Chapter II.E

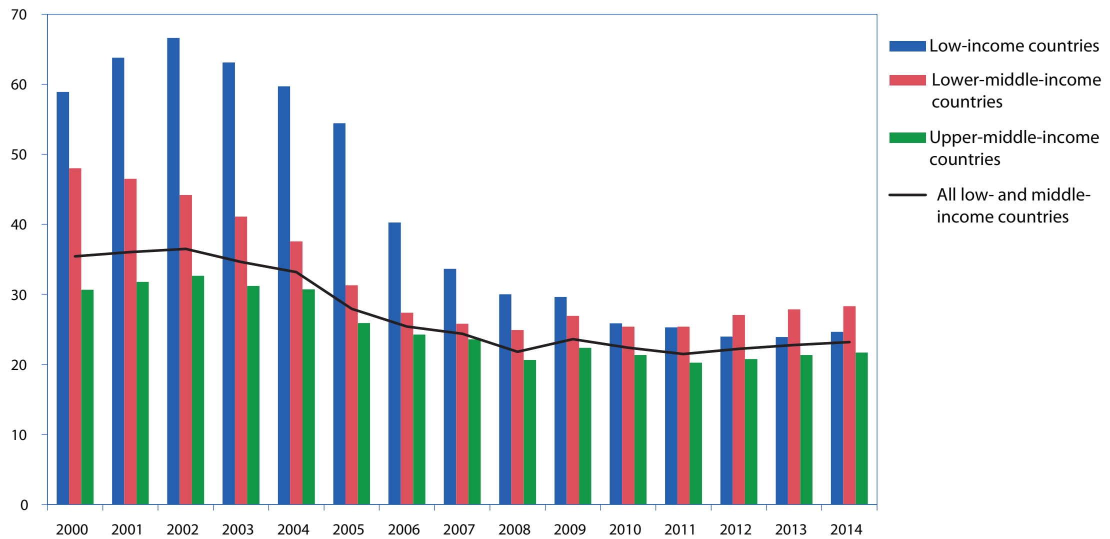
Debt and debt sustainability

1. Introduction

Borrowing, both by governments and private entities, is an important tool for financing investment critical to achieving sustainable development, as well as for covering short-term imbalances between revenues and expenditures. Government borrowing can also allow fiscal policy to play a countercyclical role over economic cycles. However, high debt burdens can impede growth and sustainable development. Debt has to be well managed in both public and private spheres.

Developing countries made considerable progress in reducing their external debt in the early part of the century (see figure 5), assisted especially in the case of the heavily indebted poor countries (HIPCs) by the support of the international community. Yet some developing countries are currently in debt distress, and several countries have external debt exposures that leave them vulnerable to debt difficulties from external shocks, such as falls in commodity prices or natural disasters. In addition, some low-income countries (LICs) are now accessing international capital markets, introducing new financing opportunities along with new risks, such as exposure to volatile international capital flows. At the same time, domestic debt issuance has increased in many developing countries (see chapter II.B), creating new opportunities for financing while reducing currency mismatches for domestic borrowers. Nonetheless, domestic debt overhang can be costly

Figure 5
External debt of developing countries, 2000 – 2014
(Percentage of GDP)



Source: United Nations, World Economic Situation and Prospect, 2016, based on data of the International Monetary Fund.
Note: Debt includes US dollar value of external public and publicly guaranteed and private non-guaranteed long-term debt, use of IMF credit, short-term debt and arrears.

and, like other forms of debt, needs to be managed. Private debt in emerging market countries has also grown substantially since the financial crisis, posing systemic risks related to currency and maturity mismatches. Indeed, there is a risk that some liabilities could get shifted to the public balance sheet in the event of large-scale defaults.

Managing sovereign debt and addressing debt crises when they do occur has been on the agenda of Financing for Development (FfD) since the Monterrey Consensus, and is addressed in section II.E of the Addis Agenda and in this chapter in the Task Force report. Mitigating the danger of private debt buildups is also addressed in the discussion of financial regulation in chapter II.F on systemic issues, while promoting long-term finance and the development of local capital markets is discussed in chapter II.B on the private sector.

2. Debt crisis prevention

The Addis Agenda recognizes the need to assist developing countries in attaining long-term debt sustainability, including through fostering appropriate debt financing, debt relief, debt restructuring and supporting sound debt management, as appropriate. Strengthening the monitoring and prudent management of assets and liabilities is an important element of comprehensive national financing strategies and is critical to reducing vulnerabilities. The Addis Agenda emphasizes that debtors and creditors have to work together to prevent unsustainable debt situations. While it notes that maintaining sustainable debt levels is the responsibility of the borrowing countries, it also acknowledges that lenders have a responsibility to lend in a way that does not undermine a country's debt sustainability.

2.1. Maintaining debt sustainability and improving debt sustainability assessments

In the Addis Agenda, countries agree to support efforts to maintain debt sustainability, as well as to strengthen analytical tools for assessment. Specifically, Member States:

- *Commit to support the maintenance of debt sustainability in those countries that have received debt relief and achieved sustainable debt levels* ***(94)***
- *Invite the IMF and World Bank to strengthen the analytical tools for assessing debt sustainability in an open and inclusive process with the United Nations and other stakeholders* ***(95)***

To evaluate countries' debt sustainability, it is necessary to monitor debt trends along with emerging domestic and external vulnerabilities and systemic risks that threaten debt sustainability. The SDG means of implementation indicator 17.4.1 (*debt service as a proportion of exports of goods and services*) can be used as an input for this. However, this needs to be supplemented by additional data. Indeed, as noted in the 2015 Millenium Development Goal (MDG) Gap Task Force Report "statistical indicators sometimes fall prey to anomalies that require explanation so as not to mislead. … External debt servicing as a share of export revenues presents some telling examples. For instance, a spike was recorded in the debt-servicing ratio of low-income countries in 2006. This reflected a standard practice in balance-of-payments accounting in which debt that was being written down following debt relief was shown in the accounts as a principal repayment outflow offset by a grant inflow. … This did not mean, however, that the debt was being paid down per se."[1]

The Task Force will thus look at a basket of indicators and data, which can include but are not limited to: total external debt in percent of gross domestic product (GDP) and by creditor as a share of total (multilateral, bilateral and commercial); total public debt, total private debt, private external debt and total external debt in percent of GDP; the share of short-term debt in total external debt, by original maturity; gross fiscal financing needs, in percent of GDP (i.e., the sum of the fiscal deficit and the principal of public debt falling due); and external financing requirements, in percent of GDP to capture both the current account deficit and principal repayments of external debt falling due. The International Monetary Fund (IMF) also

1 http://www.un.org/en/development/desa/policy/mdg_gap/mdg_gap2015/2015GAP_FULLREPORT_EN.pdf, page 4.

publishes risk ratings for external debt distress (for LICs, see below), foreign reserve adequacy metrics, and other vulnerability indicators discussed in chapter II.F on systemic issues. The importance of any individual indicator depends on country circumstances. In addition, debt sustainability analyses that stress test debt sustainability under a range of different macroeconomic and financial shocks and alternative scenarios provide a more thorough assessment of risks.

In this regard, the IMF has developed and periodically reviews and revises a debt sustainability analysis (DSA) for market access countries, and the IMF and World Bank Group have together developed a methodology, which is also periodically reviewed and revised, for assessing LICs' debt sustainability. The IMF and World Bank Group (the latter in the case of the LICs Debt Sustainability Framework, DSF) also conduct outreach with stakeholders to facilitate better understanding of these frameworks, as well as provide training to country authorities using these frameworks.

The LIC DSF incorporates a standardized, forward-looking analysis of debt and debt service dynamics under a baseline and alternative scenarios, and in the face of plausible shocks. The analysis produces a risk rating for external debt distress (low, moderate, high or already in debt distress) for each country by seeing whether the projected evolution under standard scenarios or shocks of a set of debt burden indicators (debt stock or debt service relative to measures of repayment capacity) crosses one or more of the empirically estimated thresholds for those indicators. Some countries conduct their own debt sustainability assessments, which can be drawn on by the Task Force where they exist.

Support in maintenance of debt sustainability in LICs needs to strike a balance between maintaining sustainable debt levels and the need to meet the sustainable development goals (SDGs) and enhance growth through critical investments, such as in infrastructure. Institutional frameworks also need to accommodate the availability of a wider range of external financing opportunities for LICs, as well as limits on concessional financing. Work to prevent the re-occurrence of debt distress should also seek to capture risks from contingent liabilities and natural disasters.

The DSA for market-access countries is used to assess debt vulnerabilities for countries that have durable access to external market financing. In recognition that vulnerabilities to debt sustainability in these countries were not adequately identified in the years leading up to the 2008-09 financial crisis, the IMF revised the DSA in 2011 and implemented it in 2013. The reform introduced greater consideration of the reality of baseline macroeconomic assumptions and uncertainty around those assumptions in the assessment of debt sustainability, liquidity risks captured by gross financing needs, and vulnerabilities associated with the debt profile.

The United Nations Conference on Trade and Development (UNCTAD) Global Policy Model provides a macroeconomic analytical framework, with an integrated macro-financial model for the world economy, which can provide additional scenarios for analysis of debt sustainability.

The IMF and World Bank Group staff plan a review of their joint LIC DSF in 2016/2017, to be conducted in consultation with key relevant stakeholders, including civil society. Another factor that could be reviewed is the World Bank Group's Country Policy and Institutional Assessment (CPIA), which is used in setting the thresholds for LICs. The Addis Agenda invited the IMF and the World Bank Group to make those reviews open, inclusive and involve the United Nations and other stakeholders. The Task Force can report on these experiences. It thus could, along with the broader FfD follow-up process, be a conduit to bring additional voices and perspectives into the discussion.

2.2. Improving public debt management

Many Governments seek to further strengthen their capacity to appropriately manage public debt and ensure borrowing in the interest of maintaining sustainable debt levels. The Monterrey Consensus recognized that technical assistance for external debt management and debt tracking can play an important role and should be strengthened. Similarly, in the Addis Agenda, Governments:

- *Welcome efforts to strengthen analytical tools for … prudent public debt management **(95)***
- *Encourage international institutions to continue to provide assistance to debtor countries*

*to enhance debt management capacity, manage risks, and analyse trade-offs between different sources of financing, as well as to help to cushion against external shocks and ensure steady and stable access to public financing **(95)***

Several different tools are available to assist countries in assessing and improving their debt management functions, many of which are being improved in response to changing needs. They include diagnostic tools such as the DSF (see above), the Debt Management and Performance Assessment (DeMPA), the Medium Term Debt Strategy tool and recording and reporting systems such as the Commonwealth Secretariat CS_DRMS and UNCTAD's Debt Management and Financial Analysis System (DMFAS). The fast-paced evolution of financial markets and developing countries' use of increasingly diverse financing instruments and borrowing sources warrant continuous efforts to strengthen their debt management capacity. By the same token, the tools themselves will need to be kept under review and adapted, while the need for new tools may also be recognized over time.

Moreover, in the broadest sense, debt management should be seen as part and parcel of public financial management. The Public Expenditure and Financial Assessment (PEFA) framework measures performance of a country's public financial management system using quantitative indicators, as discussed in chapter II.A on domestic public resources. Assessments on indicator 13 of the PEFA look at several dimensions of debt management including recording and reporting of debt and guarantees, approval of debt and guarantees, and debt management strategy. Country Policy and Institutional Assessment (CPIA) scores, DeMPA assessments, and reports from technical assistance providers such as UNCTAD's DMFAS Programme can also be complementary. IMF work on its Fiscal Transparency Code (see chapter II.A is also germane. The Task Force will be able to report on progress in all these areas.

Reporting on the efforts of international organisations will provide an overview of the technical assistance and capacity building provided. It will cover assistance in debt management, including diagnosis, debt strategy and debt sustainability analysis, as well as debt data recording, operations, reporting and statistics. The report will include a description of the different technical assistance activities of the relevant international organizations, for example it could include the number of training missions, including by the World Bank, IMF, UNCTAD, regional institutions, the Commonwealth Secretariat, United Nations Department of Economic and Social Affairs (DESA), and other sources. It should be possible to track overall technical assistance in debt management using the number of countries that are receiving debt management capacity support and the financial resources allocated to this purpose by donors and other stakeholders.

2.3. Towards responsible sovereign borrowing and lending

The Monterrey Consensus stated that "debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations." As noted above, the Addis Agenda reaffirms that both sovereign borrowers and lenders must be responsible. In this regard, in the Addis Agenda, Governments:

- *Reiterate that debtors and creditors must work together to prevent unsustainable debt situations **(97)***
- *Commit to work towards a global consensus on guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, building on existing initiatives **(97)***

There has been considerable emphasis in recent years on the importance of both borrowers and lenders taking responsibility for their actions, and for their role in ensuring debt sustainability. There have been several initiatives on this. The Addis Agenda takes note of the UNCTAD Principles on Responsible Sovereign Lending and Borrowing, recognizes the applicable requirements of the IMF debt limits policy and the World Bank Group's non-concessional borrowing policy, and also notes that the OECD Development Assistance Committee has introduced new safeguards in its statistical system to enhance the debt sustainability of recipient countries.

The UNCTAD Principles specify a set of 15 principles and best practices for lenders as well as borrowers, created after a consultative process. The principles do not create new legal rights or obligations for endorsing parties, but provide a normative approach to defining relevant guidelines and their implications for borrower and lender behaviours. UNCTAD's DMFAS will start collecting data on the use and implementation of some of these Principles, across its coverage of developing countries from 2017. UNCTAD also is currently providing capacity-building assistance to five LDCs on implementing the Principles to identify gaps in the regulatory and institutional frameworks in these countries and suggest suitable policy reform options.

The Task Force can report on implementation and development of the initiatives in this area, including those mentioned above, building on the regular in-house reviews by the relevant international organizations. Indeed, understanding the impact of these initiatives, including how they impact behaviour, can provide important case studies to help shape the work towards a consensus on new guidelines. The Task Force will report on steps toward a global consensus on such guidelines for lenders and borrowers, and can also help to support this effort.

2.4. Innovative instruments for managing debt burdens

Outside Islamic finance, debt repayment obligations are fixed other than through a debt restructuring. Two kinds of innovations have broken with this model. One is a swap of a public debt obligation for specified additional public social or environmental expenditure. The other is 'state-contingent financial instruments', which include contractual provisions altering the debtor's obligations contingent on pre-defined events or data outturns. Thus, the Addis Agenda:

- *Encourages the study of new financial instruments for developing countries …noting experiences of debt-to-health and debt-to-nature swaps* ***(102)***

Among the first type of innovation, debt-to-health swaps have been launched under the UN-backed Global Fund to Fight AIDS, Tuberculosis and Malaria since 2007.[2] An example of a debt-for-nature swap is the one agreed between Seychelles, three Member States of the Paris Club (Belgium, France and Italy) and the Nature Conservancy in 2015.[3] Such swaps do not necessarily create additional fiscal space, as the swap requires that the government spend on the promoted social or environmental project at least some of the funds that would have been used for debt servicing. Nevertheless, the additional public resources can be a highly valuable use of public monies and can support sustainable development and implementation of the SDGs.

State-contingent financial instruments are designed to provide automatic, market-based, protection against pre-defined shocks. This can insure sovereigns against adverse shocks, often by reducing debt service requirements during difficult economic times. Such instruments would also reduce the likelihood of debt restructurings and the need for pro-cyclical fiscal policy. Some of these instruments could even attenuate overspending during a boom by limiting a sovereigns' ability to spend windfall income in good times. Examples of such instruments include GDP-linked securities, where principal and interest payments are linked to economic growth rates, and catastrophe or pandemic bonds, where some form of debt relief is provided in the event of a pre-defined disaster. A third example would be 'sovereign CoCos' (contingent convertible bonds), which envisage a maturity extension under pre-defined triggers. Future monitoring reports can summarize analytical work by experts on these proposals, and report on country experiments with new instruments. The Task Force will also report more broadly on public sector finance, including new instruments, in other areas of this report (including chapter I on cross cutting issues, chapter II.A on domestic public finance, and chapter II.C on international cooperation.)

2.5. Improving debt data and reporting

Comprehensive debt statistics are crucial for both debt crisis prevention and resolution. The Addis

2 See http://www.theglobalfund.org/documents/replenishment/2007b/Replenishment_2007BerlinD2H_FAQ_en/.

3 A special Seychelles trust will purchase $30 million of Seychelles debt obligations at a discount and devote the scheduled debt servicing payments to marine conservation and climate adaptation (see http://www.nature.org/ourinitiatives/regions/africa/wherewework/seychelles.xml).

Agenda recalls the need to strengthen information-sharing and transparency in debt sustainability assessments. Specifically, the Addis Agenda:

- *Encourages Governments to improve transparency in debt management, and strengthen information-sharing to ensure that debt sustainability assessments are based on comprehensive, objective and reliable data **(97)***
- *Invites relevant institutions to consider the creation of a central data registry including information on debt restructurings **(96)***

The World Bank Group, IMF, the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS) and UNCTAD have worked with governments and central banks to help produce standardized data on different components of external debt. Technical assistance to developing countries to improve their recording and managing of government debt data has long been provided by the World Bank, UNCTAD and the Commonwealth Secretariat, as well as by private entities.

For the benefit of international economic monitoring, the World Bank collects, standardizes and makes publicly available external debt data of its developing country members through its Debtor Reporting System. The OECD collects data from its members for standardized reporting from the public creditor side in its Creditor Reporting System. The BIS collects data on bank and non-bank financial institution assets (e.g., loans) vis-à-vis banks and non-banks in other countries, as well as data on liabilities (e.g., deposits) and their sources in other countries. Bloomberg also publishes data on public bond issuance, as well as secondary market prices, as do private banks, such as J.P. Morgan. There is, however, no database on bond owners, who are generally institutional investors, in part because ownership frequently changes hands on the secondary market. In addition, while improving, data on domestic bond markets is generally not robust (see chapter II.B). To further develop the methodology for collecting debt statistics and to strengthen debt management capacity of governments through training, nine institutions formed the Task Force on Finance Statistics (the BIS, Commonwealth Secretariat, European Central Bank, Eurostat, IMF, OECD, Paris Club, UNCTAD and the World Bank Group).

Presently, there is no centralised database of instances of sovereign debt crises and restructuring, although there have been a number of efforts to bring together historical data sets on debt restructuring.[4] A comprehensive database could help draw lessons from past debt restructurings to improve approaches in the future. Information on litigation and holdouts by creditors in a restructuring would also aid analysis of good faith by creditors in debt restructurings and enable identification of weaknesses in the architecture for sovereign debt restructuring. The Task Force will report on the development of any such databases, including by international organizations.

3. Debt crisis resolution

The Addis Agenda makes clear that in addition to preventing debt crises, debtors and creditors must work together to resolve unsustainable debt situations when they do occur. While it recognises that important improvements have been made in enhancing the process for cooperative restructuring of sovereign obligations, it also recognizes that there is scope to improve the arrangements for coordination between public and private sectors and between debtors and creditors, to minimize moral hazard and to facilitate fair burden-sharing and an orderly, timely, efficient and fair restructuring that respects the principles of shared responsibility. It notes that a workout from a sovereign debt crisis should aim to restore public debt sustainability, while preserving access to financing resources under favourable conditions, and acknowledges that successful debt restructurings enhance the ability of countries to achieve sustainable development and the SDGs.

3.1. Actions by official creditors

Since the Monterrey Consensus, Member States of the United Nations have welcomed initiatives to reduce debt overhangs when countries are under debt distress, especially as regards LDCs, whose main creditors are in the public sector. In this regard, in the Addis Agenda, Governments:

4 http://www.bankofcanada.ca/wp-content/uploads/2014/02/tr101.pdf

- *Recognize the need to assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief, debt restructuring and sound debt management* ***(94, MoI 17.4)***
- *Commit to support the remaining HIPC-eligible countries that are working to complete the HIPC process* ***(94)****; Commit to explore, on a case-by-case basis, initiatives to support non-HIPC countries with sound economic policies to enable them to address the issue of debt sustainability* ***(94)***
- *Aims to restore public debt sustainability, while preserving access to financing resources under favourable conditions* ***(98)***
- *Encourages consideration of further debt relief steps [for severe natural disasters and social or economic shocks that undermine a country's debt sustainability], where appropriate, and/or other measures for countries affected in this regard, as feasible* ***(102)***

Implementation of the HIPC Initiative and the Multilateral Debt Relief Initiative is nearly complete, with 36 countries having reached the "completion point" under the HIPC Initiative. In April 2015, Chad became the latest country to reach the completion point. Three pre-decision-point countries—Eritrea, Somalia, and Sudan—have yet to start the process of qualifying for debt relief under the HIPC Initiative. While creditor participation in the initiatives has been strong among the multilateral and Paris Club creditors, accounting for most of the debt targeted for reduction, participation of some non-Paris Club official bilateral and private commercial creditors continue to be a challenge.

Efforts to reduce debt burdens in least developed countries and other vulnerable countries will be reported by the Task Force. Monitoring can include levels of concessional and non-concessional official lending to countries that have received debt relief and/or are identified as at high risk of debt distress In addition, to monitor incidences of problems in servicing debt, any pre- or post-default debt operations such as debt restructurings, debt swaps and debt buy-backs involving official or private creditors will be reported.

In addition, the international community has certain international support measures to assist vulnerable countries in handling unexpected emergencies, such as natural disasters. There are various instances in which debt relief or special financing to assist in staying current on debt servicing was offered to countries hurt by such shocks. For example, beginning in 1998, the Paris Club has taken joint action to unilaterally offer to defer scheduled repayments in cases of natural disasters, internal political conflicts or "rocketing" international food and fuel prices.[5] Also, following the devastating earthquake in Haiti in 2010, the IMF established a Post-Catastrophe Debt Relief (PCDR) Trust that allows the IMF to join international debt relief efforts for very poor countries impacted by the most catastrophic natural disasters. Following the 2014 Ebola outbreak in West Africa, in 2015 the IMF transformed the PCDR into the Catastrophe Containment and Relief (CCR) Trust to provide grants for debt relief for very poor countries in the context of public health disasters (such as fast-spreading epidemics of infectious diseases) as well. In addition, the IMF has expanded its emergency lending toolkit through the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). As indicators to mitigate the impact of external shocks on debt sustainability, the IMF proposes to evaluate annually and cumulatively post-2015 the number of times the CCR, RCF and RFI are tapped. Similar reporting can cover emergency debt relief provided by other international institutions. As per the Addis Agenda, the adequacy of the full package of such steps, including the use of public and private finance with contingent repayment obligations (see section 2.4), could be monitored.

3.2. Additional mechanisms, including involving private creditors

As more developing countries tap the international financial markets and more countries draw upon alternative sources for sovereign financing, the number of countries for which a more comprehensive approach to debt crisis workouts is needed may grow, especially in a challenging global environment. The Monterrey Consensus welcomed consideration of an

5 See http://www.clubdeparis.org/en/communications/page/exceptional-treatments-in-case-of-crisis.

international debt workout mechanism. Since then, international agreements have focused on market-based solutions, such as contractual clauses in bond contracts. The Addis Agenda:

- *Affirms the importance of debt restructurings being timely, orderly, effective, fair and negotiated in good faith. (**98**)*
- *Welcomes reforms to pari passu and collective action clauses proposed by International Capital Market Association **(100)***
- *Encourages countries, particularly those issuing bonds under foreign law, to take further actions to include those clauses in all their bond issuance **(100)***
- *Recognizes the "Paris Forum" initiative by Paris Club **(99)***
- *Takes note of ongoing discussion of debt issues at the IMF and the United Nations **(99)***

The IMF Executive Board in October 2014 endorsed key features of enhanced collective action clauses (CACs) and the pari passu clause, aimed at reducing vulnerabilities to holdout creditors that could delay or block an agreement on a debt restructuring with other cooperating creditors. The proposals were consistent with a number of features of the clauses that had recently been adopted by the International Capital Market Association as proposed standard features in new international sovereign bond contracts. While the introduction of a new generation of CACs might facilitate future debt restructurings by limiting opportunities for creditor holdouts, the existing stock of outstanding bonds without enhanced CACs, valued at around US$ 860 billion, leaves risks for disorderly debt workouts in the coming years. Tracking the spread of the new clauses (and further refinements of them) can, to an extent, inform the international community of the degree to which risks remain to smooth debt workouts, at least as concerns debts owed to private creditors. In the context of its October 2014 endorsement, the IMF Executive Board also called on IMF staff to follow up by collecting detailed information on the CACs and pari passu provisions in the stock of existing international sovereign bonds, engaging with the membership on the merits of the enhanced contractual provisions, and informing the Executive Board and the public by providing periodic progress reports with respect to the status of sovereign issuers' inclusion of the enhanced contractual provisions. The Task Force can follow-up on IMF progress reports in this area, the first of which was issued in September 2015 and showed that a large majority of new issuances since October 2014 included enhanced CACs.

In addition, in December 2015, the IMF's policy on non-toleration of arrears to official bilateral creditors was amended to allow the IMF to lend in the presence of arrears to official bilateral creditors under carefully circumscribed circumstances. The reform is designed to strengthen incentives for collective action when official sector support is required, and prevent non-contributing official bilateral creditors from impeding an IMF-supported programme. Furthermore, in January 2016, the IMF approved an important reform to the institution's policy on lending to countries that request large-scale financing. This reform will allow IMF lending decisions to be better calibrated to members' debt vulnerabilities, while avoiding unnecessary costs for the member, its creditors, and the overall system. It also includes the removal of the systemic exemption to limits on allowed borrowing from the Fund, which had been introduced in 2010 in the wake of the global financial crisis.

In the context of a review of its lending-into-arrears policy for private creditors, the IMF is studying issues related to debtor-creditor engagement in sovereign debt restructurings in the light of experience with such engagement since 2002 (both in pre- and post-default cases) with a view to assessing the adequacy of existing modalities in promoting efficient resolution of sovereign debt crises. The Task Force can report on policy proposals made in this regard.

The Paris Club together with the Group of 20 continues their series of consultations in the annual "Paris Forums", which in November 2015 brought together more than 50 sovereign creditors and debtors and international organizations to express their positions on ways to improve the current framework of coordinated and orderly sovereign debt restructuring processes.[6] In recent conferences organized by

6 See http://www.clubdeparis.org/en/communications/press-release/paris-forum-2015-20-11-2015.

academics,[7] UNCTAD, DESA, multilateral development banks, such as the Inter-American Development Bank, senior legal scholars and economists, practitioners and officials informally exchanged views on sovereign debt workout reforms. These issues have also been raised by UN GA resolution A/RES/69/319 that defines nine "Basic Principles on Sovereign Debt Restructuring Processes" and in the UNCTAD Roadmap and Guide to Sovereign Debt Workouts.

The Task Force will monitor and report on any follow-up efforts to these and other events. The UN General Assembly agreed by consensus to encourage the Forum on FfD Follow-up to consider how to improve the process of sovereign debt restructuring (A/RES/70/190). If requested by Member States, the agencies involved in the Task Force will be in a position to contribute their expertise in support of such deliberations, owing in particular to their international mandates.

3.3. Legislative efforts to address non-cooperative minority creditors

While the new CACs aim to reduce the ability of non-cooperating bondholders to undermine a pending and otherwise agreed voluntary restructuring of sovereign debt, the success of ex post litigation has highlighted a gap in the architecture for debt crisis resolution. The Addis Agenda expressed concern about the ability of such creditors to disrupt the willingness of the large majority of bondholders to accept a sovereign restructuring, and noted legislative steps taken by some governments to prevent such disruptive activities. Thus, the Addis Agenda:

- *Encourages all Governments to take (legislative) action (on non-cooperative minority bond holders), as appropriate* ***(100)***
- *Welcomes provision of financial support for legal assistance to LDCs and commit to boost international support for advisory legal services* ***(100)***
- *Commits to explore enhanced international monitoring of litigation by creditors after debt restructuring* ***(100)***

This policy debate has in part been reignited by the success of litigating creditors in capturing significantly larger repayments than what had previously been accepted by the creditors that cooperated in a country's debt restructuring. National legislative actions have been taken in certain creditor countries to limit disruptive activities by non-cooperative creditors. The relevant commitments in the Addis Agenda build on the welcoming "of recent steps taken to prevent aggressive litigation against HIPC-eligible countries" in the Doha declaration (60), and extends the commitment to promote measures to limit aggressive litigation by non-cooperative minority bondholders beyond HIPC-eligible countries.

The Task Force can provide a summary overview of past activities of non-cooperative minority bondholders in sovereign bond markets and their impact on sovereign debt restructurings, together with an assessment of existing arguments for and against these activities. It can also provide a survey of existing national legislative and policy initiatives to prevent and/or minimize the activities of such creditors and assess, where possible, their effectiveness and limitations up to date. It can also identify ways in which existing national legislative actions in some countries can be adapted to other countries. It can also report on institutional mechanisms through which LDCs have accessed advisory legal services and the provision of donor country financial support to LDCs facing such litigation, including for legal assistance.

Subsequent Task Force reports can also draw on any advances related to data on litigation by creditors after debt restructurings to report on progress in regard to relevant national legislation and legislative projects. Case/country studies can highlight specific aspects and impacts of litigation and legislation. While this section will focus primarily on national legislative initiatives, it can also briefly take account of national policy initiatives such as improvements in the contractual features of sovereign bonds and the use of new financial instruments, where these directly affect the activities of non-cooperative creditors. In addition, the General Assembly agreed to focus continued international attention on this issue

7 See http://wwwf.imperial.ac.uk/business-school/sovereign-debt-restructuring-conference/ and http://www.law.georgetown.edu/academics/centers-institutes/iiel/debtcon/index.cfm

by holding a special event in its Second Committee in 2016 on lessons learned from the legislative steps taken by certain countries and other actions to limit the vulnerability of sovereigns to holdout creditors (A/RES/70/190). This event will inform the work of the Task Force.

3.4. Strengthening national legislation to address domestic sovereign debt

There has been an increasing issuance of sovereign bonds in domestic currency under national laws. The Addis Agenda:

- *Notes the possibility of countries voluntarily strengthening domestic legislation to reflect guiding principles for effective, timely, orderly and fair resolution of sovereign debt crises* ***(101)***

Developing countries increasingly find they are able to issue sovereign bonds in domestic currency and under domestic law to domestic and foreign investors, helping to attenuate currency mismatches. Monitoring of the size and data on local bond markets is further elaborated in the section on domestic capital market development in chapter II.B on private business and finance.

With the increased volume of domestic sovereign debt, it becomes increasingly important to specify how the bonds will be treated in the event of difficulty in maintaining normal payments. Although legal frameworks will vary by country, Task Force reports could survey core features of national legislative frameworks in both developing and developed countries. It could report on increased issuance of sovereign bonds in domestic currency under national legislation, and identify both strengths and common shortcomings and corresponding areas of and guidelines for improvements. A certain amount of analytical work in this regard has been completed in the UNCTAD Roadmap and Guide to Sovereign Debt Workout Mechanisms,[8] as well as in work by the Financing for Development Office at DESA. The Task Force could also provide progress reports on national legislative initiatives to govern the issuance and restructuring of domestic sovereign bonds on a case study basis.

8 See http://unctad.org/en/PublicationsLibrary/gdsddf2015misc1_en.pdf.