries.[130]

In October 2021 G-20 countries pledged to recycle (i.e., channel) US$100 billion of unused SDRs to vulnerable countries.[131] Actions by the G-20 have fallen short by US$13 billion despite claims to the contrary. And less than 1 percent (approximately US$702 million) of the promised recycling has gone to the countries that need the support most. Domestic politics explain the failure of the US to make good on the Biden administration's request to recycle US$21.2 billion of unused SDRs. The US Congress must approve this request. It has not.

There has recently been a renewal of interest in the promise of new SDR issuances. Members of the development and climate finance communities have argued for new, annual, largescale SDR issuance. In this view, SDRs would be allocated in line with need, rather than IMF quota shares. Many have (rightly) argued that this is the single most potentially impactful, virtually cost-free way to provide the liquidity support necessary to shoulder the debt crisis, avoid cuts in much needed social spending, make support available for SDG-related and especially climate finance, and increase global inclusion. The High-Level Advisory Board on Effective Multilateralism has suggested two ways to ensure that the issuance of new SDRs flows to low- and middle-income countries.[132] One way would be by allocating to poorer countries double or triple their quotas. The other would involve introducing targeted allocations according to eligibility criteria that focus on exposure to identified risks, such as climate change, interest rate or terms of trade shocks, or other external forces or shocks. The latter approach would require amending the IMF's Articles of Agreement.

Countries of the Global North should also be encouraged to transfer unused SDRs to support struggling economies and advance economic and human development, gender equity, and sustainability beyond the demands of immediate crises. This could happen through lending or preferably donation programmes. In any case, transfers should be non-conditional and done in ways that don't add to the debt of recipients.[133] For example, this could be accomplished through the creation of rapidly disbursing instruments at concessional terms with no or minimal conditionality.[134]

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128 Barry Herman, "The Looming Developing Country Debt Crisis and the Fear of Imposed Austerity," The New School India-China Institute, October 15, 2020, https://www.indiachinainstitute.org/2020/10/15/the-looming-developing-country-debt-crisis-and-the-fear-of-imposed-austerity/

129 Shabtai Gold, "Yellen Urges Wealthy Countries to Redistribute SDRs to Those in Need." September 21, 2021, https://www.devex.com/news/yellen-urges-wealthy-countries-to-redistribute-sdrs-to-those-in-need-1015800.

130 Herman, "The Looming Developing Country Debt Crisis."

131 This paragraph draws on Mark Plant and Bernat Camps-Adrogué, "Empty Words, Empty Wallets: The G20's Broken Promise on SDR Recycling," Center for Global Development, Washington DC, October 30, 2023, https://www.cgdev.org/blog/empty-words-empty-wallets-g20s-broken-promise-sdr-recycling.

132 These two proposals are discussed in Ghosh, "SDRs Are the Great Untapped Source."

133 Daar and McCarthy, "Reduced Inequalities."

134 UN, "UN Secretary-General's SDG Stimulus." For a summary of other transfer strategies, see Bhumika Muchhala and Christopher Hope, "Drawing on Special Drawing Rights to Save the Economy," *Third World Economics*, 2021, 725, pp. 2-4; Jayati Ghosh, "Free the Money We Need." *Project Syndicate*, February 14, 2022, https://www.project-syndicate.org/commentary/imf-sdrs-equitable-sustainable-global-recovery-by-jayati-ghosh-2022-02; Ghosh, "SDRs Are the Great Untapped Source."

The Bridgetown Initiative 2.0 calls for fast-tracking the rechanneling of US$100 billion of SDRs to the IMF's Poverty Reduction and Growth Trust and the Resilience & Sustainability Trust.[135] Note that this vision of SDR issuance is substantially less ambitious than that which marked the SDR proposal in Bridgetown 1.0 and the statements that preceded the initiative's formalization.[136] Others have recently argued for a far more ambitious role for the SDR. For example, a prominent proposal calls for an annual issuance of roughly US$300 billion in SDRs in conjunction with provisos that countries of the Global North recycle them by turning them into loans or grants for climate investment in countries of the Global South.[137]

7. Creating Fiscal Space to Support Gender Equality Directly Through Gender-Informed Strategies Toward External Finance

I now turn to gender-informed strategies toward external finance. I consider here SDR reallocation for gender equality; gender-informed impact assessments related to debt and DSAs; gender markers for sovereign debt restructuring and debt cancellation; debt swaps for gender equality; and gender bonds. These strategies have the potential to directly create fiscal space for gender equality over the medium and long term. However, and as I discuss below, I remain very cautious about the potential of debt swaps (of all sorts) and gender bonds. That said, it's important to identify what we do know about experiences with these and related tools, best practices and risks, lingering questions, and areas where further research is needed. In addition, experimentation by public, multilateral, and private actors with debt swaps for gender equality and gender bonds may provide proof of concept over time. Moreover, any amount of long-term finance provided by these instruments would be beneficial to SDG 5. Above all, it's important that we consider as many tools as possible, given the scale of the challenges ahead and the heterogeneity of needs and capacities to use different tools.

The gender-informed tools discussed below can be operationalized using "gender markers" and "gender-based performance targets." (The latter are also known as "gender benchmarks.") Gender markers and gender performance targets incentivize efforts and outcomes, respectively. Over the last decade, gender markers and performance targets have become an increasing area of interest, though much work remains to be done to develop them, especially in connection with external financial flows.[138]

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135 Mia Amor Mottley, "Bridgetown 2.0: Urgent and Decisive Action to Reform the International Financial Architecture," 2023, https://assets.bwbx.io/documents/users/iqjWHBFdfxIU/rgUFt2H4YNsw/v0.

136 For example, at the 2021 UN Climate Change (COP26) in Glasgow, Prime Minister Mottley called for the issuance of US$500 billion in SDRs annually for 20 years to fund climate action (Mia Mottley, UN Climate Conference, COP26, Glasgow, Opening Ceremony, November 1, 2021, https://unfccc.int/sites/default/files/resource/BARBADOS_cop26cmp16cma3_HLS_EN.pdf.) However, Prime Minister Mottley's commitment to bold action is not to be doubted, given her recent call for debt cancellation in countries most affected by climate change.

137 Joseph E. Stiglitz, "Fixing Global Economic Governance." *Project Syndicate*, October 23, 2023, https://www.project-syndicate.org/commentary/global-financial-economic-architecture-needs-an-overhaul-by-joseph-e-stiglitz-2023-10?barrier=accesspaylog. Note that Jayati Ghosh points out that those who worry about the economic consequences of large-scale annual SDR release might be comforted by the fact that countries of the Global North unleashed US$25 trillion in liquidity in response to the 2008 financial crisis (Jayati Ghosh, "Free the Money."

138 UN Women, Financing for Gender Equality and the Implementation of the Women, Peace, and Security Agenda, Issue Brief, January 2023, https://www.unwomen.org/sites/default/files/2023-03/Financing-for-gender-equality-and-the-implementation-of-the-women-peace-and-security-agenda-en.pdf

The UN Gender Equality Marker Guidance Note discusses the coding of gender markers on a 0-3 scale based on the potential contribution of a policy instrument or strategy to goals that support gender equality. An instrument is coded with a 0 if it is not expected to contribute to gender equality, a 1 if it contributes to a limited extent, a 2 if it has gender equality as a significant objective of its overall intent, and a 3 if it's a principal objective of the activity.[139]

Gender-based performance targets would be designed to incentivize actions, ex-ante or ex-post. For instance, ex-ante tools could establish targets that direct a certain amount or percentage of new external financial resources (such as external debt, concessional finance, or SDRs) or fiscal space created by a debt pause, SDRM, or creditor haircut to initiatives that support gender equality. As an ex-post tool, they could be designed to reward firms, sectors, and subnational or national-level actors for using new external financial resources or fiscal space in ways that result in measurable progress on particular gender equality goals by a specified period. Progress in terms of supporting gender equality is to be measured against key performance targets.

I provide some examples of existing gender-based performance targets for illustrative purposes. The UN Secretary General has proposed quantitative (ex-ante) performance targets that govern the percentage of ODA allocated to programs that support gender equality.[140] This target could be adapted to the allocation of other external financial resources or the use of newly created fiscal space. The same could be said of the examples of other gender-based performance targets provided here. For example, in the "2X Challenge" the following gender performance targets are used: the percentage of businesses owned by women or with a woman as a founder, the percentage of women in leadership positions or on a corporate board, the percentage of women employees in a particular sector, and the degree to which a product or a service disproportionately provides benefits to women.[141] There are also country-levels gender performance targets that focus on the performance of public companies, such as the Bloomberg Gender Equality Index (which tracks the performance of public level companies), Equileap Gender Equality Data and Ranking, and the World Economic Forum's *Gender Gap Report*. An example of a hybrid green/gender performance target is provided by the US city of Minneapolis, which uses green bonds that also incorporate gender criteria to finance some public investment programs. In this case, the gender performance target focuses on the percentage of women in the construction workforce building the project. The French Development Agency requires that projects eligible for funding through new bonds or loans receive a neutral or positive score in six gender dimensions (namely, access to services, control over resources, access to justice, combatting gender-based violence, economic and social participation, and project governance considered in regard to gender). A French firm, Schneider Electric, uses gender-based performance targets that reward progress on reducing CO2 emissions and expanding the roles of

139 United Nations Sustainable Development Group, UNCT Gender Equality Marker Guidance Note, https://unsdg.un.org/resources/unct-gender-equality-marker-guidance-note
140 UN Women, Financing for Gender Equality."
141 The 2X was founded in 2017 by G7 development finance institutions. For discussion of 2X, see Association for Women's Rights in Development, "Gender Impact Investing and the Rise of False Solutions: An Analysis for Feminist Movements," January 2023, p. 27, https://www.awid.org/report-gender-impact-investing. Discussion in this paragraph drawn from Suzanne Biegel, David Uzsoki, Safa Rahim, Gilles Pascual, and Smita Biswas "Integrating Gender Consideration into Sustainable Bonds: A How-to-Guide," International Institute for Sustainable Development, 2023, https://static1.squarespace.com/static/6089294d7cb43b4cffb93591/t/621cbb297e85c74fcd29147a/1646050111342/Integrating+Gender+Considerations+into+Sustainable+Bonds+%281%29.pdf;. On the 2X Challenge, see also https://www.2xchallenge.org/criteri.a

women in the company through performance targets for hiring, management, and leadership. If gender-based performance targets are not met, the interest rates on bonds issued are increased.

Much work remains to be done by feminist economists and national policymakers to develop appropriate gender markers and ex-ante and ex-post performance targets and incentives that reflect national priorities and connect directly to the use of new external financial flows and fiscal space.

SDR reallocation for gender equity

In work that predates the contemporary debt crisis, Bilge Erten and Nilüfer Çağatay argue that the reallocation of unused SDRs by countries of the Global North could be used to create direct fiscal space that supports investments in projects that support women's equality and environmental sustainability.[142] In their view, SDRs can be reallocated to establish trust funds at the IMF that provide loans that support women's equality through what they term a Global Fund for Women through Innovative Finance.[143] This approach is consistent with the discussion in section 6 of the promise of SDR issuance and allocation.

Gender-informed impact assessments related to debt and DSAs

Academics, CSOs, and activists in the feminist and human rights realm have long argued for ex-ante and ex-post gender and human rights impact assessments of economic policies.[144] The disaggregation of data by gender, human rights, and social justice indicators is key to this process. In this approach, an institution best qualified to produce independent, credible gender impact assessments must be responsible for carrying out the research.

This type of impact assessment might be a part of a new approach to DSAs that incorporates and disaggregates the effects of debt burdens on gender, climate, and human rights indicators. This approach might also figure into ex-ante impact assessments of debt restructuring or cancellations and ex-post analyses of the effects of debt relief. The gendered effects of debt restructurings are rarely, if ever, considered. This gender blindness disadvantages women. For example, recent research on Sri Lanka's debt restructuring makes clear that domestic debt restructuring will have a disproportionate effect on the economic welfare of older women in the country.[145] This stems from changes in the country's pension system that are part of the country's overall debt restructuring.

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[142] Bilge Erten and Nilüfer Çağatay, "Proposal for a Global Fund for Women through Innovative Finance," Feminist Economics, 2017, 23:4, pp. 170-200.

[143] They also argue that the trust fund could be what they term a Green Fund.

[144] The description below of gender and human rights impact assessments is drawn from Mucchala, "A Feminist Social Contract," p. 20. See also "Report of the independent expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of human rights, particularly economic, social and cultural rights," *The Guiding Principles on Human Rights Impact Assessment of Economic Reforms*, A/HRC/40/57, 2018; Radhika Balakrishnan, James Heintz, and Diane Elson, *Rethinking Economic Policy for Social Justice: The Radical Potential of Human Rights*. London: Routledge, 2016.

[145] Nisha Arunatilake, "Sri Lanka's Debt Restructuring Is Hurting Older Women," *Project Syndicate*, January 10, 2024, https://www.project-syndicate.org/commentary/sri-lanka-domestic-debt-restructuring-reduces-women-pension-by-nisha-arunatilake-2024-01

Another approach to DSAs builds on Global South feminist perspectives. A feminist perspective calls for developing approaches to debt sustainability that focus on the sustainability of human life.[146] Such an approach (though not yet fully developed) would center women's rights, human rights more broadly, and environmental considerations into analyses of debt sustainability. This could shift the focus from austerity to investments that support gender equality and human life.

Gender markers or performance targets for sovereign debt restructuring and debt cancellation

Under a gender-informed SDRM, future repayment obligations might be tied to gender markers or performance targets. These would reward countries for progress in connection with establishing gender equality targets or having met certain gender equality performance targets. These should be designed by national policymakers.[147] This might involve rewarding countries up front with debt restructuring, reprofiling, or limited cancellations for committing to make investments in new social programs that support gender equality markers or for having met certain performance targets within a specified timeframe. The gender performance targets might be developed using the approach to human and social development in the United Nations Development Program's (UNDP) annual reports.[148]

Debt swaps for gender equality

In section 6 I discuss the opportunities and especially the challenges associated with debt swaps. Swaps to this point have mostly focused on the protection of natural resources and support for sustainability. There is no reason why debt swaps cannot be structured to support the cancellation of some external debt in exchange for a government's commitment to use the fiscal space created to support investments in gender equality. This would mean tying the swaps to any number of gender markers, such as investment in women's educational access, job training, access to credit, or investments in social infrastructure.

Advocates of debt swaps for gender equality might build upon the example of the debt-for-education swaps that have been used in a few bilateral contexts. These involved "the cancellation of external debt in exchange for the debtor government's commitment to mobilize domestic resources for education spending."[149] Debt-for-education swaps existed between El Salvador and Spain in 2005, Cameroon and France in 2006, and Germany and Indonesia (2000-2006). Momentum around debt-for-education swaps diminished with the 2008 financial crisis and has not been restored since

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146 Bretton Woods Project, statement by Michelle Comas Canas, "Global South Feminist Perspectives and Proposals on Accelerating Climate Finance for Countries Facing Debt Crises," 12 October 2022, https://www.brettonwoodsproject.org/2022/10/global-south-feminist-perspectives-and-proposals-on-accelerating-climate-finance-for-countries-facing-debt-crises/

147 This approach could be adapted to reward other markers that connect to goals around equitable growth, human rights, and sustainability.

148 For an application of this approach to global economic governance, see George F. DeMartino, *Global Economy, Global Justice: Theoretical and Policy Alternatives to Neoliberalism* (London: Routledge, 2000); and for an application to fair trade see George F. DeMartino, et al., "Achieving Ethical Trade through a Social Tariff Regime: A Policy Thought Experiment" *Cambridge Journal of Economics* 40:1 (2016). This social tariff approach provides means and incentives for improvement in human capabilities in ways that support priority heterogeneity and policy autonomy.

149 Cassimon, Essers, and Renard, cited in Hiroshi Ito, Ryosuke Sekiguchi & Toshiyuki Yamawake, Debt swaps for financing education: Exploration of New funding Resources, *Cogent Economics and Finance*, 2018, 6(1) 2018, https://doi.org/10.1080/23322039.2018.1563025, p. 2.

that time. The concerns with debt swaps identified in section 6 pertain equally to debt swaps for gender equality. To my knowledge, no debt-for-gender swaps have taken place to date.

Gender bonds

Gender bonds are an example of social impact bonds. Social impact bonds fall under the broader umbrella of social impact investing. Other types of social impact bonds include "green" (or sustainability) bonds, blue bonds that protect water, bonds that combine both gender and green objectives, or bonds that support other social objectives. There is a great deal of enthusiasm in some quarters for the role that social impact investing in general can play as a source of finance for the Global South. Many organizations including the Institute for Sustainable Development and UN Women (with several partner organizations) have conducted studies of a variety of social bonds, including gender bonds. The case studies conducted in the joint work that came out of this partnership delve into the technical details of how such bonds can be structured and indeed how some have been structured in diverse national contexts by private, public, and multilateral actors, sometimes in conjunction with CSOs.[150]

The project and expenditure categories supported by gender bonds depend on the gender equality objectives of the issuer. A gender bond issued by a national government, national development bank, or a state or local government can be used to implement national or sub-national programs that support gender equality and women's empowerment, such as by increasing access to education, improving the supply of services, and investing in a range of other physical and social infrastructure projects (e.g., childcare facilities, supporting victims of gender-based violence). Multilateral development banks can issue gender bonds. Gender bonds can also be issued by private firms, such as financial institutions. These bonds might capitalize funding platforms that provide loans to women-owned businesses or businesses that make specific commitments to increase the numbers of women hired or appointed to leadership positions. A bond framework document specifies the type of gender bond and the issuer's specific intentions, reporting requirements, and monitoring mechanisms. Depending on which entity is selling the bond, the bond framework document would be prepared by the Ministry of Finance (in the case of a national bond), national or multilateral development bank staff, subnational officials, private firms, or civil society organizations.

Gender bonds can be of two types—"use-of-proceeds bonds" or "key performance indicator bonds."[151] Use-of-proceeds bonds mean that issuers must apply all the proceeds from the bond issue to specific kinds of projects, often aligned with the SDGs. The types of projects to be

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150 See, e.g., Luxembourg Green Exchange, Luxembourg Aid and Development, and UN Women, "Innovative Financing for Gender Equality Via Bonds, Overview and Case Study Series," New York: UN Women, 2023, https://www.unwomen.org/sites/default/files/2023-05/Case-study-series-Innovative-financing-for-gender-equality-via-bonds-Overview-en.pdf, https://www.unwomen.org/en/digital-library/publications/2023/05/case-study-series-innovative-financing-for-gender-equality-via-bonds; Suzanne Biegel, David Uzsoki, Safa Rahim, Gilles Pascual, and Smita Biswas "Integrating Gender Consideration into Sustainable Bonds: A How-to-Guide," International Institute for Sustainable Development, 2023, https://static1.squarespace.com/static/6089294d7cb43b4cffb93591/t/621cbb297e85c74fcd29147a/1646050111342/Integrating+Gender+Considerations+into+Sustainable+Bonds+%281%29.pdf; International Capital Markets Association, UN Women, and International Finance Corporation, "Bonds to Bridge the Gender Gap," November 2021, https://www.unwomen.org/sites/default/files/2021-11/Bonds-to-bridge-the-gender-gap-en.pdf.

151 Discussion in this paragraph draws from International Capital Markets Association, UN Women, and International Finance Corporation, "Bonds to Bridge the Gender Gap," November 2021, https://www.unwomen.org/sites/default/files/2021-11/Bonds-to-bridge-the-gender-gap-en.pdf

supported by bond proceeds are identified prior to the issuance of the bond (e.g., those that have a measurable impact on specific manifestations of gender inequality). Alternatively, gender bonds can be performance based. That means they are designed to encourage the issuer to achieve certain outcomes as measured by pre-established quantifiable, time-sensitive key performance indicators (e.g., increasing options for affordable childcare). With performance-based bonds, the financial characteristics of the bonds are linked to meeting pre-determined benchmarks, such that repayment costs, for example, could fall if targets are met over the lifetime of the bond. Gender bonds are recent innovations in the world of social impact bonds. Sales and analysis of gender bonds generally began in 2020, making evaluations of their efficacy at this time difficult. A modest number of gender bonds were issued a few years earlier. Gender-oriented bonds typically have hybrid features, involving both gender and green goals. Most gender-oriented key performance indicator bonds have not yet matured. It's therefore impossible to assess their efficacy.

A joint report on gender bonds by the International Capital Markets Association, UN Women, and the International Finance Corporation highlights an array of gender markers that have been used or can be used in bonds that feature a gender marker. Many of the bonds surveyed are hybrid social impact bonds. In the use-of-proceeds bonds surveyed, gender markers have included training and coaching for women to increase representation in leadership, developing career development programs to increase representation in the workforce, updating workplace facilities to make them family friendly by providing childcare services, financial services for women, services for women entrepreneurs, programs that help women move from the informal to the formal sector, services that respond to gender-based violence, and programs that support collection of gender and employment data to aid in policy development. In key performance indicator bonds gender-based markers include, for example, reducing the size of gender-based pay gaps in leadership, increased retention rates for women in the workforce, increased availability of childcare, increased proportions of a product or service's users who are women, and increased share of women-owned businesses in the supply chain.

A series of short profiles of social bonds, including gender and hybrid bonds that have a gender component, has been jointly published by the Luxembourg Green Exchange, Luxembourg Aid and Development, and UN Women.[152] I provide some illustrative examples of bond profiles in this series. The Asian Development Bank has issued use-of-proceed gender bonds. These consider five broad dimensions of gender equality and women's empowerment, including increased access to credit by women, access to education, skills development, and technical or vocational training in nontraditional female subjects. The Asian Development Bank has issued 14 gender bonds, beginning in November 2017. These bonds have raised over US$3.65 billion as of March 2022. The Australian Workplace Gender Equality Agency also has sold a gender-based use-of proceeds bond. However, the bond goes beyond gender concerns by excluding firms involved in, e.g., alcohol, military weapons, fossil fuels, and whaling. Other examples of gender bonds--both use-of-proceeds bonds and key performance indicator bonds—are found in Brazil, Finland, Mexico, Morocco, South Africa, Spain, Sweden, and Tanzania. For example, a Tanzanaian commercial bank, NMB, in April 2022 issued a use-of-proceeds gender bond. The proceeds of the Tanzanian bond go entirely to

[152] A link to the full collection can be found here: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwja_omvmqSEAxUfEzQIHX1KC3sQFnoECBkQAQ&url=https%3A%2F%2Fwww.unwomen.org%2Fen%2Fdigital-library%2Fpublications%2F2023%2F05%2Fcase-study-series-innovative-financing-for-gender-equality-via-bonds&usg=AOvVaw1tAiPzoQEixyMkrhxa_qk_&opi=89978449. Details in this paragraph are drawn from this source.

support micro, small and medium sized enterprises that are owned and controlled by women and can boost the development of new women entrepreneurs. In Mexico a gender bond was issued by a public development bank, Fideicomisos Instituidos en Relación con la Agricultura. The bond was issued in April 2021 and is a key performance indicator bond. It provides finance for projects exclusively involving women or led by them. The projects financed fell within the agricultural, fishing, forestry, and rural sectors.

Key issues in the design of gender bonds include identifying the appropriate projects and targets for use of proceeds bonds, benchmarks for key performance indicator bonds, and mechanisms for tracking and reporting on the use of proceeds and performance targets. The goals of both types of gender bonds should focus on longer-term structural transformations that support gender equality over time. Investor objectives realistically cannot be ignored in the design of such bonds. But these objectives cannot trump gender equality goals or, in the case of bonds issued by public entities, cannot be designed in ways that place too great a strain on public finances. National or subnational actors--working with public sector statistics bureaus, UN agencies, other multilateral institutions, and CSOs--should be deeply involved at all stages of the lifecycle of gender bonds.

Performance-based gender bonds are, in my view, preferable to use-of-proceeds bonds. This is because the impact of use-of-proceeds bonds can be diffuse. Gender bonds offer modest promise as a source of finance for countries in the Global South. At best, they are a part of an arsenal of financing tools that could expand fiscal space for some countries over time. To the extent that gender bonds find a market—which may occur over the medium and long run--they can directly create fiscal space for gender equality. They are additive to the development finance landscape rather than transformative. How much potential new funding in the aggregate could flow to the Global South from gender bonds remains uncertain at this time. To my knowledge, there are no data available on the aggregate funds raised worldwide by gender bonds. But we do know that "[o]nly US$17 billion in assets are in gender-labelled financial products globally. This is a tiny fraction of the global sustainable investment universe of over US$40 trillion."[153]

I am also cautious about gender bonds because out of the US$636 billion that went to all forms of social impact investing globally in 2020 (beyond simply social impact bonds), just US$5.3 billion of it went to all investments in gender impact. The US$5.3 billion figure combines gender bonds, private equity, venture capital, *and* microfinance. Moreover, the flow of money to these combined forms of gender impact investment are unequally distributed globally, with the largest share going to the US, Canada, Western, Northern, and Southern Europe.[154] There are to my knowledge no forecasts of the demand-side conditions for the gender bond market. The likely contribution of gender bonds relative to the overall need for large-scale, long-term finance to the Global South seems likely to be small in the coming years, especially for the poorest, smallest countries where needs are the greatest.

Other concerns that I have center around the structure of social impact bonds generally (rather than gender bonds specifically). Most social impact bonds issued by governments in the Global South have been repayable in foreign currencies, sold to foreign investors, and have been slow to take off.[155] That bonds are repayable in foreign currencies gives me pause since this aggravates already

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[153] Biegel, et al. "Integrating Gender Consideration into Sustainable Bonds."
[154] Association for Women's Rights in Development, "Gender Impact Investing and the Rise of False Solutions: An Analysis for Feminist Movements," January 2023, p. 19, https://www.awid.org/report-gender-impact-investing
[155] Andrew Standing, "Sovereign ESG Bonds in the Global South: 10 Questions for Those Concerned About Debt and

existing financial risks in the Global South. It may be that foreign investors will only purchase these bonds if they are repayable in foreign currency. Or, if they are to be repayable in domestic currency, investors would demand an unacceptable risk premium that constrains fiscal space.

Most social impact bonds have been concentrated in middle- and high-income countries.[156] Very few lower-income countries and small island developing states have entered the social impact bond market. The government of Fiji was a pioneer in the Global South when it came to social impact bonds. It issued a green bond in 2017 for US$50 million, followed by one by the Nigerian government for US$29 million. From 2017 through early 2023 at least twenty-one Global South countries issued sovereign social impact bonds, raising approximately US$64 billion.

There are additional reasons to be cautious about gender bonds (and social impact bonds more broadly). They are yet another form of debt at a time of unsustainable debt. Moreover (and as noted previously), evidence suggests that private investors have turned away from Global South markets since interest rates in the Global North began to rise. Interest rates are projected to remain high in the coming years (at least by standards of recent history). This necessarily constrains the demand-side potential of gender and other social impact bonds in the Global South, even in middle-income countries. Finally, gender and other social impact bonds are part of a broader project of financialization and increasingly financialized development promoted by the private financial community, the G-20, and the World Bank.[157] The cure for financialization is not more financialization.

Enthusiasm for private finance--along with that for "blended finance"--distracts attention from structural and historical barriers to development, the ethical obligations of the private sector to shoulder the burdens of the unsustainable debts that they helped to create and profit from, and the essential role of public and concessional finance in addressing "public bads" in the global commons. For the last several years there has been a lot of discussion of and initiatives to "crowd in" private and blended development finance. To date, that finance has not materialized to any meaningful extent.

Gender bonds, as with other social impact bonds, are problematic for another reason. "[M]uch of the money channeled through gender impact investing comes from public money subsidizing private investments, meaning that private actors profit from the fees while taking on little of the risk, all the while drawing public funds that should be going towards public goods and services."[158]

8. *Looking Ahead*

Climate Justice," European Network for Debt and Development, November 2023, p. 6, https://www.eurodad.org/sovereign_esg_bonds_in_the_global_south.

156 Discussion in this paragraph from Standing, "Sovereign ESG Bonds in the Global South."

157 Ilene Grabel, "Critique and Alternatives to 'Making the Global Financial System Work For All,'" October 2018 report of the G20 Eminent Persons Group on Global Financial Governance, Prepared for the United Nations Conference on Trade and Development. Geneva, March 23, 2019, https://ilenegrabel.files.wordpress.com/2019/08/grabel-ilene-unctad-report-march-23-2019.pdf.; Daniela Gabor, "The Wall Street Consensus." *Development and Change*, 2021, 52 (3):429-59; Stiglitz, "Fixing Global Economic Governance."

158 Feminist Action Nexus, Towards Economic and Climate Justice: A Feminist Analysis of Critical Trends, January 2024, p. 29, https://wedo.org/towards-economic-and-climate-justice-a-feminist-analysis-of-critical-trends/. See also Association for Women's Rights in Development, "Gender Impact Investing."

We are standing on the brink in so many respects. I return here to the epigraphs that opened this paper. The world's children do not have to starve to pay the debts of those who came before. Women's equality does not have to be sacrificed any longer. Governments do not have to place the interests of their creditors over the health and welfare of their populations and the planet. *There are alternatives. They are feasible. They are technically sound*. Financial resources, institutions, tools, and the expertise needed to build a better world exist. Crushing debt burdens and limited access to external finance do not have to consign vulnerable countries to a cycle of debt, austerity, and terrible choices. The aspirations and life chances of women and other vulnerable social groups need not be sacrificed at the altar of debt service.

The task ahead involves creating, exploiting, and widening openings for the implementation of the kinds of strategies that I have discussed here. This necessitates sustained engagement, advocacy, coalition building, and a firm grasp of the facts in the face of ideological blinders. As should be apparent, I reject one size fits all solutions to complex problems. Instead, I embrace the idea that permissiveness, experimentation, and the broadest possible toolkit are essential since we face severe challenges and a diversity of lived experiences and national conditions.[159] The chief obstacles are not the absence of workable economic strategies. The obstacles are political and ideological. It's my profound hope that in the coming years the multilateral cooperation that's in such short supply today can be reinvigorated, made more inclusive and supportive of gender equality, and made more permissive of national policy choices and innovations in the service of improving lives and the health of our planet. In the meantime, there is much work to do—and quickly.

In these exceedingly difficult times, we can and should embrace what Albert Hirschman termed "possibilism."[160] Possibilism involves a hard-headed appreciation of the profound challenges we face, while not letting ourselves be overwhelmed by "futilism." We have to look for and exploit all openings for change and coalition building. We have to make the case forcefully in all fora that there is no alternative to bold actions. There's too much at stake and no time to waste for the world to remain stuck on the shores of what cannot be done.

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[159] See the discussion of "permissive multilateralism" in Grabel, "Enabling a Permissive Multilateralisms Approach"; Ilene Grabel, "Post-American Moments in Contemporary Global Financial Governance," in *The Downfall of the American Order? Liberalism's End?*, edited by Peter J. Katzenstein and Jonathan Kirshner, 124-43 (Ithaca: Cornell University Press, 2022).

[160] See the discussion of possibilism and futilism in Grabel, *When Things Don't Fall Apart*,, chap. 2.

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