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To push a green agenda, Brazil cannot ignore the debt crisis in the Global South.

The Global South is on the brink of a debt crisis.

According to the International Monetary Fund (IMF), roughly two-thirds of low-income countries are either at high risk of or already in debt distress. Zambia, Chad, Ethiopia and Ghana are already conducting debt negotiations. High debt service has curtailed government spending, leading at least 62 countries to pay more in external public debt service than health care expenditure during the height of the COVID-19 pandemic.

Simultaneously, developing countries (excluding China) need at least an additional $1 trillion per year, or approximately 4 percent of their gross domestic product (GDP), to achieve development and climate goals. Concomitantly, developing countries are bearing the brunt of a climate crisis that they did not cause. The increasing frequency of floods, droughts and cyclones is not only threatening human well-being but also worsening fiscal deficits.

How can countries standing on the edge of a financial precipice mobilize the funding to meet shared climate and development goals?

As Brazil recovers its environmental and diplomatic credentials on the world stage, it has a crucial opportunity to help disentangle international debt negotiations and pave the way for green global growth.

Brazil has strong diplomatic relations with all official creditors, from the advanced countries at the Paris Club to China. In fact, Brazilian President Luiz Inacio Lula da Silva's meeting with Chinese leader Xi Jinping-postponed probablyy to April- could be a first step in finding common ground in debt negotiations. Brazil is also slated to host the G20 next year, providing ample space for shaping multilateral dialogue – including pushing for a review of the G20 Common Framework.

Debt relief for the most debt vulnerable countries demands reforming the international financial architecture. In 2020, the G20 recognized the need for debt restructuring and endorsed the creation of the Common Framework, which was an attempt to bring all relevant creditors to the negotiating table. Until the 1990s, the main official creditors were members of the so-called "Paris Club" – 22 countries mostly from Europe, as well as the US, Japan, Russia and Brazil. Today, China, India, Saudi Arabia and the United Arab Emirates are also key official creditors. Moreover, private bondholders emerged as key lenders and today hold almost half of the debt owned by developing countries.

The Common Framework, as it stands today, is unfit for purpose for three reasons: It excludes middle-income countries, the process is exceedingly slow, as countries that applied have yet to see a debt reduction and there are no incentives to compel private creditor participation. The timid involvement of multilateral lenders has also raised reasonable complaints from China and further delayed comprehensive debt restructuring.

In tandem with comprehensive reform, a "new" Common Framework should associate debt relief with green investment commitments, which would align debt negotiations with Brazil's green agenda. An updated take on the Brady bonds of the 1990s could help incentivize participation from a broad range of creditors.

Debt and climate vulnerabilities are intertwined, but the cycle can be broken by solving the current debt crisis and creating fiscal space for developing countries to boost climate-related investment.

Brazil is in a privileged position to broker these negotiations and forge a new international financial architecture.