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Chair: Mr. Cardi (Chair) .... (Italy)
later: Mr. Iziraren (Vice-Chair) .... (Morocco)

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14-62465 (E)

The meeting was called to order at 10.05 a.m.

Agenda item 17: Macroeconomic policy questions

(c) External debt sustainability and development (A/69/167)

1. **Mr. Kozul-Wright** (Director, Division of Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD), introducing the Report of the Secretary-General on External debt sustainability and development (A/69/167), said that the maintenance of sustainable sovereign debt was not only fundamental for a country's capacity to finance national development strategies, but it was also central to ensuring a stable macroeconomic environment conducive to robust economic growth and sustainable development. Unfortunately, the global economy was currently characterized by slow growth, low inflation, high unemployment and persistent uncertainty, an environment that was not conducive to strong growth prospects in developing countries. Although some developed economies, notably that of the United States of America, had begun to show signs of a more sustained recovery, others were trapped in a "new mediocre" of low and uneven growth. That situation, combined with prospects of monetary policy normalization, sounded a cautionary note for developing countries with regard to the external economic environment over the short and medium term.

2. The total external debt stocks of developing countries and transition economies had continued on an upward trend, increasing at a slightly higher than average rate for the fourth consecutive year compared to the near decade prior to 2010. Despite growth in average real gross domestic product (GDP) by 5 per cent and 4.7 per cent for developing countries in 2012 and 2013, respectively, and slight improvements in export growth, debt ratios had continued to worsen in 2013. However, developing countries witnessed major improvements in terms of international reserves.

3. With respect to emerging trends, the increase in sovereign debt stocks was partly driven by the unprecedented magnitude of recent sovereign bond flows to sub-Saharan Africa. A number of least developed countries had diversified from traditional concessional loans and had joined the international financial market to borrow on commercial terms, as they could thus issue bonds at a lower interest rate than when borrowing from domestic markets. While it was not a substitute for concessional lending and aid, greater access to the international financial market could help least developed countries mobilize resources to meet their long-term infrastructure needs for economic growth. However, those countries should pursue active debt management to mitigate the risks associated with new financial instruments, including rollover risk, currency risk, and greater macroeconomic volatility from large capital inflows. It was crucial for countries to manage such capital inflows and volatility while taking advantage of the favourable conditions in international financial markets.

4. While the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) had delivered much needed relief to poor countries in debt distress and augmented resources for poverty reduction programmes, most heavily indebted poor countries unfortunately remained off-track for achieving many of the targets of the Millennium Development Goals (MDGs). Moreover, while there had been marked improvements in numerous debt indicators, many heavily indebted poor countries continued to be at risk of debt distress despite completing the Initiative. The end of the two debt initiatives would unfortunately not bring an end to debt crises. The international community must respond to new challenges that had emerged since the launch of the HIPC Initiative and countries in debt distress that had yet to benefit from debt relief mechanisms should be afforded the same opportunities.

5. Important structural changes in public debt had occurred in most developing countries during the previous decade, including a rapid shift from international to domestic debt markets. The increasing share of private debt owned by the public sector had been associated with a concomitant increase in foreign participation in domestic markets for government debt for a number of large developing countries, and a rapid increase in corporate issues of securities abroad. It was estimated that foreigners now held US $1 trillion government debt from developing economies, excluding foreign official loans.

6. While the shift from foreign to domestic currency denominated debt had some advantages for issuers, increased foreign participation in domestic debt markets in a number of developing countries had also

increased the depth and liquidity of the domestic debt market, leading to both improved price discovery and the extension of maturities owing to increased demand for debt instruments. However, as foreign holdings of domestic debt were less stable than those held by domestic investors and were liable to be drastically reduced owing to changes in international interest rates, their impact could be particularly damaging for countries with an open capital account and little to no experience managing capital accounts.

7. The recent litigation by bondholder holdouts against Argentina had led to intensified international debate on the need for a robust mechanism to improve efficiency, fairness and coordination in sovereign debt restructurings. Recent debt crises had again demonstrated that disorderly debt restructurings could lead to the costly socializing of private debt, subsequent economic distress and significant human suffering. The problem of legal forum fragmentation, where different courts interpreted the same contractual clause in vastly different ways, had also led to greater incoherence and unpredictability in debt restructuring.

8. The recent rulings by United States courts in the case of the *Republic of Argentina v. NML Capital Ltd.* had obliged third-party financial institutions to provide information about the assets of sovereign borrowers, which would have a significant impact on the international financial system as the enforcement of debt contracts for the creditors would become part of the obligations of financial service providers involved in debt restructuring. Such rulings had made future debt restructuring much more difficult, as debtors were left with only moral suasion and diplomatic relations as the means to encourage creditor coordination.

9. As existing procedures were ad hoc and lacked consistency, it was imperative to develop an international mechanism to coordinate debt crisis resolution. Research was being conducted by a wide variety of organizations and agencies to explore the feasibility and configuration of a potential debt workout mechanism. Collective, inclusive and transparent ex-ante discussions on the desired characteristics of a restructuring mechanism were required to ensure the legitimacy and economic effectiveness of proposed designs.

General discussion

10. **Mr. Llorentty Solíz** (Plurinational State of Bolivia), speaking on behalf of the Group of 77 and China, said that the ongoing world financial and economic crisis and its impact on development underscored the need for a global, universal and integrated response by the international community to address systemic fragilities and imbalances inherent in international financial institutions, and the structural problems of financial instability and unavailability of liquidity for developing countries. Efforts should focus on enhancing the various layers of the global financial safety net and strengthening coordination among the mechanisms in order to ensure the swift availability of substantial resources to stabilize market conditions in times of systemic liquidity crises.

11. Developing countries must be equitably represented in international financial institutions and have a stronger voice in global economic governance. The financial sector must be transparent and properly regulated to reduce speculative investment so that the capital markets could be mobilized to achieve sustainable development.

12. While international trade could be an important tool for economic development, its emphasis must be on development. The Group was concerned that the decline in trade growth caused by the global economic crisis, which had severely affected developing countries; restricted access to trade finance and reduced investment in production diversification and in the promotion of exports. It was therefore essential to establish a universal, fair, rules-based, open, pro-development, non-discriminatory, inclusive and equitable multilateral trading system that contributed to growth, sustainable development and employment, especially for developing countries. Consequently, the World Trade Organization (WTO) should enable developing countries to have sufficient policy space to make use of policy instruments and measures as required for their economic and social development. The Group reiterated the call for special and differential treatment and the principle of less than full reciprocity in WTO to enable developing countries to benefit from multilateral trading.

13. The Group called for the immediate elimination of all agricultural subsidies and other market-distorting measures taken by developed countries and not in compliance with WTO rules. Developed countries were urged to show flexibility and political will to address the concerns of developing countries during the Doha Round of trade negotiations. The outcome of the ninth Ministerial Conference of the World Trade

Organization held in Bali in December 2013 must be fully implemented in a balanced manner through an inclusive negotiating process in which the procedural issues of the Trade Facilitation Agreement would be tackled in parallel with the agricultural pillar, including stocking for food security, and the post-Bali work programme, taking into account the priorities of developing countries, including the elimination of all export subsidies.

14. Debt sustainability, effective debt management, and the guarantee of an adequate debt repayment capacity that did not impair national growth perspectives were core factors to be considered by Member States to attain national and international development goals, including the MDGs. As the highly speculative nature and systemic implications of vulture funds posed a risk to all future debt restructuring efforts for both developed and developing countries, vulture funds must not supersede a State's right to protect its people under international law. Agreements reached between debtors and creditors within the context of sovereign debt restructuring processes must be respected in order to allow the parties concerned to address debt sustainability problems.

15. The Group welcomed the adoption by the United Nations General Assembly of resolution 68/304 on the establishment of a multilateral legal framework for sovereign debt restructuring processes, with a view to increasing the efficiency, stability and predictability of the international financial system and achieving sustained, inclusive and equitable growth and sustainable development, in accordance with national circumstances and priorities.

16. **Mr. Mendoza-García** (Costa Rica), speaking on behalf of the Community of Latin American and Caribbean States (CELAC), said that external debt sustainability and development was one of the areas in which the central role of the United Nations, in particular the General Assembly, should be further strengthened. Both debt sustainability and effective debt management, as well as the determination of adequate debt repayment capacity that did not impair sustainable development prospects, were core factors to be considered by Member States in their quest to attain national and international development goals, including the MDGs.

17. Referring to the Secretary-General's report on External debt sustainability and development (A/69/167), which inter alia underscored the immediate need to improve efficiency and coordination in sovereign debt restructuring at the international level and to reduce the obstacles to wider participation in restructuring in the absence of clear sovereign insolvency procedures, he said that the current situation had once again highlighted the gaps in the international financial architecture with regard to timely and effective solutions to sovereign debt distress. Although the ongoing technical discussions marked progress, there was still room for improvement through the establishment of a framework for the orderly and predictable restructuring of sovereign debt. CELAC believed that adopting sound practices in the management and governance of sovereign debt was crucial to promote economic growth and sustainable development. The loose networks and ad hoc arrangements of the global sovereign debt system were in dire need of harmonization.

18. CELAC recognized the importance of a human rights approach when dealing with debt crises and wished to underscore that when debt sustainability was mismanaged, it could lead to cascades of litigation and cause ripple effects throughout the debt market; the failures and shortcoming of existing instruments must thus be addressed. Work should also be undertaken towards the establishment of responsible and preventive policies for responsible lending and borrowing to maintain sustainable debt management. Such a human rights approach was appropriate, as debt relief could contribute decisively to poverty and hunger eradication, sustained economic growth and achievement of internationally agreed development goals, including the MDGs and the sustainable development goals.

19. CELAC reaffirmed the importance of developing tools to strengthen the international financial system, provide a stricter and more effective regulation of large financial entities and promote concrete measures to achieve best practices in international financial flows. While significant progress had been made through debt relief programmes to poor countries, a timely, effective and durable solution to debt problems was still imperative. Vulture funds must not be allowed to paralyse the debt restructuring efforts of developing countries and should not supersede a State's right to protect its people under international law. More effective work should be done to address the highly speculative activities of vulture funds and to create a

multilateral legal framework for the orderly and predictable restructuring of sovereign debt with a view to increasing the efficiency, stability, transparency and predictability of the international financial system.

20. The international community must realize that no path to growth could be fostered with unsustainable debt overhang. Therefore, debt restructuring processes should have as their core element the determination of real payment capacity so as to not compromise national growth perspectives. Agreements reached between debtors and creditors within the context of sovereign debt restructuring processes must be respected, allowing payment flows to be distributed to cooperative creditors as mutually agreed in the consensual debt readjustment process. CELAC welcomed the adoption of United Nations General Assembly resolution 68/304 on a multilateral convention to establish a legal regulatory framework for sovereign debt restructuring processes and Human Rights Council resolution 27/30 on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights: the activities of vulture funds.

21. **Mr. Rattray** (Jamaica), speaking on behalf of the Caribbean Community (CARICOM), said that unsustainably high debt burdens and public debt difficulties remained among the major challenges to the CARICOM region's economic development. As the current average debt to -GDP ratio in the region exceeded 70 per cent, with some of the most indebted countries having a ratio well in excess of 100 per cent, debt servicing had far exceeded expenditure on social services such as health and education, with far-reaching negative implications for the region's overall socioeconomic development. Although CARICOM countries had maintained relatively high levels of human development, negligible economic growth, increasing poverty and unemployment in the region were eroding some of the progress made.

22. Despite efforts at drawing attention to the severity of its plight as one of the most heavily indebted subregions in the world, CARICOM leaders had nevertheless been largely unable to attract worldwide attention to their "silent crisis" and its pernicious implications. CARICOM member States' efforts to effectively address their unsustainable debt burdens had been constrained by their categorization as middle-income countries, a designation that rendered them ineligible for debt relief and severely limited their access to concessionary financing. With few exceptions, the region had not benefitted from recent global debt relief initiatives such as the HIPC or the MDRI initiatives. CARICOM strongly supported the view expressed in the report of the Secretary-General (A/69/167) that countries in debt distress that had yet to benefit from debt relief mechanisms should be afforded the same opportunity.

23. It was an opportune time to rethink the practice of using GDP per capita as the main metric for determining a country's level of development; instead, measures of development should consider the vulnerabilities of small island developing States in the fight for sustainable development. The reality on the ground in many of those States belied the image presented when development was largely calculated using GDP per capita. The efforts of CARICOM States to achieve debt sustainability had been undercut by their particular vulnerability to exogenous shocks, such as those resulting from the impact of climate change, including the increased frequency of hurricanes, floods and periods of drought, and the effects of commodity price volatility. For example, in Saint Vincent and the Grenadines, a few hours of rain in December 2013 had wiped out approximately 17 per cent of the island's GDP.

24. At their most recent meeting in Antigua and Barbuda in July 2014, CARICOM Heads of Government had underscored the importance of addressing debt sustainability as part of a broader effort to build economic resilience throughout the region, and had approved the creation of a fiscal sustainability framework over the following six months. Plans were likewise underway for the establishment of a regional debt management mechanism and a CARICOM Debt Advocacy Team had been created to advance efforts to secure debt relief to ameliorate the region's debt situation. It was evident from such high-level efforts that sustainable development in the region would be impossible without a significant reduction in its indebtedness levels.

25. In order to address the matter of finding durable and effective solutions to the debt challenges that developing countries faced, debt must be a key part of the deliberations and the outcome agreed on during the Third International Conference on Financing for Development in Addis Ababa in July 2015. Within the

post-2015 development agenda, and in the broader context of an effort to reform the international financial system and remedy systemic imbalances, CARICOM also welcomed the inclusion of a target on long-term debt sustainability among the sustainable development goals that had been proposed by the Open Working Group on Sustainable Development Goals.

26. CARICOM called on the international community to revisit the problem of debt and development finance in small island developing States. The idea of a small island developing States-focused highly indebted countries initiative was a promising idea that had emerged from recent discussions and the Group called for full consideration of the proposal in the context of both the post-2015 and financing for development processes and in the context of deliberations at international financial institutions. CARICOM believed that indebted countries must be given an opportunity to undertake orderly debt workout arrangements as a means of stabilizing their economies and returning to a path of sustained, inclusive, economic growth. The Group therefore welcomed the adoption of General Assembly resolution 68/304 on the establishment of a multilateral legal framework for sovereign debt restructuring processes.

27. **Mr. Momen** (Bangladesh), speaking on behalf of the least developed countries, said that the devastating Ebola virus crisis posed significant global risks and might create a vicious downward spiral in the economies of the affected countries and their neighbours, significantly halting or reversing the development gains of those countries. The international community must take immediate action, including a debt-service moratorium and outright debt cancellation for Guinea, Liberia and Sierra Leone.

28. Despite numerous initiatives, in 2013 the external debt and debt servicing obligation of the least developed countries had continued to grow by US $16.8 billion or 9.5 per cent compared to 2012; the debt to GDP ratio and the ratio of total debt as a percentage of exports had also increased. For many of the least developed countries, the accumulated debt burden had hindered financing for development. While some least developed countries had benefited from the HIPC and MDRI initiatives, those programmes had not rewarded the countries that had maintained low levels of debt. As of March 2014, one least developed country was in debt distress and nine others were at high risk of debt distress, seven of which had already benefited from the MDRI.

29. As the report of the Secretary-General (A/69/167) had underscored, the end of the HIPC and MDRI initiatives would not bring an end to debt crises. The HIPC sunset clause must be extended so that countries in debt distress could be afforded the same opportunities and benefits. Political components must be decoupled from the eligibility criteria for the HIPC and MDRI initiatives.

30. Non-Paris Club official bilateral creditors, and commercial creditors, which together accounted for about 26 per cent of total HIPC Initiative costs, had only delivered a small share of their expected relief; some commercial creditors had also initiated litigation against the affected countries. The sovereign debt restructuring mechanism had assumed a new dimension in the face of the epic battle between Argentina and a group of hedge funds, illustrating a fundamental flaw in the sovereign bond market and demonstrating that there was no orderly, well-established way for financially troubled governments to obtain relief from their creditors. Debt management should not be misused to crush economies or destabilize governments. In view of the foregoing, the Group of least developed countries called upon the international community to immediately write off all outstanding debt, both multilateral and bilateral, for all least developed countries.

31. In practice, the resources involved in current debt relief initiatives had been much smaller than those indicated by aid statistics, and debt relief had not functioned in addition to official development assistance (ODA) as indicated in the Monterrey Consensus. The Group was deeply concerned by further reductions in ODA to least developed countries. In order to avoid unduly constraining investment and growth, debt sustainability assessments must be realistic and objective. If countries borrowed to invest in the productive sector, there must be no arbitrary debt limits.

32. Owing to insufficient external assistance and high development needs, some least developed countries had raised funds by issuing Eurobonds and thus succeeded in mobilizing resources to meet long-term infrastructure needs. The international community must help to cushion against any uncertainties associated with bonds such as rollover risk, currency risk and

greater macroeconomic volatility. Furthermore, gaining access to international financial markets should not affect the allocation of ODA.

33. As least developed countries mostly borrowed in foreign currencies, it was imperative for creditor nations and international financial institutions to develop a new mechanism for loans in domestic currencies while considering serious exchange rate risks. The promised duty-free, quota-free access for products from least developed countries must be fulfilled in order to help them to overcome some of their financial difficulties. Run by oligopolistic monopolies, credit rating agencies had repeatedly proved ineffective, causing cliff effects by inaccurately assessing risk and issuing incorrect ratings that were disastrous to the financial system. Consequently, there was a consensus that massive reforms of credit service agencies were warranted. They must be subject to tighter regulation and accountability in order to purge conflicts of interest and ensure objectivity and prudence in their reporting.

34. In that regard, the Group proposed the establishment of an intergovernmental mechanism under the auspices of the General Assembly to develop a global methodology and a standardized approach with a set of universally approved criteria for ratings. An intergovernmental committee of experts, in the form of the existing United Nations Committee for Development Policy should be seriously considered.

35. As least developed countries had faced multiple and mutually devastating challenges that might jeopardize their hard-earned development gains, they would need to undertake comprehensive measures at all levels to overcome the crisis. National efforts must be given the necessary support by development partners, who must expeditiously fulfil their commitments.

36. **Mr. de Aguiar Patriota** (Brazil) said that the existing architecture for debt restructuring was not sustainable, as current practices unduly protected holders from the risks they knowingly incurred, while buffering them from losses, ultimately impeding the interplay of market forces to the detriment of sovereign States. Such a paradigm encouraged short-term speculation against sovereign countries, without considering social and economic consequences for the affected populations, and endangering the system as a whole. If the paradigm was left unchecked, it would completely remove any risk from private debt holders, while subjecting sovereign States to unreasonable sacrifices often due to circumstances beyond their control, wiping out development opportunities for generations to come.

37. Debt among private parties at the national level did not generally follow the same paradigm, as most countries had laws, such as the United States Chapter 11 bankruptcy code, which provided a reasonable quid-pro-quo in the case of failed investments and business. No equivalent framework existed internationally for sovereign debt restructuring. As countries were much more complex than private business, the multidimensional legal, political and social impact of actions taken must be acknowledged. The United Nations was the only institution available for such a broad consideration of the issue.

38. The current state of debt restructuring bordered on the irrational and worked counter to the mission and principles of the United Nations. It also ran the risk of violating the right to development, a matter that had been brought to the attention of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights.

39. Paradoxically, while States were asked to embark on an ambitious people-centred development agenda and make additional commitments to that effect, debt restructuring was tilted in the favour of private holders. The system’s imbalance worked against the well-being of indebted populations. It was inconsistent to support the national mobilization of resources to implement the post-2015 development agenda while striving to line the already deep pockets of risk-protected foreign speculative debt holders.

40. In the wake of the 2008 economic and financial crisis, his delegation refused to support approaches to debt restructuring based on the interest of creditors and not on a real assessment of risk market dynamics. Experience had shown that collective action clauses were not sufficient to deal with complex debt restructuring processes; therefore, gaps in the current debt restructuring architecture must be tackled using the technical expertise of the multilateral system.

41. The current debt restructuring paradigm, deprived of a reasonable multilateral legal framework, was an example of how the rule of law could be placed at the

service of injustice if left unchecked, servicing powerful holders, with little regard for its impact on others. In preparation for a post-2015 development agenda that was universal, ambitious and transformational in nature, a fair and equitable debt restructuring multilateral legal framework must be elaborated to provide developing countries with the policy space they needed.

42. **Ms. Perceval** (Argentina) said that external debt was one of the main obstacles to development, economic growth and poverty eradication, ultimately limiting the full exercise of human rights, including economic, social and cultural rights. That was why her delegation welcomed the adoption by the General Assembly of resolution 68/304 on the establishment of a multilateral legal framework for sovereign debt restructuring processes. The adoption of the resolution reflected the fact that the vast majority of countries felt vulnerable to speculative abuses that exploited loopholes in the current sovereign debt restructuring framework. A new framework must be developed in the United Nations General Assembly, where all countries were on an equal footing, to help States emerge from the crisis in a sustainable fashion.

43. An open and transparent dialogue must be undertaken to establish clear rules for debt restructuring that benefited both debtors and creditors; her delegation was convinced that the existing legal void benefited a handful of speculators and harmed all countries burdened by international debt. In an even broader sense, the current situation was detrimental to the whole world, as it transferred billions of dollars from countries into the hands of a small number of individuals who benefited from, and thus defended, the predatory practice. The United Nations had the ethical, political, institutional and social duty to address the problem of vulture funds, in order to establish a post-2015 development agenda that promoted social inclusion.

44. Clearly, there was a human rights dimension to the issue of external debt sustainability. Her delegation welcomed the adoption of Human Rights Council Resolution 27/30 and agreed that the debt burden was an obstacle to sustainable development, the achievement of the MDGs and a serious impediment to the realization of all human rights. The development of an equitable, development- and people-centred mechanism that embodied the legal principle of “odious debt” should be an important contribution to the efforts of all Governments to respect the right to development of its population.

45. **Mr. Benamadi** (Algeria) said that although his delegation welcomed the increase by 8.5 per cent in the stock of international reserves in 2013, it remained concerned over the faster pace of debt growth and its impact on the development efforts of developing countries, the debt ratios of which had worsened during the same period. As total debt stocks in the Middle East and North Africa had grown by 9 per cent in 2013 while debt ratios had soared by 3 per cent, the predicted short-term growth improvements would likely be weakened by ongoing uncertainties.

46. In Africa, decreased ODA in 2013 marked a worrying trend that would adversely affect government decision-making on resource allocations; it was alarming that ODA levels for Africa were expected to remain the same for the following three years, according to the Secretary-General’s report (A/69/167).

47. In the spirit of solidarity and development cooperation, Algeria had, since 2012, cancelled its bilateral debt of over US $1.6 billion to 14 developing countries. In addition, since 1999, the country had revised its foreign debt policy so as to reduce its dependence on external borrowings. Thanks to sound macroeconomic policies, Algeria’s debt levels were at an all- time low. Having faced a financial crisis and subsequent debt restructuring in the 1990s, the country had consistently advocated a profound reform of the international financial system. While reasonable profits were acceptable, the goal was ultimately to promote poverty eradication, job creation and sustained and inclusive economic growth.

48. The case of the *Republic of Argentina v. NML Capital Ltd.* was a perfect example of why the international community needed an international debt restructuring mechanism. The legal void did not serve the interests of developing countries nor those countries that remained vulnerable to external shocks. The establishment of such a mechanism would not only promote consistency and fairness, it would also improve future debt restructuring. Adopting a set of sound practices in the management and governance of sovereign debt was crucial to promoting economic growth and sustainable development and protecting vulnerable countries from debt crises.

49. **Mr. Hermida Castillo** (Nicaragua) said that poverty eradication and sustainable development could

only be achieved through economic growth and social inclusion. As the economic crisis represented one of the greatest challenges of the past few decades, it was imperative to change the global model. The negotiations on a post-2015 development agenda presented an opportunity not only to reiterate the traditional commitments of international cooperation for development but also to reform the existing international financial, monetary and trade systems.

50. Debt relief could play a key role in freeing up resources to support poverty eradication, sustainable economic growth, the achievement of the MDGs, economic development and future sustainable development goals. His delegation endorsed the comments made by the representative of Argentina with respect to vulture funds. The speculative actions of vulture funds against Argentina revealed flaws in the international financial system and how such funds violated State sovereignty.

51. The international community must give priority to the debt situation in developing countries, especially the least developed countries. Given the socioeconomic impact of external debt and its threat to the exercise of human rights, it must be addressed within the context of the fundamental principle of international cooperation as clearly expressed in the Charter of the United Nations and other international instruments. The post-2015 development agenda must help developing countries achieve long-term debt sustainability through coordinated policies designed to encourage debt financing, debt relief and debt restructuring.

52. Agreements reached between debtors and creditors under sovereign debt restructuring processes must be respected, allowing payment flows to be distributed to cooperative creditors as mutually agreed in the consensual debt readjustment process. Nicaragua welcomed the adoption of General Assembly resolution 68/304 on sovereign debt restructuring), which reflected the concerns and problems of all developing countries with regard to external debt.

53. **Mr. Bame** (Ethiopia) said that in the international community’s collective post-2015 journey, it was inadvisable to carry along the current huge stocks of developing and least developed countries’ debts. He expressed concern over the 5.6 per cent decrease of ODA allocated to Africa in 2013 and the 4 per cent decrease in real terms compared to 2012 of bilateral aid to sub-Saharan Africa. He was likewise concerned over the projection that the stagnation in current donor spending would continue until 2017, a trend that could quickly erode hard-fought development gains and exacerbate multifaceted development challenges.

54. While the developing world, particularly the least developed countries and Africa, was primarily responsible for its own development, more substantial ODA flows, and more stable and predictable donor aid still played a pivotal role in financing for development.

55. As a country that had just finished preparations to sell its sovereign bonds in international markets for the first time, Ethiopia shared the view that harmonisation of global sovereign debt helped to address current fragmentations and ad hoc arrangements in the debt system. Thanks to the HIPC and MDRI initiatives, Ethiopia’s debt position had become sustainable since 2004/05 and its debt servicing capacity had been strengthened. The country now maintained debt sustainability through concessional loans that were used for strategic infrastructure projects.

56. However, his country needed to do more to maintain its macroeconomic stability and strengthen its capacity to address debt challenges. One such challenge was that some bilateral and commercial creditors did not accept the principle of the Enhanced HIPC Initiative because of the absence of any instruments obliging them to abide by the initiative. His delegation believed that a mechanism established to address that particular obstacle would enable Ethiopia and other countries to benefit from comprehensive debt relief initiatives.

57. Stagnation in the volume of concessional loans had made it difficult to finance the large investment needs of his country, which had witnessed double-digit economic growth for more than a decade. He therefore called on bilateral donors and multilateral financial institutions to provide additional resources in the form of concessional loans to supplement efforts to implement infrastructure projects and other economic and social programmes.

58. The international community must urgently implement global collaborative efforts in order to help poor countries maintain and bring about sustainable macroeconomic stability, by building their capacities and establishing buffers to cushion them from the effects of external economic shocks.

59. **Ms. Robl** (United States of America) said that the United States took issues of sovereign debt very seriously, which had been reflected in the substantial relief the United States had provided to developing countries facing debt distress. Through the Paris Club, the United States had participated in approximately 350 debt treatments in collaboration with other creditor nations; it had also supported the HIPC and MDRI initiatives.

60. One of the main principles underlying the participation of the United States in such initiatives had been to keep credit markets working for all countries. However, the world could not afford to focus solely on relief and restructuring. Those initiatives had been intended as time-bound, extraordinary efforts to reduce debt burdens to sustainable levels and put participating countries on a path to sustainable growth. It was therefore essential to maintain a long-term focus that stressed effective debt management strategies to manage borrowing and lending in a sustainable manner, particularly in light of the increasing complexity of financing sources.

61. While both official credit flows and traditional grant assistance remained powerful catalysts in financing development, inflows to developing countries from private lenders now vastly exceeded official inflows, in the form of private transfers, foreign direct investment, international bonds, syndicated bank credit and hybrid financing. As a result, many developing countries now had access to financing at lower rates and longer terms than ever before. Developing countries nonetheless faced the challenge of managing a complex range of lending conditions, which must be met by a more conscious, deliberate, and organized strategy for sustainable debt management.

62. The United States therefore continued to actively support efforts to build debt management capacity in developing countries through technical assistance programmes managed by the United States Agency for International Development and the Treasury Department's Office of Technical Assistance. The most important features of an effective debt management strategy would include: a government-wide approach that centralized debt management responsibility and provided incentives for inter-agency cooperation; a central repository of information; clear documentation of the debt management strategy to improve fiscal transparency; a selective approach to using debt, based on objective and realistic assessments of the costs, returns and risks; comparison of different financing sources at varying levels of concessionality; and a process for identifying problems and support for restructuring debt before liquidity problems became solvency problems.

63. The United States did not support the creation of a sovereign debt restructuring mechanism, as the technical challenges involved were considerable and a poorly designed mechanism could create significant uncertainty in financial markets and potentially stifle financing to developing countries that joined the mechanism by increasing the cost of borrowing and making creditors less likely to provide financing. The United States was also not prepared to support a supranational mechanism that would override the terms in existing bond contracts.

64. It was important to recall that the idea for a sovereign debt restructuring mechanism had been debated and set aside roughly a decade previously in the International Monetary Fund (IMF), in favour of pursuing improvements in bond contract language to directly address outstanding concerns related to restructurings. Sovereign nations, international organizations, academics, and private creditors had also worked through the International Capital Markets Association to develop model bond clauses that addressed concerns raised by recent sovereign debt litigation and restructurings. The International Institute of Finance and the IMF had endorsed the proposed clauses, which were already being used by some nations in their sovereign bond issuances. The model language being proposed would: clarify that the so-called *pari passu* clause meant that bonds had equal standing and explicitly disavow an interpretation that would prevent the resumption of payment to bondholders who had participated in debt restructuring; and introduce strong aggregation clauses that would allow countries to call for a single up or down vote on a restructuring proposal among all the holders of its foreign law bonds. The aggregated voting process would be combined with strong creditor protections to assure a fair offer and vote.

65. A single aggregated vote for all bondholders provided the most predictable process for restructuring sovereign bonds in cases of deep distress. Once those clauses were widely adopted, they would significantly reduce the risk that a minority could opt out of a restructuring deal and then seek to disrupt future

payments to those that had participated. While some sovereign issuers had already started to include clarifying *pari passu* language in new bond contracts, all needed to do so. Building on the work that had been done by the International Capital Markets Association, the contractual basis for voluntary, market-based restructurings must be strengthened.

66. **Mr. Zamora Rivas** (El Salvador) said that the external debt had the heaviest adverse impact on social investment in developing countries, since part of the money that should be allocated to improving people's living conditions was instead supporting million-dollar national debts. While there had been some progress on the HIPC initiative and MDRI, a true, timely, effective and sustainable solution to debt problems remained necessary.

67. His delegation supported the idea that debt restructuring processes must have at their core the assessment of real capacity to pay, so that they would not adversely affect economic growth and the achievement of the MDGs, the sustainable development goals and the post-2015 development agenda. There was an urgent need for the international community to examine options for an effective, equitable, durable, independent and development-oriented international debt resolution mechanism.

68. The recent actions of vulture funds in international courts had revealed their speculative, profit-seeking nature. Vulture funds presented a risk for all future debt restructuring processes, for both developed and developing countries. Vulture funds should therefore not be allowed to paralyse the debt restructuring efforts of developing countries and must not supersede a State's right to protect its people under international law. That was why his Government welcomed the adoption by the General Assembly of resolution 68/304 on the establishment of a multilateral framework for sovereign debt restructuring.

69. *Mr. Iziraren (Morocco), Vice-Chair, took the Chair.*

70. **Ms. Ying Zhu Chen** (China) said that after the global economic crisis, debt, which had already been a major obstacle for developing countries trying to achieve economic growth and the MDGs, had become an even more prominent issue. The international community should strengthen cooperation efforts to create conditions for developing countries to reduce their debt burden. As major creditors, developed countries should commit to debt relief, scale up capital input and provide further assistance, while carrying out responsible macroeconomic policies and dealing with their own sovereign debt.

71. International financial institutions should increase financial support and technical assistance to developing countries to promote capacity-building. The international community should improve financial governance and promote the establishment of an international debt restructuring mechanism that was fair, effective and development-oriented.

72. As a developing nation, China had long been invested in issues of debt sustainability, and viewed providing foreign assistance as its duty, while still paying attention to the debt sustainability of its recipient countries. When those countries encountered difficulties servicing debt, China always used bilateral channels to properly handle the situation. Since 2000, China had declared unconditional debt forgiveness to least developed countries and heavily indebted poor countries six times. As of 2013, it had signed debt forgiveness agreements with 50 countries. China would continue to work with all other countries to reduce the debt burden of developing countries.

73. **Mr. Maksimychev** (Russian Federation) said that as excessive indebtedness had negative consequences for the financial and economic situation of developing countries and undermined progressive sustainable development, the Russian Federation had advocated for a fair and comprehensive solution to external debt. Over the previous 14 years, the Russian Federation had restructured over US$ 100 billion in debt for its recipients. The resources that were freed by debt write-offs should combat poverty and build economic growth so that developing countries could achieve the MDGs and in turn, the sustainable development goals. The Russian Federation wrote off debt through a model that used debt in exchange for development, and had used that model with both Cuba and the Democratic People's Republic of Korea. In such cases, the resources freed up remained in those economies to finance health, education, energy and other sectors. The Russian Federation had also reached intergovernmental agreements totalling US$ 250 million in debt forgiveness with the United Republic of Tanzania, Mozambique and Zambia, in addition to the US$ 20 billion it had already cancelled in African debt over the past few decades.

74. The recent and severe debt crisis had shown the serious gaps in the existing system for regulating States’ debt obligations. To prevent this from happening again, as well as to enhance confidence and stability in the foreign loan market as a whole, the Russian Federation supported the adoption of a multilateral legal framework for sovereign debt restructuring processes.

75. **Mr. Mahmoud Abbas** (Sudan) said that his delegation supported the call for implementing the Rio+20 outcome document. He underscored the importance of achieving the sustainable development goals in an inclusive and balanced manner that reflected different levels of development. The external debt and unilateral economic sanctions were the greatest challenges facing the Sudan, limiting the country’s capacity, adversely affecting its productive and services sectors, and human development. The external debt also limited the Sudan’s capacity to make use of ODA and other development aid. Despite the fact that his country had met all the required eligibility criteria for the HIPC and MDRI initiatives, it nevertheless continued to be prevented from benefiting from those initiatives. The external debt had paralysed growth, as its servicing took the largest share of income, which could otherwise have been steered towards development efforts and poverty eradication.

76. The long term unilateral economic sanctions imposed on the Sudan had damaged the economy by preventing the country from, inter alia benefitting from HIPC and other sources of financing. Sanctions had also adversely affected the agricultural sector and had prevented the Sudan from exporting its products, further reducing its earnings.

77. Moving forward, his delegation hoped that the international community would play a larger and more effective role in formulating the post-2015 agenda, without repeating the errors of the past. In that regard, it was important to reinvigorate debt cancellation initiatives, lift all economic embargoes, and focus on countries in special circumstances, including least developed countries, landlocked developing countries, countries emerging from conflict, small island developing States and countries under foreign occupation. As Sudan was a least developed country, it was still paying a heavy price to achieve peace, especially after having recently lost a valuable part of its territory and 75 per cent of its oil resources. His delegation called on the international community to support the Sudan by cancelling its external debt and removing all economic sanctions, which were illegal under international law.

78. The Sudan believed that there was a need to establish an agreed framework for a solution to trade and debt problems, strengthen development cooperation and end disputes that reduced trade activities. It also supported the creation of a multilateral legal framework for sovereign debt restructuring process.

79. **Mr. Ferami** (Islamic Republic of Iran) said that, since financing was essential for growth and development, transparent and unrestrained access to different kinds of financing, including properly functioning debt markets, was vital for developing countries to diversify their economies and expand productive capacity.

80. Various international forums, including UNCTAD, the first and second Conferences on Financing for Development and the Conference on the World Economic and Financial Crisis and its Impact on Development had explored the feasibility of an international sovereign debt resolution mechanism. His delegation therefore welcomed the adoption of resolution 68/304 on the establishment of a multilateral legal framework for sovereign debt restructuring processes. Several issues had been raised during the debate on the mechanism in support or rejection of the idea. Some delegations had objected, saying that such a mechanism would create uncertainty in financial markets by creating a situation where lenders would be less likely to provide financing and more likely to charge higher risk premiums, thus stifling financing to developing countries. Other delegations had argued that work on such a technically complex issue was an ongoing discussion in other forums, including IMF, the Paris Club, UNCTAD and non-governmental bodies such as the International Capital Market Association. Although those discussions had begun to bear fruit, there were perhaps more appropriate arenas for developing the mechanism.

81. His delegation believed that the normative gap in the current international financial system was undeniable, that the United Nations was the most representative international forum, and that the General Assembly was the most democratic forum, as all States participated on an equal footing. The positive

outcomes of other forums could thus be used in the process of the General Assembly.

82. Based upon those premises, his delegation felt that the time was ripe to provide the international financial system with a legal framework for monitoring and possibly restructuring sovereign debt that duly addressed the existing concerns of both debtors and recipients, in a more democratic, transparent and evidence-based manner. The framework should: tackle different aspects of debt, from both debtor and recipient perspectives; verify situations; acknowledge the sensitivity of changing the status quo between debtor and recipients; consider the rights and responsibilities of all parties involved; and provide resolution so that countries could sustainably emerge from crises. Such a framework should also increase the efficiency, stability and predictability of the international financial system and lead to sustained, inclusive and equitable economic growth and sustainable development.

83. **Mr. Chinyonga** (Zambia) said that, despite the increase in the external debt stock of the country, Zambia’s debt had stayed well below the debt sustainability threshold of 40 per cent of GDP. However, his Government was cognizant of the need for an improved fiscal position, which would require broadening the revenue base and prioritizing expenditures. To ensure that future investments were sound, his Government would continue to observe sound macroeconomic policies and invest in debt management and project appraisal capacity-building.

84. To broaden its revenue base, Zambia would continue to encourage economic diversification and productivity-enhancing investments, while improving compliance and efficiency in tax administration, in part by modernising the tax administration and by restricting the current mining tax regime to capture more resources.

85. In the wake of its increased ability to access international capital markets and a gradual increase in non-concessional borrowing for developmental programmes, his Government would pursue institutionalized appraisal systems for screening investment projects and would promote transparency by conducting regular debt sustainability analyses. It would also continue to use the Joint Assistance Strategy to harmonise resources from development partners.

86. Zambia supported the call on the international community to continue providing financial, technical, and capacity-building support to developing countries. Consequently, it was concerned that in 2013, ODA to the African continent had fallen while bilateral aid to sub-Saharan Africa had decreased in real terms, despite an increase in net ODA from Organisation for Economic Co-operation and Development (OECD) donors. The shift of ODA away from the poorest countries was a matter of great concern, as it would adversely affect those countries’ ability to achieve the MDGs and reduce poverty.

87. **Mr. Moulton** (South Africa) said that it was of great concern that for the fourth consecutive year, the growth of external debt of developing countries had surpassed the average growth rate of approximately 7 per cent, as unsustainable debt had a severe impact on resources available to address the economic and social development needs of developing countries.

88. It was therefore important for multilateral institutions such as the United Nations, the Bretton-Wood institutions, including entities within the United Nations system and other relevant organizations, to play a major role in assisting developing countries to achieve and maintain debt sustainability. For that reason, South Africa had supported resolution 68/304 on the establishment of a multilateral legal framework for sovereign debt restructuring processes.

89. The international community must realize that there could be no growth in developing countries grappling with unsustainable debt. The actions of speculators further compounded the situation and posed a serious risk for debt restructuring and debt sustainability. The recent actions by the vulture funds had exposed their speculative and profit-seeking nature. As vulture funds continued to paralyse the debt restructuring management efforts of developing countries, they must not supersede the right of Member States to protect themselves under international law.

90. The international community should develop a more transparent credit rating system that fully accounted for the needs of developing countries, while also reducing dependency on ratings agencies and enhancing their supervision. His delegation therefore recognised the UNCTAD Principles on Responsible Sovereign Lending and Borrowing, which aimed to fill the legal and institutional void to benefit both sovereign lenders and borrowers.

91. His delegation was concerned about the 9.5 per cent increase in the total external debt of the least developed countries and called for the full and timely implementation of international debt relief initiatives in those countries. His delegation would continue to advocate for debt forgiveness for the least developed countries, especially in Africa. South Africa supported the writing off of debt for African countries through the New Partnership for Africa's Development (NEPAD), under its Capital Flows Initiative.

92. It was disturbing that even though ODA had increased by 6.1 per cent in 2013 after two consecutive years of decline, aid to the African continent had decreased by 5.6 per cent in 2013. His delegation called on developed countries to deliver on their commitments in a timely and predictable manner in order to assist in eradicating poverty so that no one was left behind in the post-2015 development agenda.

93. The international community must carefully manage debt restructuring processes and mechanisms to ensure debt sustainability. The risk of countries defaulting on their commitments warranted a renewed focus on sovereign debt.

The meeting rose at 12.20 p.m.