UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
LIMITED

TD/B/51/SC.2/L.1
12 October 2004

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fifty-first session
Geneva, 4-15 October 2004
Agenda Item 5
Sessional Committee II

DRAFT REPORT OF SESSIONAL COMMITTEE II

Rapporteur: Mr. Stefano Lazzarotto (Switzerland)

Speakers:

Cuba for the Latin American & Caribbean Group	Netherlands for the European Union
Ethiopia	Benin for the LDCs
United Kingdom	Mauritania
Russian Federation	Senegal
Zambia	Egypt

Note for delegations

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

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GE.04-52771

ECONOMIC DEVELOPMENT IN AFRICA: ISSUES RELATING TO AFRICA'S DEBT SUSTAINABILITY

(Agenda item 5)

1. The representative of **Cuba**, speaking on behalf of the **Latin American and Caribbean Group** (GRULAC), said that the magnitude of the challenges faced by the African region was revealed by the fact that 71 per cent of least developed countries (LDCs) were located in Africa. As the *Trade and Development Report 2004* showed, African countries had benefited the least from the recovery in the global economy in 2003. There had been moderate growth in specific subregions, such as North Africa, while sub-Saharan African countries had hardly seen increases in their gross domestic product (GDP). Reduced financing and low investment rates continued to limit a sustained economic take-off in Africa, as well as the possibilities of diversifying the economy, which was vulnerable to external shocks. These countries did not have the capacity to generate the necessary domestic savings, while private capital flows were not a source of resources on which long-term strategies should be based.

2. External debt continued to be a drain on the scarce resources that these countries obtained from improvements in external conditions. Most African countries had to double their growth rates and maintain that pace for about a decade in order to meet the Millennium Development Goals (MDGs). Without a global strategy for providing effective aid over the next 10 years, these countries would not achieve the MDGs. The international community had lost four years since the Millennium Summit and the Third United Nations Conference on the Least Developed Countries, as official development assistance (ODA) flows had remained far from satisfactory. The HIPC Initiative continued to be the policy framework to channel the debt crisis. However, the Initiative had proved ineffective in reducing the unsustainable debt levels of the highly indebted countries. At the same time, the associated macroeconomic conditionality did not promote development. High indebtedness had reduced the capacity of these countries to attract foreign direct as well as domestic investment. This had limited economic growth and public investment in infrastructure, basic services and human resources development, and reduced expenditure on poverty reduction programmes. The solution would be a debt write-off in order to break the vicious circle in which those countries were trapped. Political will on the part of both bilateral and multilateral creditors was necessary in order to find a permanent solution to the debt crisis, which was to a great extent the result of structural adjustment policies that were promoted as a unique model of development. Domestic efforts had to be supported by external conditions that fostered improvements in economic conditions, as well as in the indicators of poverty. There was a need for global trade, monetary and financial policies that provided the necessary policy space for African countries to apply their own strategies to develop their endogenous capacity to generate resources and improve their production and trade performance. The international community, and not only Africa, was faced with the challenge of reviewing the achievement of the international commitments to fight poverty. This would require a serious political commitment, and not only rhetoric, by Governments, international institutions, the private sector and civil society in order to attain the goals of the Millennium Summit.

3. The representative of **Ethiopia** said that Africa had recorded the fastest economic growth among the developing regions after East and South Asia. This was due to rising oil and commodity prices, the increase in foreign direct investment (FDI), good macroeconomic

fundamentals, improved weather conditions and significant progress towards political stability. However, Africa was far from the 7 per cent growth needed to meet the MDG of halving poverty by 2015. The continent faced many challenges, including ensuring adequate policy space, mobilizing adequate resources, developing human and institutional capacity, expanding social and economic infrastructure, diversifying the economic base, encouraging intraregional trade, maintaining political stability and controlling the spread of HIV/AIDS and other diseases. While the primary responsibility to bring about socio-economic and socio-political transformation lay with the continent itself, there was a need for support by the international community in the form of increased FDI flows, increased and improved ODA, enhanced debt relief and improved market access opportunities. There was an urgent need not only to encourage FDI inflows into Africa but also to diversify those flows by destination, in terms of sectors and countries. ODA continued to play an essential role as a complement to other sources of finance for development. Development partners should increase the size and improve the quality and effectiveness of ODA in line with the commitments made at the Monterrey Conference.

4. With regard to debt relief, in most African countries external debt was still unsustainable. Timely resolution of external debt overhang could rapidly free resources for developmental purposes. It remained to be seen whether the HIPC Initiative would ensure a durable exit from debt overhang for the beneficiary countries. Since experience showed that the Initiative had some serious shortcomings, such as the overoptimistic macroeconomic projections that were difficult to fulfil when facing external shocks, there was a need to review it.

5. The recent proposal on debt relief made by the United Kingdom was welcomed and other development partners were invited to emulate it. Enhanced and stable market access for African exports could provide sustainable and non-debt-creating development finance. Africa should not be condemned to impoverishment and marginalization in the ever-prospering and globalizing world economy.

6. The representative of the **United Kingdom** explained her country's initiative to provide deeper and wider debt relief for poor countries. Too many countries were still being forced to choose between servicing their debts and making the investments in health, education and infrastructure that would allow them to achieve the MDGs. Additional debt relief would therefore be provided to enable the world's poorest countries make further progress towards those goals. It would be designed to ensure additional resources for financing the MDGs, equity between HIPCs and non-HIPCs and sustainability of the future financing capacity of the international financial institutions. The United Kingdom would pay its share of the debt service owed to the World Bank's and African Development Bank's concessional financing on behalf of eligible countries, which was estimated to be just over 10 per cent. It would continue to call for a revaluation or off-market sale of further IMF gold to fund the IMF's share of further multilateral debt relief. The additional support would be provided on an interim basis until a comprehensive multilateral agreement could be reached. To ensure greater predictability of the flow of debt relief, the latter would be cut off only in exceptional circumstances.

7. The United Kingdom would be strongly pressing other donors to join this initiative and would use its influence to keep debt relief at the top of the international agenda. The additional debt relief would be available to all low-income countries with sufficiently robust expenditure management systems. The list would therefore include all those countries that had graduated from the HIPC Initiative, as well as a number of other countries that were

capable of absorbing direct budget support. The list would not be closed, as any country that would come to meet the eligibility criteria would be entitled to relief. A large increase in the United Kingdom´s aid budget had been announced in a recent spending review. By 2007-2008 total aid would represent 0.47 per cent of gross national income, a real-terms increase of 140 per cent since 1997. Part of this budget increase was earmarked for the provision of further debt relief.

8. The representative of the **Russian Federation** said that his country had written off a large volume of African debt. It had written off $11.2 billion between 1998 and 2002 and $3.4 billion in 2002. In 2003–2004, the Russian Federation's contribution to the HIPC Trust Fund was estimated at $10 billion. In the context of trade cooperation, the Russian Federation had granted preferential trade concessions to the African countries. In 2003, preferential treatment had been extended to 80 per cent of imports from Africa, amounting to $344.9 million, of which $61.8 million constituted imports from the LDCs. The Russian Federation was actively contributing to resolving the African debt problem.

9. The representative of **Zambia** said that the problem of Africa's debt sustainability and its impact on achieving the MDGs by 2015 should be addressed by UNCTAD with the help of the rest of the international community. Realistic and achievable targets should be used as benchmarks for debt sustainability. The need to write off the debt of the poorest countries was reiterated, particularly since the write-off would be the final consequence of 20 years of failed adjustment policies that had been imposed on those countries. Africans should determine and shape their own future, and the international community should allow the African countries the necessary policy space for implementing policies that promote debt management, economic diversification and sustained economic growth. Once the problem of African debt, especially that of the LDCs, had been resolved, there would be a need for financial assistance on a larger scale.

10. The representative of the **Netherlands,** speaking on behalf of the **European Union** (EU), said that the full implementation of the Enhanced HIPC Initiative, as well as the extended sunset clause, was welcome. Five more countries had reached completion point in 2004, and it was of great importance that the other countries eligible for the Initiative take full advantage of its benefits. The international community should identify credible alternatives for countries, in particular post-conflict ones, with large arrears on multilateral debt that still risked being left out at the expiry of the Initiative. The secretariat’s document reviewed the main shortcomings of the HIPC Initiative and recommended a more sustainable approach to the debt crisis. However, there did not appear to be a consensus on alternative modalities proposed, such as payment caps. The cost of debt relief appeared to be underestimated in view of the fact that heavily indebted poor countries were already facing large financial gaps. Increasing efforts for a change in the modalities of debt relief required action by aid donors as well as by recipient countries: changes in legislation, accountancy rules and public perceptions. Since there were not enough available resources in the international financial context, the initiatives launched at the current UN General Assembly on new mechanisms for financing for development should be given serious consideration. The development of a debt sustainability framework by the World Bank and the IMF was promising. In the future, all countries should avoid debt distress; this required that all stakeholders base their decisions on debt sustainability analysis. The financing provided must be brought into line with repayment capacity, particularly that of the most vulnerable countries. Achieving the MDGs required debt sustainability. Nevertheless, empirical evidence showed that debt as such was not correlated with poverty. Therefore, debt relief

should be only one element in a full package, with a broader approach, needed to achieve the MDGs -- a package that would include a long-term perspective, coherent action in the areas of trade and finance, increased market access, increased ODA and FDI flows, and effective action to tackle supply-side constraints.

11. The representative of **Benin,** speaking on behalf of the **least developed countries** (LDCs), congratulated UNCTAD on this year's *Report on Economic Development in Africa*. The analyses and recommendations contained in the report were proof that UNCTAD was needed more and more as a centre for theoretical debate, to promote discussion and to make proposals to help developing countries in general and LDCs in particular. More than any other region in the world, Africa faced a number of daunting challenges and would be able to tackle them only within a favourable international environment. Poverty was widespread and growth rates were still too low for the continent to be able to attain the MDGs. The continent was also faced with haunting visions of marginalization in globalization, as shown by its decreasing contribution to world trade. Per capita incomes continued to decrease. In 2003, Africa received only 2 per cent of global FDI. African countries had incurred debt as a result of the advice of international banking institutions in the 1980s as part of their programme to recycle petrodollars. Today, most of those countries were still paying debt service without having received substantial help. It was to avoid such mistakes in the future that the New Partnership for Africa's Development (NEPAD) had been created. Today, the debt burden was an obstacle to the eradication of poverty, as the unbearable weight of external debt undercut all efforts for development. With debt absorbing a large part of resources each year, African countries in general and LDCs in particular were not able to meet by themselves the various prerequisites for promoting development. More innovative and global measures were needed to relieve African countries.

12. It was clear that the HIPC Initiative had not solved the debt crisis of highly indebted poor countries in Africa. Notwithstanding the Enhanced HIPC Initiative, the majority of African indebted countries did not have a sustainable debt level. In such a situation, the "moral imperative" required, as suggested by Professor Jeffrey Sachs, special adviser to the UN Secretary-General, pure and simple cancellation of external debt, since rich countries were asking for payments from countries where people were afflicted by famine, sickness and poverty.

13. This was an appropriate occasion to welcome the announcement by Canada on 22 September 2004 that it would cancel the debt owed to it by three African countries ? Senegal, Ghana and Ethiopia ? totalling $9 million. The United Republic of Tanzania and Benin had already benefited from debt relief in 2000. Overall, Canada planned a total level of debt relief of $1.1 billion for developing countries. This financial assistance from Canada was only one of a number of similar initiatives taken by other donors before Canada, and shows the willingness of some partners of poor countries to support development efforts. The key was a multilateral approach to aid for Africa, particularly since some of the poorest countries did not receive aid from the International Development Association (IDA). The IDA was the central focus of this reform and expansion of aid flows. It was desirable that it be strengthened in order to contribute to solving the debt overhang in Africa. Rather than the current $8 billion, annual programmes of about $25 billion would be required, half of which should go to Africa. The IDA should provide grants rather than loans to poorer countries, that is almost all countries in sub-Saharan Africa. It should define long-term strategies with receiving countries, up to 2015, the year when the MDGs should be attained. It would be

desirable that the next triennial cycle of IDA financing (covering the fiscal years 2006–2008), which was currently being negotiated among donor countries, take this point into account.

14. The representative of **Mauritania** said that studies showed that, at the current growth rates, several African countries would not reach the MDGs. The results of the reforms undertaken in the last few years had been mixed and the number of poor countries continued to grow. The commitments undertaken by the international community in the 1980s had basically not been honoured, as stated by the Group of Eminent Persons that carried out an independent assessment of the United Nations New Agenda for the Development of Africa in the 1990s. For its part, Africa had started building stronger foundations for democracy and good governance through the New Partnership for Africa's Development (NEPAD). Support from the international community was essential for the success of NEPAD, as stated in resolution 57/2 of the United Nations General Assembly. NEPAD was based on the principles of responsibility, solidarity and partnership. Solidarity must be tangible and manifest itself in sustained support for priorities and development programmes aimed at improving the living conditions of African people. A lack of solidarity would be detrimental to the credibility of the international community. Among the commitments undertaken by the international community were increases in ODA aid, market openness, investment promotion and a search for long-term solutions to the debt problem. Indeed, the ongoing debt and the debt service problem were one of the factors hindering the development and growth of African countries. The HIPC Initiative was not a sufficient response to the debt crisis of the highly indebted countries because it did not allow them to generate sufficient resources to achieve the MDGs. Indeed, some African countries were always forced to choose between servicing their debt and investing in health services, education or food self-sufficiency. This situation was worsened by other factors, such as the fall in the prices of some commodities, protectionist policies and difficulty in gaining access to technology.

15. The representative of **Senegal** said that after two decades of initiatives to solve the African debt problem, better solutions were needed to enable the continent to allocate the greatest volume of financial resources to investment. As the Asian experience had shown, capital accumulation made it possible to start a sustained growth process. In this light, the heads of States of African countries had adopted, through the New Partnership for Africa's Development (NEPAD), plans to speed up African development by means of deeper economic integration. To that end, the international community should double its efforts in support of NEPAD. The UNCTAD report, in its assessment of the HIPC Initiative started in 1996 and enhanced in 1999, revealed the limitations of this mechanism, notwithstanding the progress made when compared with previous measures to solve the debt problem. One of the most problematic factors was the issue of how debt sustainability is analysed. Indeed, UNCTAD document TB/B/513 of 23 July 2004 emphasized that the growth prospects for GDP and export revenues considered by the HIPC Initiative were too optimistic, partly owing to the fall in some commodity prices from the 1990s up to 2002. As a result, countries that were about to be able to join the Initiative found themselves with unsustainable debt levels.

16. Senegal fully endorsed the recommendations made by African experts during the meeting on African external debt held in Dakar in November 2003, and welcomed the UNCTAD report, which not only took some of those recommendations into account, but also proposed that the amount of resources needed to achieve the MDGs be used as an indicator to determine the level of debt relief.

17. The representative of **Egypt** stressed the importance of the issue under discussion since Africa had the largest number of LDCs and had a critical need for economic assistance.

The question was whether all countries would benefit from membership of the world economic system, or whether the poorest countries would continue to suffer from obstacles to development and the heavy debt burden. The UNCTAD secretariat was congratulated on its report, which provided not only an excellent analysis, but also constructive recommendations and alternative options for African countries. The report correctly placed the issue of debt and its sustainability within the wider framework of the MDGs. It stated clearly that with the continuation of the present debt levels, several countries would not be able to reduce poverty by 50 per cent within a century or more. This was a challenge for which there were a number of possible solutions, including debt forgiveness and reduction; speedy implementation of the HIPC Initiative; acceleration of the path towards decision point; implementation of the "additionality" concept; and consideration of domestic debt. There was a need for more relaxed debt sustainability indicators, and the structural changes taking place should be addressed by measures such as preferential treatment and supportive market penetration measures for African products in order to counter the unfavourable conditions of the international trading system. It was important to promote capital flows to African countries and increase the policy space available to African policy makers to allow them to design policies that would maximize the outcome of their development efforts.

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