

Beyond aid part 2: a change of tone on debt?

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13 October 2025



At FfD4, the Government of the Republic of Zambia offered to host the inaugural Borrowers' Forum, June 2025

Photo Credit: [Facebook/Ministry of Foreign Affairs and International Cooperation Zambia](#)

This is the second post in the four-part [Beyond aid: new directions in development finance series](#) on the key debates at the Fourth International Conference on Financing for Development (FfD4), which was held in Seville, Spain during June 2025.

One of the central issues at FfD4 was the mounting international debt crisis. The OECD estimates that **more than 50 countries** are either already in debt distress or at high risk, including 36 low-income countries and a growing number of middle-income economies such as Sri Lanka, Ghana and Egypt. This problem is broader and more global than in the past. Many governments now spend more than 20% to 30% of revenue on **debt service**, often outstripping expenditures on health and education. **In Sri Lanka**, debt service exceeds social spending by more than a factor of three, hampering recovery and widening inequality.

The tone at Seville marked a break from earlier eras where debt crises were often framed as failures of fiscal discipline. Participants stressed that austerity has not solved the problem; it has choked public services and fuelled inequality. The real issue is systemic: there is no predictable, inclusive mechanism for restructuring sovereign debt free from creditor dominance. Instead, restructurings remain ad hoc, slow and political. When Sri Lanka **defaulted in 2022**, citizens endured years of austerity, inflation and recession while creditors bickered. At FfD4, delegates from developing countries criticised international financial institutions for charging higher borrowing rates to the Global South and perpetuating colonial hierarchies.

The Philippines — often touted as one of Southeast Asia's fastest-growing economies — still lives under the shadow of structural adjustment, with **debt nearly doubling** between 2019 and 2024. Pakistan, despite receiving **\$2 billion from the IMF**, is battling debt alongside political instability. (These examples underscore that debt distress in Asia is not marginal to the global crisis.)

Another theme strongly voiced in Seville was the intersection between debt distress, climate change and post-pandemic recovery. Extreme floods, storms and droughts force vulnerable countries to borrow just to rebuild. Yet the same governments are expected to decarbonise, build resilience and service debt simultaneously. Small Island Developing States reported a **65% drop in climate finance** between 2022 and 2023, even as their public debt has tripled since 2010. Pacific Island countries — from larger states like Fiji to microstates such as Tuvalu and Kiribati, each grappling with unique vulnerabilities — are among the most climate-vulnerable in the world. They commit to ambitious emissions targets despite negligible emissions, but their fiscal space is eroded by debt repayments. As **Inter Press Service** noted, they are praised for climate leadership but offered little real support for coastal protection or renewable energy investment.

Civil society linked these realities to justice claims. Climate finance, they argued, is not charity but an obligation. The **Debt for Climate movement** gained visibility, demanding **debt-for-climate swaps** and disaster clauses in loan agreements so that countries can suspend repayments when disasters strike.

Unlike **FfD1 in Monterrey** (2002) and **FfD2 in Doha** (2008), where debt relief was discussed cautiously, FfD4 in Seville saw stronger calls for a formal, UN-led debt restructuring mechanism — akin to an international bankruptcy process — that is transparent and binding. Nepal and Zambia joined civil society coalitions in pushing for a sovereign debt mechanism that reduces creditor discretion. At the same time, many participants attacked the role of private creditors, hedge funds and rating agencies in blocking fair restructuring. The Sri Lanka case, where **delays by bondholders compounded human suffering**, was repeatedly invoked.

One innovative idea gaining traction was a “**Borrowers’ Forum**” — a coalition of debtor countries to collectively negotiate, pool expertise and strengthen their bargaining power. Multiple reports after Seville have highlighted the agreed plan to establish a platform, with commentary underscoring it as **a first step toward stronger debtor coordination**. Such a coalition could act as a counterweight to creditor-dominated forums like the Paris Club, creating solidarity across regions and amplifying Global South agency.

Given the Asia-Pacific faces an estimated **\$4 trillion SDG financing gap**, these discussions are important for the region, even if it was broadly underrepresented in FfD4 deliberations. South Asia has seen high-profile debt crises in Sri Lanka and Pakistan, while the Philippines and Indonesia illustrate how even growing middle-income economies remain vulnerable to rising debt service costs. In the Pacific, the picture is different again: small states like Tuvalu and Kiribati confront fiscal pressures compounded by climate survival challenges, while larger states such as

Fiji face repeated disaster recovery bills that erode fiscal space. Pacific delegations emphasised that without debt relief, climate adaptation goals would remain aspirational. Together, these experiences underscore why debtor coordination across such diverse contexts will be vital. Other [analysts warned](#) that unless Asia-Pacific debt burdens are addressed, the region risks a “widening development and climate default”.

The [Compromiso de Sevilla](#), the conference’s outcome document, acknowledges that “unprecedented levels of public debt are undermining the ability of countries to invest in the SDGs and respond to multiple crises.” It calls for “a timely, predictable, effective and fair sovereign debt resolution mechanism” and encourages responsible lending principles and debt-for-climate swaps, among other initiatives. The accompanying [Seville Plan of Action](#) listed more than 130 initiatives, including a Debt-for-Development Swap Hub and a coalition to reform tax expenditures.

Those commitments are non-binding and less ambitious than many had hoped for. Yet the tone was unmistakable: debt should no longer be treated merely as a technical issue of economic vulnerability. It should be framed as a justice and governance challenge central to global cooperation.

Despite its limitations, FfD4 seemed to signal a shift toward a recognition that debt, climate and inequality are intertwined — and that debtor countries need collective platforms to assert their interests. That’s progress compared to past conferences. For the Asia-Pacific, where debt and climate pressures converge most starkly, it remains to be seen whether traction on these issues will see concrete progress in the years to come.

You can read other posts in this series here: [Beyond aid: new directions in development finance](#).

Disclosures:

This series is based on research funded by the Asia Foundation. The views expressed are those of the authors only.

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Link: <https://devpolicy.org/beyond-aid-part-2-a-change-of-tone-on-debt-20251013/>