How to Strengthen the Proposals on Sovereign Debt Issues in the FfD4 Zero Draft

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The Zero Draft: Outcome Document of the Fourth International Conference on Financing for Development was published on January 17, 2025. This draft will go through a series of negotiations in the coming weeks in preparation for the Fourth International Conference on Financing for Development in Seville Spain from June 30th to 3rd July 2025.

To better address the recurrent sovereign debt crisis many developing countries are facing, the proposals contained in the FfD4 Zero Draft need to be strengthened. This is because proposals to address the debt crisis must recognize that the crisis is not an aberration but rather an integral feature of the global financial and debt architecture. The Zero Draft needs to abandon the assumption that the primary reason for this indebtedness is that developing countries have overborrowed. Instead, the proposals in the Zero Draft need to take into account that the debt crisis is symptomatic of deeper structural

features and weaknesses both of the global financial and debt architecture as well as of the economies of these indebted countries.

At the moment the Zero Draft is primarily concerned with national measures such as parliamentary oversight. To the extent to which it looks at international or global reforms, the Zero Draft's proposals are not legally binding. The non-legally binding proposals include the principles on responsible lending in para 48(a); ad hoc mechanisms such as the proposal to fix the common framework para 50(a); and proposals to entrench contract based approaches such as para 50(c). These non-legally binding proposals also include collection action clauses in bonds and majority voting provisions in loan agreements. These proposals do not match the massive scope of the sovereign debt crisis in many countries of the Global South. These proposals have been tried in the past and they have failed to address the sovereign debt crisis.

Another major problem with the Zero Draft is that it entrenches the dominance of private capital which now has the largest shared of debt owed by Global South countries. It does so by its proposals of unproven solutions to the debt crisis such as debt swaps and buybacks. There is simply no evidence that these transactions can raise sustainable financing or even address the huge indebtedness of highly indebted countries. For this reason, the negotiators should re-consider debt swaps and buybacks proposed in paragraph 49(a) as incentives for private creditor participation because as already alluded to above, there is simply no evidence that these short-term debt management strategies are capable of addressing the more fundamental origins of the debt crisis in both the global debt and financial architecture or in the national frameworks of the indebted countries. In any event, swaps represent a very small proportion of total indebtedness for countries of the Global South and these swaps on the IMF's own guidance would have to be an extremely high scale to make a dent on their indebtedness. Another major drawback of swaps is the lack of transparency in how they are negotiated and the transaction costs associated with swaps.

Para 50(e) on initiating an intergovernmental process to address debt sustainability including a multilateral sovereign debt mechanism should be strengthened by proposing a Sovereign Debt Workout Institution or Authority and a legal binding sovereign debt restructuring mechanism on all creditors.

This is because a non-binding mechanism would continue to allow creditors to prevent debt workouts and restructurings. Locating such an Authority and Mechanism at the United Nations is appropriate because it is the most representative and democratic multilateral institution. Such a mechanism and a robust and inclusive institution to oversee it has been a key demand of indebted countries that are currently subjected to creditor-controlled mechanisms that are much too slow and provide little relief.

Further, the Zero Draft should have more ambitious proposals on debt forgiveness and cancellation. This was done before for Germany after World War II in the 1953 London Debt Agreement. That agreement reduced Germany's debts by about 22 % of its GDP in 1952; linked repayments on remaining debt to Germany's economic growth and exports and capped its debt service/expert revenue ratio to no more than 3%. Germany's post second world war economic recovery and growth has been attributed in part to the debt write-offs of the London Debt Agreements. Similarly, Iraq received debt relief from the Paris Club through UN Security Council Resolution 1483 of May 22nd 2003 which referred to the prompt completion of Iraq's debt and called upon "creditors, including those of the Paris Club, to seek a solution to Iraq's sovereign debt problems." That Resolution also immunized Iraq's assets from attachment, a factor that gave Iraq a strong bargaining position in its negotiations with creditors who accepted large haircuts of up to 80%. Today, Iraq has a better debt-to-GDP ratio than many countries with similar size economies because of that debt restructuring. Thus, if private creditors could do this for Iraq and Germany, then debt forgiveness is a proposal that the Global South needs to ensure is included in the Seville Outcome. Further, the best evidence from countries that were previously heavily indebted shows that the lowest debt levels these countries experienced following the Highly Indebted Poor Countries initiative (HIPC) was also their period of largest economic growth.

Para 50(a) of the Zero Draft has a number of very important proposals including developing accessible guidelines for assessing comparability of treatment and refining tools for it. This is well overdue and needs to be done. Yet given the importance of the comparability of treatment question especially in Zambia where it held up restructuring for many months, this proposal deserves a paragraph of its own. This is because of the dizzying variety of public, private

and hybrid creditors that delayed and stalled Zambia's G20 restructuring under the Common Framework.

Para 52 needs to add making debt sustainability assessments explicitly consider the climate crisis and human rights considerations. The United Nations has developed many frameworks around human rights and the Zero Draft should therefore borrow inspiration from these multilateral frameworks and not surrender to how issues like debt sustainability assessments and comparability of treatment are treated as technical rather than human rights questions. By treating debt sustainability issues as well, then it becomes possible to demonstrate why they should not be determined exclusively by technical agencies like the World Bank and IMF that do not center human rights work in their work.

Para 53(a) should recommit to further IMF Quota realignment to enhance developing country voice and better reflect members' relative position in the world economy without undermining the current voting power of developing countries. Further, the Zero Draft should make having more equitable voting power in the World Bank a specific goal.

Finally, the zero draft does not deal with issues of fiscal consolidation and austerity notwithstanding their close correlation to sovereign indebtedness and protests against attendant policies such as regressive taxes and massive cuts in public spending exemplified in Kenya's GenZ protests against austerity of June 2024. As the Global North moves towards industrial policy and revisions of economic orthodoxy of market fundamentalism, the Zero Draft should recognize that what is good for the Global North is also good for the Global South. Global South countries need to be freed to use public finance and industrial policy to steer investment and production to meet their societal objectives and national development goals, not just focusing on activities like debt repayment that are highly profitable for the owners of capital.

In general, the proposals in the zero draft merely seek minimalist reforms that continue to kick the can down the road once more. The proposals above could enhance the outcomes in Seville so that they can more adequately address the sovereign debt crisis many countries in the Global South face.

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