

Presentation on DWM

Ambassador, members of parliament, friends ... good morning, good afternoon, and good evening to you all, and thanks for inviting me and Eurodad to this timely and key discussion.

The pledge “to elaborate and adopt ... a multilateral legal framework for sovereign debt restructuring processes”, responding to the need of “increasing the efficiency, stability and predictability of the international financial system,” has not succeeded, mainly due to opposition of creditor countries - particularly Paris Club - and not only despite debt levels rising unsustainably over the years, but also despite the evidence we have of how ill prepared are the existing mechanisms to deal with debt distress in a much more complex creditor / debt scenario than the one we had 20 years ago when HIPC and MDRI were decided and implemented.

So ill prepared that the G20 had to come with not only one, but two ad-hoc mechanisms to be able to deal with the debt distress accelerated and enhanced by the pandemic and the economic crisis triggered by it.

However, the G20 and IFIs’ so far short term and limited responses to the situation (DSSI and Common Framework) are to our view no more than false solutions to make sure nothing changes in substance, distractions to avoid the inevitable reform of the international debt architecture.

The evident shortcomings of the existing international financial architecture to deal in a timely, orderly, comprehensive and fair manner with debt crises tell us of how vital and urgent it is to put in place systemic solutions and debt architecture reforms - unfortunately we’re far from the reform needed in international financial architecture needed.

- *Non binding participation of private (and multilateral) creditors*
- *No existing framework for countries outside the DSSI set of countries - MIC*
- *No human rights, SDG or climate vulnerabilities approach to debt sustainability*
- *Dysfunctional role of CRAs deepening debt vulnerabilities and creating a pro-cyclical worsening of the economic crisis*
- *Exclusion of countries in the global south from the discussion and decision making on solutions to their own debt crisis - a system decided by and for the creditors*

So far, the discussions on next steps to tackle the worsening debt situation in many countries, both low and middle income countries, are limited to a new 6 month extension of DSSI and pushing countries to request CF + full IMF programs (with the risk of austerity that this means and the stigma that this has politically internally and externally, as well as the very real risk of a credit rating downgrade). The G20, IMF and WB have created, with these ad hoc mechanisms a snowball effect - from 2022 on, when DSSI is over, countries will probably collapse creditors and IMF while facing an even deeper liquidity and sustainability crisis.

For the Civil society, and for many analysts and even government officials (in the global south), without an ambitious, multilaterally discussed, democratically decided 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 and economic inequality, within countries and between countries.

Without prompt and sufficient debt cancellation - not only reprofiling - available for all the countries in need and from all creditors, there will be no chance of achieving the Sustainable Development Goals nor to fight economic, social, racial or gender inequality, nor to face the climate emergency challenges.

Such a fair, timely and lasting debt resolution will never result in discussions among creditors, without the voices of people and governments of the global south. Therefore, the people and the planet need not only more ambition, but much more democracy for those solutions to be fitted to their needs.

This is why, as civil society, **we’ve been calling on governments to establish a debt workout mechanism i.e a transparent, binding and multilateral framework for debt crisis resolution, under UN auspices, that addresses unsustainable and illegitimate debt and provides systematic, timely and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors** (just the complexity of the debt scenarios today, with China and private creditors becoming main actors, should be reason enough to address a reform of the debt architecture system - the old Paris Club system does not fit to the reality of debt today).

10 principles <https://www.eurodad.org/debtworkout>

1. Creation of a body independent from creditors and debtors
2. Reliable process, accessible for any country in need, that may be initiated by borrower - PREDICTIBILITY AND RELIABLE PROCESS - GOOD FOR EVERYONE, EVEN FOR MARKETS (EXCEPT FOR THOSE WHO MAKE PROFIT OUT OF SPECULATION)
3. Initiation of the process should trigger a stay on creditor litigation and enforcement - CUT THE WINGS TO VULTURE FUNDS-
4. Comprehensive treatment of a country's debt stock in a single process (LIMITATIONS OF COMMON FRAMEWORK)
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 - debt audit
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: All parties must respect the decisions of the independent body

For us it is evident that addressing debt architecture reform only focusing on new versions of collective action clauses, introduction of state contingent clauses and other market based contractual arrangements won't be enough and will fail at putting human rights and SDGs at the center

Beyond the establishment of a multilateral debt resolution framework, we need to urgently implement substantial reforms in the financial system, including further regulation of the financial sector and Credit Rating Agencies and global agreement on the importance of capital account management.

We believe that the organisation of the [next UN Summit on Financing for Development](#) would be key to advance the systemic and urgent reforms of the global financial architecture.

As Civil Society Organisations we expect that our representatives live up to the challenges that the health, social and economic crisis is posing, and show their commitment by supporting the call for real solutions, including a multilateral debt resolution framework.

We know it's a difficult call, that geopolitical interests are in place. the work at the UN has been "hampered by a lack of cooperation from G7 governments and others in 2015, with the EU amongst those boycotting negotiations." It's clear to us that those holding the power, mainly the Paris Club until now, are unwilling to relinquish their power. They had to coordinate and agree with China - given the importance of the country as a creditor - so G20 became the least bad option for the Paris Club. But this is no more than an exclusive membership clubs dominated by lenders. Decisions are being made in the name of developing countries without them in the discussion nor the decision table.

As the Director-General of the WTO, Ngozi Okonjo-Iweala, stated during the high level meeting at the UN this last monday, "lost decades are a policy choice". As the world needs meaningful leadership and actions, the policy choice for the rich country leaders seems to be, for now, not to rise to the occasion, this is condemning millions to poverty.

Resources:

- [We can work it out: 10 civil society principles for sovereign debt resolution](#) (2019) Eurodad
- José Antonio Ocampo, 'A Brief History of Sovereign Debt Resolution and a Proposal for a Multilateral Instrument', in Too Little, Too Late, ed. Martin Guzman, José Antonio Ocampo and Joseph E. Stiglitz (Columbia University Press, 2016)
- Jürgen Kaiser, [Resolving Sovereign Debt Crises: Towards a Fair and Transparent International Insolvency Framework](#), 2., rev. ed, Study (Berlin: Friedrich-Ebert-Stiftung, Department for Global Policy and Development, 2013)
- Bodo Ellmers, 'The Evolving Nature of Developing Country Debt and Solutions for Change' (2016) Eurodad

UN system resolutions and publications:

- United Nations General Assembly, [Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes](#) A/RES/68/304 (9 September 2014)
- United Nations General Assembly, [Basic Principles on Sovereign Debt Restructuring Processes](#), A/RES/69/319 (29 September 2015)

- UNCTAD, '[Principles on Promoting Responsible Sovereign Lending and Borrowing](#)' (United Nations, 10 January 2012)
- UNCTAD, '[Sovereign Debt Workouts: Going Forward Roadmap and Guide](#)' (UNCTAD, April 2015)

Other resources on debt

Recent reports by Eurodad:

- For an analysis of the debt crisis triggered by the pandemic, please check our most recent report "[A debt pandemic: Dynamics and implications of the debt crisis of 2020](#)" (March 2021). For more information please email dmunevar@eurodad.org
- To know more about the shortcomings of the DSSI, please check out the updated Eurodad report "[Shadow report on the limitations of the G20 Debt Service Suspension Initiative: Draining out the Titanic with a bucket?](#)" (October 2020). The report includes a [dataset with country-by-country data](#). For more information, please email ifresnillo@eurodad.org
- You can also check the Eurodad reaction to G20 announcements on the [extension of the Debt Service Suspension Initiative \(DSSI\)](#) and on the new "[Common Framework for debt treatments](#)", as well as Eurodad analysis of the last G20 summit [The G20's deceptive promise to act on the crisis of the century](#)
- For an analysis on "Common framework for debt treatments beyond the DSSI", you can check the two-part blog series that analyses [the likely structure of the framework \(Part I\)](#), and the reasons [why a Paris Club-based approach to the Common Framework is unlikely to succeed \(Part II\)](#). (October 2020)
- On the austerity risks under the new IMF lending, please check [Arrested Development: International Monetary Fund lending and austerity post Covid-19](#). (October 2020)
- On the interlinkages between the debt dynamics and the climate emergency, check the recently published [A tale of two emergencies - the interplay of sovereign debt and climate crises in the global south](#) (December 2020)

Other recent reports by Eurodad members:

- Erlassjahr.de: [From growth optimism to a lost development decade – The dangerous role of the IMF in the crisis of the Global South](#) and [A debt moratorium for whom? How, in 2020, debt relief is not helping those who need it most](#)
- Global Policy Forum: "[Financing for Development in the Era of COVID-19 and Beyond](#)"
- CAFOD, Christian Aid, Jubilee Debt Campaign, Oxfam and Global Justice Now: [Under the radar: Private sector debt and coronavirus in developing countries](#)
- Oxfam: [A Virus of Austerity? The COVID-19 spending, accountability, and recovery measures agreed between the IMF and your government](#)
- Jubilee Debt Campaign: [How the IMF can unlock multilateral debt cancellation](#) and [The G20's debt deal: Letting private lenders off the hook again](#)