Civil Society FfD Group's input to HLE Discussion Groups IV & V

This input is submitted in the name of the Civil Society FfD Group, including the Women's Working Group on FfD, and has been facilitated by Eurodad, Jubilee USA Network, Latindadd, Asia Pacific Peoples' Movement on Debt and Development, SOMO and the Society for International Development. This short point-by-point contribution to the final stage of the Discussion Group process is meant to complement the initial submission by the Group.

- Importance of extending DSSI not only in terms of timebound, but on eligibility and modalities, including cancellation of debt service. Eligibility criteria must change from income level to a widened understanding of debt vulnerability, expanding coverage to all developing countries in need;
- The urgency is not only on extending DSSI but also on building political support for fundamental reforms to the international financial architecture, including a permanent multilateral framework under UN auspices for sovereign debt resolution. Advancements towards a "sovereign debt authority" are not a long-term objective to be discussed in the future but a fundamental gap in financial architecture that should be addressed urgently;
- Due to the lack of action to enforce a binding standstill on private creditors and compel their participation in debt relief initiatives, scarce fiscal resources that could be freed through debt suspension initiatives are being used to repay private creditors. Governments should urgently use the tools currently available, individually and through international organizations (as articulated in the earlier submission by the Civil Society FfD Group), to plug this gap in the short term. A multilateral sovereign debt resolution framework should institutionalize it on a permanent basis (see CSO principles for debt resolution);
- Debt sustainability analysis need to include an assessment of resources needed to advance progress towards SDGs, tackle the climate crisis and guarantee human rights, including women's rights and gender justice. Current DSAs do not provide the needed information as they essentially just measure default risks rather than the extent to which debt service costs impede countries' abilities to address the health crisis and meet their broader development obligations to achieve the SDGs and comply with the human rights treaties. Assessments of repayment capacity ought to include and protect expenditure on these dimensions;
- It would of course be helpful if all debt instruments (by private, bilateral and multilateral creditors) used in vulnerable countries be state-contingent;
- Participation by private creditors is a necessary condition for comparable treatment across creditor classes and avoids giving de-facto senior treatment to private claims. Lack of interest in voluntary methods of engagement should give way to considerations on binding mechanisms;
- IMF lending [and official debt relief] should only be done following engagement with private creditors to structure debt re-profiling and/or restructurings that ensure debt sustainability according to the criteria set out in the IMF Exceptional Access Lending Framework;
- The World Bank and the rest of multilateral development banks should provide multilateral debt relief through a debt cancellation mechanism similar to the IMF CCRT, also to mitigate concerns on the World Bank's credit rating, as it has been done before – for instance with the MDRI and the Debt relief trust fund. Such an effort could be paid for by a combination of funds from a Special Drawing Rights issuance and/or reallocation, gold sales, use of reserves, and donor grants;

- It would be essential to encourage all supervisors authorities in developed countries to request banks and financial market players in their jurisdiction to disclose the amount of debt (loans & bonds) from developing countries they have within their portfolios, and how much speculative products based on developing country issues (e.g. foreign exchange derivatives) they are engaged it. They could share this on a confidential basis to other supervisors (e.g. college of supervisors of a major international bank, at the FSB). The first purpose would be to increase transparency: they could publish such information in broad general terms or, better, with detail on who holds what private debt. The second purpose would be to uncover possible vulnerabilities to financial stability in (developed country) financial and loan markets, and to promote debt restructuring and cancellation from banks and financial market players in a phased way before it is too late and another financial crisis is triggered. In this respect, it is important to note that bond instruments are often linked with other speculative instruments (e.g. speculating against the shares of ETFs with EM bonds, lending of bonds, foreign exchange hedging through derivatives), which means the interconnectedness makes the spreading of financial instability much swifter and developed countries will also be affected (including pension funds);
- Supervisors and Regulators should impose stricter conditions on debt stress avoidance to banks that are underwriting and issuing new bonds. Regulators and supervisors should impose debt restructuring or cancellation of debt (loans & bonds) that had low credit/investment ratings in the first place, so the onus is clearly also on the risk taker;
- The Central Bank Network on Greening the Financial System should be required to consider how the lack of finance due to COVID-19 could be integrated in their forward-looking climate scenario's and workstreams.