Statement by Ambassador S.R. Insanally, Permanent Representative of Guyana to the United Nations and Chairman of the Group of 77 on Item 4: External Debt Problem and Financing for Development, in the informal meeting of the Ad hoc Open-ended Working Group on Financing for Development

19 March 1999

Mr. Co-Chairman,

Without a doubt, the external debt problem is for the Group of 77 and China, a crucial issue in any consideration of financing for development. Not only does it invariably impose a heavy burden on our countries by depriving them of significant resources for development, but it also often brings with it many negative conditionalities that constrain our autonomy of action. We are therefore anxious to see an early resolution of the problem and hope that this exploratory discussion could take us nearer to one.

True enough, there have been some approaches over the years aimed at reducing the enormous debt overhand which have brought some relief. Following the outbreak of the debt crisis in the 80's, we witnessed the efforts of the Paris Club, the Brady Plan of 1989, followed by a series of so called terms including Toronto, Naples and Lyon which certainly were terms that did not terminate the problem. Then of course came the HIPC initiative, in response to pressures from the developing countries. As was soon discovered, however, HIPC had a limited coverage, was loaded with conditionalities and slow to yield significant benefits. The most recent initiatives of the German, UK, French and Norwegian Governments and the US Administration's announcement of a similar plan hold out the promise that there may be further relief but this has to be seen what impact will be made.

Mr. Chairman,

The lesson to be drawn from the progressive approach to debt reduction is that the terms of debt relief have been inadequate at each point in the past years. It is now imperative that we find a more comprehensive solution to the problem, rather than dragging it out further in still more incremental steps.

Thus far, no attempt has been made to do this. Yet it is clear, that dealing with external debt on a case by case basis is far from being satisfactory since most individual developing countries are ill placed to engage in frequent and highly complex negotiations in which their creditors have a distinct advantage. The agreements emerging from such negotiations have thus proved to be quite partial.

For these reasons, Mr. Co-Chairman, a new approach to the problem of external debt is necessary and urgent. As we know, because they are obliged to direct precious resources to service external indebtedness, debtor countries must curtail expenditures for basic health, education and infrastructure. A heavy foreign debt also undermines macroeconomic stability by increasing budget deficits and thus effectively impeding economic growth. All countries therefore have an interest in finding a practical solution to this persistent and pervasive problem.

In this context, let me remind that the crippling debt burden borne by African countries needs special attention. The Secretary-General has put forward a number of proposals in this regard which warrant consideration by the international community. Among these is his call to convert into grants the remaining official bilateral debts of the poorest African countries. New measures will also be required to deal with the problem of commercial debt of middle income countries.

In our search for a more durable solution, we have given some thought in our own Working Group to some of the things that can be done. Perhaps one of these is to set new standards for determining the sustainabilty of external debt that are based on the fiscal consequences of the debt burden. The present method which relies upon the calculation of the balance-of-payments gap to a viable level of indebtedness essentially ignores the fiscal issues raised by the debt service burden. At a minimum therefore, a fiscal test should accompany the balance-of-payments test.

The debtor government and the international institutions could agree on a multi-year fiscal scenario that addresses principles: (a) macroeconomic stability consistent with non-inflationary financing (b) domestic rates of taxation consistent with rapid growth (c) adequate financing for core public goods, including education, public health and basic infrastructure; and (d) debt reduction as necessary to achieve these goals, taking into account the need for a realistic time path for budgetary and tax adjustments, as well as the magnitude of budgetary assistance that the debtor governments can expect from donor countries. This kind of debt reduction programme could then be presented to the Paris Club for consideration.

Out of any forum on financing for development should therefore come a global strategy to settle the debt problem once and for all.

One possible element of such a strategy would be to secure a commitment to the extent of reduction right at the start. Even though debt repayment might be stretched over several years so that both government and markets can be confident that the debt overhang will be eliminated. For example, the IMF/World Bank programme may call for a 90 percent reduction in multilateral debt, to be carried out in the third y ear of a structural adjustment programme so that even though the debt reduction will not take place until the third year, and will be conditional on the successful completion of the adjustment programme, the eventual amount of debt reduction will be known at the outset.

One suggestion is that the global strategy could also include principles drawn from efficient debt reduction procedures followed by some instituitons. One such is the United States Bankruptcy Code. This code recognizes that efficient workouts of financial insolvency require a regulatory environment at three stages. At the outset of insolvency (or at least the outset of creditor recognition of insolvency), it provides for an automatic standstill on debt servicing. The second stage requires that the insolvent entity will have the required support, particularly access to new working capital, to start the process of reorganization. The third stage is the final balance-sheet reorganization (debt reduction, debt service reduction, new loans, debt-to-equity swaps, etc.) usually combined with an operation reorganization.

The key role of the bankruptcy law is to provide a negotiating framework which (a) brings together all the parties; and (b) establishes mechanisms for across-the-board settlements involving all classes of creditors; and (c) discourages free-riding or holdout by individual creditors, and thus pushes the process towards an expeditious resolution. This is merely one proposal that may allow debt-ridden developing countries to have some breathing space in their repayment schedules and to attempt to satisfy their development needs to some extent. There may of course be other ideas that could be tested for their feasibility.

As is jokingly said in the banking world, a client who owes a hundred dollas is a debtor but one who owes a million, is a partner. And as with any partnership there must engage in a dialogue which is aimed at a meaningful settlement. For too long as one economist has said, debt negotiations have been like a circus without a ring-master - a showy but utterly unimpressive performance. The international community needs urgently to coordinate an effective debt reduction policy. One can only hope that this will be done before the end of the millenium.

I thank you.