

Statement by
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Secretary-General of UNCTAD

Seventh UNCTAD Debt Management Conference

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CHECK AGAINST DELIVERY

Mr. Chairman,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen,

It is my pleasure to welcome you to the Seventh UNCTAD Debt Management Conference. During the conference, we will be covering a wide range of issues related to debt management, aid and debt relief, and debt sustainability.

This conference takes place during a period when several developing countries are again being confronted with challenges relating to the sustainability of their external and domestic debt.

The financial crisis, triggered by defaults on sub-prime mortgages in the United States in 2007, has turned into the most severe global economic downturn in the last seventy years. The crisis sent shockwaves through the financial markets for all types of assets, including debt instruments. In September 2008, following the collapse of Lehman Brothers, financial contagion spread to other asset markets, regardless of long-term “fundamentals”. By the second quarter of 2009, prices in most of the world’s stock markets began to recover. Prices for several primary commodities followed a similar pattern, and several currencies that had suffered attacks in late 2008 also moved in parallel.

Our last Trade and Development Report convincingly makes the case that the high correlation of day-to-day price movements in many different markets that are not linked by economic fundamentals is to a great extent due to the strong influence of speculative behaviour in these markets. As long as financial prices are largely determined by speculative flows, markets cannot deliver an efficient outcome. Recognizing the contradictions in these markets – efficient financial services producing inefficient outcomes - is key to understanding

the roots of the current crisis, and should be the basis for further policies and reforms aimed at stabilizing the financial system.

Let me now turn to the impact of the crisis on debt sustainability. The decline in global demand and the resulting fall in developing countries' growth and export performance will partially reverse the impressive improvement in debt indicators that took place over the period 2003-2008.

For example, debt service to export ratios are expected to worsen for both HIPCs and non-HIPCs during 2009. It is likely that debt service burdens, both as a share of exports and as a percentage of government revenues will remain inflated during 2009 and well into 2010, with respect to the pre-crisis years. In 2009, debt service in relation to government revenue will increase by more than 17 per cent for both HIPCs and non-HIPCs.

As part of its original and ongoing mandate, UNCTAD is the focal point within the UN system for the integrated treatment of trade and development, including various issues related to development finance such as external debt and official development assistance (ODA). Given UNCTAD's experience and expertise in this area, the General Assembly has requested UNCTAD to keep the assembly informed on various issues related to debt and debt management with a series of annual reports on recent developments in external debt. More recently, UNCTAD played a key role in the substantive preparation of the three-day summit of world leaders on the World Financial and Economic Crisis and its Impact on Development which took place in New York in June 2009. After the Summit, the President of the UN General Assembly, requested UNCTAD to prepare a paper on the impact of the crisis on debt sustainability. UNCTAD took up the challenge and delivered this paper to the General Assembly in late September.

UNCTAD has been a major force behind the initiative that established the ODA target of 0.7% of GNI, which today lies at the heart of the development finance process. We were also associated with promoting debt relief and sustainability before either concept was mainstreamed into the work of international financial institutions. In its recent work, UNCTAD continues to highlight the important role of ODA, especially during periods of crisis. In this context, we proposed a mechanism for delinking donors' aid budgets from their

country's business cycles, thus avoiding pro-cyclicality in aid flows, which may reduce ODA when recipient countries need it most - such as in the aftermath of the current crisis.

We have also argued that policies aimed at improving debt sustainability in low-income countries should start by recognizing that such countries have enormous needs in terms of investment in social and physical infrastructure but a limited ability to sustain the external debt necessary to finance these investments. Therefore, such countries face a dilemma. Either maintain sustainability and forego investment opportunities with high social and economic returns, or try to borrow and invest as much as they can but then face recurrent debt crises. Both options will lead to low growth. A way out of this Hobson's choice would be full debt cancellation and a large step up in aid.

A recent study commissioned by UNCTAD has found that the global financial crisis has substantially weakened the banking sector in a number of low-income developing countries. If the global crisis were to extend beyond 2010, the risk of bank failures would increase in some developing countries adding further pressure on their already strained budgetary positions. As in several large advanced economies that experienced bank failures, developing country governments would be obliged to rescue some of the bigger banks whose failure poses a systemic risk to the economy. It hardly needs stating the resources available to them would be greatly less than developed economies. The weakening of the banking sector in developing countries caused by the financial crisis shows, once again, how developing countries have to cope with the repercussions of crises which originated in the policy mistakes of developed countries.

Even prior to the crisis, the capacity of many developing countries to meet the MDGs was constrained by a lack of domestic resources; the increased share of government revenues devoted to debt servicing is therefore worrisome, as more countries are likely to fall behind on planned poverty reducing programmes. It is in this context, that UNCTAD has proposed a temporary debt moratorium on official debt for low-income countries.

COMPLEXITIES OF DEBT MANAGEMENT

The debt management process has become more complex each time the world economy has witnessed a debt crisis. With each financial crisis, debt management has had to evolve new systems aimed at supporting debt reorganization, monitoring private sector external debt,

integrating debt strategies into macroeconomic planning, and integrating pro-active risk management techniques into the overall debt management process.

The current crisis is once again highlighting the importance of effective debt management for debt sustainability in developing countries. As with previous crises, effective management of a country's public debt is proving to be a valuable asset in mitigating the effects of external shocks. Consequently, it is now globally accepted that building and retaining strong national capacity in the area of debt management is essential for achieving and maintaining debt sustainability.

UNCTAD, through its Debt Management and Financial Analysis System Programme – or DMFAS - has stepped up its efforts to assist developing countries to strengthen their capacity to manage public debt. Having thus far supported over 100 institutions in more than 66 countries, over a period of 27 years, the Programme is responding to the increasing challenges and demands emanating from developing countries through the continuous improvement of its debt management system and related services. In conjunction with this conference, it is releasing the latest major version of its debt management software, DMFAS Version 6. This Web-enabled version of DMFAS, which incorporates the latest best practices in debt management, is a demonstration of UNCTAD's commitment to continue supporting developing countries in these challenging times and for as long as there is a need.

We believe that through this technical assistance in debt management, coupled with our research and analytical work, and in cooperation with other organisations, UNCTAD will continue to play a major role in assisting developing countries to achieve the benefits of good debt management. Ultimately, this will be essential for achieving the goals of debt sustainability and poverty reduction.

However, let me remind you that public debt management is an area that requires constantly updated capacities which is a costly enterprise. In this context, I would like to acknowledge the crucial role that the donors of UNCTAD's Debt Management-DMFAS Programme have so far played in helping the Programme achieve its objectives, and to thank them for their sustained commitment and generosity. I would also like to encourage other donors to consider financing this very worthwhile programme.

PROMOTING RESPONSIBLE LENDING AND BORROWING

UNCTAD has initiated a major project under the broad heading of Promoting Responsible Sovereign Lending and Borrowing. One of the key objectives of the project is to establish a forum for dialogue among lender and borrower states with the aim of developing a set of guidelines to promote and foster mechanisms to enhance responsible sovereign lending and borrowing.

This project reflects the increasing interest of many stakeholders to engage in responsible lending and borrowing. Borrowers, especially from developing countries, have brought the issue to the fore by questioning lending motives and the use of borrowed funds by previous governments. More and more lenders are now taking responsibility for past lending mistakes.

The project is also based on the premise that the resolution of disputes and the debt restructuring process that follows sovereign defaults could be better facilitated if lenders and borrowers could refer to an agreed set of standards to observe during the negotiation phase. The parties would then not only have a common reference point in the case of a dispute, but they would also be encouraged to follow generally accepted principles that enhance responsible practices.

Over the last four months, the Secretariat has been working hard in order to prepare the ground for the establishment of both an Expert and Advisory Group which will include key stakeholders among NGOs, academia, the private sector, international organizations, as well as government representatives, both through their representations in Geneva and their respective headquarters. These two groups will be the major fora in which a set of draft guidelines will be prepared and discussed.

The first Expert Group meeting is to be held here in Geneva on Thursday morning and the initial ad-hoc Advisory Group meeting will take place on Wednesday afternoon with interested government representatives.

In concluding, let me also welcome here the numerous representatives of other institutions that cooperate, and sometimes compete, with us in our various activities related to debt management and debt analysis. It is only through collaboration and healthy competition with

all entities involved in debt issues that we can best comprehend and help countries to manage their debt effectively for the purposes of development and poverty reduction.