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PUBLIC LOANS, PRIVATE GAINS

Addressing corruption across the debt cycle

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Public Loans, Private Gains

Addressing corruption across the debt cycle

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INTRODUCTION

BACKGROUND

The rising levels of public debt, especially in developing countries, have exposed deep vulnerabilities in both the international financial architecture and domestic public financial management systems. Public debt levels have significantly increased globally over the past decade, as has the cost of servicing debt. United Nations Trade and Development (UNCTAD) reports that globally, public debt reached US$102 trillion in 2024, up from US$97 trillion in 2023, signifying escalating budgetary difficulties in both developed and developing nations.[1] The cost of servicing debt is also increasing. The World Bank notes that the cost of servicing developing country debt rose by five per cent in 2021 and 2022 alone.[2] Interest rate payments of developing countries have increased sharply. According to UNCTAD, 48 countries spend more on interest payments than on essential services like education or health care.[3] In total, 3.3 billion people live in countries with higher debt servicing costs than education or health care spending.[4]

This has led to a profound trade-off: governments must choose between honouring debt obligations and investing in essential public goods. Most African countries, for example, spend more than 30 per cent of their domestic income on debt servicing, with some topping 50 per cent or more.[5] The implications are especially grave in the context of climate change, where debt-financed adaptation and disaster response measures often crowd out long-term development priorities. The frequency of natural disasters, such as hurricanes, floods and rising sea levels, is increasing the costs of disaster recovery, pushing more countries to incur more debt. Projected climate financing needs are set to rise from US$8.1 trillion to US$9 trillion annually until 2030, with expectations that they will surpass US$10 trillion per year from 2031 to 2050.[6] Natural disasters are forcing Small Island Developing States (SIDS), including those in the Pacific region, and other climate-vulnerable countries, such as those in the V20 group, to borrow more.

While much attention has been paid to the rising levels of debt and escalating debt servicing costs in developing countries, an equally pressing but often underexplored dimension of the crisis lies in the persistent weaknesses that enable opportunities for corruption in public financial management (PFM) and debt management systems – a systemic challenge that demands urgent attention. PFM "encompasses the mechanisms through which public resources are collected, allocated, spent and accounted for. These mechanisms include budgeting, procurement, debt management, and financial reporting, among others".[7] When these systems are weak or poorly enforced, they allow for opaque borrowing practices, including off-budget loans, the diversion of public funds, and limited oversight of public expenditure. These vulnerabilities are not isolated domestic issues; they are deeply embedded within and exacerbated by shortcomings in the international financial architecture, which often fails to enforce robust standards of disclosure, creditor coordination and responsible lending.

Weaknesses in transparency and accountability across PFM systems create critical entry points for abuse, enabling off-budget borrowing, misallocation and embezzlement of funds, and the evasion of oversight. These vulnerabilities are often exploited not only by domestic actors, but also through the complicity or neglect of creditors who continue to lend in opaque environments – sometimes bypassing standard due diligence or undermining local accountability mechanisms. Opacity across the debt cycle – resource mobilisation, contracting, disbursement, servicing and restructuring – not only obscures the true size and risk of public debt, but also actively undermines trust in public institutions. In many instances, unaccountable borrowing – such as loans that bypass parliamentary approval, are off-budget or are collateralised with public assets – has led to major governance failures.

This opacity also creates fertile ground for corruption. The International Monetary Fund (IMF) notes that "Poor governance and the lack of transparency offer greater incentives and more opportunities for corruption – the abuse of public office for private gain".[8] In the context of public borrowing, hidden loans and fragmented oversight structures enable collusion, kickbacks and embezzlement, particularly when intermediaries like state-owned enterprises (SOEs) are used to avoid direct accountability. Weak PFM systems, inadequate legal frameworks, and political incentives to conceal debt or misallocate funds have all contributed to this problem. In such environments, corruption becomes embedded in the debt process itself, distorting how resources are mobilised, allocated and reported. Where debt data is fragmented, outdated or incomplete, debt sustainability assessments become unreliable, hindering early intervention and appropriate fiscal planning. This also makes it nearly impossible for legislatures, auditors, civil society or markets to hold decision makers accountable, in addition to undermining investor confidence and weakening a country's creditworthiness.

These governance challenges are compounded by the shifting composition of creditors. The growing reliance on non-traditional lenders – such as Chinese state-owned banks or private bondholders, often falling outside established debt resolution structures such as the Paris Club of creditor countries – has introduced new risks of hidden debt and opacity in debt negotiations. These are mostly linked to non-disclosure of loan terms and the lack of coordination in debt restructurings. In 70 emerging markets and developing economies (EMDEs), for instance, most official bilateral debt is now owed to non-Paris Club creditors. China, in particular, has emerged as the largest official bilateral lender, holding the majority of debt for 42 out of the 68 countries that were eligible for debt suspensions under the Debt Service Suspension Initiative.[9] Concerns have been raised about the transparency of Chinese financing, and whether these loans are tied to projects that benefit the local population and do not adversely impact the environment.[10] This shift in creditor composition has also increasingly coincided with the greater use of resource-backed collateralised debt instruments, in which loan repayments are tied to exploitation of natural resources like oil, gas or minerals. Collateralised loan agreements may diminish governmental budgetary flexibility, deepen resource reliance, and worsen inequality by reallocating public income from people to debt payments. This issue is especially prominent with newer creditors, particularly those tied to China's Belt and Road Initiative (BRI) and other large-scale infrastructure programmes.

Despite international recognition that excessive debt exacerbates poverty and inequality, insufficient attention has been given to the role of corruption and governance failures in deepening debt-related vulnerabilities.[11] In many developing countries, weak transparency and accountability in PFM create fertile ground for inefficiencies, corruption, illicit financial flows and opaque fiscal mismanagement, directly exacerbating debt crises. For example, Mozambique's "Tuna Bond Scandal" in 2016 is one of the leading examples of debt-related corruption, involving a complex web of collusion between high-level politicians and officials from foreign banks to secure and conceal illicit loans amounting to over US$2 billion – approximately 12 per cent of the country's GDP. Central to the hidden nature of the debt was that the loans involved were obtained without the required parliamentary approval or any proper disclosure to the IMF, and violated the International Development Association's policies, the Constitution of Mozambique and the country's budgetary transparency laws.[12] The loans were purportedly aimed at financing maritime security and a tuna-fishing project for newly established SOEs. The transactions involved major bribes, including US$200 million paid to the Privinvest Group and US$50 million paid to Credit Suisse bankers.[13]

Free from proper oversight, the loans were misappropriated, resulting in a heavy social cost. The consequences of this corruption scandal have been far-reaching, with estimates suggesting that the financial toll well exceeded US$11 billion.[14] Mozambique's 2014 debt level was initially reported as US$7.1 billion. However, with the revelation of the previously undisclosed loans, this amount was revised to US$8.5 billion.[15] The scandal highlighted several critical governance failures. The loans were issued under opaque conditions, bypassing the necessary public scrutiny, and much of the money disappeared through corrupt procurement practices. When the loans defaulted, Mozambique plunged into a severe debt crisis, leading to cuts in public spending and deep economic distress for the population.[16] The case has been described as unique because, beyond the procedural irregularities, "it was effectively a conspiracy involving foreign banks, businessmen, local politicians, and civil servants to engage in fraudulent practices".[17]

Zambia's 2020 sovereign debt default is another example that underscores the critical role of transparency and accountability in PFM. The default was not solely a result of economic shocks, but was significantly influenced by the accumulation of undisclosed loans and a history of financial mismanagement and corruption.[18] Zambia defaulted on its external debt in the wake of the Covid-19 pandemic in 2020, and formally sought debt restructuring under the G20's Common Framework for Debt Treatments, a mechanism designed to support low-income countries. A lack of transparency in the debt reporting process made it extremely difficult to conduct debt sustainability assessments, which led to gaps in knowledge of the true extent of the country's debt issues. By 2020, its actual debt levels were significantly higher than previously disclosed, complicating efforts to negotiate debt relief with international creditors. The World Bank's International Debt Report 2022 initially estimated Zambia's external public and publicly guaranteed debt for 2021 to be US$12.5 billion.[19] However, this was then amended to US$15.7 billion, a rise of US$3.2 billion or approximately 14 per cent of the country's GDP.[20] Concerns were raised not only about the difficulties in acquiring loan statistics and information on their terms and conditions, but also related to contracts awarded without competitive public tendering and "accusations regarding 'gifts' and corruption".[21] The IMF's 2023 Governance Diagnostic Report for Zambia identified serious corruption risks across all state functions, and highlighted focus areas of particular vulnerability, including PFM.[22]

Sri Lanka's debt crisis also demonstrates how a lack of transparency and accountability in public borrowing and a history of corruption can contribute to fiscal collapse. Over the past decades, the country has relied heavily on extensive public borrowing, often characterised by opaque bilateral and commercial loans, to fund unproductive infrastructure projects. These loans raise concerns about the lack of rigorous parliamentary oversight, competitive bidding for projects, and disclosure of loan terms and economic impacts of debt – for projects that offer limited economic returns but saddle the country with high-interest loans. Non-transparent borrowing and systemic governance failures created a fertile ground for the country's debt default in May 2022 and its loss of access to international financial markets. More broadly, Sri Lanka's debt crisis was linked to allegations of corruption, lack of transparency and fiscal mismanagement.[23] In support of this, a 2023 statement by 182 leading academics on the crisis notes that: "In addition, the lack of transparency of the debt negotiation process and accountability of the holders of ISBs [international sovereign bonds] underscores the concern that risky lending to corrupt politicians (leading to what is now recognised as "odious debt") was a significant element in generating the current debt crisis. Apart from revealing the identity of ISB holders, it is also important to disclose how ISBs were deployed, and the use of those funds."[24] The governance shortfalls include the weakening of critical oversight institutions, such as the Audit Service Commission, the Commission to Investigate Allegations of Bribery or Corruption, the Public Service Commission, the National Police Commission, the Finance Commission and the Delimitation Commission, all of which have seen their independence eroded.[25] The diminished effectiveness of these institutions has contributed to the misallocation of public resources, weaker fiscal discipline and a broader decline in public accountability.

As these examples show, there is a greater probability of corruption where there are opaque loans and weak supervision, and when the borrower-creditor relationship exists outside public scrutiny.

METHODOLOGY AND OUTLINE OF THE PAPER

This paper seeks to unpack the complex interplay between public debt, corruption and governance deficits. It provides an overview of emerging debt trends, systemic vulnerabilities and policy responses, with an emphasis on transparency and accountability. Drawing on a wide-ranging literature review, policy analysis and selected country case studies, it synthesises data and insights from multilateral institutions, civil society organisations (CSOs), academic research, government audits and investigative journalism. It does not represent original fieldwork but aims to provide a comprehensive analytical overview to inform advocacy and policy dialogue.

The paper begins with an introduction that sets out the background and context, followed by an examination of corruption risks across the sovereign debt cycle, including how weak transparency and accountability mechanisms enable misconduct during contracting, implementation and restructuring. Section 3 then presents two country case studies, Ecuador and Papua New Guinea, to illustrate how corruption vulnerabilities manifest in practice, including in innovative financing instruments like debt-for-nature swaps. Section 4 examines the main lessons that can be learnt from existing transparency and accountability initiatives led by international financial institutions, private creditors, CSOs and national governments. The final section offers recommendations to strengthen safeguards in sovereign debt governance, and an annex provides a detailed mapping of the transparency and accountability initiatives reviewed.

CORRUPTION RISKS IN DEBT MANAGEMENT AND RESTRUCTURING

CORRUPTION RISKS IN THE SOVEREIGN DEBT CYCLE

Corruption risks in borrowing arise when loans are mismanaged, lack transparency or are influenced by unethical practices. Such risks are not confined to a single phase of the borrowing process but can be embedded throughout the entire debt cycle – contracting, management during the debt arrangement or related project, and restructuring. Understanding the points at which these risks emerge, and the factors that may enable them, is important to improve debt governance systems.

Understanding corruption risk in public borrowing

Corruption risks in public borrowing include “bribery, nepotism, collusion and fraud”.[26] They also include broader transparency-related issues that enable opportunities for corruption, such as undisclosed terms, hidden liabilities and the absence of adequate public or parliamentary scrutiny. Bribery and kickbacks, for instance, may more commonly occur during the debt negotiation phase, where government officials may accept illicit payments from lenders or contractors in exchange for project approval and more favourable loan conditions.

Lack of transparency and accountability in loan agreements also creates significant risks. Governments may sign secretive agreements with undisclosed terms, entailing hidden financial liabilities that evade public scrutiny. In some cases, these may be obtained without the necessary approvals, circumventing all oversight mechanisms. Different types of debt instruments and creditors have varying levels of debt transparency.[27] For example, disclosure requirements in capital markets make privately held bonds more transparent than privately held loans. Multilateral debt, on the other hand, such as that from the World Bank or the IMF, is generally seen as more transparent, due to the disclosure requirements of such organisations. Bilateral debt from traditional Paris Club lenders falls in the mid-range of transparency. In contrast, non-Paris Club debt – especially from newer, non-traditional lenders – is sometimes seen as less transparent, due to the limited public availability of information on the terms, and the inclusion of confidentiality clauses that hinder the disclosure of the loan agreement conditions, or even the existence of the loan itself.[28]

Another manifestation of corruption is the contracting of unsustainable debt linked to projects that are not cost-effective, do not offer value for money or do not benefit the public. These so-called “white elephant” projects may result in debt being allocated to political initiatives, officials’ personal gain or bad projects, rather than true development. The misuse of emergency loans also poses significant governance challenges. As seen during the Covid-19 pandemic, loans intended for emergency assistance or disaster response may be misappropriated and redirected towards unauthorised expenditure or embezzled for personal gain.

Risks at different stages of the sovereign debt cycle

The public debt borrowing lifecycle can be divided into three broad stages: 1) debt contracting, where the borrower determines the funding needs, mobilises resources and negotiates debt terms with lenders, 2) debt management, which involves monitoring debt levels, ensuring timely repayments and mitigating risks, and, in some instances, 3) debt restructuring, where debt terms are renegotiated. Implementing effective safeguards to promote integrity in sovereign debt practices requires understanding of the unique challenges and risks at each stage, especially regarding transparency and accountability.

Debt Contracting

In the debt contracting phase, governments assess their funding needs, engage in negotiations with lenders, and enter into agreements or issue bonds. Among the key terms that need to be set include interest rates, maturity periods and repayment schedules. This stage presents various risks, especially in the context of direct negotiations or the process of obtaining project approvals. Opaque negotiations create fertile ground for corruption by allowing deals to be brokered without adequate public scrutiny, parliamentary oversight or competitive bidding, enabling inflated contracts, kickbacks or politically motivated borrowing.

Addressing corruption risks requires establishing robust transparency and accountability mechanisms. These include frameworks that relate to the debt and contractual disclosure; independent and timely oversight by third parties, like national parliaments and the public, and rigorous anti-corruption measures – such as mandatory audits, whistleblower protection laws, strong conflict of interest rules for public officials in debt negotiations, and anti-corruption clauses in loan agreements. Corruption prevention also requires strengthening integrity standards among lenders, and promoting responsible lending practices, which could include enhancing due diligence obligations and ensuring compliance with anti-bribery laws. Strengthening the regulatory frameworks for both borrowers and creditors is essential. As seen in Mozambique's hidden debt scandal, corruption was caused not only by weak oversight and accountability deficits in the public debt management, but also by private financial institutions, which played a direct role in enabling opaque and illicit borrowing, and by the absence of adequate integrity controls among lenders. Beyond controls set by the lender and the borrower, public scrutiny by CSOs, citizens and the media can examine the effectiveness of these agreements in promoting the public interest. Third parties like parliament and audit institutions also provide independent oversight that evaluates whether debt agreements align with national priorities and legal obligations.

Debt Management

This phase encompasses the process of administration and servicing debt, including making interest and principal repayments, closely monitoring debt levels, and effectively managing associated risks. These processes involve risks pertaining to debt disclosure and accountability in the use of funds. Inaccurate reporting of debt levels and the manipulation of data create opportunities for corruption by obscuring the true scale of public liabilities and enabling the mismanagement or unauthorised diversion of funds. When debt data is concealed or distorted, this limits oversight by parliaments, auditors and the public, allowing funds to be used without accountability, and increasing the risk of off-the-books borrowing, illicit financial flows (IFFs) and the misuse of loan proceeds. Combined with the scale of IFFs, these dynamics severely erode the fiscal space available for essential public investments, increase debt burdens without corresponding economic growth, and perpetuate cycles of dependency and underdevelopment.[29]

A lack of accountability stemming from weak oversight by key national institutions in the borrower country – such as parliaments, supreme audit institutions, debt management offices and anti-corruption agencies – amplifies corruption risks throughout the debt cycle. Several measures can enhance transparency and accountability during this phase. Disclosure of debt, including details on debt levels, repayments terms and the allocation of borrowed funds, allows for external scrutiny. Independent audits are essential for identifying and addressing inefficiencies or instances of corruption. Additionally, involving CSOs and other stakeholders in the oversight of debt management practices promotes accountability and introduces new perspectives that can enhance governance.

Debt Restructuring

This involves renegotiating the terms of debt to facilitate more manageable repayments and prevent the risk of further or potential default. This process, which may include extending repayment periods, reducing interest or principal debt, or partial debt forgiveness, is essential for countries experiencing financial difficulties. As in the previous phases, there are several corruption risks that can worsen financial issues and undermine the effectiveness of the restructuring process. Governments may engage in opaque dealings with creditors in which information is not shared equitably among all parties involved. The lack of transparency can encourage corrupt activities, as certain parties may leverage their access to privileged information to negotiate more favourable terms that ultimately undermine the public interest. To mitigate these risks, it is essential to enhance transparency and accountability in the debt restructuring phase. Full disclosure of restructuring agreements permits public scrutiny, which is essential for fostering trust and ensuring that the terms are fair. Institutions with an oversight role – such as parliament, audit committees and the office of the attorney general, as well as independent bodies to oversee restructuring negotiations and agreements – may provide additional checks and balances. These organisations may review the terms, assess their fairness and ensure negotiations are in the public interest.

Debt Swaps

While debt swaps are not a formal step in the debt cycle, they are situated within it, typically during restructuring processes or in the aftermath of a default, when alternative solutions are explored to reduce debt burdens and align repayment with broader policy goals. They are intended to reduce debt burdens while promoting sustainable development. Their inclusion in this paper signals their rising importance in sovereign debt discourse, and their specific relevance to the Ecuador case study outlined in Section 3.

Debt-for-nature and debt-for-climate swaps have been used in various countries such as Barbados, Belize, Cabo Verde, Ecuador, Gabon and Seychelles.[30] Countries that are also exploring the use of swaps include Kenya and Sri Lanka. Swaps linked to environmental and social outcomes seek to convert a portion of their debt into commitments to fund environmental conservation, social welfare or related projects. However, these instruments have faced criticism for providing limited debt relief and for their complexity, which can obscure governance and negotiation processes and increase vulnerability to corruption. This vulnerability is further compounded by weak accountability mechanisms and the absence of robust monitoring systems to ensure that the resulting resources are effectively channelled into climate resilience, adaptation or mitigation efforts.

CSOs have raised concerns about the lack of transparency and the financialisation of environmental resources in the use of debt-for-nature swaps, and their inefficacy in providing much-needed debt relief. Julie Segal, climate finance manager at Environmental Defence Canada, argues that the debtor relationship inherent in such deals can impede local, needs-based solutions.[31] Tess Woolfenden of Debt Justice also questions the efficacy of debt swaps, calling them a “distraction” from structural solutions like large-scale debt cancellation.[32] Climate Action

Network echoes these concerns, emphasising that debt swaps "rarely cancel significant debt" and may not offer the comprehensive relief that vulnerable countries require.[33]

Vulnerabilities in negotiations for debt swaps

Debt swap agreements often involve complex negotiations between creditors, governments and third-party institutions, such as development banks or international organisations. Issues arise when these negotiations are opaque, which increases corruption risks. In this respect, governments may in some cases not disclose the terms of these agreements to the public, which can further enable corrupt practices. Such transparency issues have arisen in Kenya, for example, which has identified debt swaps as a tool in its debt management. However, there has been minimal transparency or public disclosure, even in the initial phases of these instruments' use. Afronomicslaw and the local CSO Wanjiru Gikonyo have brought a case against the Kenyan government under Article 30 of the East African Community Treaty, which allows non-governmental organisations (NGOs) and individuals to file cases in the regional court. Afronomicslaw notes that the complaints related to violations of the "EAC Treaty and Kenya's domestic constitution (Constitution of Kenya, 2010) and laws on the principles of the rule of law, good governance, transparency, accountability, democracy, and participation of the people".[34] The complainants requested that the court mandate the Kenyan government to disclose comprehensive information about its debt swap arrangements. They sought transparency on the nature and terms of the arrangement, including financial and legal details; the actors involved, such as financial advisors, NGOs and banks; the expected use of the proceeds from swaps, and the extent of public participation in these arrangements.[35]

In a joint statement, the complainants state that in its defence regarding the complaint process, the Kenyan government contends that simply publishing information about the debt-for-nature swaps fulfils the requirements of transparency and good governance principles.[36] Additionally, in its response to this case, the government disclosed for the first time that it has "received a proposal related to debt-for-food security from the World Food Programme (WFP), which necessitates a guarantee from the Development Finance Corporation (DFC) and the involvement of an advisory firm for a bond issuance".[37] This marks a significant step in clarifying the government's interactions and commitments related to debt swap arrangements, and also highlights the transparency concerns.

Transparency and accountability issues in projects associated with debt swaps

Another major corruption risk in debt swaps is in the implementation phase of agreed projects. Once a debt swap has been executed, the funds that are freed are supposed to be redirected to development or environmental projects. However, weak budgetary and legal oversight in debtor countries can lead to misappropriation or misallocation of these funds. Contexts in which civic space is limited are particularly vulnerable to these risks.

ISSUES IN THE DEBT LANDSCAPE THAT ENABLE CORRUPTION

For developing countries, weaknesses in the legal, institutional and operational frameworks compromise debt transparency and public financial management, limiting accountability and enabling opportunities for corruption across the sovereign debt cycle – as shown in the section above. Strengthening transparency and accountability in debt management and broader public financial systems is essential for improving fiscal oversight and reducing corruption risks. However, these risks are also exacerbated by capacity constraints and governance challenges, such as inadequate financial resources, weak information systems and poor communication among government agencies.[38] Such shortcomings impede the ability to properly record and report public debt, thereby reducing transparency and limiting accountability. Several factors exacerbate these issues in the debt landscape:

Structural drivers of corruption risks in public borrowing

Weaknesses in the domestic legal and institutional framework of borrowing countries play an important role in enabling corruption in public borrowing. Inadequate legislative and regulatory frameworks frequently present major obstacles for low-income and developing countries (LIDCs) in their efforts to manage and report public debt. The absence of robust laws and regulations impedes their ability to effectively compile, report and manage their sovereign debt. Another major issue is the inadequate flow of information between and within various governmental agencies, which results in fragmented and incomplete data on public debt.[39] The technological infrastructure necessary to support efficient data management is also often lacking, further complicating efforts to maintain accurate records. A review of 60 EMDEs and LIDCs by the IMF revealed that less than half have laws requiring the development of medium-term public debt strategies, annual borrowing plans or the public disclosure of debt data.[40] The issues identified included:

- Narrow legal definitions of public debt that exclude obligations by SOEs or special-purpose vehicles.
- Insufficient disclosure mandates, allowing significant public debt to remain off the books.
- Vague borrowing authorisation processes, with unclear mandates for oversight bodies.
- Discretionary confidentiality rules, which give officials broad powers to withhold contracts on the grounds of national security.
- Poor inter-agency coordination, limited technical capacity and under-resourced debt management offices.[41]

While domestic institutions must play a leading role in enforcing transparency and accountability – through instruments such as debt audits, public debt management agencies and anti-corruption commissions – the international financial architecture also bears significant responsibility. Lenders, particularly bilateral and private creditors, must integrate anti-corruption provisions into loan agreements, conduct meaningful corruption risk assessments as part of debt sustainability analyses, and avoid confidentiality clauses that obscure contractual terms. For example, some Chinese loan contracts have included clauses that limit disclosure, undermining principles of transparency. In addition, lenders should proactively disclose debt information, engage with CSOs during country assessments, and align their practices with global norms for responsible lending and borrowing. Ensuring debt serves the public interest requires shared accountability across borders and institutions.

Lack of available statistics and reliable debt data

International Financial Institutions (IFIs), governments and private stakeholders rely on accurate data to assess debt sustainability, track repayment schedules and ensure compliance with legal requirements. Unreliable data hinders the ability of governments and creditors to make informed decisions and can lead to mismanagement of public debt. Public debt data remains fragmented and inconsistent, often due to varying reporting frameworks and methodologies. A fifth of all LIDCs and middle-income countries do not regularly publish public debt data, and in some cases, data is more than two years old.[42] These disparities create legal uncertainty, especially when governments revise previously reported debt figures. Between 2018 and 2022, the World Bank's International Debt Statistics (IDS) database identified nearly US$600 billion in previously unreported public debt, divided almost evenly between private and official creditors.[43]

The problem of hidden debt

At the core of the issue of debt reporting is "hidden debt". This refers to undisclosed liabilities that can arise from several legal and financial mechanisms. The Collaborative Africa Budget Reform Initiative highlights that hidden debt includes:[44]

- **Borrowing from non-traditional creditors (both bilateral and private) that may have lower transparency.** Borrowing from non-traditional creditors – such as emerging bilateral lenders like China, and private commercial bondholders – has increased in recent years, often outside the more established norms and frameworks of transparency and accountability. Unlike traditional multilateral institutions such as the IMF or the World Bank, and Paris Club bilateral lenders, which operate under standardised disclosure and information-sharing frameworks, these newer creditors are not bound by the same transparency frameworks or information-sharing requirements. The result is that loan terms are at times undisclosed or embedded in complex legal arrangements, creating legal ambiguities around repayment obligations and collateral. This opacity can obscure the country's actual debt exposure, complicate risk assessments, amplify corruption risks and undermine efforts to coordinate timely and fair debt restructuring when repayment difficulties arise.
- **Contingent liabilities** that may arise when governments issue guarantees for public-private partnerships (PPPs) or SOEs without fully disclosing them, creating liabilities that only surface when the guarantee is triggered.
- **Collateralised borrowing** gives creditors preferential rights to specific assets, such as commodity exports or future revenue streams. These arrangements can pose legal risks if they are not properly disclosed or if they contravene national debt management laws.
- **Use of special purpose vehicles (SPVs):** SPVs are sometimes employed to keep debt liabilities off a government's balance sheet. These off-balance-sheet transactions are often difficult to track, further complicating efforts to assess a country's total debt exposure.

Challenges from the use of SOE structures and other complex financing arrangements

The growing prevalence of complex financial instruments, such as debt-like instruments and commodity-based lending, coupled with the opaque financial records of SOEs, can obscure the true scale of government debt.[45] SOE debt has risen sharply in past decades. While the role of SOEs is very prominent, especially in LICs and emerging markets, the accounting and reporting practices related to their debt are weak.[46] In some countries, SOE bonds account for one third of all emerging market sovereign hard-currency debt.[47] The issue with this prominent debt is that even when it is not explicitly guaranteed by the government, the state is not protected from fiscal risk. It is possible for governments to take on SOE debt obligations even without prior knowledge of the debts. In other cases, governments that have maintained relatively low official debt levels have done so by arranging for SOEs to acquire debt, with implicit or explicit sovereign guarantees reassuring private investors.

Similarly, collateralised debt, which has become more common in low- and lower-middle-income countries, has raised transparency and accountability concerns. These arrangements exacerbate debt problems. In countries with debt crises, such as Angola, Chad, Ecuador, Republic of Congo, Venezuela and South Sudan, collateral or collateral-like arrangements contribute to their debt issues.[48] When it comes to transparency of these collateralised debts, only half the commodity-backed loans identified in Sub-Saharan Africa were reported under the World Bank's Debtor Reporting System.[49] PPPs are another area lacking debt transparency. These arrangements, which typically involve some form of public guarantee or payment commitment, rarely appear in public debt databases. Depending on the risk-sharing agreement between the public and private parties, PPP contracts can generate either contingent or direct liabilities for the government.[50] Approximately one third of LICs do not report guarantees issued by the public sector, and fewer than 10 per cent report SOE debt.[51] The failure to disclose these liabilities may lead to the accumulation of hidden debt, which can eventually become explicit government debt, potentially violating national fiscal responsibility laws or international borrowing agreements.[52]

Fail31ure to disclose the legal provisions of debt

Governments often lack transparency in reporting their loan agreements, making it difficult to understand the terms, conditions and repayment structures. Compounding this problem are the non-disclosure and confidentiality clauses commonly included in debt contracts. While these provisions may seek to protect sensitive information, they can severely restrict transparency and hinder public scrutiny in matters of substantial public interest. Issuing sovereign debt is a public activity with far-reaching ramifications for the general population. The use of non-disclosure clauses in these contracts conflicts with the need for openness and accountability and may limit the granularity of published data.[53]

The Kenya Mombasa-Nairobi Standard Gauge Railway Project, funded by loans from the China Exim Bank, has been under scrutiny due to the confidentiality of its loan terms. The Kenyan government refused to disclose key details about the loan agreement, including repayment conditions and information on collateralisation, despite public demand. This lack of transparency raised concerns that Kenya could potentially lose control of strategic assets, such as Mombasa Port, if it defaults on the loan. The Kenyan government had entered into a US$5 billion loan arrangement with China, which only came to light when Kenya's transport secretary, Kipchumba Murkome, disclosed the documentation in November 2022.[54] This project involved constructing a 600-kilometre railway connecting the port city of Mombasa to Naivasha. The project has also faced criticism for the underutilisation of the railway and failure to generate the expected revenue or drive the economic development initially promised.[55] The loan agreement included a confidentiality clause (see Box 1 below).

Box 1: Confidentiality clause in the Buyer Credit Loan Agreement between the Export-Import Bank of China and the Government of the Republic of Kenya for the Kenya Mombasa-Nairobi Standard Gauge Railway Project[56]

17.7 Confidentiality The Borrower shall keep all the terms and conditions hereunder or in connection with this Agreement strictly confidential. Without the prior written consent of the Lender, the Borrower shall not disclose any information hereunder or in connection with this Agreement to any third party unless required by applicable law.

Another debt agreement cloaked in secrecy is the US$200 million loan from China Eximbank intended for the expansion of Uganda's Entebbe International Airport. This loan contract included a confidentiality provision that hindered public scrutiny, even amid rising concerns regarding the country's potential default. Additionally, there were widespread rumours suggesting that Uganda's sole international airport had been used as collateral, raising fears that it could be seized by the lender in the event of non-repayment.[57] In 2022, the organisation AidData made the unredacted version of this contract public, shedding light on the situation. The released document clarified that Entebbe Airport itself was not a collateral asset that the lender could seize on default. However, it indicated that China Eximbank required the borrower to provide a fully liquid source of collateral that could be unilaterally seized in case of repayment failure. Although the concerns about the collateralisation of the airport proved unfounded, the situation was complicated by the initial lack of transparency regarding the contractual terms.[58]

CASE STUDIES: ECUADOR AND PAPUA NEW GUINEA

ECUADOR'S GALAPAGOS ISLANDS DEBT-FOR-NATURE SWAP

Ecuador's fiscal landscape has long been shaped by substantial external debt and the volatility of global commodity prices. As of 2022, the country's external debt stock soared to approximately US$60.7 billion, up from US$15.4 billion in 2010.[59] This increase highlights the critical need for effective debt management strategies, especially given Ecuador's dependency on both domestic and foreign currency borrowing, with a large portion of debt owed to international creditors and multilateral organisations. One of those strategies should be to understand how corruption and mismanagement have shaped the debt landscape, especially with respect to opaque debt transactions, weak financial governance structures and unsustainable borrowing practices. There have been concerns over the correlation between debt and corruption since as early as 2007, when the country's foreign debt stock was 40 per cent of GDP. In 2008, Ecuador formed an independent audit commission to scrutinise the legitimacy and legality of all lending between 1976 to 2007, and determine the sources of those debts, including privately held debt.[60] Among the conclusions of these audits was the view that the high debt stock was in large part a result of "corruption, lack of transparency and 'shady' deals that did not benefit the people of Ecuador".[61] On the basis of the audit findings, the government ultimately defaulted on US$3.2 billion of commercial debt – a move that still shapes Ecuador's debt governance approaches today. This unprecedented and controversial act challenged traditional norms of creditor-debtor relationships by reinforcing the state's sovereign right to question the fairness and legitimacy of existing debt, and defaulting where debt is tainted by corruption and unjust terms.

More recently, Ecuador still faces challenges with corruption, as reflected in global corruption indexes. The public sector has been involved in various high-profile scandals about mismanagement of public funds, illicit financial flows and procurement irregularities. Ecuador ranks 121 out of 180 countries assessed in Transparency International's Corruption Perceptions Index, with a score of 32 out of 100.[62] Amid rising public debt, the country also faces an urgent need for investments in climate resilience and biodiversity conservation. This confluence of debt and environmental requirements has prompted Ecuador to develop new financial products, such as debt-for-nature and debt-for-climate swaps. These are structured agreements that allow countries to reduce their debt burdens in exchange for commitments to conservation and sustainable development. Such initiatives seem especially appropriate for Ecuador, home to some of the world's most diverse ecosystems, including the Galapagos Islands and the Amazon rainforest.

The country's May 2023 debt-for-nature swap agreement was hailed as a landmark in conservation finance, being the largest of its kind, valued at over US$1 billion, and setting a precedent for other nations exploring sustainable debt solutions. Through this arrangement, Ecuador converted a portion of its high-cost debt into lower-cost "blue bonds" – specifically designed to raise funds for marine conservation projects – scheduled to mature in 2041. An estimated US$323 million in projected conservation funds would be disbursed over 18.5 years through the Galápagos Life Fund, to support conservation efforts in the Galapagos Islands' fragile ecosystems (including the Galapagos National Park, the Galapagos Marine Reserve and the newly established Hermandad Marine Reserve, encompassing a total of 198,000 square kilometres of protected marine habitats). While this landmark swap was intended as a pathway to ease Ecuador's debt burden and channel resources into protection of the Galapagos Islands, more scrutiny is needed in light of criticisms of governance and transparency. The swap may be presented as a win-win arrangement, but it remains important to assess how it alleviates fiscal pressures and delivers tangible outcomes for local populations. In addition, the governance structure of the Galápagos Life Fund has raised concerns. With a board dominated by non-state actors such as private foundations and NGOs, civil society groups have questioned the limited involvement of Ecuadorian public institutions and local stakeholders, citing risks to national oversight and sovereignty. Despite these questions, Ecuador has embraced debt swaps as a strategic tool.[63] In December 2024, it launched its second major debt-for-nature swap, this time focused on terrestrial and freshwater conservation in the Amazon Basin. The transaction will direct over US$460 million toward environmental protection over 17 years.[64]

The Galapagos Islands Debt-for-Nature Swap

Financial structure and governance[65]

Facilitated by Credit Suisse, the swap involved the establishment of an Irish-based Special Purpose Vehicle (SPV) known as GPS Blue Financing DAC. Establishing the SPV in Ireland allowed the transaction to take advantage of what is seen as a beneficial regulatory and tax landscape. However, the use of an offshore or low-disclosure jurisdiction raised concerns about financial transparency and oversight. Similar governance issues have emerged in other debt-for-nature transactions, such as those in Seychelles, where layered institutional frameworks have made it difficult to monitor the use of funds or ensure accountability to affected communities. These governance structures, while technically permissible, can restrict public access to essential financial information and hinder efforts to assess the long-term benefits of transactions.

The Galapagos SPV purchased approximately US$656 million in Ecuadorian external bonds at a reduced market value of US$800 million.[66] Subsequently, GPS Blue issued a blue bond, offered to investors at a yield of 5.645 per cent. With the backing of a US$85 million guarantee from the Inter-American Development Bank and political risk insurance of US$656 million from the US International Development Finance Corporation, the bond received a credit rating of Aa2 from Moody's – a substantial improvement over Ecuador's Caa3 credit rating.[67]

Economist Carola Mejía of Latindadd notes that "the funds intended for climate action or conservation are often managed by third-party entities".[68] In this instance, the Galápagos Life Fund, established in the US state of Delaware – a well-known tax haven and secrecy jurisdiction – and with a board predominantly comprised of private-sector representatives, holds decision-making power over conservation projects in the Galapagos. Its 11-member board is composed primarily of private-sector representatives, with five seats for government and six for non-government members, including representatives of the artisanal fishing, local tourism and academic communities.[69] These non-government members include Pew Bertarelli Ocean Legacy, Oceans Finance Company, researchers, and local tourism and fishing industry actors.[70] The model has been criticised for weakening democratic oversight and limiting local participation in the design and implementation of conservation projects.

Mejía notes that "transparency, accountability, justice in negotiation and respect for sovereignty are all critical in these deals," [71] emphasising that Ecuador's debt-for-nature swap negotiations have predominantly been shaped by the creditor's terms, with limited input from Ecuador itself. She also argues that negotiations should be more equitable, with enhanced transparency around public debt operations to ensure they align with Ecuador's long-term economic and environmental goals.

Fiscal impacts of the swap

One critical issue with this arrangement is its limited fiscal impact. Although touted as the world's largest debt-for-nature deal, valued at over US$1 billion, it ultimately reduced Ecuador's non-financial public-sector debt by only 1.6 per cent – around 0.8 per cent of GDP.[72] Given Ecuador's substantial debt load and economic pressures, this limited reduction raises questions about the effectiveness of debt-for-nature swaps as tools for meaningful debt relief. The relatively small fiscal impact suggests that such swaps may offer only temporary financial reprieve, without addressing the broader structural challenges of Ecuador's debt profile. While the swap does dedicate approximately US$323 million over 18.5 years to conservation in the Galapagos, the initiative also raises the question of whether such funds can sustainably support long-term environmental goals, given the magnitude of Ecuador's broader debt challenges and its critical need for economic growth.[73] The Galapagos Islands have faced chronic fiscal underfunding since at least 2020, with an estimated annual budget deficit of US$20 million, calling into question whether this swap meaningfully enhances long-term ecological resilience.[74] More broadly, Ecuador has yet to define a comprehensive approach to incorporate debt-for-nature initiatives within its wider fiscal or climate policy frameworks. Without complementary measures, the long-term benefits of such deals may remain limited and disjointed.

Transparency and governance concerns

Negotiation and governance structures that create an environment conducive to corruption

Debt-for-nature swaps raise important concerns about transparency and accountability, both in how they are negotiated and how they are governed during implementation. The inherent complexity of these arrangements introduces a range of financial, operational and governance risks, including heightened exposure to corruption. These risks are amplified when negotiations are opaque and conducted behind closed doors, which in effect excludes "free, prior and informed consent of citizens affected by these deals".[75] However, complexity need not equate to opacity. Comparative experiences, such as Belize's debt-for-nature swap, demonstrate that it is possible to embed performance metrics and transparent reporting mechanisms into the structure of such deals.[76]

In the case of the Galapagos Islands debt-for-nature swap, the transaction was coordinated through the Irish-based SPV, GPS Blue Financing DAC, which depended on Credit Suisse as the lead.[77] Notably, Credit Suisse itself faced a series of financial crises in 2023, ultimately collapsing after scandals and mismanagement.[78] Using financially unstable institutions for conservation-oriented debt restructuring casts doubt on the reliability and resilience of such arrangements, especially when institutions overseeing these transactions encounter their own internal financial and reputational risks. The combination of an opaque transaction and a company structure based in a tax haven not only undermines transparency, but also increases corruption risks, as it is difficult to ensure that debt relief and conservation funding are being well used. This has also been the case in other swaps, such as those negotiated between the Nature Conservancy (TNC) and Seychelles, Belize and Barbados, which have complex governance structures that include subsidiary companies in tax havens and are seen to be opaque.[79]

One of the main lessons from Ecuador's swap is that corruption risks are amplified by complex financial instruments. Debt-for-nature swaps are not only complex, but also involve multiple stakeholders. This combination can create opportunities for mismanagement, fund diversion and corruption, if oversight is not comprehensive. There is a need for stringent financial controls, and the complexity of these transactions has led to concerns about whether the funds truly reach the intended environmental projects. Governments and creditors must establish clear accountability frameworks that specify how funds will be tracked, reported and audited throughout the lifecycle of the swap. Simplified processes not only reduce corruption risks, but also enhance the overall effectiveness of debt-for-nature swaps.

CSO concerns about transparency and community engagement and consultations

The lack of transparency creates an environment conducive to corruption. For the Ecuadorean debt swap, a coalition of NGOs – including Latindadd, Eurodad and CDES Ecuador – has highlighted concerns over the opacity surrounding the swap agreement's terms and implementation. Information about which conservation projects will be prioritised, how funds will be allocated, and which communities will be directly impacted has been limited, raising concerns over public accountability. These NGOs had to file a legal request to gain access to details of the swap agreement, underscoring the lack of readily accessible information. CSOs argue that the lack of adequate prior consultation may violate Article 398 of Ecuador's Constitution, which guarantees public participation in environmental decision making.[80] In a joint petition, these organisations argue that the Ecuador-Galapagos deal falls short of creating new and additional conservation funding. Instead, they contend, the swap involves extensive private-sector intermediaries who drive up transaction costs and erode Ecuador's autonomy over the management of its natural resources.[81]

The limited involvement of local communities in decision making has also been a point of contention. The Independent Consultation and Investigation Mechanism (MICI) of the Inter-American Development Bank (IDB) began investigating these issues as early as 2022. MICI, an independent body within the IDB Group responsible for addressing social and environmental grievances related to the Bank's projects, responded to complaints from 24 Ecuadorian CSOs and community representatives from both the Galapagos Islands and mainland Ecuador.[82] These groups alleged that the debt-for-nature swap lacked both accessible information on its implementation, and a community engagement strategy, which they believe are essential for protecting local interests and ensuring that conservation efforts align with the needs of impacted populations.[83] MICI is currently investigating potential breaches of the IDB Group's environmental and social policies and standards. The primary concern of the complainant organisations is that the Ecuadorian government and IDB failed to provide accessible, relevant information on the projects funded by the swap. Specifically, the complainants argue that there was inadequate disclosure regarding which conservation initiatives would be prioritised, which communities or areas would be directly impacted, and how these projects would be administered.[84] The absence of clear information left many stakeholders feeling excluded from decision-making processes on conservation efforts affecting their livelihoods and environment. The lack of an effective community engagement strategy has also led to frustrations within local groups, who feel that their input has been overlooked.

A major lesson here is the importance of public scrutiny and citizen engagement in such initiatives, with public consultations from the onset. Public scrutiny should not begin after the deal is finalised. By making data on debt swaps and the use of associated funds publicly available through open data platforms or government transparency portals, governments can enhance accountability and reduce the likelihood of funds being misused. This transparency should also extend to the environmental impacts of debt-for-nature swaps, allowing CSOs and the public to track the progress of conservation efforts. Civil society can act as a watchdog, providing independent evaluations of both the financial and environmental aspects of debt swaps. For instance, by involving local CSOs in monitoring conservation projects, the government can benefit from grassroots insights and increase public trust. External audits by international bodies can add another layer of accountability, making it harder for corrupt practices to occur without detection. In addition, involving locally embedded groups, such as fishing cooperatives, Indigenous associations and grassroots watchdogs, helps ensure that conservation initiatives align with the social, cultural and ecological contexts of the communities most impacted by the projects. Involvement of local actors in the formulation and oversight of projects enhances the likelihood of contextually relevant, transparent and sustainable results. This form of decentralised accountability, which complements formal state mechanisms, is particularly valuable in geographically remote or institutionally underserved areas like the Galapagos Islands. In such contexts, bridging national oversight with community participation not only fosters trust, but also mitigates the risk of top-down mismanagement and exclusion.

DEBT MANAGEMENT IN PAPUA NEW GUINEA

Papua New Guinea's debt landscape and associated vulnerabilities

Small Island Developing States (SIDS) in the Pacific region face unique challenges regarding public debt and corruption risks. These countries are often characterised by their geographical remoteness, small populations and vulnerability to external shocks, and many rely heavily on external borrowing to support their development needs. Climate change has also increased the frequency and severity of natural disasters, which in turn is worsening the debt situation in the region.

Papua New Guinea (PNG) faces significant public debt challenges, with implications for its development prospects. According to a recent assessment in the World Bank and IMF's Low-Income Country Debt Sustainability Framework, PNG is at a "high" risk of external and overall debt distress, with weak debt-carrying capacity. The country's 2024–2028 Medium Term Debt Strategy notes that the level of central government debt has been increasing in recent years, to around 52 per cent of GDP at the end of 2023, up from 49.8 per cent in 2022. It attributes this increase to factors including the "government's response to the COVID-19 pandemic, increased investment in infrastructure development, expansion of public services, efforts to stimulate economic recovery, and potential political factors".[85]

Despite rising public debt levels, debt still plays an important role in resource mobilisation. PNG is seeking to diversify its debt profile by attracting new investors, including pension funds, insurance companies, corporate entities and agricultural cash-crop farmers in rural areas.[86] This will require that the country closely assess its debt and public financial management governance. PNG's 2024–2028 Medium Term Debt Strategy highlights three major debt-related risks:

- Refinancing risk: 26.3 per cent of total public debt matures within one year, mainly on account of domestic debt, which has a high refinancing risk of 53.8 per cent.
- Interest rate risk: interest rate of 53.6 per cent of total debt is required to be refixed within one year, as 50 per cent of the external debt portfolio is at variable rates.
- Exchange rate risk: 50.8 per cent of debt is denominated in foreign currency, primarily the US dollar.[87]

Beyond these broader debt-related risks are also climate risks and governance concerns. PNG is one of the nations most vulnerable to climate change and to climate-related natural disaster shocks, especially floods, droughts, landslides and rising sea levels.[88] The disruptions caused by climate change have led to decreased fiscal revenues. Public spending is being diverted to disaster management, reconstruction costs and support for affected populations. The IMF notes that the resulting worsening in fiscal balances will lead to higher public debt.[89] There is also a need to meet adaptation costs, with the IMF observing that "in the absence of additional adaptation efforts and under a high emissions scenario, climate change could trigger a loss of PNG's annual GDP of 4 percent by 2050 and 15 percent by 2100".[90]

In response to the country's needs, including the need to strengthen governance, the IMF approved immediate access to US$125 million in July 2024, to improve governance and anti-corruption under the Extended Credit Facility and Extended Fund Facility.[91] As part of the review under the facilities' arrangements for PNG, the IMF noted the country's strong commitment to governance reforms, which have included operationalisation of the Independent Commission Against Corruption.[92] The IMF notes that "providing appropriate resources and ensuring effective access to information will be critical for the Independent Commission Against Corruption to become fully operational".[93]

PNG's government states in its 2024–2028 Medium Term Debt Strategy that it is committed to timely disclosure of relevant debt-related financial information and adherence to international best practices for corporate governance.[94] It acknowledges that improving transparency in the form of debt reporting can enhance investor confidence and attract a broader range of investors, ultimately strengthening the stability and resilience of PNG's financial system. This is in line with the goal of broadening the investor base. As part of this transparency approach, the Financial Management Division of the country's Treasury Department will produce an annual issuance calendar, an annual debt bulletin report and a quarterly debt report.[95]

Corruption landscape, public financial management and governance

Corruption is one of PNG's main governance issues, with public-sector corruption cited as being "widespread and endemic, penetrating all levels of society".[96] This is evident in how the country has performed in governance indicators. Official corruption and the misappropriation and theft of public funds are seen as PNG's most significant governance issues.[97]

Despite these concerns, the country has made various legal and institutional reforms to strengthen its public financial governance. Legislative changes include,[98] for example, passage of the Proceeds of Crime Act in 2015, with associated legislation: the 2022 Unexplained Wealth Bill, the Whistleblower Act 2020 and the Organic Law on the Independent Commission Against Corruption 2020. Advances have also been made to enhance transparency in public procurement processes and public financial and debt management.[99] However, some of these positive legislative and institutional initiatives are still pending completion.[100] While these legal changes are a step in the right direction, anti-corruption efforts have been described as still "ineffective due to poor implementation of existing laws, considerable resource gaps and confusion over the overlapping responsibility of anticorruption and law enforcement agencies".[101] Some of the legislative changes have also raised concerns about public participation, media reporting and CSO engagement – for instance, the new National Media Development Policy, published in February 2023.

Questions over PNG's debt management for bilateral and international loans

The PNG government has received substantial external financial funding, including AU$2.5 billion in Australian loans over the past four years.[102] However, there are questions regarding allocation and oversight of these funds. Some of the scrutiny relates to unclear accountability mechanisms and fiscal management with respect to discretionary spending within the Prime Minister's Office and the National Executive Council. In 2023, these bodies received an additional 31.8 million kina (around US$7.5 million) of project funds, more than double the budgetary allocation. This discrepancy was explained as "typing errors" and "glitches".[103] Such inconsistencies point towards weaknesses in public financial management (PFM), and the need for stronger accountability and transparency mechanisms in fund allocation and use. A major portion of Australia's funding to PNG is in the form of direct budget support, which may have limited oversight and transparency deficits. These concerns need further investigation. However, it seems that PNG needs to adopt more rigourous reporting standards, ensure that independent financial audits are conduced, and enhance parliamentary oversight. While there have been many improvements in the governance landscape, there is still room for more, and for effective implementation of accountability and transparency measures.

KEY TAKEAWAYS FROM EXISTING TRANSPARENCY AND ACCOUNTABILITY INITIATIVES

International initiatives by stakeholders in the debt landscape play a pivotal role in mitigating corruption risks and other PFM risks. Current transparency and accountability initiatives include those led by international financial institutions such as the World Bank, the IMF and regional development banks; the United Nations; creditor-based initiatives by the Organisation for Economic Co-operation and Development (OECD), the Paris Club and the G20, as well as efforts by private creditor groups and CSOs. A detailed overview of these initiatives is provided in the annex. Despite advancements in debt transparency, future efforts need stronger enforcement mechanisms, international collaboration and comprehensive reforms to tackle the intricate issues of sovereign debt and corruption risks more effectively. In pursuit of these objectives, key lessons from the existing initiatives mentioned above are:

Debt transparency is crucial – yet accountability efforts lag behind

The main takeaway from the discussion above is that there is still a need to establish more robust, accountable and resilient governance structures, nationally and globally. While debt transparency is the cornerstone of many initiatives, it is an important first step in addressing sovereign debt issues, allowing the public, CSOs and oversight bodies to examine government borrowing. However, the challenge remains in holding governments and creditors responsible for how loans are negotiated and how funds are spent, to prevent opportunities for corruption.

CSOs are taking a more prominent role in holding actors accountable

Beyond advocating for transparency, CSOs have been crucial in exposing corruption and holding governments accountable. These organisations have filled the accountability gap that often occurs when governments fail to take significant action to safeguard borrowing from corruption. CSOs are well-placed to play this role due to their nature and mandates, complementing efforts by international organisations to encourage and facilitate structural changes in borrower countries and with creditors. However, their impact is affected by the lack of access to disaggregated debt information. CSOs also play an important role in raising public awareness of the presence and negative impacts of corruption, planning grassroots advocacy initiatives and establishing global coalitions to leverage legislative changes at international institutions. Without their persistent work, many of the existing challenges related to sovereign debt and corruption might remain unchecked. As such, CSOs must be given a greater role at every stage of the debt cycle.

Effective debt governance requires dual commitment by both borrowers and lenders

Governments must establish robust legal and institutional frameworks to regulate loan conditions, ensure transparent borrowing, and safeguard against corruption and mismanagement. This includes developing debt audits, independent debt management agencies and empowered anti-corruption commissions. However, responsibility does not rest solely with debtor countries. Lenders also play a critical role in preventing debt-related corruption and promoting transparency. They should embed strong anti-corruption safeguards into loan agreements, including the prohibition of confidentiality clauses that put responsibility for non-disclosure on the borrowers and obscure the terms and conditions of public borrowing. Lenders should also integrate corruption risk assessments into debt sustainability assessments and take proactive steps to disclose loan terms, share debt-related information publicly, and engage CSOs during country missions and evaluations. Strengthening integrity on both sides of the lending relationship is essential to ensure that sovereign debt serves the public interest and development goals.

Multi-stakeholder approaches are essential to systemic change

While national systems are the foundation of transparency and accountability, individual countries cannot solve sovereign debt and corruption alone. To address the root causes of corruption and bad governance, cooperation among various stakeholders is essential. This multi-stakeholder approach requires bringing together governments, CSOs, international institutions and creditors to create solutions that are sustainable and equitable.

Enforcement mechanisms still need improvement

The current international frameworks, though useful, often lack the binding force needed to ensure that creditors and borrowers adhere to ethical practices and avoid corrupt transactions. Currently, the lack of binding global norms allows corrupt behaviours to continue undetected, especially in nations with weaker governance institutions.

POLICY RECOMMENDATIONS

This working paper has highlighted significant vulnerabilities in public debt contraction and management, including risks relating to corruption, lack of transparency and accountability, and mismanagement. While key challenges have been identified, further research is essential to develop targeted solutions that enhance debt governance. The section below provides an overview of policy recommendations, while also identifying critical areas for future research to strengthen policy frameworks and institutional safeguards.

POLICY RECOMMENDATIONS

International financial institutions and creditors

- **Improve transparency:** There are various initiatives aiming to increase debt transparency, yet information on loan agreements, their conditions, lending instruments and liabilities is often hidden. All the main stakeholders (IFIs, governments and creditors) have a role in improving transparency, as real-time reporting will help to discourage corrupt practices and improve debt governance. Creditors and IFIs should:
  - Strengthen the requirements for public disclosure by creditors and borrowers regarding institutional and instrumental debt. These requirements should have broad coverage, including debt contracted by different agencies, as well as lending instruments and liabilities.
  - Cooperate towards the establishment of a global centralised debt data registry to harmonise debt data reporting, as per commitments under the outcome document of the 4th Financing for Development Conference (Compromiso de Sevilla). To further enhance transparency and its effectiveness, such a registry should include specific provisions requiring information sharing by private lenders (bondholders and commercial lenders).

- **Enforce governance safeguards in borrowing countries:** Weak implementation of anti-corruption and financial integrity reforms continues to undermine the effectiveness of sovereign lending. While many loan agreements include commitments to strengthen anti-corruption laws, improve financial transparency, and enhance the detection and prevention of illicit financial flows, these milestones are often delayed or only partially implemented. This is frequently due to a lack of political will within recipient countries, even when the legal or institutional frameworks are in place. IFIs and other creditors should:
  - Ensure that future disbursements are conditional on concrete and verifiable progress. Strengthening enforcement in this way would enhance accountability and ensure that public resources are better safeguarded from misuse.
  - Embed integrity as a core element of debt negotiations and restructuring processes, with a focus on including good governance and anti-corruption measures as key components of due diligence and debt sustainability assessments.

- Make mandatory the use of existing tools such as the IMF's Governance Diagnostic Assessments or its Fiscal Transparency Evaluations for all countries in debt distress and negotiations. Practical recommendations for recovery coming from these assessments should inform conditions for lending, national action plans, IMF Article IV reports and programme reviews.
- Strengthen the enforcement of UNCAC provisions in the contracting and management of public debt. In particular, the international financial architecture should aim for the enforcement of UNCAC article 34, on the consequences of acts of corruption.

- **Build public-sector capacity:** Insufficient capacity within public institutions frequently results in mismanagement and inadequate oversight of debt-related activities. To address this, IFIs and other creditors should:
  - Develop the capacity of countries at risk of debt distress to manage debt effectively, with a strong focus on information gathering, monitoring and oversight by relevant institutions, including parliaments and supreme audit institutions.
  - Provide comprehensive capacity-building programmes specifically tailored for government officials responsible for debt management. These programmes should emphasise critical areas such as debt transparency, anti-corruption measures and risk management in both national and international debt negotiations.

- **Ensure meaningful consultation and engagement processes in debt management negotiations:** IFIs and other lenders should ensure opportunities for meaningful consultation with civil society and citizens, and for their scrutiny of public debt decisions, including in the development of IMF's governance diagnosis assessments and the management of debt resources. Specific support should be provided to build capacity of CSOs and citizens in the effective monitoring of public debt.

- **Strengthen regional and global partnerships on debt management:** Because debt transparency challenges often vary by region, tailored solutions are required to address specific local and regional dynamics. Improved transparency could therefore include regional debt transparency hubs aimed at sharing best practices and access to resources and developing localised strategies for improving transparency in public debt management. These hubs could also facilitate capacity building and provide technical assistance for countries seeking to enhance their debt transparency frameworks.

Reforms needed by borrowing countries

A key lesson from this paper is that weak institutional frameworks often undermine the effectiveness of debt management and create opportunities for corruption. To address these challenges, borrowing countries should strengthen their national laws and institutions by advocating for a series of reforms.

- **Strengthen debt management and PFM frameworks:** Governments from borrowing countries should close regulatory gaps that enable discretion in debt negotiations and restructuring, and in the allocation and expenditure of funds. They should also implement measures to strengthen transparency and accountability systems, and controls for resource allocation, public procurement, expenditure and oversight. Special attention should be given to extra-budgetary provisions, and the development of asset declaration regulation and beneficial ownership transparency.
- **Proactively disclose institutional loans and their instruments:** Borrowing countries should proactively disclose all loans, clearly distinguishing between the types of institution and their various instruments – including conditionalities and liabilities. Provisions for disclosing debts incurred by SOEs, local governments and other non-central government entities, covering all relevant institutions and contingent liabilities, should also be included. Disclosure should be made in an open, detailed, timely and

accessible manner, preferably in an open data format to assist monitoring by civil society and relevant oversight institutions.

- **Develop capacity for information gathering and monitoring:** Borrowing countries should prioritise capacity development in public debt management, including the ability to gather, disclose and monitor debt-related information. This can be achieved with support from international organisations like the IMF, which can provide technical assistance and training.
- **Empower oversight institutions:** To ensure effective oversight, institutions such as parliaments, debt management offices and supreme audit institutions in borrowing countries should have a clear legal mandate, independence, and resources to approve and monitor debt.
- **Strengthen audit of loans:** Governments in borrowing countries should introduce mandatory anti-corruption audits for debt-for-nature swaps and other public debt arrangements, as a critical measure for improving accountability. This requires advocating for independent auditing bodies or supreme audit institutions that periodically review debt management processes and publicly report any irregularities.104 These bodies would play a crucial role in identifying and addressing corruption risks before they undermine debt and environmental projects. They should have the power to audit debt contracts, scrutinise the allocation of borrowed funds and investigate corrupt practices.
- **Include civil society in debt management negotiations:** Borrowing countries should ensure meaningful consultation with civil society and opportunities for CSO scrutiny of public debt decisions and the management of borrowed funds.

The role of CSOs and other stakeholders in debt transparency and accountability

CSOs play a critical role in overseeing public debt and holding governments accountable for their management of loans. However, the effective involvement of civil society in monitoring debt management requires an enabling environment, through the protection of civic space and the training and empowerment of CSOs to engage with and raise awareness of debt management issues:

- Citizen monitoring and reporting systems: These involve the development of citizen-led monitoring frameworks that empower local communities, CSOs and environmental activists to track debt-funded projects. Such initiatives could include mobile applications enabling real-time reporting of potential corruption or environmental violations.
- Empowering local communities in debt-for-nature and sustainable projects: There is a need to champion community-driven governance models in debt-for-nature swaps and similar arrangements. Ensuring that local communities have a voice in how debt relief funds are allocated and projects implemented would enhance accountability and ensure that projects directly benefit those most affected.
- Public debt education campaigns: Public awareness of debt management issues is crucial in preventing corruption. This requires education campaigns that explain how public debt affects citizens' daily lives, and that provide tools for them to monitor and report suspicious activities.

OPPORTUNITIES FOR FUTURE RESEARCH

Despite growing recognition of the risks posed by unsustainable debt and weak governance structures, critical knowledge gaps persist. Addressing these through targeted research can support more effective policymaking and institutional reforms. The following areas should be included as priorities for targeted research:

Enhancing transparency in public debt management

- **Debt transparency benchmarking and indices:** A critical gap in global debt governance is the absence of a comprehensive and widely accepted benchmark for measuring sovereign debt transparency. Future research could explore the feasibility of developing a debt transparency index that ranks countries based on disclosure practices, accessibility of debt data and adherence to accountability standards.
- **Granular disclosure standards for different stakeholders:** While multiple debt transparency initiatives exist, there is no uniform standard tailored to different actors, such as governments, creditors or IFIs. Research could assess how differentiated disclosure frameworks might better meet the needs of stakeholders without compromising transparency.
- **Regional debt transparency hubs:** Given the regional disparities in debt transparency, further investigation is needed into how regional hubs could facilitate information sharing, capacity building and technical assistance for governments seeking to improve debt disclosure practices.

Strengthening institutional safeguards in borrowing countries

- **Corruption-proofing debt agreements:** Future studies could examine best practices for risk assessments conducted before and after debt agreements are signed. Research could focus on how mandatory corruption risk audits – including compliance, financial and performance audits – could be institutionalised to prevent misuse of borrowed funds.
- **Effectiveness of anti-corruption audits in debt-for-nature swaps:** Debt-for-nature swaps are gaining traction as innovative financing tools, but their susceptibility to corruption remains underexplored. A research agenda in this area could assess how independent anti-corruption audits could be incorporated into such agreements to enhance oversight.
- **Reforming national debt management frameworks:** Given the outdated nature of debt management laws in many developing countries, a comparative study could explore best practices for legislative reforms, focusing on transparency, accountability and anti-corruption provisions.

Strengthening the role of civil society in debt accountability

- **Citizen-led monitoring of debt-funded projects:** Further studies could assess the impact of community-based oversight mechanisms, such as real-time reporting tools or mobile applications that allow citizens to track and report potential corruption in debt-financed projects.
- **Effectiveness of debt transparency advocacy networks:** Research could evaluate the role of regional and international CSO networks in influencing public debt governance, to identify best practices for coalition-building and advocacy.
- **Public engagement in debt negotiations:** Many debt restructuring processes lack transparency and exclude public participation. A study could explore the feasibility of mandatory public consultations in sovereign debt negotiations, ensuring greater civil society involvement in debt-for-nature swaps and other arrangements.

Addressing debt-linked corruption in PFM processes

- **Evaluating PFM-related corruption risks in debt-funded projects:** Mismanagement of loans across the PFM cycle remains one of the most corruption-prone areas of debt management. Future research could focus on developing a risk assessment toolkit to evaluate vulnerabilities across the different stages of the PFM cycle – from budgeting to expenditure and oversight - linked to sovereign borrowing.

The role and impact of credit rating agencies in sovereign debt governance

- **Credit rating agencies** play a significant role in the sovereign debt landscape, influencing the cost of borrowing, access to international markets and investor confidence. Concerns have been raised about these agencies' transparency, methodology and accountability, which require further research.

CONCLUSION

Mismanaging sovereign debt, a crucial financial tool for financing public infrastructure and service delivery, can lead to instability, and the consequence is often borne by the vulnerable populations of debtor countries. A key issue in debt management is the different forms of corruption present in the debt lifecycle. This working paper identifies recurring patterns, in which corruption flourishes in environments characterised by opaque debt management practices, insufficient accountability mechanisms, and a lack of engagement with civil society and the public. It makes a clear connection between sovereign debt crises, corruption risks, and the lack of transparency and accountability in public debt management.

Corruption significantly increases the expenses associated with public projects, and reallocates essential resources from key sectors like health, education and infrastructure. This misallocation results in nations becoming more indebted and less equipped to meet their development goals. However, in response to these challenges, the analysis also highlights potential pathways for reform and improvement. Achieving transparency, robust monitoring and civil society engagement are critical steps in fostering accountable governance and ensuring that public debt is used as a tool for positive, long-term impact. Innovative technologies have the potential to greatly enhance debt reporting and minimise the risk of corruption, through the provision of secure, real-time tracking of financial transactions.

Strengthening the legal frameworks governing public finance and debt management can act as a deterrent against corrupt practices. Enhancing the role of CSOs in debt management is another crucial step. Engaging citizens in the oversight of public debt and procurement processes can mitigate corruption risks and enhance the prospects of effective debt governance. Reforms are essential in the global debt framework to promote fairer and more sustainable solutions for debt management. It is vital to advocate for enhanced transparency and accountability in borrowing and lending practices, as well as the use of funds.

ANNEX

EXISTING INITIATIVES FOR TRANSPARENCY AND ACCOUNTABILITY

International initiatives by stakeholders in the debt landscape play a pivotal role in mitigating corruption risks and other PFM risks. A wide range of stakeholders is involved in these initiatives, including IFIs, CSOs, national governments and private creditor groups. This annex outlines key initiatives aimed at enhancing transparency and accountability in public debt management.

Existing Initiatives for debt transparency and accountability

Institution	Initiative	Description
World Bank[105]	Access to Information Policy	Fundamental framework designed to improve debt transparency. This policy grants the public greater access to data on the bank's activities, such as project documentation, financial information and lending policies. It enhances accountability by allowing individuals, CSOs and other interested parties to examine the loans their governments acquire from the World Bank.[106]
	WB & IMF Public Debt Databases (e.g., IDS)	Debt databases that provide extensive and real-time data on public debt. Within the main debt database is the International Debt Statistics (IDS) database. Published annually, IDS offers detailed information on external public debt and debt service data by creditor group, enhancing global debt transparency.[107] It is particularly useful for monitoring debt levels in LIDCs.[108] However, its effectiveness is fully dependent on countries' willingness to report their debt figures in an accurate and timely manner. In some LICs, underreporting or delays in reporting remain an issue, limiting the efficiency of these transparency databases. Another broad challenge relates to the reporting of private-sector external borrowing, which is lagging, as its quality depends on a country's capacity to report.[109] Notably, many LICs either do not collate this information or do not make it public. For example, in a 2018 report, the World Bank noted that only a third of the 59 International Development Association (IDA) countries report private non-guaranteed external debt.[110]
	Debt Management Performance Assessment (DeMPA)	This is a methodology for assessing the effectiveness of government debt management processes and strengthening the capacity both of governments and institutions.[111] The tool assesses countries based on a variety of performance indicators that can be applied in all developing countries, including debt recording, operational risk management and debt strategy development. It identifies problems in debt management and makes country-specific recommendations for improvement.[112] However, the effectiveness of DeMPA is often impeded by resource constraints and a lack of institutional capacity in LICs. A recent IMF report highlights implementation gaps in utilising tools that evaluate and assess debt performance against international standards such as DeMPA. These gaps are primarily associated

		with low reporting rates in arrangements like local government debt, SOEs, PPPs, complex financial instruments such as collateralised debt in project finance transactions, debt with collateral-like features, and government guarantees.[113] These are also arrangements in which corruption risks are rampant.
	Sustainable Development Finance Policy (SDFP)	The SDFP, adopted by the World Bank's IDA, incentivises low-income countries to adopt transparent and sustainable borrowing practices. It includes enhancing capacity to enter into loan contracts, issue guarantees, and identify and manage fiscal risks from contingent liabilities from SOEs and PPPs.[114] The SDFP focuses on addressing debt vulnerabilities by encouraging countries to implement performance and policy actions aimed at enhancing debt transparency and improving fiscal governance. Under the SDFP, many countries have successfully introduced debt ceilings to limit non-concessional borrowing and improve their fiscal risk management frameworks. The policy has shown promising results, with a 20 per cent increase in the share of IDA countries adhering to best practices in debt transparency between 2019 and 2020.[115] In 2020, as part of the SDFP, 55 countries identified as facing moderate-to-high risk of debt distress, or already in distress, committed to implementing specific performance and policy actions.[116] By the 2022 fiscal year, 58 countries were actively engaged in this process.[117] However, challenges remain, particularly in fragile and conflict-affected states and small states, where limited institutional capacity hampers full implementation of SDFP recommendations.[118]
	Fiscal Risk Management & Reporting Tools	Working with other agencies, the World Bank has developed a variety of tools aimed at improving fiscal risk management in borrowing countries. These include the **Fiscal Risk Toolkit**, which helps countries quantify and manage fiscal risks related to contingent liabilities, such as those arising from SOEs and PPPs. In tandem with the IMF's Fiscal Risk Assessments and Fiscal Transparency Evaluations, these tools provide a comprehensive approach to managing and disclosing fiscal risks, ultimately improving debt transparency. They have been instrumental in helping countries identify fiscal risks that could exacerbate debt vulnerabilities. However, as with other initiatives, the effectiveness of these tools depends on a country's capacity to implement them fully.
	Public Debt Reporting Heat Map	Introduced to assess and improve debt reporting practices in IDA countries.[119] This tool evaluates countries based on their performance in disseminating public debt statistics, publishing key debt management reports and identifying contingent liabilities.[120] The heat map relies on information publicly available on national authorities' websites, such as debt reports, statistical bulletins and Excel files.[121] It assigns countries colour-coded scores from red to green, based on their level of transparency and compliance with reporting standards,[122] and has been a valuable tool for promoting transparency by benchmarking countries against one another and encouraging them to improve their debt reporting practices. Countries that score poorly are incentivised to adopt better practices to meet international transparency standards, which, in turn, strengthens investor confidence and public accountability.
IMF	IMF's Articles of Agreement	Member countries are obligated to provide it with information necessary for its functions, unless they lack the capacity to do so. Specifically, Article VIII, Section 5 requires members to supply data critical for the IMF's surveillance role.[123] This data typically includes information on central government debt, broken down by factors such as currency, maturity and residency status. While such data is required for the IMF's internal use, members are not compelled to make it publicly available.[124] In addition to the baseline data required for surveillance, the IMF can request further information from member countries involved in IMF-supported programmes.[125] If the fund deems certain data vital for programme implementation or monitoring, it may make this a condition for financing.

	Debt Limits Policy (DLP)	The DLP governs the use of conditionality in IMF-supported programmes for countries facing public debt vulnerabilities. The 2020 update of the DLP underscores the need for enhanced transparency, particularly in addressing significant gaps in debt data disclosure at the start of IMF programmes.[126] The 2021 Guidance Note further requires programme documents to contain information on domestic and external public debt, creditor composition, and details on debt service obligations over the next three years, including collateralised debt.[127]
	Debt Sustainability Analysis (DSA)	The IMF-World Bank Debt Sustainability Framework for Low-Income Countries expects near-complete coverage of public-sector debt, supported by standardised reporting practices.[128] This framework mandates the inclusion of future debt service payments and undisbursed amounts from recently contracted loans or active projects.
	Lending into Arrears Policy	Under the Lending into Arrears Policy, debtors are required to provide timely and comprehensive information to all relevant creditors, including detailed data on the outstanding debt stock and its terms, to ensure the debtor is acting in good faith.[129]
	Fiscal Transparency Code & Evaluations	Global standard for the disclosure of public financial information.[130] The code is structured around four key pillars: 1) fiscal reporting 2) fiscal forecasting and budgeting 3) fiscal risk analysis and management, and 4) resource revenue management.[131] Each principle within these pillars is graded according to three levels – basic, good and advanced – offering countries a clear pathway for improving transparency.[132] Complementing the Fiscal Transparency Code are Fiscal Transparency Evaluations (FTEs), which serve as the IMF's diagnostic tool for assessing a country's transparency practices. Among other features, FTEs provide a comprehensive review of a country's fiscal transparency against the standards outlined in the code.[133] The evaluations are conducted at a country's request and help guide capacity-building efforts, including prioritising IMF technical assistance.[134]
United Nations	UN Trade and Development UNCTAD - Debt Transparency Strategic Plan (2020–23)	UNCTAD provides technical assistance to developing countries to strengthen their debt management capacity. One example is the agency's Strengthening Debt Data Transparency Strategic Plan 2020–2023.[135] Key objectives include helping countries improve their public debt data recording, reporting and analysis by building robust debt management systems. The strategy identifies essential success factors, such as timely, complete and accurate debt data registration, and fostering national capacity to follow international reporting standards.
	UN General Assembly (UNGA) Resolutions	• **Resolution 68/304 (2014):** initiated a multilateral process to establish a legal framework for sovereign debt restructuring.[136] • **Resolution 69/319 (2015):** defines nine Basic Principles for Sovereign Debt Restructuring Processes, emphasising transparency, equitable treatment and sustainability, among other factors, to enhance orderly debt restructuring.[137] Basic principle 3 requires transparency, while basic principle 4, on impartiality, requires that "all institutions and actors involved in sovereign debt restructuring workouts, including at the regional level, in accordance with their respective mandates, enjoy independence and refrain from exercising any undue influence over the process and other stakeholders or engaging in actions that would give rise to conflicts of interest or corruption or both". However, this resolution does not provide guidance on how to prevent corruption in restructuring processes.

	UN Humans Right Council Resolution 27/30	Mandated a report on the impact of "vulture funds" on human rights, highlighting the need for ethical debt-collection practices and creditor transparency.[138]
Regional Development Banks	African Development Bank - Disclosure and Access to Information Policy	Allows stakeholders to access crucial information regarding its projects, although implementation varies across regions.
Creditor-Based Initiatives	G20 Operational Guidelines on Sustainable Financing (2017)	Principles for responsible lending and borrowing, calling for sovereign and private lenders to provide detailed transaction-level information on loans.[139] This includes loan amounts, beneficiaries, interest rates and maturity. The 2019 Diagnostic Tool builds on these guidelines by providing a framework for assessing how countries are implementing them, although the process is still ongoing. Some G20 member countries, such as the UK and Canada, have started publishing loan-level information for sovereign borrowers, offering some degree of transparency, but with varying levels of granularity across countries.[140]
	G20 Data Gaps Initiative (DGI)	Aims to address deficiencies in global financial data, including public debt statistics.[141] The initiative focuses on improving transparency around debt securities and ensuring that key debt indicators are consistently available across countries. While the DGI has made strides, its success depends heavily on the voluntary participation of countries and lenders.
	Paris Club Debt Transparency	Since 2008, it has published data on its aggregate claims against debtor nations, although the level of detail is limited, lacking creditor-by-creditor or instrument-level breakdowns. While this data is helpful, the lack of granularity and information on loan terms limits its utility for comprehensive debt analysis.[142]
	OECD Creditor Reporting System (CRS)	Joint initiative between the OECD and the World Bank, has been in place since 1967.[143] It provides detailed data on concessional loans and grants extended to developing countries. While this system represents one of the most robust platforms for publicising creditor data, significant gaps remain, primarily due to the non-participation of key bilateral creditors, including some of the largest lenders to EMDEs.[144] This lack of comprehensive data reporting undermines the full potential of the CRS in promoting global debt transparency. The OECD has also developed international standards and guidelines on SOE debt disclosure, the "OECD Guidelines on Corporate Governance of State-Owned Enterprises", 2015.[145]
Private creditor-based initiatives	Institute of International Finance (IIF) Voluntary Principles for Debt Transparency	The 2019 IIF Voluntary Principles for Debt Transparency (the "IIF Voluntary Principles") establish a framework for private lender disclosure on sovereign loans, excluding monetary policy transactions, short-term trade finance and IFI lending.[146] Key aspects of these principles include: • They are voluntary, as there is no international regulatory body overseeing private lending to sovereigns, making G20 endorsement the most feasible approach. • They apply to all transactions that obligate the public sector, either directly (such as loans) or indirectly (such as guarantees). • The principles define the public sector broadly, including SOEs. • Disclosure requirements include details about all parties involved (borrower, lender, guarantor, agent), loan terms (ranking, amount, currency, interest

		rate), loan purpose and governance (law, immunities, dispute resolution, collateral). • This information should be made public 60 to 120 days following the initial transfer of funds.[147] Despite being a positive step, the voluntary nature of these principles limits their effectiveness. Voluntary initiatives, for example, driven by the private sector, are complied with by more responsible companies, but ignored by the worst offenders. An incentive is therefore needed to provide a level-playing field, so that transparency is increased across all lenders.[148] One potential approach could involve "naming and shaming" as a form of peer pressure within the financial sector, pushing for these principles to become a standard in global markets.[149]
CSO Initiatives	Transparency International and the National Democracy Institute's Debt Transparency and Accountability Checklist	Comprehensive checklist addressing transparency and accountability in debt management.[150] It aims to tackle corrupt practices, including "white elephant" projects that have little or no benefit to the public. It sets out transparency and accountability principles and best practices, including: • what a strong legal framework looks like in terms of primary and secondary legislation; • the operational issues to be addressed by institutional arrangements for debt contraction and management; • public debt disclosure and transparency standards; • the oversight responsibilities of different stakeholders; and • how lenders themselves can improve debt transparency.[151]
	CSO coalition (Jubilee Debt Campaign, Corruption Watch, Jubilee USA Network, Christian Aid, AFRODAD, Citizens for Financial Justice, One, EURODAD, Islamic Relief, APMDD, ActionOne, Global Witness and LATINDADD)	The coalition has advocated for more transparency in sovereign debt.[152] Their primary demand is that all public lending is disclosed in a timely and accessible manner. Among their main proposals is the creation of a global publicly accessible loan registry, which would serve as a centralised database for all loans made to governments or backed by government guarantees.[153] The registry would require that loan contracts be disclosed within 30 days of signing, with comprehensive details such as the loan amount, interest rates, fees, payment schedules, the applicable law and information on the intended use of the loan proceeds.[154] The coalition also outlines several key steps for implementing this registry:[155] • Urges G20 governments to take a leadership role by ensuring that the registry is established within a permanent institution with adequate funding. • Calls for multilateral institutions and governments to disclose all loans in the registry, setting a high standard for universal transparency.[156] • Proposes that resource-backed loans, in which governments use natural resources as collateral, be disclosed through the Extractive Industries Transparency Initiative, to ensure transparency in sectors vulnerable to corruption.[157] • Countries like the UK and the United States, where significant lending contracts are often governed by domestic laws,[158] to introduce legislation that makes loan disclosure a prerequisite for enforceability.[159] While the initiative is a step in the right direction for debt transparency, its success will hinge on sustained political commitment, adequate funding and strong legal backing to ensure effectiveness. Although the proposal is ambitious, logistical challenges remain. Establishing a global registry that collects, standardises and disseminates data in real-time would require considerable resources, legal frameworks and international cooperation. Enforcement mechanisms are also crucial, as the registry would be effective only if compliance is mandatory and violators face consequences.

International Budget Partnership	Key recommendations include that governments:[160] • Develop meaningful and inclusive spaces to engage the public in budget processes. • Strengthen oversight mechanisms, such as legislators and auditors. Improving disclosure of budget information, including detailed information on public revenue and spending, ideally through a centralised, publicly accessible registry. Loan and debt data should be published within 30 days of contract signature including 1) value of the loan, fees, charges and interest, and the law the debt is owed under 2) any loan to a government, with a government guarantee or to SOEs 3) information on any security or collateral attached to the loan, and the terms.[161]
Open Government Partnership	Adopts an open government approach, characterised by transparency, participation and public accountability, and offers a robust framework to address the challenges posed by hidden debts:[162] • Create a legal framework for public borrowing. • Publish an annual debt strategy. • Transparency of macroeconomic indicators. • Broaden transparency to parallel indicators.

Despite being a positive step, the voluntary nature of these initiatives and principles limits their effectiveness. Progress in debt transparency hinges on voluntary participation from both creditors and sovereign borrowers. This often leads to inconsistent data availability, as some countries and lenders may choose not to disclose key loan information. There is also the challenge of political will. Many initiatives lack binding enforcement mechanisms, meaning that creditor compliance is largely dependent on such will. Some governments or institutions may be reluctant to fully disclose loan details for fear of exposing unfavourable terms or undermining sovereign autonomy. Further, voluntary initiatives, for example, driven by the private sector, are complied with by responsible companies, but ignored by the worst offenders. An incentive is therefore needed to provide a level-playing field, so that transparency is increased across all lenders.

Civil society organisations, research institutions and think tanks play a crucial role in the debt landscape through research on how public debt is managed, and the development of recommendations on best practices for improvement. Investigative journalism is also a powerful tool in exposing corrupt practices and malpractice in public debt management. For instance, the International Consortium of Investigative Journalists has played an important role in this respect. Media organisations are pivotal in uncovering hidden debts, exposing opaque loan agreements, and holding both governments and private creditors accountable. Beyond traditional media, social media plays an important role in raising awareness on debt mismanagement and corruption. Local advocacy groups are also critical in driving national reform. In Zambia, organisations like the Debt Alliance, comprising 42 Zambian CSOs, have been actively advocating for enhanced public access to information about government debt. Another important advocate is the Okoa Uchumi coalition.

National laws and regulations

National legislation and institutional frameworks play an important role in ensuring responsible public financial management, preventing corruption and mitigating sovereign debt risks. While international frameworks and CSO initiatives play a critical role in holding actors accountable, it is mainly within a country's legal and regulatory landscape that the most important and enforceable changes can occur. At the national level, governments must create and enforce a robust legal structure that promotes transparency and accountability throughout the debt lifecycle. Such a framework typically includes a range of legal instruments such as the constitution, supranational frameworks that may be incorporated into domestic law, and various primary laws that deal with debt management, public financial management, fiscal responsibility, and statistical and accounting standards. Important provisions can also be found in central bank laws, regulations for subnational governments and SOEs, and broader transparency laws. Domestic institutions such as parliamentary commissions, independent auditors, anti-corruption commissions and different ombudsman offices can make an important contribution to promoting accountability.

Several countries have made notable progress by improving these frameworks to foster greater transparency and accountability, providing a model for strengthening public debt management practices (see Box 3 below). However, some of these countries still face broad challenges with debt management, especially with enhancing accountability.

Low-income countries and emerging markets with a high degree of public debt transparency, including disclosure of loan-level information

"In Kenya, public debt statistics bulletins with public and publicly guaranteed debt coverage and medium-term public debt management strategies are published regularly, and the Budget Policy Statement and the annual Public Debt Management Report include information about contingent liabilities. Moreover, the 2021 External Public Debt Register publication provided loan-level information about amounts contracted and drawn, interest rate, maturity, and currency denomination for all loans.
In Ghana, the Annual Public Debt Report provides a list of all disbursing external loans, including the name of creditor, the purpose of the loan and the outstanding amount, as well as a list of newly contracted loans showing the committed amounts.
In Seychelles, terms of repayment, debtor identification, interest rate, the amount of debt, and other details, such as the purpose of the facility and the manner in which public debt should be accounted for, are published in the Official Gazette, which is a condition for a debt agreement to enter into effect.
In Thailand, the Ministry of Finance is required to publish in the Government gazette the following information within 60 days from the conclusion of a loan agreement by a central government entity or an SOE: source of loan, currency, amount, conversion of foreign currency to Thai baht, interest rate, fees, expenses, discount, repayment period of principal, use of loan proceeds, and conditions and terms of the transaction.
In Jamaica, the Ministry of Finance must prepare quarterly reports on new borrowings by the Government, including the amounts raised, purposes of the loans, and terms and conditions."[163]

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