

Tuesday 17 April 2018

P8_TA(2018)0104

Enhancing developing countries' debt sustainability

European Parliament resolution of 17 April 2018 on enhancing developing countries' debt sustainability (2016/2241(INI))

(2019/C 390/06)

The European Parliament,

- having regard to the section of the Addis Ababa Action Agenda concerning debt and debt sustainability ⁽¹⁾,
 - having regard to the UN Secretary-General's reports of 22 July 2014, 2 August 2016 and 31 July 2017 on external debt sustainability and development,
 - having regard to the UN Conference on Trade and Development (UNCTAD) principles for responsible sovereign lending and borrowing,
 - having regard to the UNCTAD Roadmap towards Sustainable Sovereign Debt Workouts (April 2015),
 - having regard to the G20 Operational Guidelines for Sustainable Financing,
 - having regard to UN General Assembly Resolution 68/304 of 9 September 2014, entitled 'Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes',
 - having regard to UN General Assembly Resolution 69/319 of 10 September 2015 on basic principles on sovereign debt restructuring processes,
 - having regard to the Guiding Principles on Foreign Debt and Human Rights drawn up by the Office of the UN High Commissioner for Human Rights,
 - having regard to its resolution of 19 May 2015 on financing for development ⁽²⁾, in particular paragraphs 10, 26, 40, 46 and 47 thereof,
 - having regard to the studies released by the 'Global Financial Integrity' research body on the estimated scale and composition of illicit financial flows,
 - having regard to the Belgian anti-vulture funds law of 12 July 2015 ('*Moniteur belge*' of 11 September 2015),
 - having regard to Rule 52 of its Rules of Procedure,
 - having regard to the report of the Committee on Development (A8-0129/2018),
- A. whereas addressing the sovereign debt problems of developing countries is an important element in international cooperation and can contribute to achieving the Sustainable Development Goals (SDGs) in developing countries;
- B. whereas achievement of the SDGs in developing countries requires massive investment, the annual funding gap being currently estimated at around USD 2,5 trillion ⁽³⁾;
- C. whereas loans are a possible source of development funding; whereas loans must be responsible and predictable; whereas their cost must be fully offset by returns on investment, and debt-related risks must be carefully evaluated and measures taken to deal with them;

⁽¹⁾ See pp. 27-29.

⁽²⁾ OJ C 353, 27.9.2016, p. 2.

⁽³⁾ World Investment Report 2014. Investing in the SDGs: An Action Plan, UNCTAD 2014, pp. 140-145.

Tuesday 17 April 2018

- D. whereas the debt crisis affecting the developing countries in the 80s and 90s and a large-scale debt relief campaign prompted the launch by the IMF and the World Bank of the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), helping them to move closer to achievement of the Millennium Development Goals;
- E. whereas the HIPC and MDRI initiatives are not sufficient to put an end to the debt crisis;
- F. whereas these initiatives, accompanied by the commodity price boom, have improved the financial situation of many developing countries, while exceptionally low interest rates since the 2008 financial crisis have also contributed to debt sustainability; whereas, however, commodity prices have fallen since 2008; whereas a new debt crisis has begun in impoverished countries, with Mozambique, Chad, Congo and The Gambia unable to pay;
- G. whereas debt crises triggered by falling commodity prices and volatile capital flows represent an ongoing threat to debt sustainability, especially in developing countries; which continue to be dependent on commodity exports;
- H. whereas there has been an increase in the number of developing countries classified by the IMF and the World Bank as burdened with unsustainable debt or presenting a high or medium risk, with most of the low-income countries now belonging to one or other of these categories;
- I. whereas, according to the IMF, the median level of debt in sub-Saharan Africa rose sharply, from 34 % of GDP in 2013 to 48 % in 2017;
- J. whereas several countries, including Ethiopia, Ghana and Zambia, have debt levels at or above 50 % of GDP, and whereas this constitutes a significant debt burden, when one considers the low tax base in most African countries;
- K. whereas debt service as a percentage of government spending has considerably increased since 2013, and whereas this substantially reduces opportunities for public investment;
- L. whereas the global public debt landscape has undergone profound changes in recent decades, with the emergence of private investors, together with China, which are taking centre stage;
- M. whereas the composition of developing country debt has evolved in line with the growing importance of private creditors and trading conditions and increased exposure to financial market volatility, which has an impact on the sustainability of debt; whereas, while debt denominated in the national currency effectively eliminates exchange-rate risks, such an option may prove to be unfavourable or untenable where backed by insufficient domestic capital reserves;
- N. whereas threats to debt sustainability include not only deteriorating terms of trade, natural and man-made disasters, adverse trends and volatility on international financial markets, but also irresponsible lending and borrowing, the mismanagement of public finances, the misuse of funds, and corruption; whereas more effective mobilisation of domestic resources offers strong prospects of improved debt sustainability;
- O. whereas it is necessary to help boost the capacities of tax administrations and the transfer of knowledge in partner countries;
- P. whereas, while the UNCTAD principles for responsible sovereign lending and borrowing and the G20 operational guidelines for sustainable financing are undeniably useful for the formulation of regulatory framework provisions, priority must be given to ending irresponsible practices through the introduction of transparent principles, binding and enforceable deterrents and also, where justified, penalties;
- Q. whereas national debt sustainability depends not only on debt stock but also on other factors, such as explicit and implicit financial guarantees (contingent liabilities) issued by the countries concerned; whereas public-private partnerships often entail related guarantees, possibly accompanied by significant risks of future bank bailouts;
- R. whereas 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;

Tuesday 17 April 2018

- S. whereas the increasing use of public-private partnerships (PPPs) in developing countries under the EU External Investment Plan and the G20 Compact with Africa could add to state indebtedness; whereas PPP investors are protected by bilateral investment treaties, notably their investor-to-state dispute settlement mechanisms, that enable investors to litigate against the host states;
- T. whereas odious debts contracted by regimes parties to facilitate corrupt practices or transactions known by creditors to be illicit are resulting in a substantial burden for the people, particularly those who are most vulnerable;
- U. whereas the transparency of loans made to the governments of developing countries is essential for ensuring accountability of lending; whereas a lack of transparency was a key factor in aiding the irresponsible loans made to Mozambique, which were arranged without serious checks on the ability of the country to repay them and subsequently hidden from the financial markets and the people of Mozambique;
- V. whereas odious debt is defined as a debt incurred by a regime to finance actions that go against the interests of the citizens of the state, of which the creditors were aware, and whereas this is as such a personal debt of the regime which incurred it from creditors who were well aware of the borrower's intentions; whereas, however, there is a lack of consensus with regard to the concept of odious debt, owing to strong opposition on the part of certain creditors;
- W. whereas the mobilisation of domestic resources is being hampered by tax evasion and harmful tax competition and by the transfer of transnational corporate profits in particular; whereas the OECD base erosion and profit shifting (BEPS) initiative is a welcome but insufficient response to this situation; whereas there is a need to set-up an intergovernmental body for tax cooperation under the auspices of the UN to enable developing countries to participate equally in the global reform of existing international tax rules, as called for by Parliament in its resolution of 6 July 2016 on tax rulings and other measures similar in nature or effect ⁽⁴⁾;
- X. whereas illicit financial flows from developing and emerging countries, estimated at USD 1 trillion annually, are a constant drain on their resources, in particular those necessary for the pursuit of the SDGs; whereas they lead to external borrowing and undermine debt repayment capacity;
- Y. whereas the fulfilment of Agenda 2030 and the Addis Ababa Action Agenda entails considering new SDG financing options, such as the setting-up of financial transaction taxes and a foreign currency transaction tax; whereas, according to the estimations of the Bank for International Settlement (BIS), a foreign currency transaction tax of 0,1 % would easily finance the SDGs in all low-income countries (LICs) and lower middle-income countries (LMICs) ⁽⁵⁾;
- Z. whereas there is a need to tackle illicit financial flows in order to eliminate them definitively by 2030, inter alia by combating tax evasion and by stepping up international cooperation through measures to facilitate the disclosure of tax data to competent authorities and tax transparency in countries both of origin and of destination;
- AA. whereas existing debt service default proceedings for countries differ fundamentally from insolvency proceedings for businesses falling within national jurisdictions, since no provision is made for impartial arbitration before a court of law; whereas short-term loans, subject to terms and conditions and disbursed in tranches, are provided by the IMF, whose mission is to ensure the stability of the international financial system; whereas the Paris Club of creditor states only makes decisions on debt relief with regard to official bilateral lending by its members; whereas the London Club of private creditors only makes decisions on commercial bank loans by its members; whereas there is no permanent forum for coordinated decision making on debt restructuring by all creditors to a country in debt distress;
- AB. whereas the IMF remains the principal forum for discussing issues relating to the restructuring of sovereign debt, with significant influence over the EU and its Member States;

⁽⁴⁾ OJ C 101, 16.3.2018, p. 79.

⁽⁵⁾ Revisiting Debt Sustainability in Africa. Background Paper for UNCTAD's 2016 Economic Development in Africa Report: 'Debt Dynamics and Development Finance in Africa'.

Tuesday 17 April 2018

- AC. whereas vulture funds targeting distressed debtors and interfering with the debt restructuring process should not receive legal or judicial support for their pernicious activities, and whereas further action must be taken in this regard;
- AD. whereas, although debt relief has provided low-income countries with new opportunities, it must be noted that it is a one-off intervention to restore debt sustainability which does not address the root causes of unsustainable debt accumulation, and whereas challenges such as corruption, weak institutions and vulnerability to external shocks must be addressed as a priority;
1. Points out that responsible and predictable credit facilities are an essential means of ensuring a dignified future for developing countries; underlines, conversely, that sustainable debt is a precondition for achieving Agenda 2030; notes, however, that debt financing should merely be a complement and second-best option to non debt-creating instruments such as tax and tariff income and ODA, since debt financing has inherent and substantial crisis risks which require that adequate institutions for the prevention and resolution of debt crises are put in place;
 2. Emphasises that access to international financial markets enables developing countries to raise funds with a view to achieving development goals;
 3. Notes with concern that lending to impoverished countries increased dramatically from 2008; fears a cycle of new debt crisis; stresses the need for more transparency, better regulation of lenders and tax justice and for steps to be taken to enable countries to be less dependent on commodity exports;
 4. Points out that borrowing is an important way of supporting investment, which is vital in order to achieve sustainable development, including the SDGs;
 5. Takes the view that credit facilities are inextricably linked to other forms of development funding, including earnings from trade, tax revenue and remittances from migrants to developing countries, as well as official development aid; recalls, in particular, that domestic resource mobilisation through taxation is the most important source of revenue for financing sustainable development; urges the EU, to this end, to step up its capacity building assistance in developing countries in order to curb illicit financial flows, support an efficient, progressive and transparent tax system in line with good governance principles and increase its assistance to combat corruption and recover stolen assets;
 6. Is concerned at the substantial increase in both private and public debt in many developing countries and the harmful effect thereof on their ability to finance investment expenditure for health, education, the economy, infrastructure and combating climate change;
 7. Points out that structural adjustment plans that were developed in the 1990s for over-indebted countries have seriously compromised the development of basic social services and undermined the ability of those countries to assume the essential responsibilities they have as sovereign nations to maintain security;
 8. Stresses that debt relief measures must not be liable to impede the provision of basic services and impair respect for all human rights, particularly economic, social and cultural rights, and development in the recipient State;
 9. Considers that responsibility for spiralling (external) debt rests primarily with the politicians governing the countries in question, but that debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations; stresses, more broadly, the co-responsibility of debtors and creditors to prevent and resolve debt crisis through more responsible lending and borrowing;
 10. Points out that blending could cause a debt bubble, notably in sub-Saharan Africa and the Caribbean countries, leaving such countries with limited revenues to service their debt; calls on donors, accordingly, to give the bulk of their aid to least developed countries (LDCs) in the form of grants; reiterates that any decision to promote the use of PPPs through blending in developing countries should be based on a thorough assessment of these mechanisms, particularly in terms of development and financial additionality, transparency and accountability, and on the lessons learned from past experience; asks that the review of the European Fund for Sustainable Development (EFSD) include clear criteria on debt sustainability;

Tuesday 17 April 2018

11. Highlights the importance of defining safeguard mechanisms to prevent contingent government liabilities from undermining the debt sustainability of developing countries; in particular, urges multilateral development banks to conduct ex ante fiscal risk impact assessments of PPP projects (taking into account the full fiscal risks over the lifetime of PPP projects), so as not to undermine the debt sustainability of developing countries; takes the view that the IMF and the World Bank should include all PPP costs in their Debt Sustainability Analysis;
12. Considers that the rules or instruments currently in force are either inadequate or, to varying degrees, insufficiently binding;
13. Calls for the EU and its Member States to actively combat tax havens, tax avoidance and illicit financial flows, which merely increase the debt burden of developing countries, to cooperate with developing countries in order to combat aggressive tax avoidance, and to seek ways to help developing countries withstand pressures to engage in tax competition, which would damage the mobilisation of domestic revenue for development;
14. Takes the view that, where the misuse of public funds is identified by the authorities, creditors ought to trigger warning measures, and where those are not effective, impose sanctions to suspend or even require that loans be repaid before the terms under which they were granted expire;
15. Calls on the Commission and the Member States to support developing countries in promoting the public availability of data on their sovereign debt and to support social education in this area, since detailed information on the state of public finances is rarely available to civil society in developing countries;
16. Calls for legislation to be drawn up to prevent the granting of loans to manifestly corrupt governments and to sanction any creditors that knowingly give them loans;
17. Calls on the Commission to draw up, in coordination with all major international actors and the countries concerned, a white paper with a genuine strategy designed to save developing countries from excessive debt by adopting a multilateral approach, specifying the rights, duties and responsibilities of all concerned and considering the institutional provisions best suited to ensuring an equitable and sustainable approach to the debt problem; advocates the drafting of a code of conduct on credit management for institutional, political and private stakeholders;
18. Notes that most of the sustainable development goals can be viewed in terms of human rights and, as such, are an end in themselves when it comes to combating poverty, whereas debt redemption, on the other hand, is merely a means to an end;
19. Endorses the guiding principles on foreign debt and human rights formulated by the Office of the United Nations High Commissioner for Human Rights, under which the right to achievement of the sustainable development goals should take priority over debt repayment; calls on Member States of the European Union to promote the systematic use of human rights impact assessments as part of debt sustainability assessments undertaken by the International Monetary Fund and World Bank;
20. Calls for the EU and its Member States to adhere to these principles in their bilateral lending and when acting within international financial institutions;
21. Notes that IMF-World Bank debt sustainability assessments (DSA) are usually used by lenders to guide their lending; stresses the need to address their pitfalls, most notably the monitoring of external private debt and the lack of integration of human rights;
22. Urges development stakeholders to assess the impact of debt servicing on the financing capacity of heavily indebted countries in the light of the SDGs, for which results must be achieved by 2030, taking precedence over the rights of those creditors that knowingly make loans to corrupt governments;
23. Supports UNCTAD's recommendation to set up an African Commodity Price Stabilisation Fund in order to reduce the need to resort to borrowing when commodity prices fall;
24. Calls on the Member States and other relevant creditor countries to provide more financing for SDG investments and to keep their long-standing promise to provide 0,7 % of their GNI as official development assistance; calls on them to provide this financing in the form of grants rather than loans where evaluation reports indicate that achievement of the SDGs is being compromised on a long-term basis by dwindling public finances; urges creditor countries, in addition, to establish innovative and diversified new sources of finance to achieve SDGs, such as a foreign currency transaction tax and a financial transaction tax, that can contribute to each country's debt sustainability, particularly at times of financial crisis;

Tuesday 17 April 2018

25. Is concerned about the OECD Development Assistance Committee (DAC) revision of ODA reporting criteria, particularly for private sector instruments, as broadened reporting criteria create incentives for the use of certain aid modalities, most notably loans and guarantees; notes that, while these discussions are ongoing, donors are currently already allowed to report certain loans and guarantees as ODA without an agreed set of rules in place; stresses the need to build in safeguards on transparency and indebtedness;
26. Stresses that transparency should be promoted in order to enhance the accountability of the actors concerned; emphasises the importance of sharing both data and processes related to sovereign debt workouts;
27. Endorses the principles set out by the United Nations Conference on Trade and Development for responsible credit policy, which highlight in particular the shared responsibility of creditors and borrowers (UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing), as well as the need for parliamentary control, which is an essential component of public funding operations, and calls on the European Union to support the implementation of the UNCTAD Principles; believes that UNCTAD Principles on Promoting Responsible Lending and Borrowing should be turned into legally binding and enforceable instruments;
28. Deems that transparency and accountability are essential to supporting responsible sovereign lending and borrowing; calls, to this end, on the Member States to build on commitments made in the Addis Ababa Action Agenda and the G20 Operational Guidelines on Sustainable Financing to make lenders more responsible for their loans, on the basis of the existing principles of transparency and accountability that prevail in the extractive industries (EITI Extractive Industries Transparency Initiative), and to promote the public availability of data on sovereign debt, including contingent liabilities through the collation of this data in a centralised public registry; calls on the Member States to systematically publish information on their lending activities to developing countries;
29. Stresses the need to agree on international binding rules to address odious and illegitimate debts; takes the view, therefore, that debt restructuring should be supported by an independent debt audit as a way to distinguish illegitimate and odious loans from other loans; stresses that illegitimate and odious loans should be cancelled;
30. Deplores the refusal by the Member States in 2015, following the adoption of Council Common Position of 7 September 2015⁽⁶⁾, to approve UN General Assembly Resolution 69/319 on basic principles on sovereign debt restructuring processes, which was nevertheless adopted by majority vote in the UN General Assembly on 10 September 2015;
31. Stresses the importance of the consistency of action taken at IMF level and in the UN context and of coordination of positions among Member States in the best possible way;
32. Stresses the need to resolve debt crisis in a fair, speedy and sustainable manner through the setting-up of an international debt workout mechanism, that builds on the UNCTAD roadmap on sovereign debt work out and the so-called Stiglitz Commission's idea of establishing an International Debt Restructuring Court (IDRC);
33. Calls on the Member States to act on the mandate adopted in UN General Assembly Resolution 69/319 of 10 September 2015 in order to:
- (a) create early warning mechanisms based on reporting of a broader deterioration in debt sustainability, which would help to identify the risks and vulnerabilities of heavily indebted countries at an early stage;
 - (b) allow, in coordination with the IMF, the establishment of a multilateral legal framework for the orderly and predictable restructuring of the sovereign debts of states in order to prevent them from becoming unsustainable and to achieve greater predictability for investors; calls for fair representation of developing countries in the decision-making bodies of international financial institutions;
 - (c) ensure that the EU supports developing countries in the fight against corruption, criminal activities, tax avoidance and money laundering;
34. Calls for the Commission and the Member States to work in international fora and together with the private sector to develop a regulatory framework that will ensure full transparency of the conditions governing loans to developing countries and ownership of these loans, such as the Transparent Lending Covenant being discussed by some financial institutions;

⁽⁶⁾ Doc. 11705/15.

Tuesday 17 April 2018

35. Regrets the pressure put on states such as Tunisia to encourage them not to conduct public audits of the origins and conditions of their debts; calls for the EU to work with other donors and international institutions such as the IMF to protect and encourage the right of states to conduct public debt audits;
 36. Urges the adoption of a rule applicable in cases of impending insolvency, under which courts could deprive creditors of the right to claim debts if the loan in question was taken out by the state in breach of the law established by its national parliament;
 37. Calls on the Member States to adopt, on the Commission's initiative, a regulation based on the Belgian law on combating vulture fund debt speculation;
 38. Calls on institutional and private creditors to agree to a debt moratorium in the aftermath of a natural disaster or acute humanitarian crisis, including the occasional arrival of large numbers of immigrants, in order to enable a debtor country to devote all its resources to securing a return to normality;
 39. Instructs its President to forward this resolution to the Council and the Commission.
-