

# 13<sup>TH</sup> UNCTAD Debt Management Conference

**Relief, Restructuring and Recovery: Dealing with  
Debt in Times of Global Crisis**

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## **Speaking notes for Panel 4: “Debt crisis resolution II: What should the international debt architecture look like in five years’ time?”**

by

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**Speaking points Kristina Rehbein, Political Coordinator erlassjahr.de (Jubilee Germany), Panel 4: “Debt crisis resolution II: What should the international debt architecture look like in five years’ time?”, 6 December**

For looking into the future, it may be useful to look into the past for a moment: All past major debt crises were initially characterized by too shallow serial debt treatments that did not resolve debt vulnerabilities and all major debt crises were only resolved when the focus finally shifted to debt relief through deep write-downs, after the crisis had dragged on for years. The response today seems so far to follow these tracks by offering the same shallow responses. This includes kicking the can down the road by favouring rescheduling repayment terms and imposing austerity measures, avoiding deeper debt write-offs to not hurt creditors too much, which will - a lesson from history - end up more costly for both debtor and creditors. Mr. Roos spoke about being careful of debt cancellation and favouring debt rescheduling. I hope you allow me to remind of the history of Paris Club treatments in the 80ies and 90ies, where countries had to negotiate more than 10 times in a row because creditors were reluctant to accept losses, and what tremendous economic and social costs that entailed. So it seems that discussions on the current architecture and priorities for the next 5 years should be guided by trying not to repeat those mistakes of the past.

Now what the limitations of the CF show is that it is necessary that future decisions on debt relief reforms should not be adopted without consulting debtor countries and their concerns. This means instead of only waiting and seeing what the CF will bring about, part of the priorities for the next 5 years should be the establishment of an inclusive dialogue, potentially facilitated by an institution such as UNCTAD, to look into what else should be included in a new debt architecture. It's actually puzzling, that while everyone agrees that the CF hasn't delivered so far, alternatives are not really being discussed. There are proposals also from developing country groups already made in the last two years on additional more or less practical elements for more impartial and effective debt relief. This includes a proposal for installing an impartial mediator at the UN SG that debtor and creditors can call on in the case of conflict, proposals about automatic comprehensive debt standstills when countries are hit by a catastrophic external shock, proposals about different approaches to debt sustainability, some of the discussion yesterday, etc.

Then, what was mentioned several times yesterday is the need for revisiting the discussions on a multilateral legal framework on sovereign debt restructurings. Already 2019 there were calls by governments to reinstate a dialogue on an international DWM. Now, there was a discussion in the UN GA 2014/2015 on such a framework. This discussion was motivated by the unfair too little too late outcomes from former debt restructuring processes, which is precisely what we see today as well. But besides this dissatisfaction, for such a process to start, it was paramount that a few champions stepped forward and initiated this process of discussions. Different from past times, we actually should be in a position today for any such initiative to explore such a mechanism to make it past the traditional political blocs we have in the UN and IFI-based contexts – if we just look at initiatives and statements by developing country groups in the past two years, looking at commitments such as in the German coalition treaty on supporting a codified sovereign debt workout, and similar commitments by others.

So this is a task also for this conference and asked to everyone in the room, to explore how we can build coalitions of champions to bring those discussions seriously to live. Until such a process is in motion, what could be established quickly in the next 5 years is something like a Sovereign Debt Workout Institution that supports countries that want to enter debt restructurings technically on all aspects in the process. Concepts for such an institution are on the table since 2015.

Then, we heard from different speakers on plans for the improvement of the Common Framework such as speeding the process through guidelines, clarifying what comparability of

treatment could look like. What is not part of the discussion but what would potentially speed up the process even more than a timeline is making clear what actually happens if a newly introduced guidelines passed without a result, what happens if a debtor country seeks comparability of treatment, but does not find it, what happens if creditors do not agree to the required debt relief. There is much focus on the debtor, I feel that there are already lots of incentives and pressure on the debtor when it comes to ensuring comparability of treatment and a quick process. That creditors delaying the debt restructuring process will be sanctioned. This is not the case for the side of creditors. So what we need is the introduction of measures that can enforce comparable treatment, measures that make very clear that uncooperative behaviour on the side of creditors will lead to losses. So far the Common Framework does not offer any new mechanism to incentivize comparability of treatment compared to former Paris Club principles, where comparability of treatment also hasn't worked in many instances and discussions on a standstill or expansion to middle-income countries do not make any sense without clarifying the question of enforcing comprehensive participation of creditors.

Enforcing participation, this can be done first by a proactive threat of a debtors' default in the case of a lack of agreement, a threat of default that would need to be visibly and clearly supported by the commitment of G20 members and the IMF, that they would support debtor countries with all available political, legal and financial means in such confrontations, using proactively existing lending policies, granting their own concessions, etc. and making sure that a default on uncooperative creditors can actually be sustained, until an agreement is reached.

Actually, we were told when the Common Framework was designed that it is the threat of default that is the enforcement mechanism for comparability of treatment, but we haven't seen from the architects of the Common Framework any support, any protection to a debtor country to actually use such a powerful mechanism.

Secondly, this can be done by legislative measures, by establishing disincentives for holdouts through national legislation in G7 countries and the EU. This is actually achievable in less than a 5-year period, as there is no long global consensus-building process needed, as national legislation is a national issue.

For making debt restructurings processes predictable and more attractive, it is also crucial to abandon the principle, that the amount of debt relief is also conditional on what creditors are willing to accept, which is a working principle of the Common Framework. There should be an explicit clarification and commitment that the scope of debt relief will be solely determined by what – in the ideal case an independent debt sustainability analysis says that the debtor needs to return to the path of economic recovery and the path of sustainable development and the Paris Agreement. In that sense we should also understand the DSA that determines the debt relief envelope as a public good which means it should be transparent to the public from the beginning and a document that is publicly consulted and discussed.

Now at the same time, critically indebted countries do not need to wait for global consensus-building processes to conclude, before introducing themselves basic principles of fairness and efficiency into their negotiations with creditors. For instance, they could commission additional DSAs and forecasts from competent think tanks or UN institutions, they can introduce elements of impartiality into negotiation processes, such as through independent mediators. There is a practical guide on sovereign debt workouts by an UNCTAD expert working group from 2015 that is based on UN principles on fair and effective debt restructurings and that can guide in current debt workouts.

What is also needed is massive support and clear signals from the official sector in creditor countries and institutions such as the IMF that debt restructurings and orderly defaults are nothing to avoid at all costs but the best way out, that debt relief is a credible development-

promoting option. That starts with IMF advice that currently avoids discussing debt relief more proactively as an alternative to austerity, especially preemptively. That is also about changing the narrative on market access, so the narrative that it is not the deep debt relief that is damaging to long-term capital market access and that keeping current on debt service is a way to preserve it, but that is the lack of a sufficient debt treatment to credibly come back to the growth path that is damaging to that access.

Final word: We as CSOs often hear, it would be great to have better mechanisms, but there is no consensus and let's better work with what we have. Just as a reminder: Before the Brady initiative, it was said for years, debt cancellation by private banks was not possible and then Brady said that let's do it and it was possible. Before the HIPC initiative it was always deemed impossible that multilateral debt can be cancelled and then HIPC/MDRI did exactly that, thanks to some brave governments and World Bank staff. Coming back again on what I said earlier: We need champions in North and South alike mastering the courage to create the political will that can make better solutions possible.