

## A Summary of the Special Event of the Second Committee of the General Assembly

# Sovereign Debt Crises and Restructurings: Lessons Learnt and Proposals for Debt Resolution Mechanisms

In reponse to Resolution A/GA/66/189 of the General Assembly, the UNCTAD Secretariat took the lead to organize a special event of the Second Committee on “*Sovereign Debt Crises and Restructurings: Lessons Learnt and Proposals for Debt Resolution Mechanisms*”.

The [Special event](#), which took place on Thursday, 25 October 2012 at the United Nations Headquarters in New York, attracted more than 300 participants, with delegates from over 150 nations.

The event was opened by the President of the 67<sup>th</sup> session of the General Assembly **H.E. Mr. Vuk Jeremic**, and by UNCTAD's Secretary General, **Mr. Supachai Panitchpakdi**, who gave a substantive introduction. It was chaired by **H.E. Mr. George Wilfred Talbot**, Chairman of the Second Committee. **Professor Kenneth Rogoff** of Harvard University delivered the keynote speech.

The interactive debate, which included presentations of lessons learnt from past debt crises and whether there were missing links in the international financial architecture for debt restructuring, was led by **H.E. Mr. Arvinn Eikeland Gadgil** (State Secretary for International Development, Norway), **H.E. Ms. Maria Kiwanuka** (Minister of Finance, Planning and Economic Development, Uganda), **H.E. Mr. Adrián Cosentino** (Secretary of Finance, Argentina), **Mr. Otaviano Canuto**, (Vice-President, PREM, the World Bank), **Ms. Shamshad Akhtar** (Assistant Secretary-General, DESA, United Nations), and **Mr. Martin Khor**, (Executive Director, South Centre). **Mrs. Yuefen LI** (Head of the Debt and Development Finance Branch of UNCTAD) concluded the event.

With the winding down of the HIPC's initiative and the ongoing financial crisis, the Special Event of the Second Committee was considered as timely and important.

In his opening remarks, the President of the General Assembly emphasized that this is the first time that the General Assembly discusses the need for creating a sovereign debt restructuring mechanism and recognized UNCTAD's long standing work on this subject. Dr. Supachai illustrated the problems of the current non-system and the reason why UNCTAD is committed to working with the alternatives.

In his keynote speech, Professor Rogoff highlighted that times are ripe for the creation of a structured mechanism for resolving sovereign debt crises. In recognizing UNCTAD's pioneer work which dates back to the mid 1980s, Professor Rogoff also suggested that the United Nations are the ideal organization for coordinating such a mechanism, and pointed out that institutions that also engage in lending could not be honest brokers in adjudicating sovereign claims.

H.E. Mr. Arvinn Eikeland Gadgil of Norway reiterated the importance of having a structured mechanism. He also related the discussion on debt restructuring with UNCTAD's work toward developing a set of Principles on Responsible Sovereign Lending and Borrowing which, in his view, have been a “small revolution” in sovereign debt. In this context, the government of Norway announced that it will continue to financially support UNCTAD's work on the Principles and on the design of a debt sovereign restructuring mechanism. During the meeting, the government of Mauritania officially endorsed the Principles.

The need for a mechanism for dealing with sovereign insolvency was also emphasized by H.E. Mr. Adrián Cosentino of Argentina who suggested that sovereign insolvency still operates in a legal vacuum. H.E. Ms. Maria Kiwanuka of Uganda also supported a more structured mechanism for dealing with debt crises, but emphasized the importance of prudent policies to avoid getting into a debt crisis.

The complexity of formulating a mechanism was highlighted by Mr. Otaviano Canuto and Ms. Shamshad Akhtar who also provided assessments of the recent experiences of debt restructuring.

Discussions, in particular the presentation made by Mr. Martin Khor, also addressed features and principles of a possible debt resolution mechanism with evoking of US Bankruptcy Codes of Chapter 9 and 11. Mr. Arvinn Eikeland Gadgil of Norway emphasized that a new mechanism on debt resolution must cover all debt, react quickly, be independent and look at more than just debt sustainability.

The opening speeches were followed by a lively discussion with delegates from member states, International Financial Institutions, and civil society. While there was no agreement on the desirability of a structured mechanism for the resolution of sovereign debt crises, participants agreed that this topic should be at the center of the debate on the reform of the international financial architecture. Many participants also agreed that the United Nations are the ideal forum for this discussion, and recognized and appreciated UNCTAD's leading role in this debate.

While earlier work on the creation of a sovereign debt restructuring mechanism focused on creditor coordination, a problem that can be partly solved with the introduction of collective action clauses, participants recognized that problems of fairness, seniority, interim financing, and delayed restructuring are more important than creditor coordination.

Benefiting from the presence of senior experts from different circles, UNCTAD organized a stakeholders' technical meeting ( open to delegates) in the afternoon during which experts discussed the pros and cons of different institutional set ups of a possible debt restructuring mechanism. The UNCTAD Expert Group on Responsible Sovereign Lending and Borrowing also held a meeting to discuss the Guidelines on Implementation of the UNCTAD Principles on Responsible Sovereign Lending and Borrowing.