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Sessional Committee II

DRAFT REPORT OF SESSIONAL COMMITTEE II OF THE TRADE AND DEVELOPMENT BOARD

Rapporteur: Mr. H. Aschentrupp (Mexico)

Addendum

AGENDA ITEM 3 : DEBT (continued)

Speakers: Belgium
Switzerland
Poland
Cameroon
Peru

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 8 October 1993 at the latest to:

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Chapter III

DEBT ISSUES IN A DEVELOPMENT CONTEXT,
INCLUDING THE RECENT EVOLUTION OF
DEBT RESCHEDULING

(continued)

1. The representative of Belgium, speaking on behalf of the EC and its member States, said that, in spite of an unfavourable external environment, the debt situation of a number of the most heavily indebted countries had continued to improve. The strengthened debt strategy adopted in the second half of the 1980s was working, notably owing to the sustained efforts made by debtor countries, as well as by creditor Governments and banks. He recognised, however, that the situation was still very difficult for many debtors, particularly in Africa.

2. He agreed with the overall analysis of the debt situation made in the Trade and Development Report, 1993. The three basic debt indicators had progressively fallen back to their levels of 1986-1987, and even to the pre-1982 levels for the major Latin American debtors. These trends reflected, on the one hand, improved economic performance and increased exports and, on the other hand, a change in the nature of financial flows to developing countries. Here he drew special attention to the increasing role of portfolio and direct investment. He noted, however, that there were significant differences among regions. In particular the turnaround in the access to private financial resources, whether direct or portfolio investment, had been concentrated in a limited number of countries in Latin America and East Asia. Other regions, in particular sub-Saharan Africa, remained highly dependent upon official finance, and in a number of low-income countries of that region debt indicators remained unbearably high. For some heavily indebted countries, existing schemes of debt reduction would not be enough, and further mechanisms for debt reduction would be necessary.

3. The case-by-case approach remained a central feature of the debt strategy. Good domestic management was also primordial. He drew attention to significant improvements in the international debt strategy, in particular in Paris Club practices. He expressed agreement with some but not all of the recommendations in the Report. Moreover, he reaffirmed the view of the EC and its member States that the definition of international financial policies was the prerogative of institutions such as those of Bretton Woods and the Paris Club.

4. Debt reduction and the case-by-case approach had been key elements in results achieved under the Brady plan, as well as in the reconciliation of debtors' and creditors' interests. The EC felt that heavily indebted low and lower-middle income countries, which had not benefited from the Brady plan, should receive more support from creditor countries for the repurchase and conversion of their debt. This could be done either through the IDA facility or through contributions by donors. Referring to the "moral suasion" mentioned in the Report, he pointed out that this was already used by a number of Governments, though not too much should be expected from it. He also stressed the voluntary nature of private creditors' policies under the Brady plan. He expressed serious reservations concerning the suggestion put forward in the Report to transfer Paris Club reschedulings to other fora such as the Consultative Groups of the World Bank and the UNDP Round Tables.

5. The proposal put forward in 1990 in Trinidad by the Chancellor of the Exchequer of the United Kingdom would result in higher debt reduction for low-income countries than that under existing schemes. The EC hoped that the members of the Paris Club would agree to ensuring the continuation of adequate flexibility and higher concessionality for the poorest countries in future Paris Club negotiations. He then referred to the recommendations of the Tokyo Summit to the effect that the Paris Club should consider the matter of the stock of debt sooner than previously anticipated. The EC hoped that this second phase of the Enhanced Toronto Terms would enable creditor countries to grant reduction of the stock of debt on a case-by-case basis. He welcomed the initiatives taken by a number of creditor countries in terms of converting bilateral debt into development funds in local currency.

6. He noted the burden that multilateral debt represented for a number of low-income countries. It would be interesting to conduct further research on the impact of the arrears of the multilateral financial institutions. Significant progress had been made in addressing this problem through the Rights Acceleration Programme of the IMF and the fifth dimension of the World Bank, but it was absolutely necessary not to impair the financial viability of the multilateral financial institutions. Caution was necessary, and the debate should take place within the institutions themselves.

7. The representative of Switzerland said his Government shared the view that the debt crisis was not over for the severely indebted low-income countries, especially in sub-Saharan Africa. The international debt strategy had so far focused on the middle-income countries, and it was time to assess future directions for the strategy. Failure to reduce the debt burden might seriously

compromise countries' adjustment efforts and prospects, as it already undermined growth in these countries by constraining import possibilities.

8. As for current ways of financing development, a sizeable share of concessional finance had been used to bail out official creditors. More far-reaching debt reduction, rather than this sort of cross-financing among creditors, would be a more efficient way to help close the financing gaps. Specifically, with regard to ODA debt, his Government considered that such debt should be cancelled on a stock basis of 100 per cent. There was in many cases no good justification for maintaining these claims on the books, as conditions had changed radically since the credits were initially advanced. As for bank debt, his Government supported the IDA Debt Reduction Facility. It also welcomed the selective furthering of the "vertical" approach which sought to alleviate the burden of Paris Club debt by focusing on the stock reduction. But analysis of the potential effect of a "horizontal" approach to Paris Club debt, linking debt service to export growth, would also be worthwhile. With regard to multilateral debt, it was essential to maintain the credit ratings of the multilateral financial institutions. The Rights Accumulation Approach introduced by the IMF and followed by the World Bank, as well as the fifth dimension, were measures with the potential to cushion the effects of indebtedness to these institutions. Regional development banks might explore the possibilities of similar measures. He concluded by noting that his country had added debt reduction to its instruments of development cooperation, and such debt reduction had enhanced its flexibility in assisting eligible countries.

9. The representative of Poland indicated his country's support for the country-by-country or case-by-case approach to debt reduction, but expressed the hope that debt-reduction agreements would also be comprehensive and tailored to the present and projected debt servicing capacity of debtor countries, taking into consideration social constraints where possible. Inasmuch as a country's debt-servicing capacity was dependent to a large extent on the international economic environment, an early conclusion of the Uruguay Round could have a significant effect.

10. In the case of Poland, multilateral debt would also increase in importance in the coming years. The problem should be solved by the multilateral financial institutions themselves, but UNCTAD could contribute by discussing the relevant problems during sessions of the Trade and Development Board.

11. With respect to the debt of the Russian Federation mentioned in the Trade and Development Report, 1993, negotiations between Poland and the Russian Federation were under way on an agreement that would probably cancel all mutual

claims. A critical problem, however, was the cut-off date for claims to be included in a "zero option" agreement.

12. Clarifying the Report's statement that Poland was a country with a "significant reduction of debt stock", he said that Poland's agreement with the Paris Club had provided for a reduction of 50 per cent in the net present value of its debt stock to be achieved by 2009. The reduction, however, was not automatic and was divided into two stages, the second stage of a reduction of 20 per cent in the debt stock being conditional upon the successful completion of the IMF-supported three-year adjustment programme. Negotiations with commercial-bank creditors at the London Club for debt amounting to US\$12.3 billion were yet to be concluded. In short, Poland's debt situation remained difficult and might become worse in the coming years. With respect to Poland's Ecofund, the projections given in the Report needed to be interpreted with caution, because the agreed formula for debt reduction included still unknown decisions which made such projections practically impossible.

13. The representative of Cameroon said that, with the end of the cold war, Africa seemed to have lost its strategic importance and, thus, the *raison d'être* for its much needed official development assistance. Sub-Saharan Africa in particular was being more and more marginalized. Africa's debt problem was becoming ever more acute and was compromising the region's development efforts. Paradoxically, the World Bank currently received debt service payments from Africa which were greater than its disbursements of new loans to the continent. Structural adjustment programmes had not succeeded in solving the debt problem and needed to be completely re-evaluated.

14. Developing countries were unable to sustain debt servicing at the present rate while the prices of their main export commodities continued to fall. Negotiations on price stabilization for commodities on which developing countries depended to earn foreign currency had to be accelerated, a process in which UNCTAD had a very active role to play. Alongside the writing-off and rescheduling of debts, new forms of international development finance should be developed.

15. He thanked the members of the Paris Club which had either written off or rescheduled Cameroon's debt and had helped the country in debt management training. In the latter area, UNCTAD and other institutions should intensify their technical assistance to developing countries.

16. The representative of Belgium, speaking on behalf on the European Community and its member States, referring to the Committee's informal consultations on

its conclusions, said that the approach taken, whereby draft conclusions were based on statements made during the Committee's debate rather than on previously prepared material, was a fruitful one and should serve as a lesson for future work.

17. The representative of Peru, also referring to the Committee's informal consultations on its conclusions, said that the approach taken of identifying points of convergence and divergence was a step forward, even although on this occasion not many points of convergence had been identified. For the future, however, every effort should be made to develop an agreed format for the outcome of debates in UNCTAD bodies in order to avoid repetitive discussions about the form which such outcomes should take.

Action by the Sessional Committee

18. At its 7th meeting, on 28 September 1993, Sessional Committee II adopted its conclusions on agenda item 3 (TD/B/40(1)/SC.2/L.2).