



Submission to Elements Paper on Financing for Development¹

UN framework convention on sovereign debt:

Building a new debt architecture at FfD4

The Fourth UN International Financing for Development Conference (FfD4) should agree a UN intergovernmental process to develop and adopt a framework convention on sovereign debt. The convention should encompass the following elements:

- ★ Fair and transparent multilateral debt cancellation and restructuring
- ★ Binding responsible sovereign lending and borrowing principles, and accountability for their implementation
- ★ New approach to debt sustainability framework and analyses (DSAs) aligned with climate and sustainable development needs
- ★ Automatic debt service cancellation mechanism that protects Global South countries from extreme events related to climatic, environmental, economic, and security shocks
- ★ Debt contract clauses that provide for sharing the risks of climate-related and other external shocks between lender and borrower
- ★ A binding global debt registry to promote transparency
- ★ Debt audits to investigate and identify cases of debt illegitimacy
- ★ The establishment of legislation, both in borrowing and lender countries, to ensure a democratic and transparent governance and management of sovereign debt and fair debt resolution.
- ★ Regulation of asset management industries and credit rating agencies, including establishing an international public credit rating agency at the UN
- ★ A mandate to consider information from debt-burdened countries and receive evidence on impacts and consequences

¹ The following networks make this submission: African Forum and Network on Debt and Development, Asian Peoples' Movement on Debt and Development, European Network on Debt and Development, Jubilee USA Network and Latin American Network on Economic and Social Justice.

JUSTIFICATION

I. A statutory framework on sovereign debt is a reform agenda that cannot wait any longer

Amidst a new global south debt crisis, the debt architecture reform agenda cannot wait any longer. Developing countries are going through a new debt crisis, with 3.3 billion people living in countries that spend more on interest payments than on education or health.ⁱ According to the World Bank, “record debt levels and high interest rates have set many countries on a path to crisis.”ⁱⁱ

This crisis fits a familiar pattern we have seen play out for several decades. Periodic moments of crisis lead to surging momentum around the need for radically reforming the global debt architecture and setting up fair and efficient multilateral debt crisis prevention and resolution tools. Unfortunately, once the worst of the crisis is over, due to some stopgap measures or fortuitous and temporary improvements of conditions that led to it, such momentum goes away.

Because such tools are not in place, today we face this recurring – yet worse than before – crisis. A growing number of countries face debt restructuring negotiations with their creditors, and an even bigger number of countries implement devastating austerity measures in order to avoid debt restructuring. In 2013, the International Monetary Fund found that “debt restructurings have often been too little and too late, thus failing to re-establish debt sustainability and market access in a durable way.”ⁱⁱⁱ This is a reality that fundamentally has not changed. It takes countries an average of 10 years to go from debt crisis to a lasting debt restructuring.^{iv}

We cannot guarantee that the statutory framework we propose to reform the global debt architecture will come in time to address the current crisis. What we can guarantee, in light of the history of the last several decades, is that if we do not immediately start the process to set up one, we will have another debt crisis in a few years and, again, will lack the instruments to respond to it.

II. A UN framework convention on sovereign debt is in the collective interest of all countries

At first sight, a profound reform of the global debt architecture may seem only in the interest of highly indebted developing debtors facing debt crises. The truth is that all countries benefit from a global debt architecture that delivers timely, fair and durable solutions to countries with unsustainable and illegitimate debts. All countries feature domestic bankruptcy institutions because it makes sense for the economy as a whole, without distinction of creditors and debtors. In the same way, taxpayers, consumers, workers, business, retail investors, and residents in creditor countries, as well as the global economic and financial system, stand to benefit from such reforms as much as debtor countries will.

Domestic bankruptcy institutions address, at the domestic level, a collective action problem for which the international community still has not found a solution. Creditors and debtors alike are unable to get timely, fair treatment. The terrible and avoidable human consequences undermine global goals and prosperity. Meanwhile, today’s system protects bad lenders and borrowers through perverse incentives reinforcing moral hazard and lack of accountability. The existing financial architecture does not offer effective tools to prevent debt crises, nor does it provide adequate incentives for responsible financing and debt management.

The Fourth UN International Financing for Development Conference (FfD4) is an opportunity to agree on this reform that is in the collective interest of all members of the international community.

III. A UN framework convention on sovereign debt is within the scope, and a longstanding pending item, in the Financing for Sustainable Development and Sustainable Development Goals agenda

In 2002, at the first FfD conference i.e. the '[Monterrey Consensus](#)', member states agreed to consider 'an international debt workout mechanism' that would 'engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner' (para 60).

While it remains a pending item in the FFD agenda, the idea repeatedly surfaced in a number of other UN processes, for instance:

2009: The report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System proposed an international Debt Restructuring Court.^v

2015: UNCTAD, after consultation with multiple stakeholders, published a Sovereign Debt Workouts Roadmap.^{vi}

2014/15: The UN General Assembly adopted landmark resolutions (68/304) "Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes" and (69/319) "Basic Principles on Sovereign Debt Restructuring Processes."

2020: Amidst the financing challenges of the COVID-19 crisis, member states produced a "menu of options" for consideration of a Ministers of Finance Summit. Among reforms to deal with debt vulnerabilities, the document included a Sovereign Debt Authority to "advance a blueprint for a multilateral Sovereign Debt Workout Mechanism."^{vii}

2023: The UN Secretary General supported the 2009 proposal of the Commission of Experts in a Policy Brief on the International Financial Architecture.^{viii}

A large number of UN member states are on record calling for multilateral sovereign debt legal frameworks:

- **G77 and China** in 2015^{ix}: "A multilateral legal framework has a potential for a "win-win" situation for both sovereign lenders and borrowers as it will maximize the potential for coherence and predictability of the financial sectors. By so doing, it has a potential to fast-track the global economic growth and help to prevent developing countries from economic downturns and external financial shocks."
- **Malawi on behalf of LDC Group** at UNGA (2019)^x: "There is no international framework for restructuring of sovereign debt and this forum should seriously think about that."
- **Jamaica on behalf of CARICOM** at UNGA (2019)^{xi}: ""I was here in 2015 when we last tried to get a statutory debt restructuring mechanism. We failed, but maybe it is time for us to revisit it."
- **AOSIS** in 2020^{xii}: "A multilateral debt workout mechanism to reduce external debt to a sustainable level... More systematic, transparent and coordinated steps towards restructuring external debt obligations are critical. Unless a longer-term solution is agreed on, a protracted debt crisis looms."

- **Africa Group** in 2024^{xiii}: “We advocate for an integrated approach encompassing the expansion of debt relief and restructuring programs (...) and the establishment of a global legal framework.”

It is more than likely we will continue to see calls for UN-based intergovernmental negotiations towards a rules-based sovereign debt framework. The reason is that debt crisis prevention and resolution, as well as different aspects of debt management, have typically been discussed and decided in creditor-dominated forums. The G20, the International Monetary Fund (IMF), the World Bank, the Paris Club or most recently the Global Sovereign Debt Roundtable (GSDR), are all spaces dominated by creditors.

In order to address the failures and limitations of the financial system and development finance institutions dealing with unsustainable and illegitimate debts, the discussions and decision making on the reforms needed, should take place in a democratic and transparent process in which all governments can participate on equal footing.

Against this backdrop, the UN and, within it, the Financing for Development process, are best positioned to advance negotiations on a framework convention on sovereign debt.

The UN has the core mandate to address critical global issues and, bringing together all member states, is the most inclusive and democratic space to advance on the systemic reforms needed to re-design a skewed and dysfunctional international financial architecture towards supporting human rights-centered sustainable development. The UN is neither a debtor nor a creditor itself. It is, therefore, a naturally neutral space to find balance between the interests of both these constituencies, which is in the global interest to achieve. And the UN, as a norm-setting institution, is well-suited for a rules-based framework endeavor.

The FFD process in particular was, since its inception, conceived as a convening of all international organizations and actors relevant to development finance. Its configuration guarantees that the deliberations can be informed by the experience that the IMF, Paris Club, UNCTAD and other institutions advising on sovereign debt issues for many years bring to the table. Not less important, it offers avenues for all actors affected by sovereign debt architecture decisions in civil society and the private sector to also participate and be consulted. FFD is a process designed to achieve this while preserving political decision-making in the hands of an intergovernmental, inclusive member state process.

A new debt architecture that delivers truly multilateral solutions to prevent and address sovereign debt crises is what the G77 has been demanding for many years, and reiterated recently when calling for “an improved global sovereign debt architecture with the meaningful participation of developing countries, allowing for fair, balanced and development-oriented treatment.”^{xiv}

IV. A UN framework convention on sovereign debt needs to address all stages of the debt cycle

The UN framework convention on sovereign debt should encompass the global consensus on the necessary rules, principles and structures throughout the different interdependent stages of the debt cycle.

As defined by UNCTAD, the life cycle of sovereign debt refers to “the way in which debt is incurred, how debt instruments are issued, how debt management is structured, how debt sustainability is tracked and the options for debt workout.”^{xv}

We understand that, while partial reforms can mean positive steps in the right direction, the benefits these might provide can be overrun by the limitations and systemic failures of other stages in the debt cycle. According to UNCTAD, ‘challenges and failures can be identified at each stage, calling for improvements for a more robust system. As the stages in the life cycle of sovereign debt are highly interdependent, policy responses that lead to reconfiguration need to address each of them.’^{xvi}

A UN framework convention on sovereign debt, negotiated and agreed by all Member States, should therefore address the commitment to establish a multilateral debt resolution mechanism, but not be limited to it. With its holistic approach to all sources of development finance, FFD is also well-positioned to identify and address the interlinkages of the debt cycle with other development finance sources.

V. Summing up

The FfD4 conference is the opportunity to reclaim the role of the UN in addressing sovereign debt challenges, away from creditor-dominated forums that have failed to provide the timely, predictable and efficient solutions that would benefit both creditor and debtor countries, and their people. A commitment to initiate intergovernmental negotiations toward a convention will be a significant short-term gain to signal that the international community is ready to fill this important gap in the global financial system.

ⁱ UNCTAD, ‘A world of Debt’, United Nations Trade and Development, July 2023 <https://unctad.org/publication/world-debt-2023>

ⁱⁱ World Bank, ‘Developing Countries Paid Record \$443.5 Billion on Public Debt in 2022’, World Bank Press Release, December 13, 2023 www.worldbank.org/en/news/press-release/2023/12/13/developing-countries-paid-record-443-5-billion-on-public-debt-in-2022

ⁱⁱⁱ IMF 2013. Sovereign Debt Restructuring—Recent Developments and Implications for the Fund’s Legal And Policy Framework.

^{iv} Carmen Reinhart, Clemens Graf von Luckner, Christoph Trebesch and Josefin Meyer 2021. External Sovereign Debt Restructurings: Delay and Replay. April 6.

^v UN 2009. Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.

^{vi} UNCTAD 2015. Sovereign Debt Workouts: Going Forward. Roadmap and Guide. United Nations. April.

^{vii} UN 2020. Financing for Development in the Era of COVID-19 and Beyond. Menu of Options for the Consideration of Ministers of Finance. Part II. September.

^{viii} UN Secretary General 2023. Our Common Agenda: Policy Brief 6. Reforms to the International Financial Architecture.” May.

^{ix} G77 and China at the Ad Hoc Committee on Sovereign Debt Restructuring Process (2015): <https://www.g77.org/statement/getstatement.php?id=150205>

^x [link](#) to the UN Webtv video. Malawi and Jamaica’s statements are from 1:31:36 – 1:46:23.

^{xi} [link](#) to the UN Webtv video. Malawi and Jamaica’s statements are from 1:31:36 – 1:46:23.

^{xii} <https://www.aosis.org/sustainable-dev-pm-barroaosis-statement-on-debt/>

^{xiii} <https://journal.un.org/en/addis-ababa/meeting/officials/b3d5e16a-882f-4e28-93d6-08dc80203a8d/2024-07-23>

^{xiv} G77, ‘G77 Third South Summit outcome document’, January 2024 www.g77.org/doc/3southsummit_outcome.htm

^{xv} UNCTAD, ‘Trade and Development Report 2023. Chapter V: Realigning the Global Debt Architecture to Work for Developing Countries’, January 2024, unctad.org/system/files/official-document/tdr2023ch5_en.pdf

^{xvi} UNCTAD, ‘Trade and Development Report 2023. Chapter V: Realigning the Global Debt Architecture to Work for Developing Countries’, January 2024, unctad.org/system/files/official-document/tdr2023ch5_en.pdf