

Civil Society FfD Group Submission to the UN Independent Expert on foreign debt and human rights on “International debt architecture reform and human rights”

June 2021

Countries in the Global South have been heavily impacted by the global economic downturn, leaving socioeconomic scars that could take years, if not decades, to overcome. The impact on people’s wellbeing and rights will also have long-term implications. The economic downturn has led to higher public debt levels, adding to already unprecedented sovereign debt ratios before the pandemic. This is further exacerbated by an unfair international tax system that denies developing countries their fair share of revenues resulting in illicit financial flows of billions of dollars. Without ambitious actions, vital public financial resources will continue being channelled to creditors at the expense of domestic health, social and economic financing needs.

As noted by over 550 civil society organisations in an [open letter](#) in October 2020, the “indebtedness” of countries of the South is both a consequence and a tool for domination. A systemic analysis of the debt crisis needs to account for the fact that peoples of countries in the Global South have paid for the debts incurred in their name so many times over – with their money, their livelihoods, their safety, well-being, their lives, and the health of the planet. And all these in contrast to the much greater social, historical and ecological debt owed to the people of the South through centuries of colonial and post-colonial plunder and extraction of their natural resources and exploitation of their labor, including women’s unpaid domestic and care work.

Against this background, the false solutions of the G20 and International Financial Institutions (IFIs) to the debt crises in the Global South is resulting in a further bleeding of vital resources. A large number of countries in the developing world are already allocating more resources to debt service than to either public health care or education. The reform of the international debt architecture is urgently needed to ensure a systemic response to the debt crises.

G20 and IFIs response

The responses to the debt crisis provided so far by the G20 and the IFIs have fallen painfully short of what is needed. The shortcomings of the Debt Service Suspension Initiative (DSSI) - temporary debt payments moratoria of merely around US\$5.3bn to be repaid after 2022, to a limited number of countries, without binding participation of private and multilateral lenders - have been continued by the "Common Framework for Debt Treatments Beyond the DSSI" (CF). Like DSSI, the CF is yet another mechanism designed by and for creditors. The CF fails to ensure mandatory participation of private and multilateral creditors, limits eligibility to a subset of developing countries and disregards needs and financial vulnerability considerations. **None of these “false solutions” to the debt problems developing countries are facing provide the debt cancellation needed in the Global South.**

Recent debt restructuring requests under CF by Ethiopia and Zambia, have triggered sovereign ratings downgrades for both countries from Credit Rating Agencies (CRA). This is a clear threat from financial markets to those countries that dare to expect private sector participation in debt treatments. Until the private sector is not obliged to participate in the debt relief efforts, any debt cancellation provided by bilateral creditors will be a coarse bailout of the private creditors.

The response by donors and IFIs, in terms of providing financial assistance and liquidity to countries in the Global South, hasn’t lived up to the challenges of the situation. The Fund has only used [less than 5% of its lending capacity](#) in this crisis. Furthermore, the response from the multilateral development banks, with the World Bank in the lead, has prioritised a market-based approach in the Covid-19

response. The IMF's limited financial assistance has de facto become a bailout of private creditors, as resources are being captured by private lenders while poverty and inequality are on the rise. Furthermore, despite the IMF rhetoric in support of the use of expansionary fiscal policies in response to Covid-19, fiscal consolidation and other austerity measures are in fact present in most of the [IMF's Covid-19 lending agreements](#).

A new wave of austerity would have devastating impacts on economic, cultural and social rights, but also on the possibilities of a sustainable and equitable economic recovery.

Need for a systemic response: urgent debt architecture reform

The G20 and IFIs' so far limited responses to the situation are no more than false solutions to make sure nothing changes in substance. Systemic solutions to resolve debt crises in a fair, impartial and transparent process will be vital to overcome these limited responses and avoid devastating impacts. Without an ambitious, multilateral, democratic 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 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 nor to fight economic, social, racial or gender inequality. **Such a fair and timely resolution will never result from lender dominated forums, that excludes the voices of people and governments of the Global South. United Nations, which is not a creditor itself, is the only forum that provides an inclusive and democratic space to provide a lasting multilateral solution to the debt crisis.**

A debt architecture reform agenda for real change and real solutions

As civil society, **we call 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.

At the upcoming UN General Assembly, governments should introduce a resolution deciding to establish an open-ended intergovernmental working group to work towards a binding and multilateral framework for debt crisis prevention and resolution. This could build on the earlier Resolution A/RES/69/319 [adopted](#) by the General Assembly where it was decided to further define modalities to consider improved approaches to restructuring sovereign debt, taking into account the Basic Principles on Sovereign Debt Restructuring Processes.

Such a binding, multilateral framework should urgently address:

- **Supporting and providing immediate debt cancellation:** Debt sustainability consistent with the SDGs and human rights can be achieved through extensive debt cancellation. Debt cancellation must be granted to all countries in need, including to both low- and middle-income countries, 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 as well as facilitate the organisation of debt audits¹.

- **Using human rights and development impact assessments** in debt sustainability analyses to widen their focus solely from economic considerations to consider also 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 realisation of all universal human rights.
- **Assessing systemic risks posed by unregulated or inadequately regulated financial sector instruments and actors:** including regulation and supervision of the asset management industry (shadow banking), regulation and supervision of Credit Rating Agencies and a new global consensus on the critical importance of capital account management beyond pre/post crises conditions, both with respect to inflows and outflows. The CS FfD Group's detailed submission to the UN Independent Expert on poverty and human rights on the 'role of credit rating agencies' can be accessed [here](#).

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. 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.

This document has been prepared by the Civil Society Financing for Development Group (www.csoforffd.org) (including the Women's Working Group on Financing for Development). This note has been adapted from the background document prepared by the CS FfD Group for the UN Civil Society Meeting on International Debt Architecture. All materials related to this meeting, including statements by civil society organisations can be accessed [here](#).

¹ According to recent research only between [24.4%](#) to [29.5%](#) of private sector external bondholders can be identified on publicly accessible commercial databases, while bondholder committees who vote on debt restructuring are not published at all in terms of their membership in some cases. This makes it much more difficult to hold bondholders accountable for their behaviour.