2021 FfD Forum

Panel II: Developing durable solutions to recurrent debt crises

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In the current official discussions including the panel contributions so far, we've heard very often that without decisive action, there would be a grave danger of a divergent world, with the risk of developing countries, including middle-income countries facing a lost decade. We've heard that tackling debt vulnerabilities would be key to a sustainable recovery. And we've witnessed the acknowledgement that early action on debt restructurings would be needed to avoid devastating and costly sovereign debt defaults. We in civil society really appreciate the broad agreement on that.

However, we are concerned that the policy response to those challenges doesn't match the agreed magnitude of the crisis and does not live up to the goal of ensuring long-term prosperity to all, as mentioned by Mrs. Urpilainen.

There was barely any debt cancellation, while we witnessed massive increases in public debt in 2020. The DSSI has only covered less than 2 per cent of developing countries' debt payments in 2020. It was criticized so many times by so many different actors that the private sector did not participate in the DSSI, but it was clear already very early after the beginning of the initiative that participation just won't happen. Now one year into the pandemic we've got twice the extension of the DSSI, but the time has not been used for decisive action on measures to enforce private sector participation, risking that the new DSSI extension but also other liquidity measures will be used for further free-riding on OS concessions.

Relating to guiding question 1 of this panel, in our view there is the immediate need to agree on much more sticks, and not carrots to incentivize PSI and visibly support countries that have to default with all legal and political options. This is also in accordance with former FfD commitments, such as in the Addis Abeba Action Agenda on the need for legislative steps against vulture funds.

Now when it comes to resolving deeper debt problems, the only tool, that is referenced in official discussions, is the G20 common framework. However, as came out clearly from the contribution of A&B many vulnerable countries are just excluded. Granting access by the per capita income leads to the very absurd situation that many countries that need debt relief are entirely excluded, while others who potentially won't need it, are included. We as civil society see the need to review the current income-based eligibility criteria and rather offer debt suspension and debt treatments to all countries that need it according to criteria of vulnerability and financial needs.

I think there have been many calls for the inclusion of MICs into debt relief initiatives in the various discussions over the past weeks, latest the initiative by Mexico and Argentina last week, however the G20 presidency made clear that the expansion of the initiatives to MIC is currently not an issue. And there are other limitations that remain, such as that bigger debt write offs are principally discouraged and left at the discretion of each single creditor, so that the framework rather responds to creditor needs and less so to debtor needs.

This leads me to guiding question 2: All those limitations prove that it is necessary that further resolutions on how to tackle debt vulnerabilities should not be adopted without consulting debtor countries and their concerns. This means instead of only waiting and seeing what the CF potentially brings about, an inclusive dialogue should be initiated in parallel on how to develop a fair, independent and comprehensive multilateral debt restructuring framework under UN auspices, such as through the establishment of an open-ended UN intergovernmental working group.

Although it was the impact of the pandemic that has moved debt reforms to the centre of discussions, already pre-pandemic there was a consensus on the limitations of the current market-based mechanisms to resolve the new debt crises. Already pre-pandemic there was a consensus that too little debt relief that comes too late, which characterized past debt crises, should be avoided. And already at the end of 2019 there were calls by governments to re-initiate a dialogue on a multilateral DWM. It seems that we urgently need to tackle the too little too late problem not only in debt restr. but also in relation to sovereign debt architecture reform.

In this context the IMF director last week voiced her regret that more fundamental approaches to debt resolution have not been pushed through in simpler times. Let’s try to imagine how much simpler times would be right now if the G77 initiative on establishing a multilateral legal framework on sovereign debt restructuring would not have been blocked in 2014/2015. *It is disappointing that even incremental steps towards an improved architecture such as the global forum on sovereign debt that was part of the FfD Zero draft have not made it to the final draft.*

So to end, instead of regretting past failure and at the same time keeping on kicking the can down the road, we should not let this good crisis go to waste. The alternative is knowingly leaving part of the world behind. Thank you!