Enhancing developing countries' debt sustainability

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The European Parliament adopted by 384 votes to 253, with 27 abstentions, a resolution on enhancing developing countries' debt sustainability.

Members recalled that 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.

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. Several countries, including Ethiopia, Ghana and Zambia, have debt levels at or above 50 % of GDP. This constitutes a significant debt burden, when one considers the low tax base in most African countries.

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. Challenges such as **corruption, weak institutions and vulnerability to external shocks** must be addressed as a priority

Responsible and predictable borrowing: Parliament stressed that responsible and predictable credit facilities are an essential means of ensuring a dignified future for developing countries. It underlined, conversely, that sustainable debt is a precondition for achieving Agenda 2030. Debt financing should merely be a complement and second-best option to non-debt-creating instruments such as tax and tariff income and official development assistance.

Supporting an effective tax system: domestic resource mobilisation through taxation is the most important source of revenue for financing sustainable development. Members asked the European Union 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;
- **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;
- help developing countries **resist the pressure to engage in tax competition**, which would damage the mobilisation of domestic resources for development.

Strategy to combat excessive indebtedness in developing countries: Parliament called 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.

Members called 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. They urged development

stakeholders to assess the impact of debt servicing on the financing capacity of heavily indebted countries in the light of the SDGs.

Debt restructuring mechanism: Parliament stressed the need to resolve the debt crisis through the establishment of an international debt restructuring mechanism.

Member States are called on to act on the mandate adopted in UN General Assembly Resolution 69/319 of 10 September 2015 in order to:

- create **early warning mechanisms** based on reporting of a broader deterioration in debt sustainability;
- allow, in coordination with the International Monetary Fund, 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;
- ensure that the EU supports developing countries in the fight against corruption, criminal activities, tax avoidance and money laundering.

Lastly, Parliament called on the Member States to adopt, on the Commission's initiative, a regulation based on the Belgian law on combating vulture fund debt speculation. It also called 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.