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**Trade and Development Board**  
**Intergovernmental Group of Experts**  
**on Financing for Development**  
Second session  
Geneva, 7–9 November 2018

**Report of the Intergovernmental Group of  
Experts on Financing for Development  
on its second session**

Held at the Palais des Nations, Geneva, from 7 to 9 November 2018

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## Introduction

The second session of the Intergovernmental Group of Experts on Financing for Development was held at the Palais des Nations in Geneva from 7 to 9 November 2018. The President of the Trade and Development Board opened the second session.

### I. Action by the Intergovernmental Group of Experts on Financing for Development

#### A. Financing for development: Debt and debt sustainability, and interrelated systemic issues

##### Agreed policy recommendations

*The Intergovernmental Group of Experts on Financing for Development,*

*Reaffirming* General Assembly resolution 69/313 of 27 July 2015 on the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which is an integral part of the 2030 Agenda for Sustainable Development, supports and complements it, helps to contextualize its means of implementation targets with concrete policies and actions and reaffirms the strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity,

*Recalling* the Nairobi Maafikiano,\* in which member States committed to strengthen their support for the role of the United Nations Conference on Trade and Development (UNCTAD) in the implementation of the outcomes of the International Conference on Financing for Development and the 2030 Agenda for Sustainable Development, as the focal point within the United Nations system for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development,

*Reaffirming* the need to continue the important work of UNCTAD on financing for development, so as to enhance its ability to support developing countries,

*Stressing* the importance of fulfilling all Sustainable Development Goals, and all means of implementation, in particular Goal 17,

1. *Takes note* of General Assembly resolution 69/319, entitled “Basic Principles on Sovereign Debt Restructuring Processes”, and recalls the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing;

2. *Recommends* that UNCTAD continue its substantive work on the systemic impact of debt crises and challenges to debt sustainability on the implementation of the 2030 Agenda for Sustainable Development, with particular focus on its work on long-term debt sustainability, and intensify its work on early warning monitoring systems;

3. *Recognizes* that previous financial and economic crises have had particularly adverse effects on poverty, and emphasizes that the strategies employed to address them have sometimes resulted in exacerbating income and wealth inequalities;

4. *Recognizes* the role of special drawing rights as an international reserve asset, acknowledges that special drawing rights allocations helped to supplement international reserves in response to the world financial and economic crisis, thus contributing to the stability of the international financial system, including developing country and global economic resilience, and also recognizes the need to continue to review the role of special drawing rights, including with reference to their potential role in the international reserve system;

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\* TD/519/Add.2.

5. *Recognizes* the need to reduce reliance, by default, on private credit rating agency assessments, including in regulations, and to promote increased competition as well as measures to avoid conflict of interest in the provision of credit ratings; recommends that the international financial and banking institutions continue to enhance the transparency of risk-rating mechanisms, noting that sovereign risk assessments should maximize the use of objective and transparent parameters, which can be facilitated by high quality data and analysis; and encourages UNCTAD to continue its work on the issue;

6. *Emphasizes* that capital controls remain a useful tool in the hands of sovereign States, but that these need to be used in a nuanced and sensitive way that does not eliminate inflows, but carefully manages the impact and cost of capital reversals;

7. *Recommends* that measures introduced to respond to evolving new debt crises seek to reduce, not exacerbate poverty, inequalities, asymmetries and other factors that contributed to the global financial crisis;

8. *Recommends* that countries support multilateralism and avoid any sort of unilateralism that adversely affects debt sustainability of affected countries, and urges, in this regard, avoiding unilateral coercive measures, including illegal sanctions, that are an impediment to development, especially for developing countries, taking into account United Nations General Assembly resolutions, including resolution 58/198 of 23 December 2003 as well as the report to the General Assembly (A/60/226) of 12 August 2005 on the aforementioned matter;

9. *Notes with concern* that the total external debt stocks of small island developing States have more than doubled between 2008 and 2017, that average debt-to-gross domestic product ratios in small island developing States have risen from 28.3 per cent in 2008 to 58.2 per cent in 2017, with some small island developing States facing debt-to-gross domestic product ratios well in excess of 100 per cent, and that the ratio of external debt-to-exports rose to a staggering 163.8 per cent in 2017;

10. *Acknowledges* the efforts of, and invites creditors to provide additional flexibility to, developing countries affected by natural disasters so as to allow them to address their national debt concerns, while taking into account their specific economic and social situations and needs;

11. *Stresses* that initiatives to tackle environmental and growing debt vulnerabilities in small island developing States need to consider persistent barriers to further structural transformation faced by many middle-income countries, including small island developing States, and broaden their focus from short-term to include long-term debt sustainability concerns;

12. *Welcomes* the debt-for-climate adaptation swap initiative of the Economic Commission for Latin America and the Caribbean as an option which can assist in the mitigation of and adaption to the consequences of climate change, while reducing the debt burdens of Caribbean countries;

13. *Recognizes* recent measures by the international community to ease the access of all developing countries to international public finance, such as capital increases for the World Bank, and recommends in addition a review of current eligibility and graduation criteria with a view to facilitating the access of middle-income small island developing States to concessional finance, for example through the inclusion of environmental vulnerability indicators in eligibility criteria;

14. *Requests* UNCTAD to continue its current work on long-term debt sustainability analysis and enhance its assessment of Sustainable Development Goal-related investment requirements to include climate change mitigation and adaptation needs and the impact of natural disasters;

15. *Takes note*, emphasizing that transparency and accountability are essential to supporting responsible sovereign lending and borrowing, of recent initiatives by the International Monetary Fund, the World Bank Group and the Group of 20 to stress the importance of effective debt data reporting, recording and monitoring at national levels, and

invites donor countries to consider increasing their support for technical cooperation programmes aimed at increasing downstream debt management capacities;

16. *Encourages* the United Nations system, including the World Bank Group, the International Monetary Fund and other relevant stakeholders, to continue to conduct analytical activities and to provide policy advice and technical assistance to Governments, upon request, in the areas of managing debt and operating and maintaining databases and, in this regard, recommends that UNCTAD should continue its analytical and policy work and technical assistance on debt issues, including the Debt Management and Financial Analysis System programme, so that this extends not only to improvements in the timeliness and accuracy of debt data recording, but to enhanced coverage of public sector and other relevant debt data, including in particular heretofore unrecorded or hidden debt instruments, contingent liabilities and more complex debt instruments;

17. *Reiterates* its view that the fulfilment of all official development assistance commitments remains crucial, and that careful consideration should be given to the appropriate structure and use of blended finance instruments to ensure that projects involving blended finance, including public–private partnerships, should share risks and rewards fairly, include clear accountability mechanisms and meet social and environmental standards to include the costs of public–private partnerships in the analysis of debt;

18. *Stresses* that the fulfilment of all official development assistance commitments remains crucial; official development assistance providers have reaffirmed their respective official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income to official development assistance, and 0.15 to 0.20 per cent of gross national income to official development assistance for the least developed countries, and urges all others to step up efforts to increase their official development assistance and to make additional concrete efforts towards official development assistance targets;

19. *Recommends* that debt relief, including debt cancellation, as appropriate, and debt restructuring as debt crisis prevention, management and resolution tools, should be facilitated on a case-by-case basis;

20. *Encourages* Governments to be mindful of the ability of non-cooperative minority bondholders to block a restructuring of a debt-crisis country's obligations, and encourages debtors and creditors to work together to draft bond agreements accordingly;

21. *Recognizes* that, in accordance with outcome document TD/519/Add.2 of UNCTAD, General Assembly resolutions 72/203, 69/313 and 63/303 and Economic and Social Council resolution 2011/39, and within the scope of the International Conference on Financing for Development and of UNCTAD quadrennial conferences, the Intergovernmental Group of Experts on Financing for Development of UNCTAD produces technical advice and analysis, including recommendations on systemic issues relating to the goals and means of implementation of the 2030 Agenda for Sustainable Development to be made available to the high-level segment of the Economic and Social Council, through the Trade and Development Board;

22. *Recalls* the decision in Economic and Social Council resolution 2011/39, and recommends that the General Assembly examine this matter during the 73rd session of the General Assembly, with a view to supporting the work of the President of the General Assembly and the Secretary-General, in accordance with General Assembly resolutions 71/215 and 72/203;

23. *Recalls* the request by the General Assembly for the Intergovernmental Group of Experts to present the outcome of its work as a regular input to the forum on financing for development follow-up (General Assembly resolution 72/204, paragraph 27), and, in this regard, recommends that the outcome of the work of this Intergovernmental Group of Experts be presented, through the Trade and Development Board, as a regular input to the Economic and Social Council forum on financing for development follow-up.

*Closing plenary meeting  
9 November 2018*

## **B. Other action taken by the Intergovernmental Group of Experts on Financing for Development**

### **Financing for development: Debt and debt sustainability, and interrelated systemic issues**

1. At its closing plenary meeting, on 9 November 2018, the Intergovernmental Group of Experts on Financing for Development adopted a set of agreed policy recommendations, prepared for the consideration of the Trade and Development Board (chapter I, section A).

### **Provisional agenda for the third session of the Intergovernmental Group of Experts on Financing for Development**

2. Also at its closing plenary meeting, the Intergovernmental Group of Experts adopted the topics and guiding questions for the provisional agenda of its third session, as contained in the non-paper made available in the room (annex I).

## **II. Chair's summary**

### **A. Opening plenary**

3. The President of the United Nations General Assembly<sup>1</sup> highlighted the importance of the second session of the Intergovernmental Group of Experts on Financing for Development against a backdrop of rising debt vulnerabilities in developing countries. She called for participants to consider how developing countries, increasingly exposed to “the business of debt”, could preserve sufficient domestic policy space to respond adequately to adverse international economic conditions and governance and to protect the well-being of their citizens. She furthermore called for balanced consideration of the risks and opportunities arising from the use of debt as a financing instrument in the wider context of the need to scale-up development finance. She stressed the importance of strengthening synergies between New York and Geneva on issues of development finance and called on UNCTAD to continue to provide innovative ideas on financial resource mobilization for sustainable and inclusive development.

4. The President of the United Nations Economic and Social Council<sup>2</sup> also welcomed the timeliness of the session's topic and its importance in helping to ensure that sovereign financing was available to meet investment needs for implementation of the 2030 Agenda for Sustainable Development. Acknowledging that a wide range of developing countries were currently afflicted by financial and debt distress, she emphasized the driving role of global conditions in the deterioration of developing country debt sustainability and of climate change in small island developing States. She asked participants to address the imperative of developing countries to meet investment needs relating to the Sustainable Development Goals without worsening their debt burdens, and what the international community could do to support those efforts, including through more effective and sovereign debt restructuring mechanisms to address future insolvencies. Citing the commitment of the Economic and Social Council forum on financing for development to explore innovative financing instruments and a more effective role for official creditors, she encouraged participants to investigate further policy options to address rising debt vulnerabilities that would be an important input to deliberations at the 2019 Economic and Social Council forum on financing for development.

5. The Chair of the second session of the Intergovernmental Group of Experts on Financing for Development highlighted the deeper causes of rising debt vulnerabilities in developing countries, namely the unfettered advance of financialization and the high exposure of developing countries to financial market risks over which they had little control. He emphasized the important role of the United Nations, and of UNCTAD, in promoting

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<sup>1</sup> Video statement.

<sup>2</sup> Video statement.

alternative and development-friendly approaches to global economic governance by building on the work of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.

6. The Vice-Chair-cum-Rapporteur of the second session of the Intergovernmental Group of Experts reiterated the seriousness as well as the complexity of mounting financial and debt distress in developing countries and emphasized the importance of the provision of means of implementation, including new and reliable finance, to enable developing countries to achieve their goals, including the Sustainable Development Goals. She called on advanced countries to honour and accelerate implementation of the 2030 Agenda and to increase their ambition with regard to the provision of finance, technology transfer and capacity-building support.

7. The Deputy Secretary-General of UNCTAD also expressed concern about deteriorating debt sustainability in developing countries and the need for systemic solutions to problems of growing global indebtedness. She highlighted the role played by inadequate policy responses to the global financial crisis of 2008 in current difficulties for developing countries and reaffirmed the specific role of UNCTAD, as one of the five major institutional stakeholders in the United Nations financing for development follow-up and review process, in addressing those difficulties from a developmental perspective. The Deputy Secretary-General further emphasized the key importance of strong synergies between the UNCTAD Intergovernmental Group of Experts on Financing for Development and the wider United Nations follow-up process. She thanked the Friedrich Ebert Foundation for its support for the session.

8. The Director of the UNCTAD Division on Globalization and Development Strategies, presenting the secretariat's background note for the session, noted the fast pace of the evolving debt crises in developing countries over recent years, many of which had benefited from earlier debt relief initiatives. Highlighting the role of debt as the dark side of prosperity, he expressed concerns about the unbalanced burden of growth-restricting austerity programmes, which resulted in growing macroeconomic imbalances in deficit economies. At the same time, and despite renewed calls for strengthening multilateralism, little attention had been paid to a more systemic approach to reforming sovereign debt restructuring mechanisms at the multilateral level.

9. The representatives of some regional groups and many delegates echoed in general the concerns regarding significant and growing debt challenges in the developing world and emphasized the limitations those challenges placed on efforts to step up domestic resource mobilization to meet commitments related to the Sustainable Development Goals. The regional groups and delegates expressed dissatisfaction with the current approach of the International Monetary Fund to debt sustainability assessments and to adjustment programmes, whose focus on austerity presented an impediment to development. One delegate emphasized that the roots of current financial difficulties of developing countries lay in speculative financial markets whose obscure practices had become decoupled from real underlying economic activity and called for multilateral efforts to reign in such practices and adopt an openly ethical approach to global economic governance. Some delegates also noted that the widely recognized vulnerability of developing countries to climate change and environmental challenges, as in the case of small island developing States, extended to landlocked developing countries and countries that were experiencing severe droughts more regularly. One regional group said that the role of UNCTAD as a focal point on debt issues, including improved sovereign debt restructuring mechanisms and strengthening downstream debt management and transparency, was widely recognized and, along with several delegates, called for that role to be strengthened.

## **B. Financing for development: Debt and debt sustainability, and interrelated systemic issues**

(Agenda item 3)

10. Under the agenda item, the Intergovernmental Group of Experts on Financing for Development held five panel discussions from which the agreed policy recommendations were drawn.

### **New debt vulnerabilities in developing countries – the current landscape**

11. During the first panel discussion, the three panellists highlighted that the increased financial stress of developing economies could not be appreciated without an understanding of its systemic causes and consequences. One panellist noted that in advanced nations the response to the financial crisis had been austerity, and unregulated financial markets had negatively affected the economies of both developing and advanced countries.

12. One panellist said that developing countries' vulnerabilities were not due to their failure to organize themselves and to create policy space for themselves; they were bound by the constraints of a world where policy parameters were shaped by unregulated international financial markets. While too-big-to-fail megabanks were protected by national Governments, they were also not held accountable. The result had been global financialization and a "business of debt" that permeated the activities of households and firms. Globally, falling wages for workers, and the loss of development-banking capacity to support enterprise, had made increased debt a necessity for an ever-larger share of economic units.

13. Another panellist noted that finance needed to be restrained to serve the real economy, not vice versa, and that Governments of sovereign States needed to be put back in charge of financial flows. Another panellist said that consolidation of the dollar as the global currency had been growing, with the share of the United States dollar in international credit continuing to rise since the global financial crisis. At the time of the global financial crisis, only one country could be the global lender of last resort and the question remained as to whether another crisis could be withstood.

14. One panellist noted that increased access to international capital markets by a number of developing countries, coupled with historically low global interest rates, posed challenges in an era of increasing interest rates in the United States of America.

15. Another panellist said that, in large developing economies and emerging markets, private sector non-financial debt had surpassed 150 per cent of combined gross domestic product (GDP) in 2017, and concomitant rising debt service ratios also continued to be a major concern for external debt sustainability in those economies. The potential risk to developing country debt sustainability over the next few years was compounded by the fact that, though sovereign borrowers had reduced their currency risk by issuing heavily in their domestic debt markets, that had not been the case for private borrowers. Companies had borrowed heavily, often in United States dollars, thus exposing themselves to currency risk. The trend was a cause for concern, as it came at a time of rising interest rates for the United States dollar that were likely to exert further pressure on debt servicing by developing countries.

16. Some delegates noted that the role of official development assistance as a source of financing the Sustainable Development Goals should not be overlooked, in particular in meeting climate change challenges, and expressed concern that a number of countries were still not meeting internationally agreed targets. One panellist noted that Japan had been increasing its official development assistance outlays, while the United States and the European Union were making new funds available for infrastructure in developing countries. New sources of development finance were emerging, such as increased remittance flows. In total, recorded remittances currently exceeded official development assistance flows and, in certain countries, played a crucial role in demand. Further analysis of new sources of development finance, such as blended finance and the investor profiles of hedge funds, was needed.

17. One delegate recalled the role that the Paris Club had played historically in debt restructuring. Yet, with the advent of more complex instruments, and sources of finance, one panellist stated it was likely that future debt restructurings would be carried out in different forums.

**Systemic risk and the global drivers of developing country financial vulnerabilities:  
Reform needs and policy options**

18. During the four-member panel discussion, some panellists said that developing countries had been particularly exposed to systemic financial risks and vulnerabilities over the last decades, dragging many into debt distress. The current international financial system had failed to meet its commitments, as those countries had entered a new round of rising debt, jeopardizing their structural transformation.

19. Another panellist stated that it was widely recognized that, unlike a previous episode of debt vulnerability in the 1990s, the sharp increase in foreign currency denominated debt was an aggravating factor as it rendered developing countries more prone to external shocks originating from advanced economies, including tighter monetary policies and currency appreciation. Though developing countries had benefited from large capital inflows resulting from quantitative easing programmes in advanced economies, ongoing tightening induced a sudden reversal of capital flows that, especially among the most indebted countries, were conducive to balance of payments crises, drastic exchange rate depreciation and higher debt servicing costs. While developing countries had marginally improved their buffers, national central banks had little room to manoeuvre and cope with the negative effects of capital outflows. Monetary policy was constrained as soon as financial instability emerged and the effectiveness of exchange rate interventions remained unclear, while macroprudential policy buffers appeared too low to offset a significant tightening of financial conditions.

20. As a key recommendation, some panellists encouraged reducing exposure to foreign currency debt by finding ways to swap foreign debt for domestic debt, while acknowledging the hurdles to doing so.

21. Some delegations stated that some developing countries tended to grow foreign debt at a faster pace as a result of relatively low foreign interest rates compared to domestic interest rates. Some delegates said that the use of foreign liquidity was also critical to fund large-scale infrastructure projects if developing countries were to meet the Sustainable Development Goals. One panellist noted that borrowing in United States dollars to repay more expensive domestic debt could work only under a fixed exchange rate regime and would have adverse effects should the domestic currency be devaluated. He said that the crowding out effect of public domestic debt on the private sector was a fallacy; government bonds were used by corporations as securities for further loans.

22. Some panellists invited developing countries to embrace a more comprehensive approach to overcoming those obstacles that recognized the inextricable links between trade, debt and financial flows. One panellist mentioned that the financial turmoil that hit developing countries was exacerbated as commodity prices collapsed, terms of trade deteriorated and capital outflows surged. He recommended pursuing national policies to expand economic activity and to spur domestic income and liquidity, by making use of domestic development banks, as major European powers had done in the past, and suggested the possibility of creating regional banks to provide liquidity for developing countries. One delegate and one panellist stated that policies to spur economic growth included, for instance, industrial policies aimed at increasing manufacturing value added and climbing the value chain as well as expansionary fiscal policies, while maintaining high levels of public expenditure and adequate taxation of corporate profits to bolster domestic demand. Another delegate said that countries had also used dual exchange rates, distinguishing, for instance, manufacturing goods from financial transactions, as well as South–South preferential trade agreements, with some effectiveness.

23. Panellists underlined that, in all developing regions, foreign debt was mostly denominated in United States dollars and noted a need to move away from the “dollarized” system, while acknowledging that such an undertaking would be challenging and require time. Some panellists called for a profound reform of the global financial system and

institutions such that the conversion of foreign debt into domestic debt would be facilitated. One panellist also suggested the creation of regional payment systems.

24. Another panellist said that the global economic environment heightened the risks of sovereign debt sustainability. He highlighted the perpetuation of a vicious circle of austerity, comprising lower economic growth, lower fiscal revenues and more debt distress, together with the fact that debt restructuring often came “too late” and delivered “too little” relief, and the strong likelihood that a first debt restructuring would be repeatedly followed by other restructurings or defaults. The root of the problem lay in the deficient international architecture as well as the national legislative environment in which debt was issued. For example, a punitive compensatory interest rate for missed payments and lenient dealings with vulture funds’ business was associated with certain jurisdictions. The panellist and some delegates raised the issue of better domestic policies for developing countries aimed at regulating international capital flows, using sensitively managed capital controls, as well as making an informed choice on jurisdictions for debt issuance. They recommended larger-scale adoption of contingent debt, particularly bonds that aligned debt burdens with payment capacity, such as GDP growth bonds.

25. The panellist also stressed the need for a multinational system for sovereign debt restructuring, that was development-oriented and based on sound principles, in accordance with the Basic Principles on Sovereign Debt Restructuring Processes of the United Nations (A/RES/69/319).

#### **The middle-income trap, environmental vulnerability and sovereign debt sustainability: Experiences and policy responses**

26. During the four-member panel discussion, one panellist noted that a growing concern in the world economy was the high debt ratios facing many middle-income countries, particularly small island developing States. That raised the critical issue of debt sustainability in the context of heightened vulnerability to environmental shocks, which were becoming ever more frequent and damaging. For small island developing States, total external debt more than doubled over 2008–2017 and average debt-to-GDP ratios increased from 28 to 58 per cent over the same period, with some small island developing States facing ratios above 100 per cent. Though there was no clearly established threshold for debt sustainability, it depended on a variety of factors, such as whether loans were concessional, the length of loan maturity and level of interest rates and whether interest rates were fixed or floating. The reality was that debt levels could rise very rapidly, from an already high to an unsustainable level when an external shock was experienced. Damages and losses caused by the 2017 hurricane season were a key driver of mounting Caribbean debt.

27. Another panellist stated that how much debt a country could or should incur depended on debt sustainability levels, but also on the debt–growth nexus. One stylized fact was the relationship between debt and growth, which was the shape of an inverted U-curve: initial levels of debt-to-GDP ratio had positive effects on economic growth, but those effects wore down and then turned negative once the debt ratio crossed a 60–70 per cent threshold. A key problem for countries facing a high debt burden was that such a burden took away fiscal space necessary for adoption of policies that could support sustainable growth and development.

28. Another panellist emphasized that countries needed to have the flexibility to implement countercyclical programmes and that the conditionalities imposed should not be a constraint to countries undertaking those measures.

29. Some panellists noted that a related problem facing middle-income countries, including small island developing States, was that those countries did not have access to concessional finance as a consequence of their middle-income status. Those economies had fallen into a middle-income trap, with growth rates slowing on the back of exhaustion of labour transfer from low to higher productive sectors and, consequently, erosion of competitiveness. While low growth held back countries from meeting their full potential, it also constrained their capacity to respond to shocks related to climate change.

30. Some panellists said that a solid public financial framework could help countries to improve governance, transparency and accountability. One panellist noted that effective

public financial management required a clear debt management strategy. Debt management strategies needed to focus on the supporting role that both debt-creating and non-debt-creating flows could play in financing national development strategies. It was important for countries to carefully choose available financing options and consider their potential to support investment projects that promoted diversification and structural transformation. Wherever possible, official development assistance and concessional finance should be used rather than private credit. Effective debt management could lead to an improvement in borrowing costs. Country experience had shown that multilateral, bilateral and market participants usually recognized and rewarded efforts of countries to manage their debt, through improved access to finance, which should in turn be managed strategically to avoid a cycle of unmanageable debt.

31. Another panellist stated that emphasis on debt sustainability could come at a high cost, as countries were constrained in their ability to mobilize resources towards the Sustainable Development Goals. In addition, debt management strategies focused on a narrow set of financial indicators. In the case of small island developing States, that left out the economic, financial and social impact of environmental vulnerabilities on debt sustainability. Some delegates called for expansion of a tool to develop an integrated national financing framework for disaster risk management. One panellist said that a parallel track of action involved incorporating assessments of climate change impacts on cost and financing requirements of small island developing States into debt sustainability assessments.

32. Some panellists said that debt management needed to be complemented with additional measures designed to ensure long-term debt sustainability. Those measures included adoption of currency swaps, deepening of domestic debt markets and further promotion of a soft law approach to debt restructuring, such as the UNCTAD principles on promoting responsible sovereign borrowing and lending. In the case of natural disasters, some delegates and panellists highlighted the usefulness of State-contingent instruments and multilateral insurance mechanisms as tools to provide financial relief. However, one panellist noted that debt relief efforts and additional concessional financing were required. Debt relief initiatives could be designed taking account of the lessons learned from the Heavily Indebted Poor Countries Initiative, which included the need for timely and significant debt write-downs that could decisively ensure debt sustainability and avoid scenarios of renewed debt vulnerabilities in the future. Another panellist noted, furthermore, that funds provided by the Green Climate Fund could be used to finance an innovative debt swap proposed by the Economic Commission for Latin America and the Caribbean to address debt vulnerabilities in the Caribbean. Finally, one delegate suggested that a global disaster mechanism could be established under the auspices of the United Nations to provide large-scale financial disaster relief for countries that had been affected by a natural disaster.

### **Debt vulnerabilities in least developed economies: Domestic and multilateral policy priorities and options**

33. During the next four-member panel discussion, one panellist underlined that the recent increase in debt levels risked undermining growth levels in developing countries. More attention needed to be given to domestic debt levels as defaults on domestic debt could have a considerably negative effect on the domestic economy and the banking system. Changes in the composition of debt of developing countries had increased debt vulnerabilities due to lack of available information with which to conduct debt sustainability assessments, coordinate between new lenders and manage private sector debt associated with shorter maturities at higher interest rates.

34. The panellist also noted that the consequences of higher debt resulted in more burdensome debt payments, increased refinancing risks, reduction in fiscal space and the potential impact of debt overhang on the real economy. At the national level, he recommended that countries should increase local production and processing to widen the tax base, improve fiscal administration, reduce illicit capital flows (such as underreporting and misreporting by foreign firms) and ensure debt sustainability such that interest rates on debt were lower than economic growth rates. At the multilateral level, those actions called for support to improve transparency of debt statistics and strengthen debt management

capacities. Ultimately, a multilateral plan should embrace the UNCTAD principles of transparency, legitimacy, impartiality, good will and sustainability.

35. Another panellist said that debt vulnerabilities in low-income developing countries had been driven by commodity price shocks, weak macro-fiscal management, costlier and riskier sources of financing and a lack of transparency in public debt management. As a result of those factors, approximately 40 per cent of low-income developing countries currently found themselves either in or at a high risk of encountering debt distress. Several risks threatened the position of public debt levels further, including sharp rises in global interest rates, weaker global growth, commodity price volatility and poorly executed fiscal adjustments. He emphasized that sound macro-fiscal frameworks, tailored policy reforms, strengthened public debt reporting and building public debt management capacity were crucial to addressing debt vulnerabilities.

36. Another panellist stressed the importance of debt data, with timely, reliable and comprehensive data on the level and composition of debt a prerequisite for effective management of liabilities, fiscal management, prevention of debt distress, identification of risks and mitigation of debt crises. Debt data transparency was critical to debt sustainability, formulation of financial policies and strategies and good governance. Current challenges facing countries were linked to deficiencies in data quality, such as completeness, timeliness, accuracy and reporting. Poor data quality resulted in increased vulnerabilities, difficulties in securing funding, higher costs of borrowing and debt distress. He emphasized that, in an environment where countries were dealing with many unknown elements, improving the quality of data was one aspect that was within the grasp of a country's control. Major challenges facing countries stemmed from increasing complexity of debt portfolios and complex debt instruments, weak institutional frameworks, low staff capacity and insufficient management systems. Capacity-building for debt data recording was particularly important, as was strengthening the understanding of international best practices. To meet the challenges facing countries today, countries needed more support from the international community to enable them to access the available solutions.

37. One panellist raised the issue of soft law in sovereign finance as a means of equalizing negotiations between creditors and debtors, as well as enhancing the legal capacity of low-income developing countries. She recommended that soft law principles, based on the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing, should be developed into a legally binding and enforceable instrument. Developing the instrument could be achieved through issuance of a set of specific technical legal standards on negotiating sovereign debt instruments and debt restructuring, as an important step in addressing the need to make borrowers and lenders more responsible, as well as addressing debt vulnerabilities and enhancing debt sustainability. She stressed the critical role of UNCTAD as an impartial, independent, international body in carrying this recommendation forward.

38. Another panellist highlighted the need to tailor responses to debt vulnerabilities to the specific characteristics and situation of each country.

#### **Resolving unsustainable debt burdens: Beyond business as usual?**

39. During the discussions of the four-member panel, one panellist noted that the recent period of accommodative global monetary policy was coming to an end, and rising interest rates for the United States dollar were likely to exert further pressure on debt servicing by developing countries. The situation came at a time when debt indicators had already been worsening in developing countries, especially in Africa. The increased reliance of developing countries to meet their financing needs on bond issuance had raised the capacity to access more funds, often at low cost, but had also given rise to complicated and prolonged debt restructurings in the case of a default. Some panellists said that those new vulnerabilities had led to an increased number of complicated sovereign debt restructurings in the last two years, where the lack of transparency in debt data, related to the debt of State-owned enterprises, the presence of arrears and other complex financial arrangements, had made reorganizing debt a lengthy process. They noted that addressing the issue would require further significant efforts in capacity-building of staff in debt offices. The International Monetary Fund, World Bank and UNCTAD were putting great emphasis on that work.

40. Some panellists and participants stated that, regarding the assessment of repayment capacity, there was broad consensus that more attention needed to be given to fiscal adjustments that ensured social protection and guaranteed human rights. They stressed that the issue was important in the current context, as higher debt had translated into higher debt servicing burdens that reduced available resources to finance government programmes and hindered achievement of the Sustainable Development Goals.

41. Some panellists and participants said there was agreement that the current system for managing sovereign debt problems was fragmented, inefficient and often inequitable. In addition to dealing with private creditor holdouts, there was also a need to address the shortfalls of the current system in dealing with official bilateral debt under the Paris Club. Another panellist noted, furthermore, that new types of debt obligations based on collateralizing assets, such as commodities, posed new problems both in terms of transparency and debt restructuring, as they unintentionally introduced a class of senior creditors into debt reorganization.

42. Another panellist noted that it might be possible to advance on parallel tracks to improve debt restructuring by adopting soft law principles while making improvements to the contractual approach. Ongoing discussions on a multilateral debt workout framework highlight the shortcoming of the existing system and give further impetus to continuing work on closing the loopholes in the existing debt restructuring system. It could also be feasible to work on an international agreement on criteria that would trigger a standstill as a feature of a broader global debt restructuring mechanism. Some panellists and participants noted that the approach could address the well-recognized problem of “too little, too late”, on which there was broad agreement, as well as limit the activities of holdout creditors.

43. Some delegates and participants stated that, thus far, only three countries had adopted laws that thwarted litigation by non-cooperative creditors and more should be done to expand the adoption of such laws by other countries. Another delegate noted that, on issues of improving the global debt restructuring system, there should be a broad consultative process among all stakeholders, of the type that was implemented for the creation of the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing.

### **III. Organizational matters**

#### **A. Election of officers**

(Agenda item 1)

44. At its opening plenary meeting, on 7 November 2018, the Intergovernmental Group of Experts on Financing for Development elected Mr. Paul Oquist (Nicaragua) as its Chair and Ms. Nozipho Joyce Mxakato-Diseko (South Africa) as its Vice-Chair-cum-Rapporteur.

#### **B. Adoption of the agenda and organization of work**

(Agenda item 2)

45. Also at its opening plenary meeting, the Intergovernmental Group of Experts adopted the provisional agenda, as contained in document TD/B/EFD/2/1. The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Financing for development: Debt and debt sustainability, and interrelated systemic issues
4. Provisional agenda for the third session of the Intergovernmental Group of Experts on Financing for Development
5. Adoption of the report of the second session of the Intergovernmental Group of Experts on Financing for Development.

**C. Adoption of the report of the second session of the Intergovernmental Group of Experts on Financing for Development**

(Agenda item 5)

46. At its closing plenary meeting, the Intergovernmental Group of Experts authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report on its second session after the conclusion of the session.

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## Annex I

### Provisional agenda for the third session of the Intergovernmental Group of Experts on Financing for Development

The Intergovernmental Group of Experts on Financing for Development adopted the following topic and guiding questions for the provisional agenda of its third session:

- (a) Topic:
  - International development cooperation and interrelated systemic issues\*
- (b) Guiding questions:
  - (i) How can the commitment by the Addis Ababa Action Agenda to reverse recent declines in official development assistance be met and how can official development assistance play a more effective role in efforts to scale up development finance required to achieve the Sustainable Development Goals?
  - (ii) How can the quality and impact of both concessional and non-concessional official flows be improved and coordinated to support these efforts, including through innovative financing models and tools?
  - (iii) What institutional, policy and regulatory changes at the international level will be helpful to ensure that global economic governance appropriately supports effective international development cooperation, to facilitate domestic public resource mobilization?

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\* Action areas C and F, respectively, of the Addis Ababa Action Agenda (see General Assembly resolution 69/313, annex, chapter II, sections C and F).

## Annex II

### Attendance\*

1. Representatives of the following States members of UNCTAD attended the session:

Bahamas	Mauritania
Barbados	Mauritius
Bolivia (Plurinational State of)	Morocco
Burundi	Namibia
Cambodia	Nepal
Canada	Niger
Congo	Nigeria
Cuba	Oman
Côte d'Ivoire	Pakistan
Djibouti	Panama
Ecuador	Philippines
Egypt	Russian Federation
El Salvador	Saudi Arabia
Georgia	Spain
Germany	Sudan
Guatemala	Togo
Guyana	Tunisia
Iran (Islamic Republic of)	Turkey
Iraq	Uganda
Jamaica	Ukraine
Japan	United Republic of Tanzania
Jordan	United States of America
Kuwait	Venezuela (Bolivarian Republic of)
Lao People's Democratic Republic	Zambia
Mali	

2. The following intergovernmental organizations were represented at the session:

African Union  
 African, Caribbean and Pacific States  
 Eurasian Economic Commission  
 League of Arab States  
 Organisation internationale de la francophonie  
 Organization of Islamic Cooperation  
 South Centre

3. The following United Nations organs, bodies and programmes were represented at the session:

Department of Economic and Social Affairs  
 Economic Commission for Latin America and the Caribbean

4. The following specialized agencies and related organizations were represented at the session:

International Labour Organization  
 International Monetary Fund  
 World Bank Group  
 World Health Organization

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\* This attendance list contains registered participants. For the list of participants, see TD/B/EFD/2/INF.1.

5. The following non-governmental organizations were represented at the session:

*General category*

Engineers of the World

European Network on Debt and Development

International Network for Standardization of Higher Education Degrees

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