

Civil Society background document to the High Meeting of Heads of State and Government on the International Debt Architecture and Liquidity

Countries in the Global South have been heavily impacted by the global economic downturn, leaving socioeconomic scars that could take years, if not decades, to overcome. The impact on people's wellbeing and rights will also have long-term implications. According to [Oxfam](#), half a billion people could be pushed into poverty, leading to increased social, economic, racial and gender inequalities, and undoubtedly widening the gender poverty gap.

The economic downturn has led to higher public debt levels, adding to already unprecedented sovereign debt ratios before the pandemic. Without ambitious actions, vital public financial resources will continue being channelled to debt creditors at the expense of domestic health, social and economic financing needs. The unwillingness of the G20 and International Financial Institutions (IFI) to act and provide solutions to the debt crises in the global south is resulting in a bleeding of vital resources. Governments in developing countries transferred to their foreign creditors [US\\$ 194 billion](#) in 2020 (four times more resources than whole IMF emergency financing). As a result, a large number of countries in the developing world are already allocating more resources to debt service than to either public health care or education.

G20 and IFIs response

The responses to the debt crisis provided so far by the G20 and the IFIs have fallen painfully short of what is needed. The shortcomings of the Debt Service Suspension Initiative (DSSI) - temporary debt payments moratoria of merely around US\$5.3bn to be repaid after 2022, to a limited number of countries, without binding participation of private and multilateral lenders - have been continued by the "Common Framework for Debt Treatments Beyond the DSSI" (CF). Like DSSI, the CF is yet another mechanism designed by and for creditors. The CF fails to ensure mandatory participation of private and multilateral creditors, limits eligibility to a subset of developing countries and disregards needs and financial vulnerability considerations. More than [four fifths of the total new poor](#) from the pandemic, will be in middle-income countries, which are excluded from the debt treatment initiatives. None of these "false solutions" to the debt problems developing countries are facing provide the debt cancellation needed in the global south and requested by [hundreds of civil society organisations](#).

Recent debt restructuring requests under CF by Ethiopia and Zambia, have triggered sovereign ratings downgrades for both countries from Credit Rating Agencies (CRA). This is a clear threat from financial markets to those countries that dare to expect private sector participation in debt treatments. Until the private sector is not obliged to participate in the debt relief efforts, any debt cancellation provided by bilateral creditors will be a coarse bailout of the private creditors.

The response by donors and IFIs, in terms of providing financial assistance and liquidity to countries in the Global South, hasn't lived up to the challenges of the situation. For the moment there is no sign of the IMF bazooka. The Fund has only used [less than 5% of its lending capacity](#) in this crisis. Furthermore, the response from the multilateral development banks, with the World Bank in the lead, has prioritised a market-based approach in the Covid-19 response. The IMF's limited financial assistance has de facto become a bailout of private creditors, as resources are being captured by private lenders while poverty and inequality are on the rise. On average, [47.3 percent](#) of the resources lent by the IMF have been used to pay private creditors. Furthermore, despite the IMF rhetoric in support of the use of expansionary fiscal policies in response to Covid-19, fiscal consolidation and other austerity measures are in fact very present in most of the [IMF's Covid-19 lending agreements](#). A new wave of austerity would have devastating impacts on economic, cultural and social rights, but also on the possibilities of a sustainable and equitable economic recovery.

Need for a systemic response: urgent debt architecture reform

The G20 and IFIs' so far limited responses to the situation are no more than false solutions to make sure nothing changes in substance. Systemic solutions to resolve debt crises in a fair, impartial and transparent process will be vital to overcome these limited responses and avoid devastating impacts. Without an ambitious, multilaterally discussed, democratically decided and fair process leading to the debt cancellation that the countries in the global south need, the resulting crisis will keep exacerbating the already staggering levels of social and economic inequality, within countries and between countries. Without prompt and sufficient debt cancellation available for all the countries in need and from all creditors, there will be no chance of achieving the Sustainable Development Goals nor to fight economic, social, racial or gender inequality. Such a fair, timely and lasting debt resolution will never result in discussions among creditors, without the voices of people and governments of the global south. Therefore, the people and the planet need not only more ambition, but much more democracy for those solutions to be fitted to their needs.

A debt architecture reform agenda for real change and real solutions

As civil society, **we call on governments to establish a debt workout mechanism i.e** a transparent, binding and multilateral framework for debt crisis resolution, under UN auspices, that addresses unsustainable and illegitimate debt and provides systematic, timely and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors.

Such a binding, multilateral framework should urgently address:

- **Supporting and providing immediate Covid-19 debt cancellation:** Debt sustainability consistent with the SDGs and human rights can be achieved through an ambitious process of debt restructuring, including extensive debt cancellation. Debt cancellation must be granted to all countries in need, including to both low- and middle-income countries, assessed with respect to their development financing requirements, and provided by all creditors (bilateral, multilateral and private).
- **Building global consensus on Principles on Responsible Borrowing and Lending:** Long-pending issue of agreeing on common and binding principles on responsible borrowing and lending, and ensuring compliance with it. This should address the gaps in transparency and advance towards the creation of a publicly accessible registry of loan and debt data as well as facilitate the organisation of debt audits.
- **Using human rights and development impact assessments** in debt sustainability analyses to widen their focus solely from economic considerations to consider also the impact of a country's debt burden on its ability to meet development goals (including SDGs, climate goals, human rights and gender equality commitments) and create the conditions for the realisation of all universal human rights.
- **Assessing systemic risks posed by unregulated or inadequately regulated financial sector instruments and actors:** including regulation and supervision of Credit Rating Agencies and global agreement on the importance of capital account management.
- **Supporting at the IMF Spring Meetings a new allocation of Special Drawing Rights (SDR)** in the amount of [US\\$3 trillion](#) - as an allocation of SDR 500 billion will barely cover debt service payments in 2021.

Beyond the establishment of a multilateral debt resolution framework, we need to urgently implement substantial reforms in the financial system, including further regulation of the financial sector. We believe that the organisation of the [next UN Summit on Financing for Development](#) would be key to advance the systemic and urgent reforms of the global financial architecture.

This document has been prepared by the Civil Society Financing for Development Group (www.csoforffd.org) (including the Women's Working Group on Financing for Development).