
**THE DARK SIDE OF THE BLUR ECONOMY: DISSOLVING LINE
BETWEEN DEVELOPMENT AID AND DEBT TRAP**

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ABSTRACT

For most of the twentieth century, a poor country could tell the difference between a gift and a loan. That distinction is fading. Concessional loans are counted as aid, commercial credit is wrapped in the language of partnership, and infrastructure is financed through agreements that are neither fully public nor fully private. This paper calls this merged terrain the “blur economy” of development finance. The paper asks whether this blurring has produced a legal accountability gap in which borrowing states take on debt that behaves like a trap, even when no single creditor intends to set one. The study is doctrinal and analytical. It reads published loan-contract research, international soft-law instruments, debt data from multilateral bodies, and judicial decisions from Kenya, UK and US, alongside case studies of Sri Lanka and Zambia. The popular “debt-trap diplomacy” thesis, which blames a single lender for deliberate asset seizure, is not well supported by evidence. Yet the underlying danger is real. Confidential contracts, collateralised revenue accounts, hidden guarantees and the absence of any binding sovereign insolvency regime combine to leave borrowing countries exposed and their citizens uninformed. The trap is structural rather than conspiratorial. The paper proposes a transparency-first framework: mandatory disclosure of sovereign loan terms, legislative approval of external borrowing, a working multilateral restructuring mechanism, and recognition that debt contracts must be read against the human rights obligations of both lenders and borrowers.

Keywords: *Sovereign debt, Development aid, Debt-trap diplomacy, Blur economy, Debt restructuring, Responsible lending*

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I. INTRODUCTION

Picture a finance ministry in a mid-sized developing country on the morning a new port is inaugurated. There are ribbons, speeches and flags from two nations. The project was described in the press release as “development cooperation”. What the press release does not say is that the port was built with a loan carrying a commercial interest rate, secured by an account into which port revenues must be paid, and governed by a contract that neither parliament nor the public has seen. Ten years later, traffic is thin, the currency has lost a third of its value, and the loan has become one of several that the country can no longer service. Was this aid? Was it a loan? Was it a trap? The honest answer is that it was a little of each, and that the law has struggled to decide which label should carry legal consequences.

This paper borrows a term from management literature. Writing at the end of the 1990s, Davis and Meyer described a “blur” economy in which the boundaries between products and services, buyers and sellers, and time and place were collapsing under the pressure of connectivity and speed.² Something similar has happened in development finance. The old lines between grant and loan, public lender and private financier, charity and commerce, have steadily dissolved. States lend through policy banks that behave like commercial banks. Commercial banks lend with sovereign guarantees that behave like public commitments. Aid agencies count loans as assistance. And borrowing governments sign agreements that sit somewhere between treaty and private contract.

The consequences are not academic. Approximately 3.4 billion people currently reside in nations that spend more on interest payments than on health care or education, while developing nations paid about USD 921 billion in net interest on public debt in 2024, according to the United Nations trade and development department.³ Behind these figures sit hospitals that were not built and teachers who were not hired. The question of who lent this money, on what terms, and under what legal rules is therefore a question about lives.

The paper proceeds as follows. Part II sets out the research questions, the hypothesis and the method. Part III explains what the “blur economy” means in development finance. Part IV traces how aid turned increasingly into debt. Part V examines the anatomy of what is popularly called the debt trap, including the contested debate on “debt-trap diplomacy”. Part VI shows

²Stan Davis and Christopher Meyer, *Blur: The Speed of Change in the Connected Economy* (Addison-Wesley 1998)

³UNCTAD, *A World of Debt 2025: It Is Time for Reform* (United Nations 2025)

that the problem is not confined to any one creditor. Part VII maps the gaps in international law. Part VIII draws on case studies from Sri Lanka, Zambia and Kenya. Part IX considers India's position, both as a lender and as a voice in global debt governance. Part X tests the hypothesis, Part XI offers recommendations and Part XII concludes.

II. RESEARCH QUESTIONS, HYPOTHESIS AND METHODOLOGY

A. Research Questions

The paper is guided by three questions. First, how has the legal and conceptual distinction between development aid and sovereign debt eroded over the past few decades? Second, does the resulting "blur" create conditions in which borrowing states fall into unsustainable debt, and if so, through what legal mechanisms? Third, what reforms at the international and domestic levels could restore accountability without choking off the finance that developing countries genuinely need?

B. Hypothesis

The working hypothesis is this: the debt trap facing many developing countries is less the product of deliberate predatory design by any single creditor than of a structural accountability gap created when development finance is dressed in the language of aid while being governed by the rules of commercial credit, and this gap is widened by contractual secrecy and because of absenteeism of a mandatory global outline for independent liability rearrangement.

If the hypothesis holds, two consequences follow. The popular narrative that blames one lender for a deliberate strategy of asset capture should turn out to be overstated. At the same time, the risks faced by borrowing countries should turn out to be real, recurring and traceable to identifiable legal features such as confidentiality clauses, collateral arrangements and gaps in domestic oversight.

C. Methodology

The study is doctrinal and qualitative. It relies on primary legal sources, including international instruments, United Nations resolutions and judgments from national courts, and on secondary sources, including empirical studies of loan contracts and datasets on official lending. Case studies were chosen because they illustrate different parts of the problem: Sri Lanka for the gap between narrative and evidence, Zambia for the difficulty of restructuring, and Kenya for the way domestic law can be sidestepped when a project is labelled as a government-to-

government arrangement. The paper does not claim to offer original quantitative data. Its contribution lies in reading existing evidence through a legal lens and in offering a framework that connects contract design to accountability.

III. UNDERSTANDING THE BLUR ECONOMY OF DEVELOPMENT FINANCE

In an earlier era the categories were reasonably tidy. Grants were gifts, usually from wealthy governments or multilateral bodies, attached to specific projects and requiring no repayment. Loans came from banks or bondholders at market rates. Between them lay concessional lending, cheaper and longer than commercial credit, which was supposed to be offered only where a project was genuinely developmental and a borrower genuinely poor.

Today at least four kinds of blurring can be identified. The first is *blurring of source*. A single project may be financed by a state-owned policy bank, a commercial lender backed by an export credit agency, a multilateral development bank and a private equity partner, each with different legal obligations and different appetites for risk. The second is *blurring of purpose*. Financing described as “development partnership” often serves the export, strategic or commercial interests of the lending country as well, whether that means guaranteeing contracts for its own construction firms or securing access to minerals. None of this is new, but it is now more openly integrated into the design of loans.

The third is *blurring of form*. Many agreements are neither treaties registered with the United Nations nor ordinary commercial contracts. They may be framework agreements between governments, followed by loan contracts between a state bank and a ministry, followed in turn by construction contracts with firms from the lending country. The legal character of each layer is different, and so are the forums in which disputes can be heard. The fourth, and the most troubling, is *blurring of visibility*. When loans are routed through special purpose vehicles, state-owned enterprises or guarantees which does not come on the central government’s financial statement, even the borrowing country’s own finance ministry may not have a complete picture of what the nation owes.

Each of these forms of blurring may have innocent explanations. Mixed financing can spread risk. Strategic interest can make lenders more willing to fund projects that markets ignore. But taken together, they produce a situation in which it becomes very hard to answer basic questions: Who is the creditor? Is this aid? Which law governs? Who knew? And when basic questions become hard to answer, accountability tends to fail.

IV. FROM GRANTS TO LOANS: HOW AID BECAME DEBT

It is important to keep in mind that developing nations' current debt issue is not the first. Numerous developing nations, particularly those in Latin America and sub-Saharan Africa, accrued debt that they were unable to pay back throughout the 1980s and 1990s. Much of this lending had been extended by Western governments, banks and multilateral institutions. Loans were often tied to structural adjustment programmes that required borrowers to cut public spending, privatise state enterprises and liberalise trade. A former chief economist of the World Bank later argued that these conditions frequently deepened hardship rather than relieving it.⁴

Large-scale debt reduction eventually emerged as the reaction. A significant portion of the debt held by the poorest nations was written off through the Multilateral Debt Relief Initiative in 2005 and the Heavily Indebted Poor Countries Initiative, which was started by the World Bank and the International Monetary Fund in 1996.⁵ For a moment, it seemed that the lesson had been learnt.

It had not, or at least not fully. Freed of old debts and enjoying a decade of low global interest rates and strong commodity prices, many of these same countries began borrowing again. This time, the lenders were more varied: bondholders buying Eurobonds, new bilateral creditors such as China, India, the Gulf states and Turkey, and commercial banks with guarantees from export credit agencies. At the same time, the measurement of aid itself changed. In 2014, Development Assistance Committee of the Organisation for Economic Co-operation and Development agreed for revolutionizing in the manner in which loans are counted as official development assistance, moving to a “grant-equivalent” method that credits donors for the concessional portion of a loan rather than its full face value.⁶ The reform was meant to make the numbers more honest, and in some ways it did. But it also confirmed something that had been true extensively: official statistics of the donor realm, lending money is a way of giving aid.

Here lies the first seed of the blur. A borrowing government told that it is receiving “assistance” may, in fact, be taking on a liability that must be repaid in hard currency over twenty years. Its citizens may reasonably assume that a project announced with ribbons and flags is a gift. The

⁴Joseph E Stiglitz, *Globalization and Its Discontents* (WW Norton 2002)

⁵International Monetary Fund, ‘Factsheet: Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative’

⁶OECD Development Assistance Committee, ‘DAC High Level Meeting Final Communiqué’ (16 December 2014)

legal instrument says otherwise.

V. THE ANATOMY OF DEBT PLOY

A. “Debt-Trap Diplomacy” Narrative and Critics

In January 2017, an Indian strategic commentator coined the phrase “debt-trap diplomacy” to describe what he saw as a Chinese strategy of lending to vulnerable countries in order to gain leverage, and ultimately control, over strategic assets.⁷ The phrase spread quickly through policy circles and news coverage, and Sri Lanka’s Hambantota port became its best-known illustration.

Careful research has since complicated the story. Brautigam, one of the leading scholars of Chinese finance in Africa, examined the evidence and concluded that the idea had spread as a meme rather than on the strength of documented cases of deliberate asset seizure.⁸ Jones and Hameiri, writing for Chatham House, reached a similar conclusion, arguing that recipient governments and their domestic political interests played a far larger role in shaping Belt and Road projects than the “trap” narrative allows.⁹

This paper takes these critiques seriously. A narrative that paints one creditor as a villain and borrowers as helpless victims is not only inaccurate; it also lets other creditors, and borrowing elites themselves, off the hook. But rejecting the conspiracy theory does not mean rejecting the danger. The more useful question is not whether a lender *intends* to trap a borrower but whether the legal architecture of the loan *produces* a trap regardless of intent.

B. What the Contracts Reveal

For many years, researchers could only guess at the terms of loans from newer bilateral creditors, because the contracts were confidential. That changed in 2021, when a team of scholars published a systematic study of one hundred loan pacts amid Chinese public-sector lenders and foreign governments.¹⁰ The investigation discovered a number of characteristics that need consideration. Broad secrecy clauses in many contracts prohibited borrowers from

⁷Brahma Chellaney, ‘China’s Debt-Trap Diplomacy’ (*Project Syndicate*, 23 January 2017)

⁸Deborah Brautigam, ‘A Critical Look at Chinese “Debt-Trap Diplomacy”: The Rise of a Meme’ (2020) 5 *Area Development and Policy* 1

⁹Lee Jones and Shahar Hameiri, *Debunking the Myth of ‘Debt-Trap Diplomacy’: How Recipient Countries Shape China’s Belt and Road Initiative* (Chatham House Research Paper, August 2020)

¹⁰Anna Gelpern and others, *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments* (AidData, Kiel Institute for the World Economy, Center for Global Development and Peterson Institute for International Economics 2021)

disclosing the terms of the debt or even its existence. Some contained provisions promising the borrower that the debt would not be included in a collective restructuring with other government creditors. Others had cross-default clauses that gave the lender the right to demand repayment in the event that the borrower failed on other loans or adopted policies that the lender disapproved of. Some required borrowers to keep special revenue accounts, which served as informal collateral and were often kept with a bank that the lender approved.

None of these features is unique. Confidentiality, cross-default clauses and collateral are found in commercial lending everywhere. What makes them significant here is the combination: loans that are presented as development cooperation between friendly governments, but which carry the protective machinery of a cautious commercial lender, and which cannot be scrutinised by the borrowing country's own citizens. The study's authors observed that the contracts gave the lender considerable influence over the borrower's policy choices, and that the confidentiality requirements made it harder for other creditors, or the public, to understand the borrower's true position.¹¹

C. Hidden Debt

The problem of visibility is not simply theoretical. Horn, Reinhart and Trebesch, in a study of Chinese overseas lending, estimated that roughly half of such advancing to emerging nations was not stated to International Monetary Fund or the World Bank, producing a large stock of "hidden" debt.¹² A later dataset compiled by AidData, covering more than thirteen thousand projects, estimated hidden debt of around USD 385 billion and found that dozens of little and medium income nations had public debt to China above 10% of their GDP.¹³

Hidden debt matters for three reasons. It prevents citizens and legislators from holding their governments to account. It misleads other lenders, including multilateral institutions, who assess nation's debt sustainability as per incomplete data. When crisis comes, it slows down restructuring, because nobody can agree on the size of the problem until the hidden liabilities are dragged into view.

¹¹Gelpern and others (n 9)

¹²Sebastian Horn, Carmen M Reinhart and Christoph Trebesch, 'China's Overseas Lending' (2021) 133 *Journal of International Economics* 103539

¹³Ammar Malik and others, *Banking on the Belt and Road: Insights from a New Global Dataset of 13,427 Chinese Development Projects* (AidData at William & Mary 2021)

VI. NOT ONE CREDITOR'S PROBLEM: THE WIDER PICTURE

It would be a serious mistake to treat the debt trap as a story about a single country. Some of the most damaging episodes of recent years involved Western banks, bondholders and financial centres.

Mozambique offers the starkest example. Between 2013 and 2014, state-linked companies in Mozambique borrowed around USD two billion from international banks, backed by government guarantees that were not properly disclosed to parliament or to the International Monetary Fund. The loans were ostensibly meant for maritime security and a tuna fishing fleet. When the full scale of the borrowing came to light in 2016, donors suspended budget support, the currency fell sharply, and the country slid into default. The scandal produced years of litigation in London, including a decision of the United Kingdom Supreme Court on whether claims arising from the affair should be sent to arbitration.¹⁴ The episode shows that hidden debt is not a feature of any one lender. It thrives wherever borrowers and lenders both have reasons to avoid scrutiny.

The risk associated with bond markets is distinct. When a nation issues bonds regulated by English or New York law, it exposes itself to foreign courts as well as the erratic actions of holders who may have purchased the debt at a discount on the secondary market. Argentina paid a heavy price to learn this. The United States Court of Appeals for the Second Circuit upheld an interpretation of the bonds' equal treatment clause in “*NML Capital Ltd v. Republic of Argentina*”, which essentially prohibited Argentina from paying creditors who had agreed to a restructuring unless it also fully paid the holdout funds that had declined.¹⁵ The decision gave holdout investors extraordinary leverage and made future restructurings harder for every sovereign borrower.

Taken together, these examples suggest that the blur economy is not a Chinese creation. It is the product of a global system in which multiple lenders, public and private, compete to finance developing countries, while nobody has clear responsibility for ensuring that the total burden remains sustainable. Private creditors and multilateral institutions together account for a large share of outside debt expenditures of developing nations, point that is often forgotten in the public debate.

¹⁴*Republic of Mozambique v Prinvest Shipbuilding SAL (Holding)* [2023] UKSC 32

¹⁵*NML Capital Ltd v Republic of Argentina* 699 F 3d 246 (2d Cir 2012)

VII. THE LEGAL VACUUM: INTERNATIONAL LAW AND SOVEREIGN DEBT

A. No Bankruptcy Court for States

When a company cannot pay its debts, most legal systems provide a bankruptcy procedure that halts enforcement, brings all creditors to one table and allows a court to confirm a plan binding on dissenters. When a state cannot pay, there is nothing of the kind. Sovereign restructuring remains a negotiation, shaped by power, reputation and the particular terms of each loan.

The idea of a formal mechanism is not new. In 2001 and 2002, First Deputy Managing Director of the International Monetary Fund projected an Independent Debt Restructuring Mechanism that would have allowed an eligible majority of money lenders to bind a sectional class.¹⁶ A proposal was shelved in 2003 after opposition from major creditor governments and financial markets.

In the year 2015, the United Nations General Assembly approved a set of fundamental rules on Sovereign Debt Restructuring Processes, affirming principles like sovereignty, good faith, clarity, impartiality, impartial behaviour, legitimacy, sustainability etc.¹⁷ The resolution passed with wide support among developing countries but was opposed or abstained on by several major financial powers. Like the rules on accountable advancing and borrowing issued by UNCTAD a few years earlier, which called on lenders to assess borrowers' capacity to repay and on borrowers to ensure transparency and proper authorisation,¹⁸ it is soft law. It shapes debate but binds nobody.

B. The Common Framework

The most significant recent attempt at coordination is Collective Outline for Debt Treatments decided by G20 in November 2020, which for the first time brought Paris Club creditors and newer lenders such as China into a single process for eligible low-income countries.¹⁹ In principle, this was a real step forward. In practice, progress has been slow, as the case of Zambia shows below. The framework depends on voluntary cooperation, has no mechanism to compel private creditors, and leaves middle-income countries outside its scope altogether.

¹⁶Anne O Krueger, *A New Approach to Sovereign Debt Restructuring* (International Monetary Fund 2002)

¹⁷UNGA Res 69/319 (10 September 2015) UN Doc A/RES/69/319

¹⁸UNCTAD, *Principles on Promoting Responsible Sovereign Lending and Borrowing* (United Nations 2012)

¹⁹G20, 'Common Framework for Debt Treatments beyond the DSSI' (Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting, 13 November 2020)

C. Odious Debt and the Limits of Existing Doctrine

International law does contain one old doctrine that speaks directly to unjust debts. A few years earlier, in the *Tinoco* arbitration, Chief Justice Taft had refused to enforce certain transactions made by a Costa Rican dictator, partly because the lending bank knew the money was being used for personal purposes.²⁰

The doctrine of odious debt is appealing but narrow. It was designed for regime change and personal enrichment, not for the ordinary case of a democratically elected government borrowing in good faith for a project that turns out badly. It offers little help to a country whose problem is not tyranny but opacity. Nor does the law of treaties help much. The Vienna Convention voids agreements obtained by intimidation,²¹ but economic pressure has never been accepted as “force” for this purpose, and many loan agreements are not treaties at all.

VIII. CASE STUDIES

A. Sri Lanka: The Narrative and the Numbers

Hambantota is valuable. The Export-Import Bank of China provided the majority of the funding for the port located in the southern region of Sri Lanka. It struggled to attract traffic. The Chinese government of the Chinese government of the Chinese government. This appeared to many onlookers to be the trap closing.

The fuller picture is more complicated. The research discussed above found that the lease was not a debt-for-equity swap in the usual sense. The loans for the port remained on Sri Lanka’s books, and the cash from the lease was used to shore up foreign reserves and meet obligations to other creditors.²² Chinese lending was only one part of Sri Lanka’s external debt, much of which consisted of international sovereign bonds held by private investors.²³

When the crisis finally arrived, its causes were many: tax cuts, a collapse in tourism after the 2019 attacks and the pandemic, a sudden ban on chemical fertilisers, and years of reliance on expensive market borrowing. Ordinary Sri Lankans paid the price in fuel queues, power cuts and soaring food prices. The lesson is not that one lender set a trap, but that a country with weak fiscal governance and a patchwork of opaque and commercial borrowing had no safety

²⁰*Aguilar-Amory and Royal Bank of Canada Claims (Great Britain v Costa Rica)* (1923) 1 RIAA 369

²¹Vienna Convention on the Law of Treaties (adopted 23 May 1969, entered into force 27 January 1980) 1155 UNTS 331, art 52

²²Brautigam (n 7)

²³Jones and Hameiri (n 8)

net when shocks arrived at once.

B. Zambia: The Slowness of Relief

Zambia became the first African country to default in the pandemic era when it missed a Eurobond payment in November 2020. It formally requested treatment under the Common Framework in February 2021. It then waited. An official creditor committee co-chaired by France and China was formed in June 2022, and only in June 2023, at a summit in Paris, did Zambia reach an agreement in principle with its official creditors to restructure around USD 6.3 billion of debt.²⁴ Negotiations with private bondholders took longer still.

The Zambian experience shows how the blur economy frustrates relief. Creditors disagreed about how to compare the treatment offered by different lenders, about whether multilateral banks should share losses, and about whether private creditors were being asked to give as much as official ones. Each creditor had reasons to wait for others to move first. Meanwhile, the Zambian public lived with high inflation and constrained public services. A process designed to prevent a debt trap had, for several years, become a waiting room.

C. Kenya: When a Loan Escapes Domestic Law

Kenya's Standard Gauge Railway, financed by the Export-Import Bank of China and built by a Chinese contractor, offers a sharp example of how the blur between aid and commerce can undermine domestic accountability. Activists and the Law Society of Kenya contested the procurement of the project, saying that the contract had been issued without competitive bidding in defiance of the Constitution and procurement law. In 2020, the Court of Appeal agreed that Kenya Railways Corporation had failed to comply with Article 227 of the Constitution and the procurement statute.²⁵

Whatever one thinks of the legal reasoning, the practical effect is striking. The very feature that makes a project look like development cooperation, namely its framing as a deal between two governments, served to shield it from rules designed to ensure competition and value for money. This is the blur economy in its purest legal form: the label of partnership displaces the safeguards that would otherwise apply to a commercial contract of the same size.

²⁴Paris Club, 'The Paris Club Welcomes Zambia's Debt Restructuring Agreement under the G20–Paris Club Common Framework' (Press Release, 23 June 2023)

²⁵*Okiya Omtatah Okiiti & 2 others v Attorney General & 4 others* [2020] eKLR (Court of Appeal, Nairobi, 19 June 2020)

IX. INDIA'S POSITION: LENDER, NEIGHBOUR AND NORM-SHAPER

India is not a bystander in this debate. It's noteworthy of development finance in its own right, extending lines of credit through the Export-Import Bank of India, a statutory body established by Parliament.²⁶ Many of these lines of credit are tied, requiring that a large share of goods and services be sourced from India. In that sense, India participates in the same blurring of purpose that critics identify in other lenders. Honesty requires acknowledging this.

At the same time, India has played a constructive role in several debt crises in its neighbourhood. During Sri Lanka's crisis, India provided emergency support, including credit lines for fuel and essential goods and currency support, and it was among the official creditors that later negotiated on Sri Lanka's restructuring. India was also part of the official creditor committee that agreed on Zambia's treatment.²⁷ In 2023, India served as the G20's president that placed debt vulnerabilities in little and mid revenue nations on agenda, and New Delhi Leaders' Declaration called for faster progress under the Common Framework.²⁸

A noteworthy constitutional thread is also present. The Indian Constitution's Article 51(c) mandates that the State promote respect for international law and treaty responsibilities in interactions between organized peoples.²⁹ A country that takes this directive seriously has good reason to support transparent, rules-based lending, both in the loans it gives and in the global frameworks it helps to shape. India's credibility as a voice for the Global South depends in part on whether its own lending practices meet the standards it asks of others.

X. TESTING THE HYPOTHESIS: FINDINGS

Returning to the hypothesis set out in Part II, the evidence reviewed supports it in both of its parts.

First, the narrative of deliberate, single-creditor "debt-trap diplomacy" is not well supported. The most carefully studied example, Hambantota, does not show a lender seizing an asset in exchange for unpaid debt. Research on Belt and Road projects suggests that borrowing governments often initiated and shaped the projects themselves. And episodes such as Mozambique and Argentina show that serious harm can arise from Western banks, bond

²⁶Export-Import Bank of India Act 1981

²⁷Paris Club (n 27)

²⁸G20, 'G20 New Delhi Leaders' Declaration' (New Delhi, 9–10 September 2023)

²⁹Constitution of India, art 51(c)

markets and courts as well.

Second, the risks faced by borrowing countries are real and can be traced to specific legal features. Confidentiality clauses keep citizens uninformed. Cross-default provisions and revenue accounts give lenders leverage beyond the loan itself. Hidden guarantees distort the picture on which other creditors rely. Government-to-government framing can remove projects from domestic scrutiny, as the Kenyan litigation shows. And the lack of a binding restructuring regime means that, when the crisis comes, relief is slow and uneven.

The trap, in short, is structural. It is formed where the language of aid meets the machinery of commercial credit, and where neither domestic nor international law has adapted to govern that meeting point. No villain is needed for the trap to work. It only requires that everyone involved be allowed to avoid scrutiny.

XI. RECOMMENDATIONS

Mandatory disclosure of sovereign loan terms. Borrowing states should enact legislation requiring that all public and publicly guaranteed debt, including debt of state-owned enterprises, be published in full within a fixed period after signing. Lenders, in turn, should commit to refrain from confidentiality clauses that prevent disclosure of the existence, amount and core terms of sovereign debt. Such a commitment could be built into the lending policies of the G20 and the Development Assistance Committee.

Parliamentary approval of external borrowing. Major external loans, and any loan secured by public revenues or assets, should require approval by the national legislature. Labelling an arrangement as a government-to-government deal should not be allowed to exempt it from procurement and transparency rules.

Honest labelling of aid. Statistics and public communications should draw a clear line between grants and loans. When a venture is backed by credit, government announcing it should state the amount, the interest rate and the repayment period in plain language. Citizens deserve to know whether they are receiving a gift or taking on a debt.

A working restructuring mechanism. The Common Framework should be strengthened with clear timelines, a formula for comparability of treatment, a standstill on enforcement during negotiations and an extension to vulnerable middle-income countries. In the longer term, the international community should revisit the idea of a statutory restructuring mechanism, drawing on the principles set out by the General Assembly in 2015.

Legislation against holdout litigation. Major financial centres, particularly New York and London, should consider laws that limit the ability of holdout creditors to recover more than they would have received under a restructuring accepted by a large majority of creditors.

Human rights impact assessment. Debt sustainability analyses by multilateral institutions should include an explicit assessment of how debt service affects spending on health, education and social protection, consistent with Regulatory rules on Foreign Debt and Human Rights.

Leadership from India. India could lead by example by publishing the terms of its own lines of credit, supporting a disclosure standard among emerging lenders, and using its standing in the G20 and among developing countries to push for a faster and fairer restructuring process.

XII. CONCLUSION

It is tempting to tell the story of the debt trap as a thriller, with a cunning lender, a naïve borrower and a port or railway as the prize. The evidence tells a quieter and in some ways more troubling story. The trap is not usually set by one hand. It is assembled from many small pieces: a confidentiality clause here, a revenue account there, a guarantee kept off the books, a project exempted from procurement rules because it came wrapped in the flag of partnership, a restructuring process that nobody can force to move.

The blur economy has brought real benefits. Roads, ports, power plants and railways have been built that might otherwise never have existed, and developing countries have gained more choices about whom to borrow from. But choice without transparency is a dangerous gift. When the line between aid and debt dissolves, so does the public's ability to ask the questions that democracy depends on: What are we signing? Who will pay? What happens if it goes wrong?

Restoring that line does not mean ending lending. It means insisting that every loan be called a loan, that every term be visible, and that every creditor, whatever its flag, accept the same rules when things go wrong. Only then can development finance live up to its name.
