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Draft UN resolution on external debt sustainability and development

(New York, 5 April 2011, Bhumika Muchhala): The Second Committee of the United Nations General Assembly in New York, which focuses on economic and finance policy, released in January a draft resolution on external debt sustainability and development.

The draft resolution includes two separate texts on external debt, the text of the Group of 77 and China, and the text recommended by the Second Committee for the General Assembly to adopt.

The representative of Yemen, chair of the G77 in 2010 (the current chair is Argentina), presented the Group's draft resolution on external debt and its fundamental relationship to development, drawing upon earlier UN General Assembly resolutions on debt, the Financing for Development conferences, the 2009 UN Conference on the financial crisis, as well as the high-level conference on the Millennium Development Goals (MDGs) held at the UN in September 2010.

The G77/China text of the draft resolution on external debt sustainability recognizes the important role of debt relief, debt restructuring and debt cancellation for the purpose of debt crisis prevention as well as for mitigating the adverse impact of the world financial and economic crisis in developing countries.

The text further recognizes that national efforts toward development goals should be complemented by supportive global programmes, measures and policies aimed at expanding the development opportunities of developing countries, while taking into account national conditions and ensuring respect for national ownership, strategies and sovereignty.

International responses to the challenges of the crisis are acknowledged, while noting that many developing countries are still facing large negative external shocks that are reversing their development gains and undermining their achievement of the MDGs by 2015. The G77/China text expresses concern that the negative impacts of the crisis are still unfolding, threatening the debt sustainability of developing countries through negative impacts on the real economy, increased need for external borrowing, and volatility of aid and capital flows.

The text calls for the creation of a UN working group to examine options for debt restructuring and resolution mechanisms that take into account multiple dimensions of debt sustainability, with a view to achieving development goals, including the MDGs. It notes that developing countries can seek to negotiate, as a last resort and through existing frameworks, agreements on temporary debt standstills between debtors and creditors.

The G77/China text stresses the need to move towards a debt structure under which repayment is explicitly linked to a country's ability to pay in the short and medium term. The use of debt indexed to gross domestic product or commodity prices as well as debt denominated in local

www.obela.org

5 de Abril de 2011

currency should be promoted, as these debt instruments play an important role in insulating countries from external shocks and increase debt.

The text reinforces the importance of responsible lending and borrowing, emphasizing that creditors and debtors must share responsibility for preventing unsustainable debt. External stakeholders are called upon to participate in the initiative of the United Nations Conference on Trade and Development (UNCTAD) to promote responsible sovereign lending and borrowing, with a view to the establishment of a set of voluntary principles and guidelines on responsible and sustainable lending and borrowing practices for creditors and debtors.

The text also calls for increased grant-based and other forms of concessionary financing, the cancellation of 100% of the eligible official multilateral and bilateral debt of heavily indebted poor countries (HIPCs), and where appropriate, significant debt relief or restructuring for developing countries with an unsustainable debt burden that are not part of the HIPC initiative.

The G77/China text states that challenges must be addressed for the 10 eligible countries currently facing difficulties in reaching decision or completion point under HIPC guidelines. The text notes that some post-completion countries under HIPC are still at high risk of debt distress, and donor countries are encouraged to ensure that HIPC resources do not detract from official development assistance resources for developing countries.

With regard to the multilateral debt relief initiative (MDRI), the G77/China text notes that while some progress has been made, full and timely implementation and additional support is still needed. All parties are encouraged to fulfill their commitments as rapidly as possible in order to complete debt relief for MDRI eligible countries.

The text calls attention to the need for new and additional resources to assist low- and middle-income to cope with the external financing needs as a result of the crisis, and calls for an extension of the sunset clause in order to make it applicable to countries not currently included under the HIPC and MDRI initiatives.

In reference to the debt sustainability framework (DSF) of the International Monetary Fund (IMF) and the World Bank, the G77/China text underscores that no one indicator should be used to make definitive judgments on debt sustainability, and invites the IMF and World Bank to take into account in the DSF calculation, the macroeconomic impacts of natural disasters, civil conflicts and changes in global growth prospects, financial markets or terms of trade, especially for commodity-dependent developing countries.

The G77/China text also encourages the continued review of the DSF toward greater flexibility, with the full engagement of borrower governments, conducted in an open and transparent manner.

The text takes note of the IMF's lending facilities created in response to the crisis, calls for continued review through the elimination of tight ex-ante conditions, and urges the multilateral development banks to move forward on flexible, concessional, fast-disbursing and front-loaded assistance that will substantially and quickly assist developing countries to face financing gaps and achieve MDGs. This process should bear in mind that the new lending facilities will have to consider absorptive capacity and debt sustainability issues in developing countries.

www.obela.org

5 de Abril de 2011

The G77/China text calls for a temporary moratorium on the official debt of low-income countries until the end of 2011 in order to provide them with much-needed fiscal space to recover from the crisis, and welcomes the IMF's provision of interest relief to low-income countries in the form of zero-interest payments on financing from concessional lending facilities until the end of 2011.

Enhanced approaches to sovereign debt restructuring mechanisms, with the broad participation of debtors and creditors, is called for by the G77/China text, which encourages all countries to contribute to the ongoing discussions in the United Nations and in the Bretton Woods Institutions and other forums on the need for, and the feasibility of, a more structured framework for international cooperation.

It also calls for the creation of a well-functioning international lender of last resort that can serve as an instrument for crisis prevention and management by committing to provide financing if a liquidity crisis arises. A new international lender of last resort should be complemented by domestic and international capital account management policies aimed at limiting destabilizing capital flows.

The G77/China text recognizes the gaps in the legal structure of the Paris Club, and calls upon the international community to address the problems posed by the litigious actions of vulture funds and the disruptive nature of their activities.

Creditors and debtors are urged to further explore, where appropriate, and on a mutually agreed and case-by-case basis, the use of innovative mechanisms such as debt swaps, including debt for equity, especially for the implementation of MDG projects.

It recognizes that credit-rating agencies play a significant role in information provision, including the assessment of corporate and sovereign risks, and requests the UN Secretary-General to submit a report on oversight over credit-rating agencies consistent through an agreed and strengthened international code of conduct.

Creditor flexibility is called upon for the debts of post-conflict and natural disaster affected developing countries, in order to allow them to address their debt concerns.

Finally, the G77/China text calls for the Secretary-General to submit to the General Assembly at its 65th session in September 2011 a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt situation of developing countries.

Second Committee's draft resolution on external debt sustainability and development

The Second Committee of the General Assembly recommended the adoption of a draft resolution on external debt sustainability and development that includes, for the most part, the same content as the G77/China text. However, there are some exceptions, where the Second Committee's draft resolution text omits issues that are included in the G77's text.

There are four specific omissions in the Second Committee's draft resolution text. First, the need for a new debt repayment structure, which is explicitly linked to a country's ability to pay in the short and medium term, is not included in the Second Committee's text. The G77/China text's mention of promoting the use of debt indexed to gross domestic product or commodity prices, as well as debt denominated in local currency, is also not included in the Second Committee's text.

Secondly, the G77/China's call for a UN working group to examine options for debt restructuring and resolution mechanisms, which consider multiple dimensions of debt sustainability, and which aim at achieving development goals, is omitted from the Second Committee's text.

Thirdly, the Second Committee's text does not include the G77/China's call for the creation of a new lender of last resort which can serve as an instrument for crisis prevention and management, and is complemented by domestic and international capital account management policies aimed at limiting destabilizing capital flows.

Fourthly, the request to the UN Secretary-General on producing a report on an oversight mechanism for credit-rating agencies is omitted from the Second Committee's text. The G77/China states that an oversight mechanism, consistent with international codes of conduct, is needed given the significant role that credit-rating agencies play in providing information and assessment on sovereign and corporate risks.

The Second Committee's text does integrate other points found in the G77/China text, including: }

- The need to enhance sovereign debt relief, restructuring and resolution mechanisms for developing countries with an unsustainable debt burden;
- The ability of developing countries to negotiate temporary debt standstills;
- The importance of a responsible lending and borrowing scheme which UNCTAD is initiating;
- The need to further reviewing the IMF and World Bank's debt sustainability framework;
- The importance of cancelling 100% of the eligible official multilateral and bilateral debt of heavily indebted poor countries (HIPC);
- The need for new and additional resources to assist low- and middle-income countries through grant-based and other forms of concessionary financing, and the importance of these resources being additional to HIPC and multilateral debt relief initiative (MDRI) resources;

- The call for continued review of the IMF's new crisis-response facilities by eliminating tight ex-ante conditions, and urging all financial institutions to move forward on flexible, concessional, fast-disbursing and front-loaded assistance that will assist developing countries to address external financing gaps and achieve the MDGs;
- The Paris Club to pursue the Evian approach of providing different terms of debt relief according to the specific needs of debtor countries while preserving debt cancellation for heavily indebted countries;
- The recognition of private capital flows in mobilizing financing for development, and the alert to challenges posed by the speculative and short-term nature of excessive capital inflows to many developing countries, which also impacts their debt sustainability;
- The invitation to creditors and debtors to further explore the use of new and improved debt instruments and innovative mechanisms such as debt swaps, debt for equity in MDG projects and debt-indexation instruments; and,
- A request to the UN Secretary-General to submit to the 66th session of the General Assembly a report on the implementation of the present resolution on external debt sustainability, and to include in that report a comprehensive and substantive analysis of the external debt situation of developing countries.