Action Aid International, Afrodad, Alliance Sud, Both Ends, CEE Bankwatch Network, Christian Aid, CIDSE, CNCD-11.11.11, Debt and Development Coalition Ireland, Ekvilib, Erlassjahr, Eurodad, Global Justice Now, Global Policy Forum, Institute for Global Responsibility (IGO), International Trade Union Confederation (ITUC), Jubilee Scotland, Jubilee Debt Campaign UK, Jubilee USA Network, Kepa, KOO, Latindadd, Methodist Tax Justice Network, Norwegian Church Aid, Norwegian Forum for Development and Environment, Oxfam International, SLUG, Share the World's Resources, Third World Network, WEED.

Towards a lasting solution to sovereign debt problems

Following the global financial crisis, low-, middle- and high-income countries are seeing increased levels of sovereign debt. Today no international mechanism exists to deal comprehensively and effectively with sovereign debt problems. A lasting solution requires an independent debt workout mechanism.

A looming debt crisis

Countries all over the world are becoming increasingly vulnerable to sovereign debt problems following the financial crisis:

- One quarter of all low-income countries are in debt distress or at high risk of debt distress. Another 29 countries are at moderate risk of debt distress;[1]
- External loans to low income countries increased by 75 per cent between 2008 and 2012, a growing share is expensive non-concessional debt, and vulnerabilities are increasing.[2]
- Two-thirds of impoverished countries face large increases in the share of government income spent on debt payments over the next ten years.[3]

This looming debt crisis and the failure to deal efficiently with the current and past crises have **triggered debates on how to ensure fair and predictable debt workout in the future.**

The current debt crisis within the Eurozone and the vulture funds lawsuits against Argentina illustrate once again that a predictable, efficient, independent and fair procedure is needed, and that once a crisis hits it is too late to define a fast and fair way out. They are also a reminder that debt and the way sovereign debt is dealt with is a highly political issue which can have enormous social and political consequences if not dealt with in an efficient way, including holding lenders to account for reckless lending and speculation.

The United Nations General Assembly echoes these concerns and proposals

In a landmark session held in September 2014, the UN General Assembly noted with concern "that **the international financial system does not have a sound legal framework for the orderly and predictable restructuring of sovereign debt**". It stressed that "creditors of sovereign debt are increasingly numerous, anonymous and difficult to coordinate" which complicates the restructuring of sovereign debt when necessary. It highlighted that the progressive development and codification of international law are necessary, and **decided to create a new multilateral legal framework for sovereign debt restructurings by September 2015**. The UN General Assembly also highlighted "that debt-restructuring processes should have as their core element a determination of real payment capacity so that they **do not adversely affect economic growth and the fulfilment of the unfinished business of the Millennium Development Goals, the sustainable development goals and the post-2015 development agenda**"

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[1] IMF list of LIC debt sustainability analysis, October 2014; https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf
[2] Eurodad: The new debt vulnerabilities. Ten reasons why the debt crisis is not over, October 2013. http://eurodad.org/files/pdf/528109fd22bc3.pdf
[3] Jubilee Debt Campaign: Don't turn the clock back. Analysing the risks of the lending boom to impoverished countries, October 2014, http://jubileedebt.org.uk/wp-content/uploads/2014/10/Lending-boom-research_10.14.pdf

> *"As you know, much has been done to strengthen the architecture of the international financial system in response to the recent emerging market financial crises. But there remains a gaping hole: we lack incentives to help countries with unsustainable debts resolve them promptly and in an orderly way. At present the only available mechanism requires the international community to bail out the private creditors."*
>
> Anne Krueger, former Vice President of the IMF, in 2002**.**

Why current mechanisms are not up to the mark

Current debt relief procedures were not intended to deal with today's complex debt structures. The Heavily Indebted Poor Countries (HIPC) Initiative is coming to an end,[4] and existing mechanisms do not reflect the actual debt situation of developing countries. Ad hoc procedures exist for bilateral debt to a few countries, and for some bondholders, however these creditors hold only a minor part of developing countries' debt.

While debt relief has freed up valuable resources in a number of developing countries, the mechanisms through which debt relief has been granted have serious shortfalls that prevent lasting solutions.

Some major shortfalls of current mechanisms are:

- They are **dominated by creditors** who are also affected parties. This creates a conflict of interest, undermines impartiality and sometimes results in politically biased decisions, including harmful policy conditionality;
- They are **ad hoc**, which means that the process as well as the outcome is highly unpredictable. This lengthens there solution process, making it more costly for both creditors and debtors;
- They are **creditor specific**, hence they fail to assess the full debt burden of the country in question and some creditors are left out when a solution is negotiated;
- All too often, they **only make financial considerations** when assessing how much debt a country can continue servicing, and fail to take development needs into account;
- Last but not least, because of the lack of a formal procedure that ensures fair burden-sharing between creditors and debtors and assesses the validity of claims, current procedures **fail to discipline lenders** and prevent them from irresponsible lending in the future.

These shortfalls illustrate that lending to and borrowing by sovereign states and the resolution of any quantitative or qualitative debt problems are a political issue as much as a technical one.

A fair solution to sovereign debt problems requires an international mechanism that:

- Is **independent of creditors in analysis and decision making**, and is situated in a neutral forum;
- Is **comprehensive:** Includes bilateral, multilateral and private creditors treating all foreign creditors on an equal basis, and is available to all sovereign states who are at risk of debt distress or claim that their debts are illegitimate;
- Provides a **human needs based approach** to debt sustainability: When assessing a government's capacity to service its debt, takes into account the financial resources needed by a government to fulfil its obligations to provide essential services for its population;
- **Holds lenders and borrowers to account for irresponsible behaviour** by auditing the legitimacy of claims and demanding the cancellation of unjust debts based on corrupt, irresponsible or undemocratically contracted loans which did not benefit the people of the borrowing country;
- Gives all stakeholders, including civil society, the **right to be heard** and give evidence.

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[4] IMF:HIPC andMDRI–Statistical Update, December 2013;https://www.imf.org/external/np/pp/eng/2013/121913.pdf

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Both ENDS
Connecting people for change

CEE bankwatch network

christian aid

CIDSE
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CNCD 11.11.11
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European Network on Debt and Development

Global Justice Now

GPF
Global Policy Forum

IGO
Instytut Globalnej Odpowiedzialności

ITUC CSI IGB

JUBILEE SCOTLAND
Campaigning to end global debt slavery

JUBILEE DEBT CAMPAIGN

Jubilee USA NETWORK

kepa

LATINDADD
Red Latinoamericana sobre Deuda, Desarrollo y Derechos

Methodist Tax Justice Network

NORWEGIAN CHURCH AID
actalliance

The Norwegian Forum
for Development
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OXFAM

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Network
Norway

STWR

TWN
Third World Network

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