STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY ARTHUR MWAKAPUGI, PERMANENT MISSION OF THE UNITED REPUBLIC OF TANZANIA TO THE UNITED NATIONS, IN THE SECOND COMMITTEE OF THE 52ND SESSION OF THE U.N. GENERAL ASSEMBLY ON AGENDA ITEM 95(d): EXTERNAL DEBT CRISIS AND DEVELOPMENT

New York, 16 October 1997

Mr. Chairman,

On behalf of the Group of 77 and China, I am honoured to address this Committee on agenda item 95 (d): External debt crisis and development.

First of all, allow me to express our appreciation to the Secretary General for preparing and availing us a very useful and enlightening document on this item in good time. The introductory remarks by the Director of Macro-economic and Social Policy Division broadened our understanding on the magnitude and adverse trends in external indebtedness of the developing countries.

The report of the Secretary General contained in document A/52/290 is particularly very illuminating on the status of the debt crisis of developing countries and the evolution of debt relief strategies in the past decade.

The external debt of net-debtor developing countries rose by about $110 billion or 6.4% in 1996 reaching over $ 1.8 trillion. About 45% of this was owed by 51 developing countries classified as severely indebted by the World Bank. It is noted that net borrowing rose moderately in Africa and Latin America but relatively higher in Asia in 1996. However, the falling of Africa's share in the total debt does not show improvement but reflects the region's limited capacity to borrow new funds in the light of its substantial debt overhang.

Lending by private creditors was fastest growing component of long-term debt in 1996, rising by nearly 12 per cent. While private lending in Asia and Latin America grew by more than 10% in 1996, Africa continued to have limited access to private capital, registering growth of only 7% which was mainly to South Africa. The share of private creditors in Africa's long-term debt remains a mere 25% compared to over 60% in Latin America and 45% in Asia. The high share of debt of African countries is owed to multilateral creditors, mostly the World Bank and International Monetary Fund.

Clearly, we note with deep concern the critical conditions in the external debt of developing countries, particularly the African countries and the heavy and unbearable burden of debt-servicing that had led to the paradoxical situation where African countries find themselves net exporters of capital to the developed countries and international financial institutions. In addition, the deteriorating prices of primary commodities, insufficient foreign investment and declining flows of official development assistance to the region has adversely affected the ability of African countries to meet their development objectives as well as their other financial obligations.

Mr. Chairman,

The debt burden has had adverse impact on the economies of developing countries. The debt overhang discourages investment and puts additional strain on the implementation of the structural adjustment and reform. The development efforts of developing countries, in particular, the provision of essential services, including health, education and housing are severely hampered by the imperative need to set aside a substantial portion of their national budgets for servicing of external debt, which is in the magnitude of more than 30% and more than 20% of their export earnings.

Since mid- 1980s, a series of international debt strategies and initiatives had been launched: Paris Club rescheduling agreements, Toronto terms of 1988, London terms of 1991, Naples terms of 1994 and Highly Indebted Poor Countries (HIPC) Initiative of 1996.

The two main elements embodied in these strategies included the adoption by debtor countries of macroeconomic stabilization and economic reform programmes supported by multilateral financial institutions and debt restructuring involving rescheduling and partial cancellation of debt service obligations. In the early 1980's, Paris Club reschedulings provided the same terms to low-income and middle-income countries. That approach proved unsuitable to many debtors as increasingly it was realized that their problem was not that of liquidity alone but that of insolvency.

Toronto terms tried to redress the debt situation by providing a menu of options aimed at reducing the present value of the rescheduled debt service by up to one third. Only 20 countries benefited from Toronto terms by rescheduling almost $6 billion. In 1994, the maximum level of concessionality for low-income country debt was raised to two thirds of eligible debt servicing under the Naples terms. In the last two years, 16 debtor countries which signed agreements with the Paris Club obtained Naples terms. Since their establishment, Naples terms have been granted to only 23 countries in 25 agreements for total restructuring of $9 billion. However, it should be noted that Paris Club mechanism covers bilateral official debt of most developing countries but does not apply to debt owed to non-Club creditors.

On commercial debt, the main international debt strategy for the middle-income countries has been the `Brady Plan' which intended to contribute to the improvement of the debtors' creditworthiness, thus leading to their access to private financial markets. Since its establishment in March 1989, the Plan has been applied to only 15 countries by eliminating 20% of their commercial bank debt, equivalent to $40 billion through choosing offers from the menu which include buy-back of outstanding loans at discount.

Mr. Chairman,

Apparently, all of these initiatives have not gone far enough in alleviating the serious debt burden and debt servicing problems of developing countries. However, the most recent action by the World Bank and the International Monetary Fund of launching the Heavily Indebted Poor Countries Debt Initiative (HIPC) in late 1996 is an encouraging development. The objective of the Initiative to address the debt problem of the 38 low income countries in a more comprehensive way so as to help these countries reach a sustainable debt-servicing burden is, indeed, desirable.

While welcoming the Initiative, we recognize inherent limitations on accessibility to the debt relief measures for many of these low income countries. The main limitations relate to conditionalities and cross conditionalities and timeframe of six years for track record. These concerns are echoed in the communiqué of the Ministers of the Intergovernmental Group of Twenty Four on International Monetary Affairs issued at their meeting on 20 September 1997 in Hong Kong, China. In particular, the Ministers express concern on the slow progress made to date in implementing the Initiative and urged that in order to allow beneficiary countries to reach debt sustainability rapidly and avoid additional costs associated with delays in debt relief, the period between the decision and completion points should be shortened and interim assistance should be provided.

Clearly, the international community has not yet succeeded in putting in place an effective international debt strategy and action. What is needed is an effective, equitable, development-oriented and durable solution to the external debt and debt servicing problems of developing countries. Desirable actions in evolving an effective strategy include cancellation or writing off of bilateral official debts as well as enhancing flexibility in the eligibility criteria in implementing the HIPC Initiative so as to ensure sufficient coverage of debtor developing countries.

Mr. Chairman,

It is important to underscore that any effective and durable international debt strategy and measures will require an enabling and supportive international economic environment, which includes adequate and predictable ODA flows, improved conditions of access to markets for the exports of developing countries and enhanced access to technology and private financing by developing countries.

I thank you.