Statement of Dr. Supachai, the Secretary-General of UNCTAD
Eighth UNCTAD Debt Management Conference
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Honorable Mr. Ólafur Ragnar Grìmsson, President of the Republic of Iceland,
Excellencies,
Ladies and Gentlemen,

I would like to warmly welcome you to the 8^{th} UNCTAD Debt Management Conference. I am very pleased and honoured to see such a distinguished audience.

The three day conference is designed to cover the most topical issues and concerns of the Member States of UNCTAD. It also aims to demonstrate the proactive approach UNCTAD has taken in the area of debt and development finance through research, consensus building and capacity building.

There can be little doubt over the topicality of the conference. With a deepening sovereign debt crisis in parts of the developed world threatening to derail a fragile global recovery, debt distress mounting in some developing countries and private debt levels dragging back growth in many countries, the world has once again realized the importance of effective debt crisis prevention, management and resolution.

According to the most recent Debt Sustainability Analysis exercises by the World Bank and the IMF, 3 LDCs are in debt distress and another 11 LDCs are at high risk of debt distress. Therefore, it is important not to be misled by the resilience of LDCs as a group and to pay careful attention to country specifics. Downside risks still abound, particularly in those countries vulnerable to the recent surge in food and fuel prices. Moreover, debt problems in the euro area could negatively impact exports to Europe, which is a main trade partner for most non-oil-exporting LDCs, particularly those from Sub-Saharan Africa.

Similarly, even though the recent years saw an improvement in the debt situation of the "average" developing country, this average masks substantial heterogeneity with the positive trend being mostly driven by the large emerging market countries. Moreover, the debt ratios of many developing countries deteriorated after the global financial and economic crisis that started in 2008.

Public sector borrowing is a powerful instrument of economic policy. It can be used to finance valuable investment projects, to support social programs, and to smooth macroeconomics fluctuations. However, like all powerful tools, public borrowing needs to be handled with care. Excessive debt accumulation may crowd out private investment, impose a burden on future generations, and lead to devastating financial crises. The current crisis is the proof of how dangerous indebtedness can become if badly managed.

By now, we should have learned that the claim that “things will be different this time” is likely to be a cover for familiar practices and behaviour; and imprudent behavior always leads to painful consequences. This is why we at UNCTAD were skeptical when, in 2006, after a few years of benign financial conditions, people started telling us that we should stop worrying about debt, that times had changed and debt crises were a thing of the past. We knew that the seeds of crisis are always planted during booms.

This is why our initiative aimed at promoting responsible sovereign lending and borrowing is particularly important. While debt crises cannot be avoided, prudent and responsible behavior can play an important role in reducing the prevalence and cost of such crises.

This year's UNCTAD *Trade and Development Report* pointed out deregulation of the financial sector is a main cause of the global financial crisis. The past decade or so witnessed a frenzied chase of rising debt levels and increasing asset prices. Much of the debt was in the private sector, both household and corporate, but sovereign borrowing and lending also rose dramatically with little oversight or regulation. The deleveraging which has been taking place since the fall of 2008 is proving highly destructive of the real economy.

Today, UNCTAD is to release the second draft of the Principles on promoting Responsible Sovereign Lending and Borrowing. UNCTAD launched the initiative in 2009 with the generous financing of the Government of Norway. After extensive consultations within an eminent expert group, with academia and governments, the first draft of the Principles was released in May 2011. UNCTAD is now reaching out to obtain national and regional feedback on the design and the possible implementation process from UN Member States, essentially through Consultative Regional Meetings.

The main aim of these principles is to reduce the prevalence of sovereign debt crises by encouraging the parties to act in a responsible manner. We are of the opinion that the principles should focus on the prevention of debt problems by establishing clear responsibilities on both the borrower's and the lender's side. Because of its universal membership and democratic governance structure, the United Nations is the ideal forum for such a discussion. UNCTAD is particularly well placed to advance this discussion given its mandate as the focal point within the UN system for the integrated treatment of trade and development, including external debt and official development assistance.

The importance of effective debt management in minimizing the cost of borrowing and crisis prevention cannot be overemphazised. UNCTAD's Debt Management and Financial Analysis System (DMFAS) Programme is a prime example of UNCTAD’s success in its third pillar, Technical Cooperation, and is an excellent example of how the United Nations can help countries to strengthen their national capacities. The programme has assisted developing countries for 30 years by strengthening their institutional capacity to manage public debt: through accurate recording and validation that provides reliable debt data, transparent reporting of debt statistics, and sound analysis of the debt portfolio. Having thus far supported over 100 institutions in nearly 70 countries in building their debt management capacity, DMFAS continues to respond to the demands emanating from developing countries through the provision of concrete solutions, such as the continuous development of its debt management software and capacity building services.

2011 marks the first year of the DMFAS programme's new four-year strategic plan. The overall focus of this plan is to assist countries in strengthening the foundations for effective debt management, by delivering practical solutions for their operational, statistical and analytical challenges. The two key objectives are: to strengthen the capacity of governments to manage their Debt Management functions; and to improve the capacity of the Programme to deliver effective, efficient and sustainable responses to country needs. Early results indicate that the strategic plan is well adapted to the needs of countries, particularly in the delivery of capacity building products and services and in expanding the scope and depth of its service provision.

A key component of the plan is the provision of the new version of the DMFAS system, DMFAS 6, which has been designed to meet the changing requirements of countries in the area of debt management, such as the increasing prevalence of domestic debt and integration of debt management within the broader public finance management (PFM) framework. DMFAS 6 mirrors the evolving needs of debt management offices and is a demonstration of UNCTAD´s commitment to supporting developing countries in these challenging times of globalization and international crisis. In addition to strong demand from its current clients, there is growing interest in DMFAS 6 from new clients, many of which are middle income developing countries and economies in transition.

Cooperation among international and regional organisations is imperative for assisting developing countries to achieve debt sustainability and poverty reduction without duplication of resources, and is therefore a key priority of the Programme. In recent years, DMFAS has strengthened its partnerships with other organizations in the debt management community, for example through a formal collaboration with the multi-stakeholder Debt Management Framework (DMF) that involves amongst others the World Bank, the IMF and regional organisations.

Given the evolving nature of debt instruments and the changing climate of global finance, public debt management is an area that requires constantly updated capacities. This requires investment in the development of debt management products and capacity-building services that are delivered by the DMFAS Programme. In this context, I would like to acknowledge the crucial role that the donors of UNCTAD´s DMFAS Programme have played in helping the Programme achieve its objectives, and to thank them for their sustained commitment and generosity, especially the recent multi-year commitments that facilitate long-term Programme planning.

I would also like to thank the beneficiaries for their cost-sharing contributions, which this year reached over 170 per cent of the level of cost sharing last year and illustrate their commitment to sustainable public debt management. Together, we can ensure that countries continue to receive the support they need to improve their capabilities.

By way of concluding my opening remarks I would like to point out that even with sovereign financing conducted in a more responsible manner and even with good debt management, debt crises could still happen in a world of lightly or unregulated capital flows and because debt sustainability is determined by a confluence of factors, some of which are beyond the control of national governments. An unstable and unruly financial system can be a threat to development everywhere, even in countries with a track record of good management. The need for more systemic reforms of what I have termed finance-led globalization remains an urgent challenge facing the international community and one UNCTAD will be addressing at its 13th conference to be held in Doha next April.

One such reform that UNCTAD has championed for over twenty years is an orderly, fair and effective debt crisis resolution mechanism drawing on certain principles of national bankruptcy laws, notably those of the US insolvency code, for preventing liquidity problems from erupting into full-blown financial and economic crises and bringing an orderly resolution to sovereign debt when default is inevitable. I notice this topic is going to be discussed in one of the panels.

I am very much looking forward to hearing your views, and I wish you a successful conference.

Thank you very much.