



european network on
debt and development



Aligning the global debt architecture with the SDGs: What will it take?

Civil society financing for development group. Monday 25 April - 15:00–17:00 NY Time

Good afternoon, your excellencies, member states, UN agencies, other international institutions and colleagues.

Thank you for the presentations and the opportunity to share the views of the civil society in this key session on what debt architecture we need to get on track to make the SDGs possible. My name is Iolanda Fresnillo and I am talking today on behalf of Eurodad and the civil society FfD group, including the women's working group on FfD.

According to IMF and World Bank calculations, 60% of low-income countries are in debt distress or high risk of debt distress. Middle income countries are also facing increasing difficulties given the high levels of indebtedness, with the striking example of Sri Lanka. Already elevated external sovereign debt burdens before Covid-19 were exacerbated with additional borrowing during the pandemic and increasing debt-servicing costs, pushing a rising number of low- and middle-income countries to the brink of default. Ongoing climate emergency challenges, threats of new Covid-19 pandemic while the vaccine is still not available for everyone, together with increasing inflationary pressures, rising interest rates and the spill over effects of the Russian aggression on Ukraine, which include food and energy supply challenges and prices spikes, not only can lead to unprecedented humanitarian crises, but also worsen the already complex debt situation in many countries. According to the World Bank, "over the next 12 months, as many as a dozen developing economies could prove unable to service their debt". But the World Bank does not consider this would not constitute a systemic global debt crisis.

For us, and for the many communities in the global south being affected already by debt led austerity, **there is no doubt we are already in a full-blown debt crisis**. When governments are reallocating investment from essential public services and social protection to repay their creditors, it is called a crisis. According to UN DESA, many low-income countries have cut public investment and capital spending and have implemented major reallocations of resources from key development areas, including Cameroon, Liberia and Mauritania in Africa, Myanmar and Nepal in Asia, and some small island developing States such as Tonga and Samoa. As increasing debts are already endangering women's rights, gender minorities and the most vulnerable communities' rights, we do not need to wait for systemic risks for capital markets to call it a full-blown crisis. And, most importantly, we can't wait and we need to act now.

Looking not only at past debt crises, but also at the recent experiences of the G20 DSSI and Common Framework for debt treatment, and their several and serious limitations, there are 4 elements that we would like to share:

- **Debt cancellation works and immediate, sufficient debt cancellation is the just solution many countries need.** We have seen in many cases in the past, how reducing debt stock and debt payments allow for countries to increase their social spending and infrastructure investment. But debt cancellation should not only be delivered because it works, particularly when we consider international commitments in relation to human rights and SDGs, but also because it's the just thing to do. Throughout decades of colonialism and neo-colonialism, exploitation of natural resources and human capital, fossil fuel-based growth and carbon emissions, global north countries have accumulated a huge social, ecological and climate debt owed to the people in the global south. Today these same rich nations fail to deliver the system changing solutions that these communities need, including immediate debt cancellation by all lenders for all countries in need.
- **The longer we wait to take action, the costlier the debt restructuring will be,** in terms of money, but also in terms of human lives. A timely, comprehensive and fair debt restructuring process saves resources to borrowers and creditors, but most importantly, it saves lives. However, the existing debt architecture, including the G20 Common Framework, is not fit for purpose.
- **Voluntary approaches with private creditors do not work.** We just saw how billions of dollars went to rich investors and financial institutions pockets in 2020 and 2021, while impoverished countries were trying to fight a global pandemic and didn't have enough resources to provide the most basic health protection services or buy vaccines for their citizens... it does not work, voluntary approaches will not work. We need a rules-based debt resolution framework that binds all creditors participation. And these rules and their supervision need to apply as well for credit rating agencies.
- **The solution needs to be systemic, we can't limit the response to partial and false solutions.** We urge you to not wait any longer and to start building the new debt architecture we need, beginning with establishing an open-ended intergovernmental working group, under the auspices of the UN, with a view to create a binding, multilateral framework on sovereign debt crisis resolution. As our colleague Lidy Nacpil, from the Asian People's Movement on Debt and Development, said last year, in this same forum: *"The debt problem has to be understood more broadly as more than just a problem of liquidity or insolvency. We need bold and system-changing solutions - not temporary tiny relief measures, not false solutions, and not fiscal responses in the form of massive lending that further aggravates our debt burdens and overwhelmingly obliterates whatever little temporary debt relief is extended"*.

Without an ambitious, multilateral, inclusive and fair process leading to the debt cancellation that the countries in the global south need, the resulting crisis will keep exacerbating the already staggering levels of social, gender, racial and economic inequality, within and between countries. Without prompt and sufficient debt cancellation available for all the countries in need and from all creditors, there will be no chance of achieving the Sustainable Development Goals. Neither to tackle the climate emergency. Without debt justice, there's no climate justice, gender justice, economic justice or social justice.

You might think we're too idealistic, that we need to face reality. But the reality is that the G20, the IMF, the World Bank, all dominated by creditors in their decision making, haven't been able to provide the response to the debt crisis that humanity needs. The reality is that the UN is the only space where global south countries can be part in equal conditions of a discussion on **debt architecture reform and the establishment of a transparent, binding and multilateral framework for debt crisis resolution**, that addresses unsustainable and illegitimate debts and provides systematic, timely and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors. Such a binding, multilateral framework should follow the following principles, defined by several civil society organisations in 2019¹:

1. Creation of a multilateral debt resolution body independent from creditors and debtors
2. Process may be initiated by borrower and the institution of automatic standstill will apply
3. Initiation of the process should trigger a stay on creditor litigation and enforcement
4. Comprehensive treatment of a country's debt stock in a single process
5. Inclusive participation of all stakeholders
6. Independent assessment of debt sustainability and the validity of individual claims
7. Focused on debt sustainability that puts needs of population before debt service
8. Respect for international human rights law and the realisation of international development commitments
9. Transparency: negotiations and their outcomes must be made public
10. Enforceability

A debt architecture reform process should also urgently address:

- **Supporting and providing immediate debt cancellation:** Debt sustainability consistent with the SDGs, human rights and the climate challenges can be achieved through an ambitious process of debt restructuring, including extensive debt cancellation. Debt cancellation must be granted to all countries in need and assessed with respect to their development financing requirements, and provided by all creditors (bilateral, multilateral and private);
- **Building global consensus on Principles on Responsible Borrowing and Lending:** Long-pending issue of agreeing on common and binding principles on responsible borrowing and lending, and ensuring compliance with it. This should address the gaps in transparency and advance towards the creation of a publicly accessible registry of loan and debt data;
- **Using human rights and development impact assessments** in debt sustainability analyses to widen their focus solely from economic considerations to also address the impact of a country's debt burden on its ability to meet development goals (including SDGs, climate goals, human rights and gender equality commitments) and create the conditions for the realization of all universal human rights;
- **Assessing systemic risks posed by unregulated or inadequately regulated financial sector instruments and actors:** including regulation and supervision of Credit Rating Agencies and global agreement on importance of capital account management;

I invite you to think about how different the past two years and the situation today would have been if we had succeeded in 2015 with the UN General Assembly initiative to agree on a multilateral legal framework to address sovereign debt crises. As the G77 and China noted in their Ministerial Declaration to UNCTAD XV, there is an urgent need "to reform the international financial architecture to improve the efficiency of the global financial system, improve debt sustainability and foster sustainable development. There is a need for continued discussions on the establishment of a multilateral legal framework on sovereign debt restructuring processes, in line with United Nations General Assembly resolution 68/304". We need to find ways to build consensus around this proposal from G77 countries and China.

For all of the above, we urge you all to agree on the establishment of an open-ended intergovernmental working group on debt architecture reform and to work for the next FfD Conference to be convened in 2024. Both processes will provide the framework for the discussions and commitments on a new debt architecture to flourish.

Thank you all for listening and looking forward to continuing this discussion.

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¹ Perera, Mark (2019), *We can work it out: 10 civil society principles for sovereign debt resolution*. <https://www.eurodad.org/debtworkout>