

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

A wide-angle photograph of the United Nations General Assembly hall, taken from the audience's perspective. The room is large and circular, with a high ceiling and a central stage. The walls are covered in vertical slats. The floor is dark, and the seats are arranged in a semi-circle. The lighting is dim, with spotlights on the stage. The image has a teal color overlay.

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:

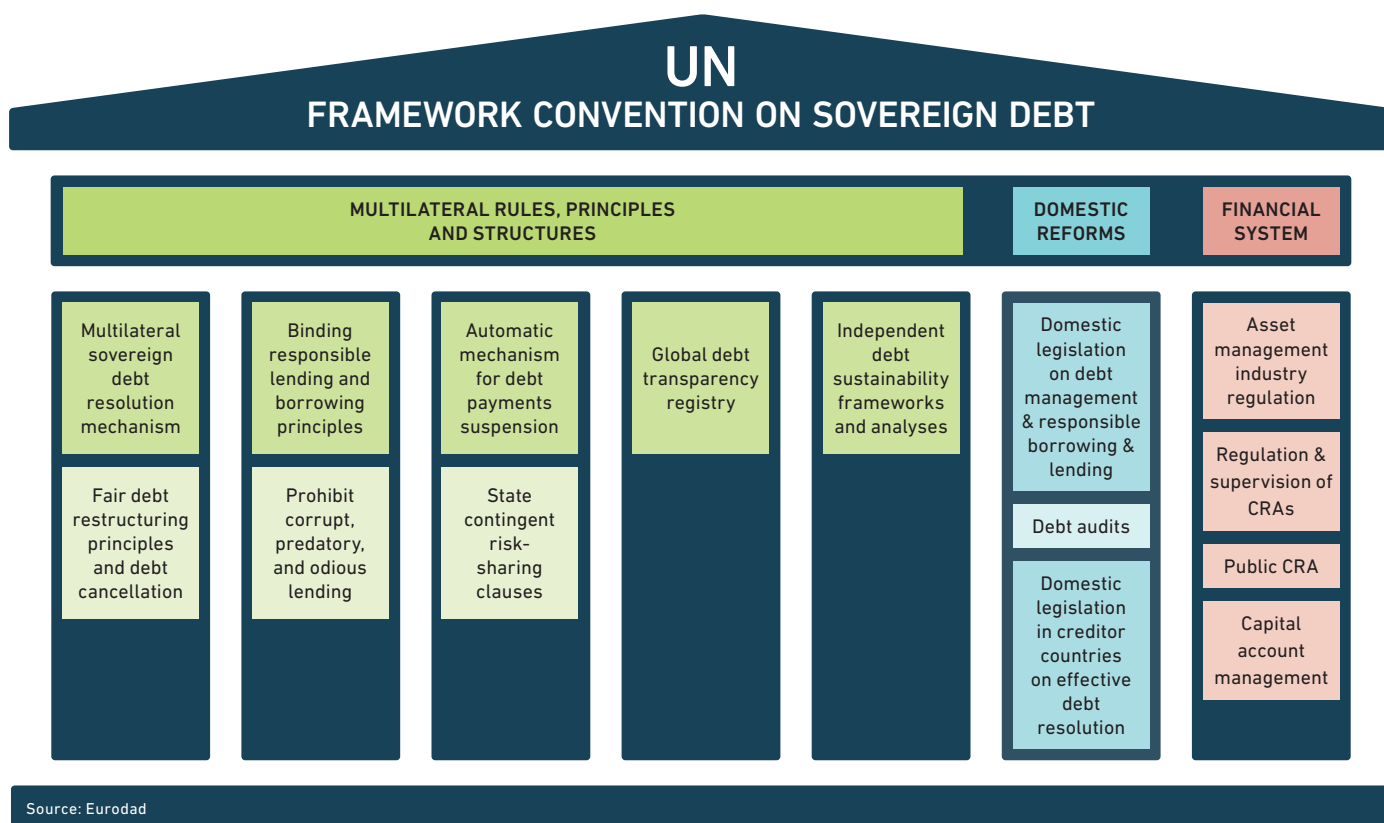
1. Multilateral sovereign debt resolution mechanism: UN Member States should establish a permanent multilateral sovereign debt resolution mechanism that, under the auspices of the UN, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent, and durable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

Figure 1: New debt architecture for economic justice



- 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.

Acknowledgements

This briefing was written by Iolanda Fresnillo (Eurodad), with contributions from Tim Jones (Debt Justice UK), Malina Stutz and Kristina Rehbein (erlassjahr.de), Mathieu Paris (French Platform on Debt and Development), Didier Jacobs (Oxfam International), Pooja Rangaprasad (Society for International Development), Maria José Romero, and Jean Saldanha (Eurodad). The proposals in this policy briefing are also the result of discussions between Eurodad and AFRODADD, APMDD, LATINDADD, Jubilee USA, and Society for International Development.

Copy editing: Amanda Anstee



SCAN HERE TO DOWNLOAD THE FULL BRIEFING

All opinions are the author's alone, and all errors and omissions are the author's responsibility. This policy briefing has been produced with financial assistance from Bread for the World, the European Union, Ford Foundation, and Open Society Foundations.



THIS POLICY PAPER HAS BEEN ENDORSED BY

