Sovereign debt owed to private creditors became a burden, involving private creditors in debt relief is one of the key challenges that we currently face. Rich countries and IFIs are co-responsible for the situation: Since the adoption of the Agenda 2030, they have told developing countries to mobilize more money from the private sector. Private finance doesn’t come in form of grants, but too often as high-interest loans. The “private finance first”-dogma has driven many developing countries into a debt trap.

Private creditor participation in debt relief is absolutely essential:

- **To create more fiscal space**: Recent UNDP research found that in 2020, LICs eligible for the DSSI have paid 15bn USD in debt service to private creditors; 30% of total debt service. But, other developing countries paid 242 bn USD to private creditors, 75% of the total. Unless we include private creditors in debt relief, we don’t get the fiscal space that we need. The DSSI in comparison generated only 5bn USD in savings in 2020.

- **To ensure fair burden sharing among creditors**: So far only bilateral creditors are shouldering debt relief. And new ODA, new World Bank lending, and even the new IMF SDRs are partly wasted to bailout private creditors.

- **Because they have already been paid for it**: Private creditors have charged high risk premiums on their loans and bonds, often interest rates of 10% or even more. The losses they might face in future periods have already been covered by the debtor countries in previous years.

We need more effective institutions to make this happen:

- **The DSSI failed in this regard**: The Common Framework is not yet tested. In any case, the Common Framework puts all the burden on debtor countries – which lack power and negotiation capacity to take on the powerful creditors.
- **The international community** must ensure private creditor participation.
- **All countries must pass vulture funds legislation**, as committed in paragraph 100 of the AAAA, which has been adopted by consensus in 2015. It is very worrying that 6 years later, no progress has been made.
- **The Sovereign Debt Forum** that was mentioned in the zero draft of the FfD Forum outcome document had been an incremental step to improve the debt architecture. There is currently no permanent space where debtor countries can participate on equal footing in debates on debt architecture. Neither is there a space where all creditors can convene for a debt restructuring. It is also very disappointing that it did not make it to the final (current) version of the draft.

In the optimal case, the International Financial Architecture would include a **multilateral legal framework for sovereign debt restructurings**, and a **Debt Workout Institution**. Sovereign debt remains the only category of debt that is not covered by insolvency law, and for which there is no insolvency court. This state of anarchy must end. As the negotiations are still ongoing, I hope we can see at least some incremental progress at this year’s Financing for Development Forum.