United Nations A/CONF.212/6/Add.6

Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus

Doha, Qatar
29 November-2 December 2008

Distr.: General
18 December 2008

Original: English

Agenda item 9 (a)
Multi-stakeholder round tables under the overall theme “Looking ahead: further cooperative actions in financing for development”, focusing on the following six major thematic areas

Round table 5

External debt

Summary of discussion

1. Round table 5 on external debt was co-chaired by Isatou Njie-Saidy, Vice-President of Gambia, and Mario Delgado Alfaro, Deputy Director-General for International Financial Affairs, Ministry of Economy and Finance of Spain. Murilo Portugal, Deputy Managing Director of the International Monetary Fund (IMF) moderated the panel. Presentations were made by the following panellists: Nancy Birdsall, President of the Center for Global Development; Carlos Braga, Director of the Economic Policy and Debt Department of the World Bank; Benoît Coeuré, Co-Chairman of the Paris Club; Robert Gray, Chairman of Debt Financing and Advisory, HSBC; and Mary Robinson, President of the Ethical Globalization Initiative.

2. Ms. Birdsall’s presentation was in the context of the ongoing financial and economic crisis, including the crisis in employment, food and energy. She argued that the impact of those crises would undo the progress made since the Monterrey Conference unless rapid and creative changes were made in the international financial system. Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, for all its success, had failed to reduce the vulnerability of poor countries. The main message of her presentation was that low-income countries faced two kinds of vulnerability: structural and episodic. Terms-of-trade volatility was the highest for low-income countries, almost two thirds higher than high-income countries and one third higher than middle-income countries. Terms-of-trade shock frequency was even higher than natural disaster frequency. Some of the possible responses to volatility and risk, such as pro-cyclical fiscal adjustment and export diversification, were outside the reach of many low-income countries. While the former could be tackled through aid, the latter was a more complex issue. Similarly, self-insurance through reserves was not a feasible option for many low-income countries, and market and market-like insurance was a missing option for that group of countries.

08-65996 (E) 260109

3. Ms. Birdsall suggested two policy solutions to mitigate the impact of structural and episodic vulnerability. For the former, the rule that determined access to International Development Association (IDA) grants should be simplified instead of giving loans to countries with a per capita income of, say, $800 and subsidies to make IMF financing grants equivalent. To deal with episodic external shocks, a contingency facility should be created that was automatic and timely and delayed debt service or otherwise relieved debt in the event of an external shock and allowed more borrowing under the current debt sustainability framework. There was still hope if fixes to HIPC rules could lead the way to fixes to aid transfers overall and the Bretton Woods institutions should take charge in making those changes.

4. Mr. Braga affirmed that while most areas of the Monterrey Consensus had experienced very limited progress since its adoption, substantial improvement had been achieved in the area of external debt. He admitted that the financial crisis had the potential to undo some of that progress. He focused his presentation on low-income countries and the HIPC Initiative. In his opinion, the role of debt in promoting development raised many economic and philosophical questions. On the one hand, borrowing allowed countries to pursue economic objectives, such as financing investment and smoothing consumption, but on the other hand, indebtedness could be harmful and on balance its effect depended on how the new resources were utilized. In response to Ms. Birdsall's view that structural and episodic vulnerability were the areas where solutions had to be found in the form of debt relief for low-income countries and the provision of grants and concessional loans, the speaker explained that structural and episodic vulnerability were not the objectives when the HIPC Initiative was formulated. When evaluating the HIPC Initiative, one needed to use the criteria established when the Initiative was launched, namely, to reduce debt overhang in developing countries, to increase transparency, to reduce debt payment rescheduling and to release resources for poverty alleviation. According to the speaker, substantial progress had been made in achieving all those objectives. Most developing countries had experienced growth during the last six years, their debt overhang had been reduced and the number of instances of debt payment rescheduling at the Paris Club had been reduced by 50 per cent. However, out of 23 countries which reached the point of completion, only 9 currently had low risk of debt distress. That analysis of risk did not factor in the effects of the financial crisis. The debt sustainability framework of IMF and the World Bank for low-income countries attempted to limit borrowing from other sources in order to keep debt sustainable. Prudent macroeconomic policies and debt management played a crucial role in debt maintaining debt sustainability.

5. Mr. Coeuré first presented the implementation of the Monterrey provisions on external debt. Significant progress had been made in the provision of debt relief under the HIPC Initiative/Multilateral Debt Relief Initiative, and Paris Club members have been major contributors under the HIPC Initiative. Debt burdens have been alleviated in the HIPC countries, enlarging the fiscal space for poverty eradication. Paris Club members had also been major contributors to debt relief outside the HIPC Initiative too. He also gave examples of debt treatments accorded to countries to deal with natural catastrophes, severe terms-of-trade shocks and conflict. Paris Club members supported the Organization for Economic Cooperation and Development (OECD) principles and guidelines on sustainable export credit lending (2008) and used the Debt Sustainability Framework to make sure that new lending did not exceed a country's repayment capacity.

6. In the context of Doha and new challenges, Mr. Coeuré emphasized that we needed to make efforts to avert the current crisis. We had to build-up on existing frameworks or arrive at new ones to deal with exogenous shocks and price and asset volatility. In the current Debt Sustainability Framework for low-income countries, no new lending was allowed for countries identified as being in debt distress. That had to be revisited. One option was to relax the Debt Sustainability Framework to finance infrastructure investments, etc. Looking towards the future, the new challenge was in working out the involvement of non-Paris Club creditors. Paris Club had already had two outreach meetings in 2008 with 11 non-Paris Club creditors. Another challenge was to determine ways of arriving at long-term debt sustainability. He also took up the issue of litigating creditors and called on all creditors to refrain from selling claims to non-cooperative litigating creditors. The Paris Club was ready to revisit its own principles and learn from others. It had recently taken steps to become more transparent through data-sharing. Paris Club debt data was now available on its website and an annual report of Paris Club activities was also in the offing.

7. Mr. Gray provided a private sector perspective on the ongoing challenge of creating a stable and durable environment for the management of external debt by developing countries. Some of the salient developments since the Monterrey Conference in 2002 were the improved working relationship between the private and official sectors in the area of crisis prevention and resolution, which had contributed to a better dialogue on debt sustainability; the increasing realization that regulations, including Basel II, had to be counter-cyclical in order to maintain debt sustainability; the increasing introduction of collective action clauses in bond issues; and the increased blurring between domestic and external debt, creating a new set of challenges.

8. Increased transparency, including complying with the IMF Special Data Dissemination Standards and early dialogue between debtors and creditors could, in his view, contribute to reducing misunderstandings by creditors about a country's measures to restore confidence. In addition, the IIF's Code of Conduct for Emerging Markets endorsed by the Group of 20 in 2004 could contribute to stability of capital flows. The private sector was working with the Paris Club to provide relief under the HIPC Initiative in the areas of debt reconciliation and providing debt relief. Reconciliation of commercial debt posed challenges and there should be room to develop a template that addressed the issues of delays in reconciliation. On the issue of litigation, he was of the view that authorities should distinguish between the majority that provided relief and the minority that litigate. Even in the case of the latter, he was of the view that if the debtor was well organized and prepared to negotiate on mutually acceptable terms, a solution could be found. On the issue of new debt in HIPCs, Mr. Gray underscored the importance of debt management in the HIPCs. The speaker also pointed out the importance of longer-dated fixed rate Government bonds, as well as the role gross domestic product (GDP) and inflation-linked bonds played in keeping debt sustainable. He felt that IMF could play a role by purchasing the latter instruments and helping to define their market price.

9. Ms. Robinson addressed the issue of external debt from a human rights perspective, focusing on the need for responsibility and accountability on the part of developed countries. Developing countries were affected by food, fuel and financial crises as well as by climate change, but these were not inevitable. They were the result of the behaviour of developed countries. The current financial crisis, for

example, had been caused by the irresponsible financial behaviour of developed countries, accompanied by too much deregulation and living beyond their means. She pointed to the asymmetry between the developed and developing countries in terms of policy space. Developed countries had a lot of policy space to deal with their problems, as exemplified in the response to the ongoing crisis in the form of bail-outs and the steps taken to shore up the global financial system. Developing countries, on the other hand, did not have similar policy space and would get criticized for interventionist policies. Developed countries should also think in terms of policy space when dealing with the problems of developing countries and take measures to resolve the fall-out of the crisis on developing countries.

10. An effect of the financial crisis was the expected worsening of the debt distress situation in developing countries. The review of HIPCs by the World Bank had shown that many post-completion point HIPCs were falling back into debt-crisis situations. Fourteen low-income HIPCs, which had reached the HIPC completion point by being rigorous and responsible, were now facing deep or moderate risk of debt distress. The actual situation of HIPCs was probably worse, since the financial crisis had occurred after that analysis had been carried out by the World Bank. Ms. Robinson made an appeal to the international community not to let the poorest countries feel the heaviest burden. The financial crisis carried a moral responsibility and the burden must not fall unfairly on developing countries. The crisis, which had been created by the "first world", created moral and ethical issues. She proposed to add a new dimension to the financing for development agenda to deal with responsibility and accountability.

11. After the panel presentations, a policy discussion was held among participants, including representatives of Governments and institutional and non-institutional stakeholders. The following points were made:

- The costs of climate change, financial, food and energy crisis will have to be borne by Africa and other developing countries although it is not their fault.
- Full delivery on the HIPC Initiative will require more efforts. Eighteen countries have not reached the decision point. The new assistance promised to developing countries is going ahead at slow pace. If the Gleneagles target is to be reached, a much faster rate of growth of those funds needs to be achieved.
- Debt relief puts blame on the debtor countries. The impact of debt relief is diluted by conditionality and worsened terms of trade. Financing for development's failure in the area of debt relief includes the inability to promote debt cancellation and policy space. A deeper and broader debt cancellation is needed because the current debt relief mechanism has failed.
- There is a need to examine odious/illegitimate debt. The Paris Club has indicated that it is ready to discuss odious debt although it poses legal issues.
- The Debt Sustainability Framework, debt relief mechanisms and terms of treatment remain a challenge. Some of the features recommended for improvements are speed, comprehensiveness, realism, fairness and transparency.
- A weakness in debt relief initiatives is how to deal with post-conflict countries. There is a need for a broader debt relief for those countries.

- The approach to the debt problem is flawed because it is considered only an economic problem when it has many dimensions (the human rights aspect is missing). The United Nations is the proper place to address the problem because it is a democratic institution where all have an equal voice.
- There is a need to enhance the debt management capacity of developing countries in a transparent legal framework and create a charter of principles that promote responsible lending and borrowing.
- Debt problems include unsustainable and unresolved debt. If debt problems remain unresolved then poverty remains unresolved too.
- There is a need for short-term loans to help developing countries deal with the consequences of the current financial crisis.
- IMF financing is needed to provide funds to budgets.
- How should the post-HIPC countries, which are in pre-crisis situation, be handled? The HIPC Initiative is not available to some low-income and middle-income countries.
- In 2008, about $30 to 35 billion is available to middle-income countries in response to their demand related to the crisis. Some of the loans will be budget support loans.
- Is a rules-based approach for middle income debt needed? Maybe a moratorium on debt makes sense but a rules-based approach is better. Middle-income debt treatment should focus on unsustainable debt.
- Accountability of the international financial system is an issue. There are failures on the part of regulators, ratings agencies and investors themselves, and those failures have an impact on the debt situation of developing countries.