Civil Society FfD Group's input to HLE Discussion Groups III, 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, and the Society for International Development

General comments for the three Discussion Groups

- As Civil Society FfD Group, we welcome the opportunity to contribute to this initiative. We appreciate the comprehensive menu of options. Nonetheless, it is imperative that the groups put forward actionable proposals and seize the opportunity for bold ambition. We recall here the strong calls made by Secretary General Guterres in this regard.
- The Discussion Groups (DGs) must consider their value as a process with potential to drive forward the conversation on structural reforms – in the absence of substantive discussion on these reforms in other fora. The value of this process lies in broadening thinking and ensuring that the response can live up to the commitments and ambitions of the AAAA, 2030 Agenda, and Paris Agreement, which the UN must seek to safeguard.
- Member states in the DGs are examining key issues linked to the global economy and financial architecture, and they are also shareholders of the Bretton Woods Institutions. Thus, we believe these institutions should fully engage and provide analysis and input as needed by DGs.
- The debt crisis is the core concern of the three DGs. In this respect, it is essential to restate that a temporary debt suspension for low-income countries by bilateral creditors alone is not a solution to the current crisis. There is an urgent need for an extended and comprehensive standstill with a view towards debt cancellation and restructuring, and feasible options to implement one exist. A standstill would provide the space to better analyze and determine the debt relief/restructuring needed by each country to address their debt sustainability and development needs, together with the Covid-19 recovery.
- While an immediate standstill and adequate debt relief remain necessary measures to address the COVID-19 pandemic, it is far more important to address the longstanding debt sustainability challenges and their key drivers. This rests in building political support for fundamental reforms to the international financial architecture, including a permanent framework under UN auspices for sovereign debt restructuring.
- Such structural reforms need to be located in a new international financial architecture which can advance the democratization of global economic governance and the removal of systemic barriers to socio-economic transformation of developing countries. We therefore reiterate our call for **a UN Economic Reconstruction and Systemic Reform Summit** to progress multilateral agreement on the necessary reforms to the global economic architecture and call on the co-chairs to ensure the discussion groups recommend that this Summit be convened in 2021.

Input for DG III - Global Liquidity and Financial Stability

- We would like to emphasize the importance of agreeing and moving forward one or more of the options related to Special Drawing Rights as a matter of utmost urgency. While a large issuance of SDRs might be the desirable option, we believe the possibility of combining a new issuance of SDRs with a reallocation of existing SDRs from countries with sufficient international reserves to those countries most in need might best combine effectiveness and feasibility. Temporary policies that allow lending quota limits to be exceeded by countries most in need might also be explored. However, it is essential that the chosen option or combination of them ensures liquidity commensurate with the actual requirements of the countries in need.
- We would also recommend setting the fifth option aside for different treatment. This option entails a profound reform very much in line with our call for greater centrality of SDRs in the monetary system and a more expansive 'developmental' use of SDRs, particularly in the context of the 2030 Agenda for Sustainable Development. While we would strongly encourage this option to be kept in the paper as a critical area for policy development, we believe it does not offer a pathway for action at the speed required.

- We would like to caution against approaches that may increase the debt burden of countries under stress, which are the primary focus on this discussion.
- We agree with the background papers for DG on Debt Vulnerability, that there is an urgent need for action on Credit Rating Agencies. Countries that access debt relief measures and/or advance debt restructuring processes should be rewarded for their forward-looking and macroprudential planning, rather than downgraded on the basis of purely market-based evaluations that do not take into consideration the public interest in the institutional responses to the COVID-19 pandemic crisis or its exogenous nature;
- We believe the document should emphasize the importance of, and the use of, capital account management to prevent excessive speculative capital inflows, capital flight and currency depreciation. In addition, it is essential to limit speculative trading and passive investment to stop herd-like behaviour that results in declines in currency and asset prices. While we appreciate that capital account management should play a key role in the development on Integrated National Financing Frameworks (INFFs), we do not see the need to confine the former to countries that adopt the latter. It is also important to urge the IMF to support central banks of developing countries to avoid subsidiaries of global banks in their country withdrawing reserves and capital, as took place in 2008-2009. Over the longer term, there is a need to develop a new global consensus for countries to apply smart capital controls, with flexibility for each member state, with the particular aim of allowing developing countries to protect themselves against central banks and financial market behaviour out of their control. In this context, we renew our invitation to the OECD to stop demanding more countries to adhere to the Code of Liberalisation of Capital Movements and to review all related clauses within trade and investment agreements that forbid a flexible management of capital flows;
- With respect to other options, we would encourage the IMF to widen eligibility criteria and raise borrowing limits for its swap-type facility;
- We also believe that financial stability is not properly addressed by the document. In this respect, it is essential to reaffirm the importance of multilateralism and a new strategy of global cooperation to tackle the current multi-layered crisis and the financial stability risks that it entails. This would require ambitious financial reforms to ensure that the banking sector and all other financial players, and the financial system as a whole, are brought back to proper democratic accountability to support sustainable societies and real economies, and adapt to developing countries' financial priorities, including the 2030 Agenda and the Paris Agreement. In the short term, it might be important to regulate short-selling and algorithm-based automated trading and explore the possible role of financial transaction taxes to diminish financial market volatility and instability by limiting speculative financial trading and speculation (e.g. by hedge funds). In the longer term, it is essential to undertake measures against new systemic threats and financial risks by strictly monitoring, regulating, supervising and limiting renewed expansion of securitization and derivatives trading, unregulated shadow banking, investment fund industry and asset management, concentration of credit rating agencies and the rapid development of fintech. In addition, ensuring that entities that issue, trade or exchange crypto-currencies (e.g. bitcoins) are regulated and supervised, e.g. by identifying the beneficial owners of such crypto-currencies. It is equally essential to take firmer steps in regulating Systemically Important Financial Institutions (SIFIs) to reduce their size, interconnectedness and complexity.
- Lastly, it would be essential to establish conducive policy frameworks that could promote a more diverse banking system in all countries, including state-owned and development banks at the regional and local levels, as well as cooperatives, savings and ethical banks and non-profit institutions. The banking system should address the gender and generational gaps in financial inclusion, and ensure finance to rural economy, small and medium enterprises, non-formal sector and marginalized social groups more broadly.

Input for DG IV – Debt Vulnerability

- **We call for substantively and urgently scaling up the DSSI to meet the genuine scale of need across all developing countries.** As G20 Finance Ministers noted on 18 July, 42 countries have, or are in process to, achieve debt suspension under the DSSI, for a total amount of USD 5.3bn. This amounts to 1.68% of all the [debt service payments to be made in 2020 by low- and middle-income countries]() (excluding China). Moreover, we note that deferred official debt payments under the DSSI will need to be repaid in full between 2022 and 2024, when eligible countries already have huge repayment obligations falling due. The 68 beneficiary countries for which data is available have around USD 115 billion scheduled to be repaid in 2022, 2023 and 2024, of which USD 44.23 billion is owed to official bilateral lenders. Even though the steps taken by the G20 were necessary, by agreeing only to postpone and not cancel payments, debt crisis risks are simply being pushed further down the road.
- **A comprehensive standstill is needed to ensure non-participating private and multilateral creditors provide debt relief in line with a scaled up DSSI**. Private creditors have so far been unresponsive to calls for voluntary debt relief. In recent years private investors and investment fund managers have taken increasingly higher risks by buying emerging markets and "frontier" countries' bonds; they are now unwilling to absorb the financial risks their high rewards were based upon. Multiple feasible options exist to enforce a standstill for private creditor claims:
  - **Recommending key jurisdictions governing sovereign lending**, in particular London and New York, reform legislation to prevent litigation by creditors against countries suspending debt payments. To prevent holdout behaviour by bondholders, these jurisdictions should also introduce legislation to ensure an agreement to restructure by a prescribed majority of bondholders is binding on all bondholders;
  - **Expressing clear support for borrowing countries deciding on the use of [Article VIII, Section 2 (b) of the IMF Articles of Agreement]()**, which allows for the establishment of a binding sovereign debt standstill mechanism, and on **the use of a 'state of necessity' defence** in the case of suspending debt payments in order to protect the rights and needs of populations;
  - **Action by the UN Security Council under Chapter VII of UN Charter to protect countries in need from private creditor litigation**. Precedent for this action can be found in the 2003 resolution that shielded assets of Iraq from creditor payments;
  - **Ensuring the IMF only lends to highly indebted countries with the requirement that a restructuring takes place**. Given the high uncertainty in assessing debt sustainability at this time, it is particularly crucial that IMF lending does not exacerbate potential solvency concerns, and that the IMF supports a reprofiling of external public debt held by private creditors, as part of lending discussions. Should private creditors fail to endorse a timely reprofiling, countries should be able to suspend payments to uncooperative creditors.
- **With regards to multilateral creditors, the World Bank should move beyond a narrow focus on providing 'net positive financial flows' to countries in need and fully participate in the DSSI**. A debt cancellation mechanism similar to the IMF CCRT could be explored, also to mitigate concerns on the World Bank's credit rating. We note here that the World Bank is struggling to push out COVID-related lending to developing countries, having committed USD 1.9 billion in new funding to DSSI countries, 'of which it had disbursed only USD 250 million by the end of May'. Meanwhile, it had, by mid-July, received USD 1.7bn in debt repayments from these countries. Debt cancellation would be a faster means to provide support to developing countries in need than new lending, and does not imply additional burdens on debt sustainability.
- **Further to the comprehensive standstill, scaling up must include extending it for at least four years and commitment to establishing a process for permanent cancellation of all deferred external debt payments for all developing countries in need.** The approach must shift from addressing the situation as the consequence of a brief and temporary shock causing a liquidity shortage and from the prioritisation of debt payments. We welcome the focus on coordinated longer term debt relief in this regard, and call for ***the establishment of* a *dedicated COVID-19 debt*** relief ***and sustainability initiative that includes permanent cancellation of claims*.**

- As suggested in the background document, **eligibility criteria must change from income level to a widened understanding of debt vulnerability**. They should consider other indicators, beyond debt service capacity, such as fiscal vulnerabilities (i.e. deficit levels in 2020 or income reductions in 2021); and social and health vulnerabilities (e.g. the capacity to ensure nationally defined social protection floors that guarantee universal access to health care and at least a basic level of income security throughout the life course); and climate vulnerabilities. This will enable support for a recovery in line with the 2030 Agenda, Paris Agreement, and AAAA.
- **The Discussion Groups must call for a widened approach to debt sustainability to be at the heart of assessing vulnerability and delivering and designing coordinated debt cancellation and restructuring.** This should be anchored on the capacity of a country to accomplish a COVID-19 recovery and pursue the goals of the 2030 Agenda and Paris Agreement without an increase in debt ratios.
- **Discussion groups should underline that emergency additional finance to support developing countries to tackle the health, social and economic crises, should be provided in the form of grants over loans**, to avoid aggravating unsustainable debt levels in the near future. Finance should be provided free of conditionalities in view of the exogenous nature of the current crisis. Furthermore, debt relief should not be reported as Official Development Assistance (ODA), as this practice would lead to the double counting of risks of default, the inflation of ODA statistics, and would potentially undermine the real flow of resources from donor countries to support developing countries tackling the Covid-19 crisis.
- **We welcome the consideration of reforms to the international debt and financial architecture** and call on the co-chairs to ensure the DGs propose specific steps under the FfD process:
  - to build a **global consensus on binding rules** for sovereign lending and borrowing;
  - to establish a **Sovereign Debt Forum** that could serve as an independent and non-statutory coordination group under the umbrella of the UN Financing for Development process, and which could supervise implementation of a specific post-Covid-19 debt relief and sustainability initiative in cooperation with other multilateral bodies;
  - to build political support **for a permanent framework under UN auspices for sovereign debt restructuring,** and which takes up the mandate in UNGA resolution 69/319. The present informal discussion group forum must serve as a stepping-stone to overcome the political obstacles that are impeding progress on this necessary and comprehensive reform;
  - to establish a **publicly accessible registry** to which all bilateral official, multilateral and private creditors should report data on sovereign loans and debt.

Input for DG V – Private Sector Creditors Engagement

Please also refer to the input for DG IV – which also pertains to the options outlined for this DG

- Some large private bondholders are asset managers and private financial institutions that are either getting direct financial support from G20 central banks or involved in managing relief and recovery packages by Central Banks and other public authorities. In such instances, Governments and Central Banks are in a position to make financial support and partnerships with such private entities conditional and explicit on their participation in standstills and debt relief, based on debt sustainability assessments. It must also be noted that the weight of the EM bond market and investment funds also puts global financial stability at risk.
- We call for an immediate moratorium on private investors using any investor-state dispute settlement (ISDS) mechanism included in trade and investment agreements and a permanent restriction on arbitration claims against public measures taken to deal with the COVID-19 crisis.