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Items 2 and 3 of the provisional agenda

REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE EXTERNAL
INDEBTEDNESS OF DEVELOPING COUNTRIES ON ITS SECOND SESSION

held at the Palais des Nations, Geneva, from 5 to 16 December 1977

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 - C. Memorandum submitted by Sweden.
 - D. The non-OPEC least developed countries: External debt positions and prospects (paper submitted by the United States of America).
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*/ For technical reasons annexes I-III are being issued in three addenda to the present document as follows:

Annex I: Add.1
Annex II: Add.2
Annex III: Add.3

Introduction

1. At the first part of its ninth special session the Trade and Development Board considered the report of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries held in Geneva from 18-22 July 1977 pursuant to Conference resolution 94 (IV) on debt problems of developing countries. 1/
2. At the same session the Board confirmed the arrangements for a second session of the Group, which it scheduled for 5-16 December 1977, and adopted as its mandate
"To prepare for items 2 and 3 of the provisional agenda of the ninth special session of the Trade and Development Board at ministerial level and to report to the resumed first part of that session." 2/
3. In addition to the documentation which was before the Group at its first session 3/ the Group also had before it a note by the UNCTAD secretariat entitled "Selected issues relating to the problem of common norms in future debt reorganizations" (TD/AC.2/9 and Corr.1) 4/
4. In an opening statement summarizing the work of the Group at its first session and setting out the task before it at the present session, the Chairman referred to the mandate of the Group handed down by the Trade and Development Board at the first part of its ninth special session, namely to prepare for items 2 and 3 of the provisional agenda of the ministerial part of the session. This preparation would involve "pursuant to Conference resolution 94 (IV), review of actions concerning the indebtedness of developing countries, in particular the discerning of features which could provide guidance in operations relating to debt problems", and "consideration of proposals made by developing countries and of other views expressed at the first session of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries as reported in document TD/B/670".
5. In an introductory statement the Secretary-General of UNCTAD emphasized the importance of the forthcoming Ministerial meeting of the Board, which would be dealing with the vital question of the external indebtedness of developing countries. In spite of a useful exchange of views and the tabling of interesting proposals, neither the fourth session of UNCTAD nor the Paris Conference on International Economic Co-operation (CIEC) had succeeded in taking significant steps forward. The issue was once again before an UNCTAD forum. He drew attention

1/ For an account of the Board's discussion of the report see TD/B/678 (A/32/15, Vol. II, part two), chap. II.A.

2/ Ibid., chap. II and annex I (a).

3/ See TD/B/670, para. 3.

4/ For the check list of documents before the Group, see annex IV below.

to the recent extraordinary deficits faced by developing countries and noted that those of them which had been unable to finance their deficits had had to curtail imports, at the cost of their development progress, while those that attempted to finance their deficits by recourse to commercial credits would be faced with an escalation of their extensive debts and a very difficult situation with regard to their capacity to service those debts. For these reasons, the UNCTAD secretariat had presented certain proposals to relieve the situation. He felt, however, that there had been a certain misunderstanding about these proposals, since it had sometimes been stated that what was envisaged was a blanket moratorium or writing off of debts. What the secretariat had in mind was remedies tailored to the requirements of particular groups of developing countries and to their special characteristics. On the one hand, it had suggested that for the countries, least developed, most seriously affected land-locked and island developing countries, there should be an attempt to provide immediate relief by way of a writing down or writing off of their past indebtedness. The problems facing those countries, on the other hand, should be distinguished from those facing other developing countries, for which a quite different approach was needed.

6. He believed that the broad thrust of this approach was no less valid today than in the past. There was now increasing recognition that the terms of assistance to the poorest countries should be improved. The terms of past lending to those countries were harder than those applying currently and, in a sense, any action in regard to their past indebtedness could be seen as a way of bringing the terms and conditions of past loans into line with current standards. He further observed that it had sometimes been said that generalized debt relief could have an adverse effect on creditworthiness or confidence. He noted, however, that the relief that several donor countries had given already did not appear to have impaired confidence in the countries benefiting from these measures.

7. With regard to the middle income countries, he noted that the UNCTAD secretariat had suggested means for improving the structure of their external indebtedness. One way would be to improve access to bond markets so as to avoid the need for those countries to have recourse to short-term borrowings. However, that measure alone might not suffice, especially for the short term, and the secretariat had therefore suggested official action to provide a refinancing facility which would help convert short-term debt into debt with a more balanced structure of maturities. While conscious of the need to avoid any suggestions which might unwittingly serve to impair the borrowing capacity of such countries, he felt that an attempt to address this category of problems was necessary.

8. With regard to what was presently called "common features", he felt that there was need to establish an internationally accepted policy framework within which future debt reorganizations could be approached, including a set of principles which would introduce consistency and order into the way in which the future debt problems of different countries were treated. In this connexion, he was struck by the fact that proposals submitted at CIEC by the developed and developing countries were not lacking in many common elements, and he felt that there was sufficient ground for reaching a convergence of views on this subject of norms.

9. The spokesman for the Group of 77 welcomed the statements by the Chairman and the Secretary-General of UNCTAD, which he said outlined the main elements of the work before the Group. He stated that the developing countries attached the highest importance to the solution of their debt problem, a problem that all members of the Intergovernmental Group of Experts had previously agreed was one of the most important before the international community for solution. He pointed out that the developing countries had already presented a carefully worked out and differentiated proposal on their existing debt. Debt service imposed an inflexible and onerous burden on the economies of developing countries, which impinged upon their development efforts. The importance of indebtedness, particularly of the least developed and most seriously affected countries, could be seen from the evolution of the world economy in the last few years, involving a dramatic deterioration in the terms of trade and the current payments position of developing countries. The current-account deficits of developing countries had more than tripled from 1973 to 1975, while ODA flows had increased much more slowly. Whereas in 1973 ODA flows equalled the entire current-account deficits of developing countries, by 1975 they had financed less than half these deficits. Those countries that had access to private markets had been obliged to cover the gap by borrowing on hard commercial terms. Most other developing countries, particularly the least developed, most seriously affected, land-locked and island developing countries, which were too poor to be considered "creditworthy" by private markets, but whose debt service on official debt now amounted to more than \$2 billion per year, had had no choice but to cut back on their development in order to keep down their current-account deficits. He pointed out that the average per capita annual growth of GNP was only 0.4 per cent for the least developed countries and only about 0.6 per cent for the most seriously affected in the first half of the 1970s, which was less than one fifth of the agreed target set in the International Development Strategy. He added that a recent World Bank study had forecast for the period 1978-1985 per capita growth rates for the poorest countries of only 1.7 per cent per year. The same study, however, showed that with improved export performance and additional capital inflows of about \$1.4 billion per year, i.e. less than their present debt service on official debt, these countries could nearly double their per capita growth rate to 3 per cent per year. It was evident, therefore, that debt relief on the official debts of the poorest developing countries was not a matter of minor importance, but was a central and critical requirement in a co-ordinated approach to an international development strategy.

10. He added that the initiatives of Canada, Netherlands, Sweden and Switzerland to alleviate the debt problem of a number of developing countries were a welcome step in the context of the request by the Group of 77 for immediate and generalized debt relief. Even though such initiatives did not meet their request in all its aspects, they felt that the initiatives constituted a recognition of the merit of the generalized approach to the immediate debt problem of developing countries. They were also the first meaningful response to the call made in Conference resolution 94 (IV) for a solution to the critical problems posed by the mounting debt of developing countries. They were a confirmation that the proposals of the developing countries on the debt issue were not only justified but also capable of implementation, and deserved the urgent attention of all developed countries. He added that the general lack of response to these proposals was disappointing and that the developing countries regarded this issue as one of the crucial issues in the so-called "North-South" dialogue. The proposals had been

examined at length; they were in effect an ex post correction of the terms of past loans and would make available development assistance in a form most relevant to the development needs of the developing countries. They would also have a strong contra-cyclical effect on the present depressed state of the world economy and change the entire climate for the dialogue between developed and developing countries by removing an onerous burden that dampened the development prospects of the poorer developing countries. He therefore urged the Intergovernmental Group of Experts not only to recognize, but also to endorse the importance of developed countries adopting on an urgent basis measures to provide generalized relief on official debt of concerned developing countries, particularly the least developed, most seriously affected, land-locked and island developing countries. In the view of his Group the debt problem of any developing country should not be used by the developed creditor countries, either collectively or individually, as a tool to infringe upon the sovereign and inalienable right of any developing debtor country to choose its economic, as well as its political, social and cultural systems, without outside interference, coercion or threat in any form whatsoever. He would welcome hearing from the developed countries their ideas on these matters so that the Group of Experts at this session could play the role expected of it in preparing for the Ministerial meeting of the Board.

11. The spokesman for Group B expressed his Group's willingness to participate actively on a multilateral basis in examining the issues of indebtedness of developing countries. He noted that the mandate for the Group of Experts was quite clear, since the agenda had been set by the Trade and Development Board at the first part of its ninth session. He stressed that the first requirement was that an in-depth examination of the debt situation of developing countries should be carried out and secondly that a frank dialogue be established between the experts of the different groups in order to assist the Ministerial-level meeting of the Trade and Development Board.

Chapter I

ANALYSIS OF THE DEBT SITUATION OF DEVELOPING COUNTRIES

12. The spokesman for Group B introduced a paper, "The debt situation of developing countries" which he said was intended to provide a factual assessment for subsequent treatment of indebtedness at the ninth special session of the Trade and Development Board at the Ministerial level. ^{5/}

13. He said that the conclusions of the Group B paper could be summarized as follows:

(a) The debt problem of developing countries, in the perspective of their development objectives, was not general and should be manageable;

(b) Poorer developing countries, with a limited export growth potential and a limited access to capital markets, depended essentially on increased aid inflows to help them achieve reasonable development objectives. Terms and conditions of present and future lending should take into account the situation of these developing countries;

(c) The international system had responded positively in alleviating acute debt problems and was expected to do so in the future;

(d) In the view of Group B experts, the current debt situation, its evolution and its prospects, confirmed the pertinence and value of the proposal submitted at CIEC by the EEC and the United States (see annex I of the Group B paper) concerning debt crisis situations involving default or imminent default and situations of a longer-term nature involving structural, financial and transfer of resources problems, where an adverse structure of the balance-of-payments hampered development.

14. While associating himself fully with the Group B paper, the expert of the United States submitted a note entitled "The non-OPEC less developed countries: External debt positions and prospects", ^{6/} which provided further factual background. He emphasized the limited use of aggregate data and the importance of making specific studies of individual debtor country situations. He believed it important to recognize that external debt was distributed broadly in line with individual country debt-servicing capacity.

15. Commenting on the United States paper, the experts from the Group of 77 wished to record that in their view debt problems of the developing countries existed long before the adjustment of oil prices. They had been aggravated by the unprecedented inflation and recession in developed countries and the sharp rise in the prices of manufactured goods imported by the developing countries from the developed countries.

^{5/} See annex I.B (TD/B/685/Add.1).

^{6/} See annex I.D (ibid.).

16. The spokesman for the Group of 77 stated that his Group did not consider the analysis proposed by the experts from Group B to be appropriate, given the mandate of the Group of Experts. None the less, his Group had examined in detail the paper on the debt situation of developing countries submitted by Group B and he referred to a number of conceptual and factual difficulties which his Group had had with it. 7/

17. The main conclusion of the Group of 77 paper could be summarized as follows:

(a) The development prospects of the developing countries, in particular the least developed, most seriously affected, land-locked and island developing countries, had been seriously eroded in the recent past by external international events outside their control, in particular by inflation/recession and the multiplying trade restrictions in developed countries. In this context, the growing burden of servicing their debt was seriously compromising their efforts at achieving development targets which the international community had supported.

(b) Official development flows had not achieved international target levels and, in fact, as a percentage of the combined GNP of developed donor countries, had actually fallen between 1975 and 1977. This had compelled the least developed, most seriously affected, land-locked and island developing countries, which had limited access to capital markets, to cut back their development programmes in order to maintain servicing of their debt.

(c) A general retroactive adjustment of the terms of past official loans to these countries to make them consistent with present standards would reduce this burden and help poorer developing countries to regain the development momentum lost in the last few years.

(d) The current debt problems of developing countries needed urgent and effective solutions. Such solutions should take the form of generalized debt relief on the official debt of the least developed, most seriously affected, land-locked and island developing countries and the establishment of an official refinancing facility to assist other interested developing countries to avoid bunching problems. For future debt reorganization, the Group of 77 and Group B proposals, together with the analysis in the secretariat's note (TD/AC.2/9 and Corr.1) could form a basis for the establishment of effective common norms.

18. The spokesman for countries members of Group D represented at the session said that those countries expressed their deep understanding of the grave foreign-exchange difficulties which the developing countries were experiencing as a result of their heavy foreign debt to developed market-economy countries. They shared the opinion of the experts from the developing countries that current forms and methods of regulating international capitalist credit relations were inadequate to deal with

7/ These comments are found in part II of the paper submitted by the Group of 77 (see annex II in TD/B/685/Add.2).

the critical debt situation in which many developing countries now found themselves. He stressed that countries members of Group D were not responsible for the emergence of problems within the capitalist system, such as the reduction of demand for export products from developing countries, growing protectionist trends in developed market economy countries, increasing inflation and instability and depreciation of the main currencies, which had aggravated the difficulties of developing countries in the monetary and financial spheres.

19. They considered that the problem of the external indebtedness of developing countries went beyond the bounds of payments relations. In its present form, this problem stemmed from the deep crisis in the world capitalist economy, the colonialist and neo-colonialist policy of the developed capitalist countries and the self-seeking activities of transnational corporations and private banks. They were convinced that the effective solution of the problem of the indebtedness of the developing countries was directly linked to a coherent restructuring of the entire system of international economic relations on a democratic and just basis and to the elimination of colonialism and neo-colonialism in the economic sphere. The position of experts from Group D countries on all items of the agenda is set out in an annex to this report which reproduces the text of a conference room paper submitted during the session. 8/

8/ See annex III, in TD/B/685/Add.3.

Chapter II

PREPARATION FOR ITEM 2 OF THE PROVISIONAL AGENDA OF THE NINTH SPECIAL SESSION OF THE TRADE AND DEVELOPMENT BOARD AT MINISTERIAL LEVEL: "PURSUANT TO CONFERENCE RESOLUTION 94 (IV), REVIEW OF ACTIONS CONCERNING THE INDEBTEDNESS OF DEVELOPING COUNTRIES, IN PARTICULAR THE DISCERNING OF FEATURES WHICH COULD PROVIDE GUIDANCE IN OPERATIONS RELATING TO DEBT PROBLEMS"
(Agenda item 2)

20. The spokesman for Group B stated that past experience had shown that if acute problems for developing countries arose, the international system responded positively to alleviate them. He cited the recent satisfactory conclusions of creditor club reschedulings for two developing countries.
21. In specific response to the request made by the experts from the Group of 77 for details on action undertaken under the Special Action Programme announced at CIEC, the spokesman for Group B, on behalf of that Group, emphasized that the Programme was conceived exclusively in the context of efforts to assist individual low-income developing countries to meet their immediate needs for additional aid, stressing that the Programme in no way constituted generalized debt relief. Subsequently, experts from Group B countries informed the Intergovernmental Group of actions undertaken by participants in CIEC in order to implement the Special Action Programme and described in a conference room paper submitted during the session 9/.
22. The expert from Sweden recalled that the relief part of the Special Action commitment in CIEC now was included in a larger writing off exercise of all ODA debts owed to Sweden by least developed and most seriously affected developing countries, and that the introduction of a Swedish memorandum at the present session 10/ should be seen as a follow-up of this action.
23. The experts noted that the Netherlands had in 1977 - as previously, in 1975 and 1976 - given debt relief to the least developed and most seriously affected countries within the group of 17 so called "target" countries on which the Netherlands concentrated its bilateral development programme. These measures were in no way related to the Netherlands contribution to the Special Action Programme.

9/ See annex I.A, in TD/B/685/Add.1

10/ See Annex I.C, in TD/B/685/Add.1

24. The spokesman for the Group of 77, noting the Special Action Programme announced at CIEC and the statements made in this connexion, pointed out that the experts who had spoken on this matter had all recognised that the Special Action Programme was not in itself a measure of debt relief, but a symbolic additional transfer of resources to the poorer developing countries. However, in the view of the Group of 77, it could not be denied that some countries had adopted measures which were clearly in the nature of debt relief. These measures constituted actions in the field of indebtedness and were appropriate subjects for review at the present session. He noted that the Group of 77 had already expressed appreciation for the actions of those countries that had granted additional aid through the Special Action Programme. However, for the purposes of the review he felt that only debt relief measures could be taken into account. In general, he referred to the position of the Group of 77 as set out in an earlier statement and in the position paper submitted by his Group. 11/

25. The Group of Experts considered the discerning of features which could provide guidance in operations relating to debt problems both under this agenda item and under agenda item 3. An account of the discussion on this subject is given in the remainder of the present chapter.

26. The spokesman for the Group of 77 noted that the Group of 19 had made a proposal at CIEC concerning guidelines for future debt reorganization. The lack of agreed principles in debt reorganization was symptomatic of the absence of a workable system for international financial co-operation which was consistent with, and supportive of, the International Development Strategy and the New International Economic Order. In the view of his Group, the present international system of debt reorganization was characterized by the following shortcomings:

- (a) Debt relief was often delayed until the last stage of financial difficulties, when it was already too late for the country to recover its rate of growth. Present practice was generally to respond to debt relief only in cases of acute debt crisis.
- (b) The conditions under which debt relief was provided were too severe.
- (c) Debt reorganizations had taken place in the past on an ad hoc basis and in the light of short-term considerations without providing long-term solutions to the debt problems of debtor countries.
- (d) The clear distinction drawn between debt relief provided to facilitate the correction of balance-of-payments difficulties, on the one hand, and provision of development assistance, on the other, had brought about a disregard of the development prospects and needs of the debtor countries in such renegotiations. Debt relief had in most cases been provided on commercial or quasi-commercial terms.
- (e) Multilateral debt renegotiation exercises had to be followed up by bilateral negotiations between each creditor government and the debtor country with a view to reaching agreement on terms of the debt relief. This created problems of interpretation of original multilateral agreements

11/ See annex II, in TD/B/685/Add.2.

and resulted in delays which complicated the debt situation of the debtor countries.

- (f) Short-term analysis of the economic situation of the debtor country as practised in the past tended to highlight the immediate domestic factors and policies at the expense of the underlying external factors at work prior to the emergence of a crisis situation. To correct this shortcoming, the analysis should give adequate consideration of the debtor country's long-term capital requirements and growth prospects.
- (g) There was a lack of institutional arrangements for dealing with private loans not guaranteed by governments. It should be underlined that such loans had, in the recent past, been the most dynamic component of total financial flows.

27. The proposal made at Paris by the Group of 19 was intended to remedy these shortcomings. They had been reiterated by the Group of 77 at the first session of the Intergovernmental Group of Experts. They reflected the obvious need to reorient and reform the present system with a view to the renegotiation and reorganization of the debts of developing countries in the context of international development goals and targets.

28. In the view of the experts from the Group of 77, this would involve the following:

- (a) Future debt reorganization should be established in the context of international co-operation and development.
- (b) The debt problem of any developing country should not be used by the developed creditor countries, collectively or individually, as a tool to infringe upon the sovereign and inalienable right of any developing debtor country to choose its economic, as well as its political, social and cultural, systems without outside interference, coercion or threat in any form whatsoever.
- (c) It was also the exclusive right of the developing debtor country to initiate international action to obtain debt reorganization and relief.
- (d) International action should be taken early, before the occurrence of a debt crisis.
- (e) Analysis of the economic situation of the developing debtor country should be carried out within the framework of internationally agreed development targets.
- (f) The analysis should pay due account to the impact of external factors (for instance, terms of trade, international recession and inflation, drought, etc.).
- (g) The analysis should respect the development plans and national priorities of the debtor country.

- (h) International action should be completed expeditiously and ensure debt relief, together with additional development finance, in order to restore the developing debtor country to its development path and to increase its long-term capacity to service its debt obligations.
- (i) International machinery should be established for periodic regular reviews of the economic situation of the debtor country and monitoring of the debt reorganization.
- (j) Multilateral development finance institutions would be called upon to commit additional resources in appropriate forms toward the objective of future debt reorganization of interested developing debtor countries.

29. The experts from the Group of 77 felt that there was scope for discerning common features, norms or guidelines from the proposals of the Group of 77 and the joint EEC/United States proposal read together with the note on this subject by the UNCTAD secretariat (TD/AC.2/9 and Corr.1) and suggested that informal contacts between experts from the various groups could serve a useful purpose in identifying such common elements. Such an exercise could provide a good basis for further discussions at the second part of the ninth session of the Trade and Development Board, in January 1978, to be held at the level of senior officials.

30. The spokesman for Group B stated that in the view of his Group each case of indebtedness required to be considered on its own merits. The joint EEC/United States proposal presented at CIEC, and reproduced in an annex to the Group B position paper, 12/ was significant and constructive and safeguarded the relationship between debtor and creditor countries. His Group was surprised and disappointed that it had not been adopted at CIEC. It distinguished two types of debt situation - situations of debt crises which involved default and imminent default as well as serious balance-of-payments difficulties in which debt servicing played a major role, and situations of a longer-term nature which involved structural, financial, and transfer-of-resources problems and where an adverse balance-of-payments structure hampered development. He reiterated that the proposals put forward by the Group of 77 in this context differed conceptually from those in the EEC/United States approach.

31. The spokesman for Group B summarized the position of his Group as follows: Group B experts recognized that external borrowing was both normal and responsible, and that it was an integral component of the efforts of developing countries to promote their economic welfare. They believed that much of what was currently referred to as "debt problems" were essentially general balance-of-payments problems which had been somewhat arbitrarily assumed as being due to debt service payments, on the grounds that these constituted a contractually fixed, and therefore rigid, element in the balance of payments. To meet such balance-of-payments problems, the whole spectrum of economic management came into play, including efforts to strengthen domestic performance, increase export earnings, secure external resources, etc. Only if a country had exhausted these possibilities did its debt-service payments become a problem. In assessing

future prospects, the experts from Group B stressed the great variation in individual country situations and consequently the key importance of country-by-country analysis.

32. In the view of the experts from Group B, the debt problems of developing countries in the perspective of their development objectives were not general, and should be manageable. These experts further agreed that the terms and conditions of present and future lending should take into account the special situation of the poorer developing countries with a limited export growth potential and a limited access to capital markets.

33. The experts from Group B further believed that the international system had responded positively in alleviating acute debt problems and expected it to do so in the future. Their assessment of the current debt situation, its evolution and its prospects confirmed the pertinence and value of the proposals submitted at CIEC by the EEC and the United States concerning debt crisis situations and situations of a longer-term nature involving structural, financial and transfer-of-resources problems where an adverse structure of balance of payments hampered development. They believed that detailed comparison of the United States/EEC proposal at CIEC (annexed to the position paper of Group B) with the proposals endorsed by the experts from the Group of 77 would, to say the least, be premature since the differences between the two Groups were conceptual in nature and fundamental in application. The experts from Group B did not regard generalized debt relief as an efficient form of resource transfer. In essence, their position was first, that the situation of each country concerned required to be considered upon its own merits, and case-by-case; second, that its indebtedness should be examined in the context of a range of other economic factors; and third, that separate arrangements were required for cases of acute (default) situations, on the one hand, and for longer-term (structural) situations, on the other.

34. The expert from Sweden stated with respect to guidelines/features, that he fully recognized the pertinence and the value of the proposals submitted by the EEC and the United States. He hoped, nevertheless, that it would be possible to find a compromise on the basis of both the EEC/United States text and the proposal of the Group of 77, since both proposals, in his view, contained many useful elements.

35. The representative of Greece drew attention to a proposal by his authorities regarding the establishment of an insurance and guarantee scheme for borrowing by developing countries.

36. The spokesman for the experts from Group D said that in their view the starting point in determining ways of solving the debt problem must be the need for an integrated and realistic approach. Important elements in such an approach were allowing for the particular situations and conditions of individual developing countries and their policies, and the terms and conditions of external financial assistance such countries received. Nor could the fundamental differences be overlooked between the credit policies of the socialist countries and those of the developed market-economy countries, which derived from the nature of the relations which those two groups of countries had with the developing countries.

37. A further prerequisite for a broad and integrated approach was that measures to regulate external indebtedness should not undermine the developing countries' own efforts to implement their national development programmes and consolidate their political and economic independence. In particular, the attempts of neo-colonialists to exploit the issue of the solution of the debt problem for the purposes of dictating to, and interfering in the internal affairs of, developing countries should be resisted. A broad and comprehensive approach must provide for immediate compensation to the developing countries for the damage they had suffered and would continue to suffer as a result of the current upheavals in the world capitalist economy, with its inflation, unstable exchange rates, and deteriorating trade and payments situation.

38. Commenting on this statement by the spokesman for Group D, the expert from one developing country said that his country had tried over several years to alleviate its debt burden vis-à-vis a developed country member of Group D but that its efforts in that direction had unfortunately not produced positive results.

Chapter III

PREPARATION FOR ITEM 3 OF THE PROVISIONAL AGENDA OF THE NINTH SPECIAL SESSION OF THE TRADE AND DEVELOPMENT BOARD AT MINISTERIAL LEVEL:
"CONSIDERATION OF THE PROPOSALS MADE BY DEVELOPING COUNTRIES AND OF OTHER VIEWS EXPRESSED AT THE FIRST SESSION OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES, AS REPORTED IN DOCUMENT TD/B/670"13/

(Agenda item 3)

39. The spokesman for the Group of 77 recalled that the proposals of his Group regarding immediate and generalized debt relief had been tabled at the first session of the Intergovernmental Group and were contained in annex I to the report on that session (TD/B/670). So far, Group B had not commented in any detail, nor had it addressed itself specifically to this matter, except that in its present position paper the conclusion had been drawn that there was no generalized debt problem, which, in his Group's view, was unfounded. The debt problems of a great number of developing countries originated from external generalized causes which were beyond their control. Hence their solution warranted a generalized approach. Such external factors as insufficient export receipts, onerous terms of external credits, and world recession and inflation, seriously reduced the development prospects of the developing countries. He had already addressed this question in his opening remarks (see paragraphs 9 and 10 above) and his Group's position was set out in a paper submitted by Ghana on behalf of the Group of 77.14/ Moreover, he noted that the memorandum by Sweden (see paragraph 42 below) directly addressed the question of immediate and generalized debt relief. His Group was grateful to the Swedish delegation for its positive memorandum and hoped that it would elicit comparable initiatives from other developed countries, of both Group B and Group D. In his view, the Swedish proposal suggested that attention should be focussed on the official debts of the poorest countries and that generalized measures should be taken to cancel these debts. It seemed to him that in many respects the thrust of the Swedish proposal was the same as that of the Group of 77, which also suggested that priority should be given to the problem of official debts of the least developed and most seriously affected countries. He pointed out that at no stage had his Group asked for debt relief for all developing countries. Another area of similarity between the Swedish proposal and that of the Group of 77 was that such relief should be viewed as a retroactive adjustment of the terms of official assistance, so as to bring them into line with current standards. With regard to commercial debt, his Group's proposals did not seek debt relief, but were designed to strengthen and complement the workings of the private capital markets.

40. The spokesman for Group B said that the principal elements of the position of Group B countries on this question were set out in the Group B position paper.15/ In essence, that position was, first, that the situation of each country concerned required to be considered upon its own merits, and hence case-by-case; second, that its indebtedness should be examined in the context of a range of other economic factors; and third, that separate arrangements were required for cases of acute (default) situations, on the one hand, and for long-term (structural)

13/ The discerning of features which could provide guidance in operations relating to debt problems was also considered under agenda item 2 (see ch.II above)

14/ See annex II, in TD/B/685/Add.2

15/ See annex I.B, in TD/B/685/Add.1.

situations, on the other. Experts from Group B expressed concern about the disappointing per capita growth rates of some poorer developing countries in recent years. At the same time, they did not believe that generalized debt relief was an answer to the growth problem. The expert from the United States noted that generalized debt relief was not an efficient mode of resource transfer since it distributed benefits on the basis of past debt accumulation and not on present or future needs.

41. The experts from the Group of 77 noted that, while the distribution of official debt was positively correlated with the distribution of official flows, an examination of debt service normalized by population clearly showed that it was widely and generally distributed among developing countries and not concentrated in a few. They therefore emphasized that generalized debt relief on official debt would be of significant and general assistance to the least developed, most seriously affected, land-locked and island developing countries.

42. The expert from Sweden introduced a memorandum submitted by his country concerning relief for the poorest developing countries. This memorandum, which related both to agenda item 2 and agenda item 3, called for ODA debt cancellation or equivalent measures for the poorest countries. ^{16/} Such action should be seen as a logical consequence of, or a retroactive adjustment to, the fact that most ODA to the poorest countries was now being provided in the form of grants. In the Swedish view the debt problem of the poorer countries should be seen in an overall development perspective. Given their general development situation of low overall growth, stagnating exports and a decline in the net transfer of resources, it was clear that the poorer countries would continue to find even low levels of indebtedness burdensome. He added, however, that in his Government's view, there was not a generalized debt problem per se and it could not therefore accept a generalized approach. The measures Sweden proposed for the poorest countries did not detract from its support of the position of Group B, as set out in that Group's position paper.

43. The experts from countries members of Group D represented at the session supported the developing countries' justified demand for measures to regulate their external indebtedness to the developed capitalist countries. At the same time, they emphasized that it was unjustified to extend such demands, which stemmed from the inequitable relations between developing countries and the developed capitalist countries, to the sphere of credit relations between the developing and the socialist countries, which were developed and managed on an entirely different basis. They also pointed out that the socialist countries of Eastern Europe had not participated in the Paris Conference on International Economic Co-operation and did not consider themselves bound by either the proposals made at that Conference or the results of its work.

^{16/} See annex I.C, in TD/B/685/Add.1.

44. These experts proceeded from the belief that their countries' equitable and mutually economic co-operation with the developing countries made it possible to avoid the debt problems which existed in the relations with the developed capitalist countries and developing countries. The special characteristics of that co-operation predetermined all the basic elements of the credit relations between the socialist and the developing countries: the nature and the place of credit relations in mutual economic co-operation; the conditions for the granting, use and repayment of loans from the socialist countries; and the machinery for the settlement of questions of the developing countries' indebtedness to the socialist countries.

45. The nature of the socialist countries' credit relations with the developing countries was determined by the fact that loans were granted in the context of economic co-operation and with the objective of expanding and consolidating that co-operation. In keeping with those objectives, loan terms were relatively favourable to the recipients. In addition, the loans were characterized by an emphasis on increasing productive capacity which in turn facilitated, through exports, repayment of the loans. Thus, these loans were used in the developing countries for the construction of manufacturing enterprises and production and social infrastructure facilities. The close link between those loans and the developing countries' national programmes was also apparent from the fact that, as a rule, the loans were paid off through the export of products from the developing countries. In this way, loan repayment served as a means of stimulating the developing countries' exports.

46. The special features of the machinery for the socialist countries' credit relations with the developing countries were to be found in the fact that loans were normally granted within the framework of bilateral intergovernmental agreements on trade and economic co-operation. Consequently, negotiations on the settlement of external indebtedness were also conducted on a bilateral, intergovernmental basis. Experience had shown that the reaching of agreement at the intergovernmental level ensured the effective and mutually acceptable settlement of problems of external indebtedness. The range of distinguishing features of the socialist countries' credit relations with the developing countries was so vast that there was no justification whatsoever for an attempt to solve the problem of the external indebtedness of those countries without taking into account the credit policy of the socialist countries. These experts were also convinced that the system of credit relations and the machinery for the settlement of debt questions which existed between the socialist countries and the developing countries were in the interests of both partners.

Chapter IV

ORGANIZATIONAL MATTERS

(a) Opening of the session

47. The session was opened on 5 December 1977 by the Chairman of the Group, Mr. M.H. Khan (Pakistan). The Chairman and the Secretary-General of UNCTAD made introductory statements at the opening of the session (see paragraphs 4 - 8 above).

(b) Officers

48. The Group having been advised that the Rapporteur, Mr. H.P. Wiesebach (Federal Republic of Germany) was unable to be present at the session, elected as Rapporteur in his stead Mr. G. Langer (Federal Republic of Germany). The officers of the Group at its second session were thus:

Chairman:	Mr. M.H. Khan (Pakistan)
Vice-Chairman:	Mr. A. Chekhutov (USSR)
Rapporteur:	Mr. G. Langer (Federal Republic of Germany)

(c) Adoption of the agenda and organization of work (Agenda item 1)

49. At its opening meeting, on 5 December 1977, the Group adopted the provisional agenda drawn up by the UNCTAD secretariat (TD/AC.2/8). Accordingly, the agenda was as follows:

1. Adoption of the agenda and organization of work.
2. Preparation for item 2 of the provisional agenda of the ninth special session of the Trade and Development Board at ministerial level:

"Pursuant to Conference resolution 94 (IV), review of actions concerning the indebtedness of developing countries, in particular, the discerning features which could provide guidance in operations relating to debt problems."
3. Preparation for item 3 of the provisional agenda of the ninth special session of the Trade and Development Board at ministerial level:

"Consideration of proposals made by developing countries and of other views expressed at the first session of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries, as reported in document TD/B/670."
4. Other business.
5. Adoption of the report of the Intergovernmental Group.

(d) Attendance 17/

50. The following States Members of UNCTAD were represented at the session: Algeria; Australia; Austria; Bangladesh; Belgium; Burundi; Canada; Chile; Colombia; Czechoslovakia; Denmark; Ecuador; Egypt; El Salvador; Ethiopia; Finland; France; Gabon; Germany, Federal Republic of; Ghana; Greece; Guatemala; Guinea; Hungary; India; Israel; Italy; Jamaica; Japan; Libyan Arab Jamahiriya; Luxembourg; Madagascar; Malaysia; Mexico; Netherlands; New Zealand; Nicaragua; Nigeria; Pakistan; Philippines; Poland; Romania; Spain; Sri Lanka; Sudan; Sweden; Switzerland; Syrian Arab Republic; Trinidad and Tobago; Tunisia; Turkey; Uganda; Union of Soviet Socialist Republics; United Kingdom of Great Britain and Northern Ireland; United Republic of Cameroon; United States of America; Upper Volta; Venezuela; Yugoslavia; Zaire.

51. The following other States Members of UNCTAD were represented at the session: Argentina; Peru.

52. The following specialized agencies were represented at the session: World Bank; International Monetary Fund.

53. The following intergovernmental organizations were represented at the session: Council of Arab Economic Unity; European Economic Community; Inter-American Development Bank; Organisation for Economic Co-operation and Development; Organization of African Unity.

(e) Adoption of the report of the Intergovernmental Group
(Agenda item 5)

54. At its closing meeting, on 16 December 1977, the Intergovernmental Group adopted its draft report (TD/AC.2/L.2 and Add.1) with a number of amendments, and authorized the Rapporteur to complete the report as appropriate.

ANNEXES

Annex I

PAPERS SUBMITTED TO THE INTERGOVERNMENTAL GROUP OF EXPERTS ON BEHALF OF GROUP B AND BY THE UNITED STATES OF AMERICA AND SWEDEN:

- A. Special Action Programme (paper submitted by Group B).
- B. The debt situation of developing countries (submitted by France on behalf of countries members of Group B).
- C. Memorandum submitted by Sweden.
- D. The non-OPEC least developed countries: External debt positions and prospects (paper submitted by the United States of America).

[The text of this annex is contained in TD/B/685/Add.1]

Annex II

DEBT PROBLEMS OF DEVELOPING COUNTRIES (paper submitted by Ghana on behalf of the Group of 77)

[The text of this annex is contained in TD/B/685/Add.2]

Annex III

POSITION OF THE EXPERTS FROM THE SOCIALIST COUNTRIES OF GROUP D.

[The text of this annex is contained in TD/B/685/Add.3]

Annex IV

CHECK LIST OF DOCUMENTS

<u>Document symbol</u>	<u>Title of document</u>
TD/AC.2/8	Provisional agenda and annotations - Note by the UNCTAD secretariat
TD/AC.2/9 and Corr.1 (English only)	Selected issues relating to the establishment of common norms in future debt reorganization - Note by the UNCTAD secretariat
TD/AC.2/L.2 and Add.1	Draft report of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries on its second session
TD/AC.2/INF.2	List of participants
TD/AC.2/CRP.1 <u>a/</u>	Group B special action programme
TD/AC.2/CRP.2 and Add.1 <u>a/</u>	The debt situation of developing countries. Submitted by France on behalf of countries members of Group B
TD/AC.2/CRP.3 <u>a/</u>	Memorandum submitted by Sweden
TD/AC.2/CRP.4 <u>a/</u>	The non-OPEC less developed countries: External debt positions and prospects. Paper submitted by the United States of America
TD/AC.2/CRP.5 <u>b/</u>	Position of the experts from the socialist countries of Group D at the second session of the Intergovernmental Group of Experts on the External Indebtedness of Developing Countries
TD/AC.2/CRP.6 and Add.1 <u>c/</u>	Debt problems of developing countries. Paper submitted by Ghana on behalf of the Group of 77

a/ Text reproduced in annex I (TD/B/685/Add.1 - TD/AC.2/10/Add.1).

b/ Text reproduced in annex III (TD/B/685/Add.3 - TD/AC.2/10/Add.3).

c/ Text reproduced in annex II (TD/B/685/Add.2 - TD/AC.2/10/Add.2).