european network on
debt and development

UN framework convention on sovereign debt

Building a new debt architecture for economic justice

A reform agenda for the Fourth International Financing for Development Conference

October 2024

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Executive summary

Amidst a new global south debt crisis, the debt architecture reform agenda cannot wait any longer. The Fourth UN International Financing for Development Conference (FfD4) is a key milestone to open an intergovernmental process towards the debt architecture reform that global south countries need.

This paper presents 10 reforms that European civil society organisations believe are necessary within the financing for development agenda in order to prevent unsustainable and illegitimate debt accumulation and offer fair and sustainable solutions to sovereign debt crises when they occur. These reforms should be encompassed within a new binding legal framework that should be discussed and agreed under UN auspices. The UN, having the core mandate to address critical global issues and being neither a debtor nor a creditor itself, is the only inclusive and truly democratic space to advance such key reforms. In this sense, the paper presents arguments in favour of opening an intergovernmental process in which all Member States participate on an equal footing, in order to define a **UN framework convention on sovereign debt** that encompasses global consensus on the rules, principles, and structures needed throughout the different interdependent stages of the debt cycle.

Ten reforms for a UN framework convention on sovereign debt

At FfD4, UN Member States should agree to open an intergovernmental process to set up a UN framework convention on sovereign debt to address the prevention and resolution of unsustainable and illegitimate debts. The UN framework convention on sovereign debt should encompass global consensus on the necessary rules, principles, and structures throughout the different interdependent stages of the debt cycle.

A UN framework convention on sovereign debt should at least encompass agreement on multilateral rules, principles, and structures in relation to the following reforms:

1. **Multilateral sovereign debt resolution mechanism:** UN Member States should establish a permanent multilateral sovereign debt resolution mechanism that, under the auspices of the UN, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent, and durable debt crisis resolution, in a process convening all creditors. The setting-up of such a multilateral sovereign debt resolution mechanism should seek agreement on the principles and parameters that should guide a fair debt restructuring, including the need for unconditional debt cancellation, from all creditors, to all countries that need it, in order to restore debt sustainability in a way that allows for governments to guarantee human rights, tackle climate change, and ensure gender equality.
2. **Binding responsible lending and borrowing principles**: UN Member States should agree to upgrade the UNCTAD 'Principles on Promoting Responsible Sovereign Lending and Borrowing' to a set of binding rules and principles, and define tools to track implementation and ensure compliance. Complementarily, UN Member States should agree to making corrupt and predatory lending illegal by amending the UN Convention Against Corruption (UNCAC).
3. **Automatic mechanism for debt relief in the wake of catastrophic external shocks:** UN Member States should agree, within a UN framework convention on sovereign debt, the establishment of automatic debt payments cancellation in the wake of external catastrophic events, followed by enhanced debt stock restructuring and cancellation.
4. **Climate resilient debt clauses:** All public lenders – governments, MDBs, and other official lenders, including the IMF – should include, in their contracts, state contingent clauses that are tied to climate, geological, health, and other economic exogenous shocks – such as a sudden change in commodity prices. Public institutions should promote risk-sharing clauses among private lenders and refrain from any type of public guarantee if such clauses are not included. Furthermore, any form of recovery of such claims by means of state (judicial) force should be prevented.
5. **Global debt registry to promote transparency:** UN Member States should establish a public global debt registry, independent from creditors and borrowers, that includes all debt operations and current holders of outstanding debt and that applies to all types of lenders, including bondholders and other commercial lenders. Registering should be binding for all debt-creating operations, and debts not included in the registry should not be enforceable by national courts.
6. **New approach to debt sustainability framework and analyses**: UN Member States should agree on a comprehensive review of approaches to debt sustainability, in order to evolve towards a more adequate debt sustainability model that includes human rights

and other social, gender, climate, and development considerations at its core and that is delivered independently from creditors.

A UN framework convention on sovereign debt should also encourage Member States to develop their own **domestic legislation**, both as borrowers and as lenders:

7. **Domestic legislation on responsible financing and debt management**: National parliaments, in both borrowing and lender countries, should promote the establishment of legislation to ensure democratic and transparent lending and contracting, governance, and management of sovereign debt, in compliance with the binding principles on responsible lending and borrowing.
8. **Debt audits:** Borrowing countries should promote participatory and transparent official debt audits to examine borrowing and lay the ground for suspension and cancellation of illegitimate debts. When borrowing countries carry out such audits, creditors should mandatorily consider the results in debt restructuring negotiations and other debt resolution processes.
9. **Domestic legislation in creditor countries to contribute to effective debt resolution**: European and other creditor countries should pass laws to ensure private lenders take part in debt cancellation, to prevent holdout private creditors from blocking debt restructuring deals, and to enforce comparability of treatment between official and private creditors, and should exert pressure on their western partners, namely the UK and the US, to pass comparable laws.

A UN framework convention on sovereign debt should also reflect the need for **reforms of the financial system**:

10. **Regulation of the financial system:** Member States should take decisive steps towards financial regulation that includes regulation and supervision of credit rating agencies (CRAs), consider the creation of a public CRA, and promote a global regulatory framework for the asset management industry and a new global consensus on the critical importance of capital account management.

1. Introduction

> "The consequence of not addressing the critical reality of debt domination in a fair and comprehensive way is leading to another lost decade for the rights and wellbeing of peoples and the planet, as well as hindering the possibilities of climate action in the global South."
>
> 'An Urgent Call for Debt, Climate and Economic Justice', October 2023[1]

Global south countries are facing, once again, a sovereign debt crisis. According to UNCTAD, "3.3 billion people live in countries that spend more on interest payments than on education or health. A world of debt disrupts prosperity for people and the planet".[2] Even the World Bank states that "record debt levels and high interest rates have set many countries on a path to crisis",[3] at the same time as acknowledging that the existing debt crisis resolution mechanisms are not working.[4]

The need to reform the global debt architecture and set up fair and efficient multilateral debt-crisis prevention and resolution tools has been at the core of civil society demands for many decades. Today, with a growing number of countries facing debt restructuring negotiations with their creditors, and an even bigger number of countries implementing devastating austerity measures in order to avoid debt restructuring, it is becoming clearer to everyone that the global debt architecture is not fit to deliver timely, fair, and durable solutions to countries facing unsustainable and illegitimate debts. Furthermore, the existing financial architecture does not offer effective tools to prevent debt crises, nor does it provide options for responsible financing and debt management.

It is not only CSOs that have long recognised the need for structural reform. Way back in 1776, Adam Smith had proposed a "fair and open bankruptcy procedure for the insolvent state". UNCTAD also called for orderly workout procedures during the 1980s' debt crisis and since 1994 several CSOs have called for a Fair and Transparent Arbitration Process (FTAP) for unsustainable debt resolution.[5] In 2002, UN Member States proposed, within the 'Monterrey Consensus', considering "an international debt workout mechanism" that would engage debtors and creditors in unsustainable debts restructuring in a timely and efficient manner, alongside other reforms.[6] Right after this Monterrey Financing for Development (FfD) Conference, Anne Krueger, International Monetary Fund (IMF) managing director between 2001 and 2006, proposed a "Sovereign Debt Restructuring Mechanism" (SDRM), under IMF auspices.[7] Since then, several resolutions and initiatives, especially within the UN system, have pointed to the need for debt architecture reform and notably the need for timely and efficient debt resolution mechanism(s).

Particularly relevant are the UN General Assembly Resolution 68/304 'Towards the Establishment of a Multilateral Legal Framework for Sovereign Debt Restructuring Processes', adopted in 2014,[8] and the UN General Assembly Resolution 69/319 'Basic Principles on Sovereign Debt Restructuring Processes', adopted in September 2015.[9] While being important milestones in the debt architecture reform path, both resolutions fell short in establishing new structures to deal with fair debt resolution, due to the opposition from creditor countries. Furthermore, all of these attempts focused on debt resolution, not covering other important structural reforms to facilitate debt crisis prevention. Since 2015, the UN General Assembly annual resolutions on 'debt and debt sustainability', as well as the annual outcome documents of the UN ECOSOC Financing for Development Forums, have included calls for enhancing or improving the international financial and debt mechanisms, both for crisis prevention (focusing on transparency or responsible lending and borrowing) and resolution.[10] The European Parliament also approved a resolution in 2018 stressing the need to "resolve debt crisis in a fair, speedy and sustainable manner through the setting-up of an international debt workout mechanism", as well as acknowledging the need for further reforms and action in relation to debt transparency or debt sustainability analyses, amongst other issues.[11]

In the last few years, the calls for reform of global economic governance and financial architecture have resonated in some global south countries' political declarations,[12] within UN leadership[13] and UN agencies,[14] and in some global north-dominated forums. Indeed, from the Paris Pact for People and the Planet, promoted by President Macron,[15] to the G20,[16] to the European Parliament,[17] the need for reform seems to have been on everyone's agenda. However, despite repeated calls, no substantial decisions have been made that would effectively reform the global financial architecture so as to improve the prevention and resolution of unsustainable and illegitimate debts. It is also obvious that not all of these voices mean the same when it comes to reforming the global financial system and debt architecture.

Amidst a new global south debt crisis, **the debt architecture reform agenda cannot wait any longer.** This policy paper aims at outlining Eurodad's proposals for debt architecture reform, including 10 specific reforms that European civil society organisations (CSOs) believe could be addressed in a UN Framework Convention on Sovereign Debt. European CSOs consider these reforms, among others, necessary to advance in the FfD agenda to prevent unsustainable and illegitimate debt accumulation and offer fair and sustainable solutions to sovereign debt crises when they occur. As argued in the paper,

such reforms should be encompassed within a new binding legal framework that should be discussed and agreed under UN auspices. To this end, the paper presents arguments in favour of opening an intergovernmental process in which all Member States participate on an equal footing, in order to define a **UN framework convention on sovereign debt** that encompasses global consensus on the rules, principles, and structures needed throughout the different interdependent stages of the debt cycle. This policy paper aims to inform policy makers, particularly in Europe, preparing for the Fourth International Financing for Development Conference, in which we believe that substantive steps must be taken along the reform path outlined in this paper.

2. A UN framework convention on sovereign debt

> "An international legal framework (...) would promote more responsible financial behaviour and more orderly, timely and speedy debt restructuring processes"
>
> Juan Pablo Bohoslavsky, former Independent Expert on the effects of foreign debt and human rights[18]

When a country faces a debt crisis, the only option they have under the present global financial architecture is to default and restructure their debt, going through an opaque process, with no commonly set rules nor universally accepted consensus on how it should work or unfold. The existing financial architecture also allows and even promotes reckless lending and borrowing practices, and favours opacity and lack of accountability in public debt management. It is obvious that the global debt architecture needs fixing urgently. As the UN Secretary General, Antonio Guterres, recently argued: "[N]o example of the international financial architecture's failure is more glaring than its handling of debt. The last four years have been nothing short of a debt disaster."[19] It is similarly obvious, at least for civil society, that the solutions to such an unfit debt architecture will never "come from lender dominated decision-making institutions that exclude the voices of people and governments of the Global South".[20]

In order to address the failures and limitations of the financial system and development finance institutions dealing with unsustainable and illegitimate debts, the discussions and decision-making on the reforms needed should take place in a democratic and transparent process in which all governments can participate on an equal footing. However, as of today, debt crisis prevention and resolution, as well as different aspects of debt management, are discussed and decided in creditor-dominated forums. The G20, the IMF, the World Bank, the Paris Club and, most recently, the global sovereign debt roundtable (GSDR) are all spaces dominated by creditors where sovereign debt is discussed and where proposals, such as the G20 Common Framework, are defined and agreed upon.

Bilateral creditors, both those from western countries (represented by the Paris Club) and so-called new creditors (including China, India, and Saudi Arabia), prioritise their geopolitical and economic interests. Private creditors protect their profits no matter what. Multilateral creditors refuse systematically to participate in debt relief, in an attempt to keep their influence and business model intact. Furthermore, the IMF plays the role of both creditor of last resort and arbitrator in debt restructuring processes, far from an independent position, and the Fund often ends up defending the interest of its main shareholders. This all applies to new financing, debt crisis prevention, and debt crisis resolution. As a result, "the false solutions of the G20 and International Financial Institutions (IFIs) to the debt crises in the Global South is resulting in a further bleeding of vital resources".[21]

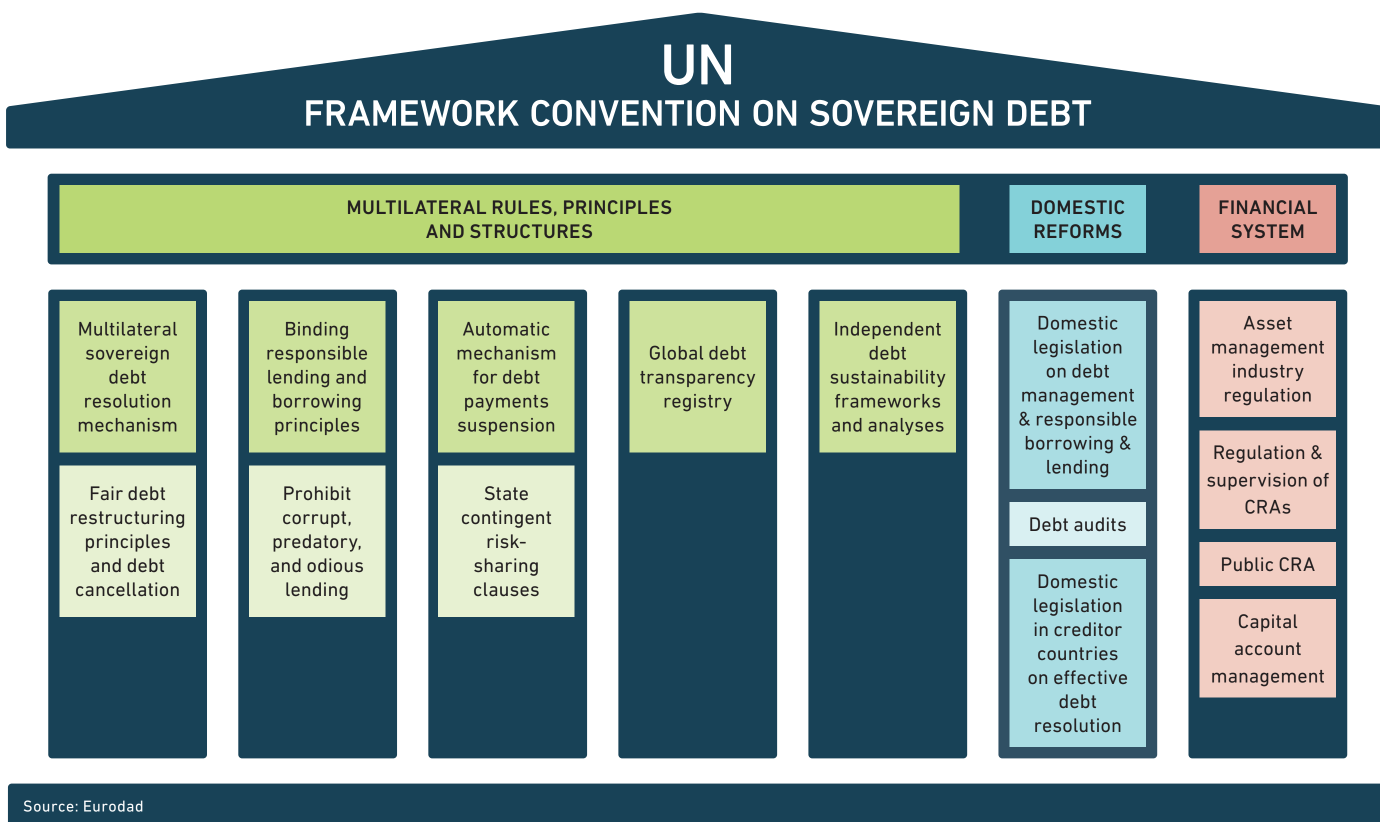
Against this backdrop, the UN, with its core mandate to address critical global issues and the fact that it is neither debtor nor creditor itself, is the "only inclusive and truly democratic space to advance on the systemic reforms needed to re-design a skewed and dysfunctional international financial architecture towards supporting human rights-centred sustainable development".[22] A new debt architecture that delivers truly multilateral solutions to prevent and address sovereign debt crises is what the G77 has been demanding for many years, and reiterated recently when calling for "an improved global sovereign debt architecture with the meaningful participation of developing countries, allowing for fair, balanced and development-oriented treatment".[23]

Such a mandate also comes from the Resolution adopted by the UN General Assembly on 9 September 2014 (A/RES/68/304) 'Towards the Establishment of a Multilateral Legal Framework for Sovereign Debt Restructuring Processes'), through which a majority of Member States decided "to elaborate and adopt through a process of intergovernmental negotiations (...) a multilateral legal framework for sovereign debt restructuring processes with a view, inter alia, to increasing the efficiency, stability and predictability of the international financial system and achieving sustained, inclusive and equitable economic growth and sustainable development, in accordance with national circumstances and priorities".[24]

The Resolution (A/68/304) was passed with 124 votes in favour, 41 abstentions, and 11 votes against. Most of the developed countries, including the most important financial centres and creditor nations such as the US, Japan, Germany, and the UK, either voted against or abstained, a position maintained by most European countries.[25] However, once the Resolution was approved, the process was blocked by creditor countries, and the G77 ended up lowering expectations and tabling a Resolution at the General Assembly to adopt the voluntary 'Basic Principles on Sovereign Debt Restructuring Processes', voted on and adopted in 2015.[26]

Today, we have another chance to make things right. The Fourth International Financing for Development Conference, which will take place in Seville (Spain) in June 2025, should be the privileged occasion in which Member States agree to develop a **UN framework convention on sovereign debt.**

Figure 1: New debt architecture for economic justice



Source: Eurodad

Building on the spirit of the 2014 68/304 Resolution for a legal framework, civil society proposes to open an intergovernmental process to discuss a new legally binding framework to encompass the global consensus on the statutory reforms, rules, principles, and structures necessary to deal both with responsible financing and with prevention and resolution of unsustainable and illegitimate debts.[27] A framework convention that allows the world to build a new, fair, and efficient global debt architecture.

The architecture reform that the UN framework convention on sovereign debt should address must not limit itself to debt resolution but comprise the different phases of the debt cycle. As defined by UNCTAD, the life cycle of sovereign debt refers to "the way in which debt is incurred, how debt instruments are issued, how debt management is structured, how debt sustainability is tracked and the options for debt workout".[28]

We understand that, while partial reforms can mean positive steps in the right direction, the benefits these might provide can be overrun by the limitations and systemic failures of other stages in the debt cycle. According to UNCTAD, "challenges and failures can be identified at each stage, calling for improvements for a more robust system. As the stages in the life cycle of sovereign debt are highly interdependent, policy responses that lead to reconfiguration need to address each of them".[29] A UN framework convention on sovereign debt, negotiated and agreed by all Member States, should therefore address the commitment to establish a multilateral debt resolution mechanism but not be limited to it. In this sense, the framework convention could at least encompass agreement and commitments on the following issues:

- Multilateral sovereign debt resolution mechanism
- Binding responsible lending and borrowing principles
- Automatic mechanism for debt payments suspension in the wake of climatic and other external shocks
- Creation of a global debt transparency registry
- New independent debt sustainability frameworks
- Regulation and supervision of financial institutions, including asset management industry and credit rating agencies (CRAs)
- Promotion of domestic legislative reforms for debt management, responsible borrowing and lending, and contribution to effective debt resolution.

PROPOSAL: UN Member States should agree to open an intergovernmental process to set up a **UN framework convention on sovereign debt** to address responsible financing and prevention and resolution of unsustainable and illegitimate debts.

3. Multilateral rules, principles, and structures that a debt framework convention should address

3.1 Multilateral sovereign debt resolution mechanism

> "We reiterate the need for multilateral debt mechanisms to fully address sovereign external debt distress and provide an effective, efficient, equitable, comprehensive and predictable mechanism for managing debt crises in a way that is aligned with the development needs of all developing countries."
>
> G77 Third South Summit outcome document, January 2024[30]

When a country faces difficulties to make their debt payments they need to open a negotiation process with its creditors, in order to restructure its debts, whether it is before or after default. As put by Patricia Miranda from LATINDADD, "existing practice for debt crisis resolution is fragmented, uncoordinated, unfair and characterised by too little relief that comes too late, leaving countries unable to address debt problems comprehensively and caught in a process driven mostly by creditors' needs".[31] Indeed, debt restructurings are processes characterised by a profound asymmetry of power, information, and even capacities between borrowers and lenders.[32] And the G20 Common Framework has done little to solve those limitations.[33]

Given the unpredictability and lack of clarity and assurances that the restructuring process will result in a sufficient and fair deal, countries have a tendency to do whatever they can to avoid a debt restructuring. Also, the political prejudice of going through a default and debt restructuring, together with an unfounded fear, promoted by financial lobbyists, that this will impact their capacity to access markets in the future, pushes governments to defer the moment for debt restructuring as much as possible. Governments end up implementing harsh austerity programmes in order to free-up resources to make external debt payments possible, on many occasions following the IMF assessment. The ultimate consequence of such a dysfunctional non-system for debt crisis resolution is a deep breach of global south people's human rights, well-being, and, in many cases, survival.[34] In the meanwhile, creditors get their payments while governments default on their people.

Against this backdrop, all countries facing risks of debt distress should have access to a timely and comprehensive process to restructure their debts, including debt cancellation when needed. As the former UN independent expert on debt and human rights, Yuefen Li, argued: "Debt restructuring is complex, time consuming and costly and, in times of crisis, the lack of an available mechanism often leads to a panicked search for a solution. The pandemic has made it imperative that we [do] not wait for another crisis to renew efforts to have such a multilateral mechanism."[35]

The Monterrey Consensus already called for "exploring innovative mechanisms to comprehensively address debt problems of developing countries". A call that was elevated in 2014 when the UN General Assembly adopted Resolution 68/304, 'Towards the Establishment of a Multilateral Legal Framework for Sovereign Debt Restructuring Processes', secured by the G77 majority, despite the reluctance among European and overall global north members. As mentioned, most European countries abstained in the vote, and some voted against. But most problematic was that the follow-up process was boycotted by most European and other creditor countries.[36] As a result the G77 lowered their ambitions and tabled a Resolution at the General Assembly to adopt the 'Basic Principles on Sovereign Debt Restructuring Processes', voted on and adopted in 2015.[37] However, as voluntary principles, these have never been fully implemented.

Almost two decades after the first FfD Conference, the G77 still reiterates the need for multilateral debt resolution mechanisms[38] and the Africa group recently called for "an integrated approach encompassing the expansion of debt relief and restructuring programs (...) and the establishment of a global legal framework",[39] as agreed by all UN Member States in Monterrey. Despite reiterating for many years the need for reform, no decisive steps have been taken by the UN and its Member States to establish a multilateral debt resolution mechanism since the attempts in 2014 and 2015.

For civil society, a new multilateral debt resolution mechanism, to be discussed and developed within a broader UN framework convention on sovereign debt (see section 2), should follow 10 essential principles.[40]

1. A multilateral debt resolution body should be created that is independent of creditors and debtors.
2. The borrower should be able to initiate the process.
3. Initiating the process should trigger an automatic debt payments standstill by all creditors and trigger stays in creditor litigation.
4. The mechanism should be comprehensive, able to take account of a country's total debt stock in a single process.
5. The inclusive participation of all stakeholders is required, including citizen representation of debtor countries.
6. The process should provide independent assessment of debt sustainability and the validity of individual claims.

7. The focus should be on an approach to debt sustainability that puts the needs of populations as well as the imperative of dealing with climate change and biodiversity loss before the servicing of debt.
8. The process should respect international human rights law and support the realisation of international development commitments.
9. Negotiations and their outcomes must be made public to maintain transparency.
10. Any debt restructuring agreed in the process, including debt cancellation, must apply to all creditors.

Tackling today's sovereign debt crisis could have been very different if back in 2015 the European and other creditor countries hadn't chosen to block the negotiations on the legal framework and had supported the process towards a debt workout mechanism proposed by global south countries at the UN. An intergovernmental process within a UN framework convention on sovereign debt could be a chance for European countries to rise to the occasion and support the establishment of an independent, permanent, and multilateral debt resolution mechanism.

PROPOSAL: UN Member States should establish a permanent multilateral sovereign debt resolution mechanism that, under the auspices of the UN, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent, and durable debt crisis resolution, in a process convening all creditors.

Box 1: Principles and agreed parameters for orderly, fair, transparent, and durable debt restructuring

When establishing a multilateral debt resolution mechanism, Member States should discuss and agree, in a democratic and transparent process, the principles and parameters that should guide a fair debt restructuring. The issues to discuss and agree upon should include:

- how to determine the debt restructuring perimeter and cut-off date
- how to treat short-term debts or state-owned enterprises' debts
- how to deal, probably on a case by case basis, with domestic debts
- how to treat multilateral debts, including those owed to multilateral development banks (MDBs) and the IMF
- how to enforce private creditors' compliance with the agreed restructuring terms
- how to treat arrears and other penalties
- how to define comparability of treatment.

Some of these issues are being discussed today at the Global Sovereign Debt Roundtable, created by the IMF, World Bank, and G20 presidency, and in which some borrowing countries, together with bilateral and private creditors, participate.[41] However, a more inclusive and transparent discussion would be necessary in order to advance in defining agreed principles and parameters for fair debt restructuring, to which all Member States could contribute on an equal footing.

These principles should also clearly establish that, in order to restore debt sustainability in a way that allows for governments to guarantee human rights, tackle climate change, and ensure gender equality, **unconditional debt cancellation** should be granted, from all creditors, to all countries that need it. There is a need to overcome the present approach, stated for instance in the G20 Common Framework,[42] where debt cancellation is considered only an exceptional measure and priority is given to debt rescheduling and reprofiling. Such an approach is resulting in insufficient debt relief in present cases of debt restructuring.[43]

PROPOSAL: UN Member States should hold discussions on an equal footing and agree on the principles and parameters that should guide a fair debt restructuring, including the need for unconditional debt cancellation, from all creditors, to all countries that need it, in order to restore debt sustainability in a way that allows for governments to guarantee human rights, tackle climate change, and ensure gender equality.

3.2 Binding responsible lending and borrowing principles

> "Sovereign lending and borrowing conducted in a prudent and disciplined manner can promote growth and development; but irresponsible financing can have harmful consequences for the debtor country, its citizens, its creditors, its neighbors and its trading partners".
>
> UNCTAD, 'Principles on Promoting Responsible Sovereign Lending and Borrowing', January 2012

When conducted in a prudent manner, sovereign lending and borrowing can promote development. However, reckless lending and irresponsible borrowing can have harmful consequences, for the citizens of both borrowing countries and their creditors. In 2012 UNCTAD published its 'Principles on Promoting Responsible Sovereign Lending and Borrowing',[44] identifying fundamental soft law concepts and norms of international law, and their applicability to sovereign debt crisis prevention, and setting out the essential responsibilities of both sovereign lenders and borrowers. However, these principles remain voluntary and are not systematically observed.

The 2015 Addis Ababa Action Agenda stated that debtors and creditors must work together to prevent unsustainable debt and UN Member States committed then to "work towards a global consensus on guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, building on existing initiatives".[45] This commitment has been reaffirmed in several UN General Assembly resolutions[46] and in the outcome documents of Financing for Development forums,[47] but despite the repeated commitment, no progress has been made in the past decade. Other soft law approaches to responsible lending have emerged, including the G20 Operational Guidelines for Sustainable Financing and the Voluntary Principles for Debt Transparency from the Institute of International Finance.

A recent report looking at the quality of existing guidelines for responsible debt management standards – including the UNCTAD principles, the G20 Operational Guidelines, and the UN-supported Principles for Responsible Investment – concluded that "there are presently no widely adopted international standards that are unanimously endorsed by all sovereign debt actors".[48] Precisely because all of these remain voluntary frameworks, none has gained widespread traction.[49]

In 2018 the European Parliament supported in a Resolution that the UNCTAD principles "should be turned into legally binding and enforceable instruments".[50] Indeed, in order to be effective, responsible lending and borrowing principles need to go beyond voluntary approaches and good will intentions. In this sense, the process to establish a UN framework convention on sovereign debt should address upgrading, and if necessary updating, the UNCTAD principles on responsible lending and borrowing into binding rules, to be applied in all lending and borrowing sovereign operations, including those involving private lenders, and ensuring compliance with it. Beyond an agreement on the binding nature of the principles, tools to ensure their enforceability should be set up, including a global mechanism to track implementation and compliance. Section 4 of this paper looks at how domestic legislation in lender and borrower countries can also reinforce the compliance of the UNCTAD principles.

PROPOSAL: UN Member States should agree to upgrade the UNCTAD principles on promoting responsible lending and borrowing to a set of binding rules and principles, and define tools to track implementation and ensure compliance.

Box 2: Making predatory lending illegal

In order to advance towards more responsible lending and borrowing, and to prevent corrupt, predatory, and odious loans from happening ex ante, the international community could agree on making such corrupt, predatory, and odious lending 'unenforceable' in courts. Corrupt and predatory debt involves contracts corruptly contracted or issued, usurious terms, or a deliberate lack of transparency, as well as debts lent for purposes which were not promoting national development. Odious debts, as defined by Russian lawyer Alexander Sack, are those contracted: a) by a despotic regime in order to consolidate its power; b) against the interests of the citizenry and in the interests of those close to power; and, c) in full knowledge of the lenders.[51]

Making these debts unenforceable could be done by agreeing, within the UN framework convention on sovereign debt, to promote an amendment to the UN Convention Against Corruption (UNCAC), ensuring that it explicitly covers corrupt, predatory, and odious behaviour in lending, borrowing, and debt restructuring. This would be along the lines of article 9 of UNCAC, which applies to public procurement and management of public finances, and could be based on existing legal language from national legislation against corrupt and predatory lending (for instance in UK and US legislation).[52]

PROPOSAL: UN Member States should agree to making corrupt and predatory lending illegal by amending the UNCAC.

3.3. Debt relief in the wake of catastrophic external shocks

> "Leaving financial resources available in a country impacted by an extreme event is the easiest, fastest and most reliable way to provide support for emergency relief and the first efforts towards reconstruction."
>
> 'Debt Demands & Debunking Distractions for Climate Action', June 2024[53]

When an indebted country is hit by a catastrophic external shock, from climate extreme events to an earthquake, from military aggression to a global pandemic, the government has to keep on with the debt payments, regardless of the gravity of impacts of such events. In most cases, countries not only continue paying their external debts, diverting essential resources away from the emergency response, but also fall into further borrowing to be able to pay for the reconstruction and/or recovery costs.

Climate Resilient Debt Clauses (CRDCs), a type of 'state contingent instrument', are increasingly being proposed, particularly by bilateral and multilateral lenders, as a tool for addressing this deficiency of the debt architecture (see Box 3). But while CRDCs and other state contingent and risk-sharing clauses can be useful, most of today's global south debt is not covered by such instruments, and in the end their inclusion in debt contracts is voluntary and often implies higher costs.

CSOs have been supportive of the development of an automatic multilateral mechanism that goes beyond CRDCs, offering debt payments cancellation, covering both public (bilateral and multilateral) and private lenders, in the aftermath of catastrophic external shocks. Such a statutory solution could be linked to a multilateral debt resolution mechanism (see section 3.1). In the wake of a destructive storm, massive floods, prolonged drought, epidemic or pandemic, earthquake or tsunami, foreign military aggression, or external economic shock (including a sudden change in commodity prices), debt payments would be automatically cancelled for an established period of time. After a period for assessing the impacts of the shock, a debt sustainability analysis should be conducted, considering the losses and damages, as well as the financing needs for recovery and reconstruction, providing the debt restructuring and debt stock cancellation needed in each case, again involving all creditors.[54]

PROPOSAL: UN Member States should agree, within a UN framework convention on sovereign debt, the establishment of automatic debt payments cancellation in the wake of external catastrophic events, followed by enhanced debt stock restructuring and cancellation.

Box 3: Climate Resilient Debt Clauses and other risk-sharing instruments

CRDCs are clauses that can be added to loan or bond contracts and that are triggered by certain specified events, which allow the borrower to temporarily suspend debt payments for an agreed period of time (typically up to two years). Events triggering the debt payments pause can be climate-related, but also pandemics or others, and the clauses establish complex parametric indicators that define when the country can benefit from the payments deferral. Such parametrics are usually defined by the cost of damages or the economic losses produced by the catastrophic event.[55] Bilateral lenders, like the UK, Canada, France, Spain, and US,[56] and multilateral development banks, like the World Bank, African Development Bank, Inter American Development Bank, European Investment Bank, and European Bank for Reconstruction and Development, have announced that they will incorporate CRDCs in their new lending.[57] Barbados and Grenada also include 'hurricane clauses' to bonds issued as part of their debt restructurings.[58] And the International Capital Market Association (ICMA), which develops templates for debt contracts, has published a template for CRDCs to be included in bond issuance.[59]

To be fully effective, namely to release sufficient fiscal space in the wake of an external event, they need to be included in all debt contracts across all external creditors (private, multilateral, and bilateral), which will also ensure comparability of treatment across creditors. They must also have realistic triggers to ensure the clauses are actually implemented. Furthermore, they should not mean that borrowing countries need to pay a premium or higher costs when such clauses are added to new loan or bond contracts. Adding CRDCs or other state contingent clauses to loan contracts and bond issuances is currently voluntary, and while they can help countries in the future, they will have little to no impact in the present debt crisis.[60]

PROPOSAL: All public lenders – governments, MDBs, and other official lenders, including the IMF – should include, in their contracts, state contingent clauses that are tied to climate, geological, health, and other economic exogenous shocks – such as a sudden change in commodity prices. Public institutions should promote risk-sharing clauses among private lenders, and refrain from any type of public guarantee if such clauses are not included. Furthermore, any form of recovery of such claims by means of state (judicial) force should be prevented.

3.4 Global debt registry to promote transparency

"Transparency of debt information is good for everyone. It gives lenders more certainty about the basis upon which they are lending, it gives borrowers lower interest rates, and it allows citizens to subject lending and borrowing by their governments to more scrutiny, including through holding public debt audits into borrowing and lending decisions."

'Transparency of Loans to Governments: The Public's Right to Know about Their Debts', April 2019[61]

Transparency in public debt is vital for citizens to be able to hold governments and lenders to account for decisions over lending and borrowing policies, and to ensure borrowed resources are used well. Government debts are taken out on behalf of the public, so the public should be able to see what loans and other debt instruments exist, on what terms, with which creditors, and where proceeds will go. The issue is not only how much a country owes, but also to whom, under what conditions, and for what.

In 2016 the people of Mozambique were hit by a huge debt crisis when it was revealed secret loans had been given by London-based banks to state-owned enterprises in the country, without any parliamentary approval. The scandal led to the adoption of various voluntary transparency principles, including private lenders through the Institute of International Finance (IIF) agreeing to disclose significant details on their loans to global south governments. However, just six loans worth US$2.9 billion have been disclosed by two banks under the initiative, with a further US$37 billion kept hidden.[62]

A World Bank report from 2021 found there was a significant lack of transparency in developing countries' debt and that hidden debts complicated debt resolution processes.[63] While the terms of bond contracts are relatively transparent (in most cases only accessible behind a paywall), it is extremely difficult for both civil society and the governments of the debtor countries to identify which actors actually hold the outstanding bonds in each case.[64]

In order to avoid such hazards, CSOs have been calling for new mandatory rules to ensure that both lenders and borrowers disclose information on loans and other debt-creating instruments, proposing the creation of a publicly accessible registry of loan and debt data, housed in a permanent institution, independent of lenders and borrowers. Once this registry is available, information on loans to governments, or with any form of government guarantee, should be disclosed within 30 days of contract signature, and should include: the value of the loan; fees, charges, and interest paid or payable; the law the debt is owed under; any available information on the use of proceeds; and the payment schedule.[65] In this sense, Member States should agree on the obligation for all borrowers and lenders to report all debt-creating operations to the global debt registry. Operations not included in the registry should not be enforceable by national courts.

PROPOSAL: UN Member States should establish a public global debt registry, independent from creditors and borrowers, that includes all debt operations and current holders of outstanding debt and that applies to all lenders, including bondholders and other commercial lenders. Registering should be binding for all debt-creating operations, and debts not included in the registry should not be enforceable by national courts.

3.5 A new approach to debt sustainability framework and analyses

"A country's debts should not be labelled as sustainable in the context of human rights violations and chronic underfunding of key essential services, while resources are diverted to creditors, leaving vulnerable populations unable to gain access to water, sanitation, schools, hospitals or housing, and leaving development goals unattained."

UN Independent Expert on Debt and Human Rights, August 2021[66]

The preeminent approach to debt sustainability is fairly limited to that of capacity to pay. As a result, the existing debt sustainability analysis methodologies, led by the IMF and World Bank debt sustainability frameworks (DSFs), also remain a challenge to countries facing multiple vulnerabilities that are ignored when analysing the sustainability of these countries' debts. For instance, the future financial needs of tackling climate vulnerabilities, risks, and impacts, or structural income inequality, are not explicitly considered in the IMF and World Bank DSFs, unless the country opts for including them in the government's spending plans, risking a worse debt sustainability profile. In principle, debt should not be considered sustainable if its payment prevents a country from affording to advance the SDGs, including reducing economic, social, and gender inequalities.

The updated IMF DSF for market access countries[67] incorporates specific vulnerabilities in the long-term analysis, including climate risks, but these are not part of the actual assessment of indebtedness risks and are not compulsory. The Low-Income Countries (LIC) DSF by the IMF and World Bank is being reviewed, starting in the second half of 2024, and incorporating climate risks is one of the IFIs' commitments in this review. However, despite the reviews of the IMF and World Bank DSFs every few years, the overall approach does not change substantially and it is not expected to change in the upcoming review.

As the group of climate vulnerable countries (V20) states, such countries need comprehensive and enhanced DSAs, incorporating not only climate and other sustainability risks but also "climate resilience benefits, as well as estimates of a country's financing needs for climate change adaptation, mitigation, and achieving the broader goals set out in the 2030 Agenda for Sustainable Development Goals. These risks and spending needs must be included to properly assess a country's debt sustainability capacity in the face of the climate crisis and to drive investments toward climate

resilience".[68] In this sense, investments in energy transition, in climate action, or to advance the SDGs should be considered not only as expenditures increasing financing needs but also as positive multipliers for better economic performance and producing social and economic benefits for the country, and therefore increasing debt-carrying capacity.[69]

In conclusion, a new approach to debt sustainability should not only look at climate vulnerabilities, risks, and impacts but should also incorporate human rights and development impact assessments, in order to consider the impact of a country's debt burden on its ability to meet its SDGs, climate resilience, and gender equality targets and to create the conditions for the realisation of all universal human rights.[70] As the European Parliament Resolution of 2018 states, "debt sustainability analysis should not focus solely on economic considerations, such as the prospects for future economic growth of the debtor State and its ability to service its debts, but must take into consideration the impact of the debt burden on the country's capacity to respect all human rights".[71] The former UN independent expert on debt and human rights supports this view: "Debt sustainability assessments performed by multilateral creditors – IMF and the World Bank – allow for the label of 'sustainable' to be applied unduly, in contexts where debt servicing may be depriving a State of resources needed to guarantee human rights."[72]

Increasing voices are also calling for DSAs to be developed independently from creditors. UNCTAD points at the need to strengthen borrowing countries' capacity to develop their own debt sustainability analyses, in order to be able to better reflect the financing needs to achieve the SDGs and climate transition, as well as to empower country negotiators, through improved data, to be able to evaluate the IMF DSAs. "This requires developing countries to have their own models, but it also requires greater transparency of the IMF debt sustainability analysis models and assumptions".[73] For UNCTAD, "IMF–World Bank frameworks to assess debt sustainability are, at their core, risk management tools for creditors. As such, they are ill-suited to provide borrowers with a comprehensive overview of the linkages between debt sustainability and development financing requirements".[74] Beyond borrowing countries being able to develop their own alternative models, UNCTAD has developed the Sustainable Development Finance Assessment, which identifies the development finance needs of a country in order to meet the certain SDGs.

Given the limitations of the IMF and World Bank DSFs, civil society is advocating the development of a new approach to Debt Sustainability Assessments (DSAs) and methodology, managed by an independent multilateral body (see section 3.1 on multilateral debt restructuring mechanism), including the following criteria and elements:

- Assess sustainability not by a country's capacity to repay its debt but by a country's capacity to fulfil essential investments and expenditures for the well-being of the population such as health, education, social protection, and climate. In this sense a new approach to DSAs should prioritise sustainability of life over debt sustainability.
- Transparently define the thresholds beyond which debt would be considered unsustainable.
- Incorporate gender and human rights impact assessments in DSAs as recommended by the UN Guiding Principles on Human Rights Impact Assessment of Economic Reforms.
- Include the comprehensive stock of public debt in DSAs, including state-owned enterprises and guarantees debt, collateralised debt, and other contingent liabilities.
- Support countries in running their own DSAs with more comprehensive and realistic projections and assumptions, and with information publicly available for citizens.

Furthermore, when including domestic debt in assessing debt sustainability in a country, domestic debt needs to be fully differentiated from external debt.[75]

PROPOSAL: UN Member States should agree on a comprehensive review of approaches to debt sustainability, in order to evolve towards a more adequate debt sustainability model that includes human rights and other social, gender, climate, and development considerations at its core and that is delivered independently from creditors.

4. Domestic reforms that a UN framework convention on sovereign debt should promote

> "For public debt to be sustainable, there is a need for a robust legal framework that ensures that there is wide consultation on the requirements to be fulfilled, the prudency of government borrowing, the level of transparency and accountability in borrowing processes and agreements, and the right oversight in the utilisation of the borrowed monies."
>
> AFRODAD policy recommendations to address the current debt challenges, 2023[76]

Beyond establishing global rules for debt crisis prevention and resolution, the UN framework convention should also reflect agreement amongst Member States and encourage them to develop their own domestic legislation to promote responsible management of their debt policies, both as borrowers and as lenders.

For instance, national parliaments can legislate on domestic rules to ensure parliamentary approval and oversight of government and public sector borrowing and debt management. AFRODAD, after a consultation process with parliamentarians from several African countries, recommends enhancing continued public debt training for parliamentarians, calendarising multi-stakeholder coordination mechanisms at country level, promoting a parliamentary report on public debt annually, and including in annual budgets the annual borrowing, in order to be approved by the parliament and publicly published.[77] Such safeguards and due diligence policies in debt management could be promoted in a UN framework convention on sovereign debt, to be developed and approved at the national level.

In this sense, domestic legislation can promote good practices and rules, including debt transparency and accountability mechanisms and processes, allowing legislators and citizens to access information about new borrowing and debt management and renegotiations, as well as broader fiscal management.[78] Such rules can also prepare the way for the implementation of participatory and transparent official debt audits (see Box 4). This type of legislation is not only useful for global south countries; it should also be implemented in the global north, allowing for parliamentary and citizen oversight of debt management in European countries. Both as borrowers and lenders, countries should develop and approve domestic legislation to ensure the implementation of the binding principles for responsible lending and borrowing, and to guarantee transparency and accountability, making it compulsory to register any debt-creating operation in a global debt registry.[79]

PROPOSAL: National parliaments, in both borrowing and lender countries, should promote the establishment of legislation to ensure democratic and transparent lending and contracting, governance, and management of sovereign debt, in compliance with the binding principles on responsible lending and borrowing.

Box 4: Debt audits

In a context of lack of transparency and accountability in relation to public debt operations, debt audits can be a powerful tool. A debt audit is an assessment of a country's public debts, analysing why and how debt was contracted, under what conditions, for what purposes, how the financed projects were managed, and what the impacts of that process were – both in terms of the public finances and the well-being of the population, including impacts on human rights. A debt audit can be useful to reveal and provide evidence of corruption or lack of due diligence in debt management, to allow the identification of good and bad practices, and to (re)define internal rules for future borrowing and debt management. The conclusion of a debt audit can be used as the ground for suspending or cancelling illegitimate debts, including those from loans that lack public consultation, fund questionable or fraudulent practices, have resulted in violations of human rights, or have contributed to environmental destruction and the climate crisis. It can also serve as an instrument for the oversight of a debt restructuring process, or for the assessment of how a government uses the proceeds of debt relief or of the overall lending or borrowing policy of a government. Debt audits can incorporate civil society participation, or can even be led by citizens and CSOs.[80] Debt audits have been recognised as a useful tool for improving debt management by UNCTAD's 'Principles of Responsible Sovereign Lending and Borrowing'[81] and in reports by UN independent experts on debt and human rights.[82] Debt audits were also recommended in the European Parliament Resolution on enhancing developing countries' debt sustainability.[83]

PROPOSAL: Borrowing countries should promote participatory and transparent official debt audits to examine borrowing and lay the ground for suspension and cancellation of illegitimate debts. When borrowing countries carry out such audits, creditors should mandatorily consider the results in debt restructuring negotiations and other debt resolution processes.

4.1 Domestic legislation in creditor countries to contribute to effective debt resolution

In the Addis Ababa Action Agenda, Member States noted "the possibility of countries voluntarily strengthening domestic legislation to reflect guiding principles for effective, timely, orderly and fair resolution of sovereign debt crises".[84] This is particularly relevant as, since 2000, litigation by private creditors in debt crises has substantially increased compared to the 1980s and 1990s.[85]

Of bondholder debts owed to private lenders, virtually all contracts not governed by the law of the borrowing country are governed by UK or New York law.[86] While the agreement on a UN framework convention on sovereign debt and the establishment of a multilateral debt resolution mechanism would limit the centralising power of the two global north financial centres, there would still be a need to legislate to enforce private creditors' participation in debt restructuring deals, protect borrowing countries from holdout creditors, and address comparability of treatment problems. This gives the UK, New York, and other important jurisdictions a responsibility to legislate in order to ensure private lenders take part in international debt cancellation processes.

While most lawsuits are brought by vulture funds and other uncollaborative creditors before New York or British courts, the power of creditors is also based on the fact that the civil procedure laws of most countries, and an increasing number of international treaties, allow creditors to sue for their claims before other courts and to enforce claims obtained in New York or the UK in other jurisdictions, including in EU countries.[87] Thus, while national legislation would be most urgent in New York and the UK, corresponding laws in other European countries can also have an important protective effect. By enacting private sector participation laws these jurisdictions could become so-called 'Safe Harbours', for instance for the foreign trade activities of borrowing countries.[88]

In 2010 the UK parliament passed a law which required private lenders to implement debt cancellation agreed under the Heavily Indebted Poor Countries debt relief process.[89] Proposals have been made in New York[90] and London,[91] as well as other financial centres such as Belgium[92] and Germany,[93] to adopt similar laws to ensure private lenders take part in debt cancellation.

PROPOSAL: European and other creditor countries should pass laws to ensure private lenders take part in debt cancellation, to prevent holdout private creditors from blocking debt restructuring deals, and to enforce comparability of treatment between official and private creditors, and should exert pressure on their western partners, namely the UK and the USA, to pass comparable laws.

5. Regulation of financial system

> "The deregulation of financial markets, or the reduction of government rules controlling the way that banks and other financial organisations operate, allows these organisations to engage in speculative activities worldwide that culminate in boom and bust cycles, such as what was behind the 2008 global financial crisis."
>
> Civil Society Financing for Development Mechanism, April 2023[94]

Financial crises have been common, particularly in the last three decades. These not only represent a massive failure in macroeconomic and financial regulation "but also expose the significant vacuum in governance over financial actors, particularly non-banking actors".[95] Time and again the systemic relevance of financial institutions, which are considered 'too big to fail', has led to the public bailout of these institutions. One way of de facto bailing out these financial actors is by denying comprehensive debt cancellation to countries with unsustainable debts. Instead of promoting debt cancellation, multilateral institutions continue lending to countries in the global south so they are able to pay back to these private creditors (in what is called 'defensive lending').[96]

After the 2008 financial crisis, new rules for the banking sector were agreed (Basel III), tightening transparency and capital requirements for banks all over the world. However, at the same time, we witnessed a substantial growth in non-banking actors, institutional investors, asset managers, and other market players (shadow banking system), to which these rules don't apply.[97]

The 2008 crisis also raised significant criticisms against the role of credit rating agencies, particularly around the monopolistic power of the three big CRAs (Fitch, Moodys, Standard & Poor), conflicts of interest, moral hazard in their procyclical assessments, the creation of systemic financial risks, failed performance, and a deeply flawed business model.[98] A recent statement by the Group of 77 plus China reiterated "the need to resolve to reduce mechanistic reliance on credit-rating agency assessments, including in regulations, and to promote increased competition as well as measures to avoid conflict of interest in the provision of credit ratings in order to improve the quality of ratings", proposing to consider the feasibility of establishing public rating agencies.[99]

The role and responsibility of both the asset managers and CRAs in the current sovereign debt crisis is significant, in particular by pushing borrowing costs to the highest levels in decades.[100] The UN Secretary General has called for stronger regulation and supervision of the banking system and, particularly, of financial intermediation in the non-banking system.[101] Today, these unregulated institutions feature a higher degree of interconnections, complexity, and opaqueness, and generate an even higher systemic risk than in previous financial crises.

Given these risks, civil society has been calling for UN Member States to assess the current financial system in relation to the systemic risks posed by unregulated or inadequately regulated financial sector instruments and actors, in order to undertake decisive steps to bring global finance under democratic governance, including:

- Define a global agreement on the importance of capital account management to prevent capital flight (beyond pre/post crisis conditions), with respect to both inflows and outflows, limit speculative trading, and arrest declines in currency and asset prices.
- Agree on adequate regulation and supervision of financial institutions, particularly asset management industry, credit rating agencies, and hedge funds through a UN framework, including anti-monopoly concentration rules.
- Assess the feasibility of establishing an international public credit rating at the UN.

All of these proposals should also be part of a UN framework convention on sovereign debt, as a commitment to address the problematic, insufficient, and inadequate regulation of the financial system is key to advancing towards the prevention and fair resolution of debt crises.

PROPOSAL: Member States should take decisive steps towards financial regulation that includes regulation and supervision of credit rating agencies, consider the creation of a public CRA, and promote a global regulatory framework for the asset management industry and a new global consensus on the critical importance of capital account management.

6. Other systemic reforms needed for debt justice

> "The debt problem is not an isolated issue, but is grounded within the broader economic system. We acknowledge that unsustainable Southern debts are underpinned by an unjust system that requires a broader structural transformation based on justice, where the reparations for historical and present social, climate, and ecological debts are placed at the centre."
>
> Bogota CSO southern-led meeting on debt output document, September 2023[102]

In order to make sure that debt crisis prevention and resolution policies effectively prevent countries from remaining trapped in a succession of debt crises, the international community needs to address: the underlying structural causes of global south unsustainable indebtedness, rooted in colonialism; unequal economic, financial, and trade relations; and the differentiated responsibilities in generating global challenges, including the climate emergency. In this sense, debt architecture reforms need to take place within a broader reform process that allows us to advance towards an overhaul of the global financial architecture, beyond the reforms outlined above, as well as profound changes in global economic governance.

In order to advance towards broader systemic reforms, European governments should commit to different transformations and international agreements, as well as fulfilling existing commitments. Priorities should include the following:

- Agree on a UN Framework Convention on International Tax Cooperation to comprehensively address tax havens, tax abuse by multinational corporations, and other illicit financial flows.
- Advance a UN Convention on International Development Cooperation to hold rich countries to account for their unfulfilled historical commitments on Official Development Assistance (ODA) quantity and quality, and recognise the trillions of unmet aid commitment as 'aid debt'. It is imperative to move towards a new global governance of international aid that is more representative, democratic, inclusive, and transparent.
- Accelerate the implementation of the long-standing ODA commitments to deliver 0.7 per cent GNI/ODA and 0.15-0.2 per cent GNI/ODA to least developed countries (LDCs), and of commitments to aid quality enshrined in the effectiveness agenda.
- Immediately agree on and deliver adequate, high-quality, new and additional, public, and non-debt-creating climate finance for adaptation, mitigation, and loss and damage, on the scale of US$5 trillion downpayment[103] per year as part of the huge climate debt owed by the global north to the global south.
- Agree on establishing a UN intergovernmental process to review the development outcomes of public-private partnerships, blended finance, and other financing mechanisms established to promote a 'private finance first' approach to infrastructure and public services.
- Agree on regular allocations of Special Drawing Rights (SDRs), decoupling these allocations from the IMF Quota System and expanding their potential beyond reserve assets, in order to underpin access to financing at the most favourable low interest rates and without conditionality.
- Agree on establishing a UN intergovernmental process on the Bretton Woods Institutions and MDBs to review their governance, policies, and practices, so as to build more inclusive, transparent, accountable, and democratic institutions, with a rights-centred approach to development.
- Review European monetary policies, particularly considering the impact of inflation-control measures in global south borrowing costs, and allow for a further coordination of macroeconomic policy measures, considering the impacts in the global south.

European policies to contribute to development in the global south should not concentrate solely on the so-called 'financing gap' but allow for these countries to have policy space to develop their own sovereign development, industrial policy, and green transition plans. The debt dependency in the global south is both a consequence of and a tool for economic and political domination, subverting the ability of countries and their peoples to shape their own economic and social development, undermining sovereign institutions and democratic processes.

Through centuries of colonial and post-colonial plunder and extraction of natural resources and exploitation of their labour, including women's unpaid and underpaid domestic and care work, the global north has accumulated an incommensurable social, historical, and ecological debt owed to the people of the global south. Any attempt to resolve the persistent debt crises should start by recognising the existence of such historical, financial, ecological, social, and climate debt. This recognition should lead to structural and financial reparations, as well as ecological restoration, phasing out fossil fuel subsidies, ending extractivism, and shifting to decarbonised modes of production, distribution, and consumption.[104]

7. The Fourth Financing for Development Conference as a historic opportunity

The UN FfD process has its roots in the "active discontent of developing countries about the systemic shortcomings of the international financial architecture".[105] The first International Conference on FfD took place in Monterrey, Mexico, in 2002, in the aftermath of the Asian financial crises, as an attempt to recover the UN's voice on the global economic and financial system. More than two decades later, Spain will host in 2025 the Fourth FfD Conference (FfD4),[106] amidst a polycrisis and increasing questioning of the international financial architecture, particularly by global south countries.

The new global south debt crisis is arising as one of the main issues that will centre the discussions and negotiations towards FfD4. Unsustainable debts are arguably one of the most important obstacles for global south countries to advance the SDGs and tackle the climate challenges. However, since Monterrey, the debt architecture has barely changed, beyond some contractual improvements. It is time to deliver on statutory reforms of the existing international financial architecture in order to advance towards economic, climate, and gender justice.

In this context, FfD4 could be a key milestone to open an intergovernmental process towards a UN framework convention on sovereign debt. With the UN FfD Conference taking place in Europe, we expect European countries to deliver on ambitious commitments, including on a profound reform of the debt architecture.

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Against: Australia, Canada, Czech Republic, Finland, Germany, Hungary, Ireland, Israel, Japan, United Kingdom of Great Britain and Northern Ireland, United States of America
Abstaining: Albania, Andorra, Armenia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Denmark, Estonia, France, Georgia, Greece, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Monaco, Montenegro, Netherlands, New Zealand, Norway, Papua New Guinea, Poland, Portugal, Republic of Korea, Republic of Moldova, Romania, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine.
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