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Bangladesh

Statement
on behalf of the Least Developed Countries (LDCs)

by

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at

the informal review session of the General Assembly
on Chapter# V of the Monterrey Consensus
"External Debt"

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Mr. Co-Chairmen,

The external debt situation of the developing countries, particularly that of the LDCs, remains a source of serious concern. The cumulative debt of the developing countries stands at staggering USD 3.0 trillion. This represents close to 40 percent of their combined GDP. For LDCs, the situation is far worse. Their cumulative debt of over USD 300 billion – and growing - is larger than their total GDP in a given year. LDCs are stuck in a perpetual debt over-hang. For many LDCs, debt service amount is often larger than the ODA they receive.

LDCs primarily borrow from official sources – from OECD countries and/or the multilateral agencies, such as the World Bank, IMF, and the regional banks. They often lack access to private capital markets. The debt problem of the LDCs – especially debt-servicing - is exacerbated by factors beyond their controls. Uncertainty in domestic production, volatility in international prices and deteriorating terms of trade often make their debt-burden unsustainable.

If we take into account all official and private flows into LDCs, the net is often negative. The total amount of debt servicing and the private outflows – in terms of net factor income and repatriation of profits – is often larger than the total inflows. FDI remain a very small portion on the inflow. This explains the very low level of capital accumulation in the LDCs, explaining their low-investment, low-growth equilibria.

The continued external debt burden greatly aggravates the poverty trap in the LDCs. The indebted countries are home to majority of the world's poor. Debt servicing has severe negative consequence. It often crowd-out the much-needed public expenditure on health, education, nutrition and social safety nets. This affects the long-term productivity of their economies and their abilities to be debt-free. The governments are often compelled to make the hard choice. They service their foreign creditors often at the expense of the well being of their own people.

The external debt burden constrains the national policy space and policy independence in many LDCs. These restrictions on national policy space have been exacerbated by conditional debt relief operations, notably under the HIPC and MDR initiatives, and conditions attached to debt rescheduling, such as those undertaken by the Paris Club creditors. The developing countries must enjoy full national policy space to design appropriate development strategies for economic growth and genuine poverty reduction.

Fearing poor credit rating and losing access to new credit, countries avoid defaults at all cost even when it is extremely difficult for them to service their debts. But the current sovereign rating systems have a built-in bias against the debtors. The ratings do not take into account at the conditionalities of the debt or how creditors contribute to the problems of poor utilization of the debt. It is an imperative that the developing countries collectively adopt their own credit rating. It is also time that we look at the qualitative aspects of external debts and start rating the creditor nations and their performances in the external debt market. The developed countries must be held accountable for making debts highly conditional and anti-development.

The Monterrey Consensus recognizes that external debt relief can play a key role in liberating resources to support sustainable growth and development. It is widely held that savings on debt service payments can make a considerable impact on poverty. But the cash-flow benefits from debt relief are very small particularly in the short-run. The Secretary General's report on extern debt says that the resources released for development through debt relief are in reality, much smaller than those indicated by aid statistics.

The Monterrey consensus particularly underscores that the debt should be fully financed through additional resources. It should not be an accounting gimmick. The consensus further stresses that the resources provided for debt relief do not detract from ODA resources earmarked for the developing countries. Debt relief should be considered additional only when it does not reduce other aid flows. It is however a matter of concern that the debt-relief grants are being incorporated in the ODA calculation. It is contradictory to the commitments made by donor countries in Monterrey.

We recognize the benefits that some LDCs have derived from the Multilateral Debt Relief Initiative (MDRI) and HIPC initiative of the Bretton Woods Institutions. The Monterrey Consensus underscored the need for pursuing debt relief measures more vigorously and expeditiously. The debt relief should be deeper, faster and more broad-based. It must be based on appropriate thresholds of debt sustainability, more upfront elimination of the debt stocks and the front-loading of debt service relief. More importantly, debt relief should not be tied with political conditionality. We call upon international community to write-off all outstanding debt of all LDCs. If a country fulfills the criteria of being an LDCs, it should be eligible for debt write-off to accelerate its economic development and poverty eradication efforts.

A wider participation of all creditors in the debt relief initiative remains a big challenge. The share of relief offered by non-Paris Club creditors has declined. Many of them have, reportedly, withdrawn from the debt relief initiative. We must renew and strengthen our efforts to make the debt-relief initiative more inclusive.

Debt relief alone will not foster economic development and poverty eradication in the LDCs. New and additional development assistance, technology transfer, enhanced investment and full market access must complement the debt relief initiative. In the absence of these supports, debt relief may bring some short-term benefit but it will not have any lasting and long-term poverty reduction impacts. LDCs must have enhanced access to new concessional loans, in particular grants, to finance their physical and social infrastructure and other development needs.

We are deeply concerned that the ODA, net of debt relief, declined in 2006 to 0.25 percent of the gross national income (GNI) of DAC members. This is down from 0.26 per cent in the previous year. This was well below the 0.33 percent level that was reached in the early 1990s and far below the 0.7 percent target as reaffirmed in Monterrey. We call upon the OECD countries to fulfill their commitment of 0.7 of their GNP as ODA to developing countries and 0.20 percent to LDCs as early as possible.

The proposed debt sustainability framework of World Bank and IMF should not only build on assessing a country's capacity to absorb additional resources, but also on the projected needs of resources for that country. There are countries that may face the so-called unsustainable debt situation, but may need more resources. The Monterrey Consensus underlines that the computational procedures and assumptions underlying debt sustainability analysis need to be kept under review. It also stresses that future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration. The revision of the debt sustainability framework should seriously take into account the Secretary General's recommendation that "...we should redefine debt sustainability as the level of debt that allows a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios".

LDCs mostly borrow in foreign currencies. In addition to market risks and idiosyncratic risks, they face the risks of devaluation. The problem is accentuated because most of the LDCs have, by now, liberalized their capital markets and adopted floating exchange rates. Borrowing and servicing their debts in hard currencies often make their exchange rates extremely vulnerable to shocks. Their currencies also face the risks of speculative attack, making their debt servicing even more untenable. It is an absolute imperative that the creditor nations and the international financial institutions take the exchange rate risks more seriously and develop a new mechanism for loans in domestic currencies.

We must search for lasting solutions to the debt problems of the developing countries, especially that of the LDCs. The United Nations system, that provides a platform for both debtors and creditors, can complement the role played by the Bretton Woods institutions on the debt issue. The World Bank Group needs to augment its support for achieving the MDGs. For the least developed countries, the IDA needs to shift to an all-grant facility without any conditionality. This is a must if the LDCs are to attain the Millennium Development Goals by 2015.

I thank you Mr. Co-Chairmen.