UNITED NATIONS
HIGH LEVEL DIALOGUE on FINANCING for DEVELOPMENT (FfD) and ASSOCIATED GENERAL ASSEMBLY HEARINGS WITH NGOS and CIVIL SOCIETY

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Your Excellency De Kerim, President of the 62nd session of the General Assembly, Mr. Moderator, Excellencies, Distinguished panelists and Civil society Representatives. I have been asked to speak on

EXTERNAL DEBT and FINANCING FOR DEVELOPMENT (FfD)

OVERVIEW

It is generally accepted that there has been a decrease in debt ratio in sub-Saharan Africa as a result of debt relief.[1] However, there has also been an unprecedented out flow of capital from developing to rich countries. According to Tony Killick (and Gunter, 2001) the financial cost of debt relief has been deducted from intended Aid transfers and as a result actual Aid transfers have been well below projected levels.

Developing countries therefore continue to experience financial crisis which, according to the UN Secretary General's report dates back to the adjustment "policy packages" proposed by the International Financial Institutions (IFIs).These policies encroach on the countries' sovereignty and are generally ineffective.

In addition the UN Secretary General notes that the IFIs have had "…chequered sometimes controversial record and steep decline in their engagement with middle-income countries…" and whereas their role in the developing world is questionable, we need to note how these same institutions, despite their questionable actions, remain the most influential arbiters of policy in developing countries!

The actions of the IFIs in developing countries are the indicators used by other donors and private parties for engaging with developing countries. They produce and vet ideas about development and validate other new instruments for development. They thus play a gate keeper role and take a lead in framing mechanisms and instruments for Debt management. This is not anew trend. The history and performance of those instruments is worth revisiting.

1st Instrument DEBT SUSTAINABILITY

Debt sustainability analysis

It

- Does not have adequate information on debt structure.
- Does not include an audit of legitimacy or illegitimacy of all previous debts.
- Is not sustainable to support debt restructuring as it does not fully distinguish solvency from liquidity problems.
- Uses debt thresholds aimed at measuring a country's risk of debt distress and determining eligibility for IDA grants.

[1] Recent Developments in External Debt: Report f the Secretary General; 26 July 2007, A/62/151.

- Is blunt and groups countries into general categories.
- Gives too little weight to the fact hat almost all the variables that drive the evolution of public and external debt depend on each other.
- Is not supported with enough research on vulnerabilities arising from different types of debts to be used to design indicators.

Does **Not**

- Integrate the dynamics between domestic and external debt
- Risks replacing the former "one-size-fits-all" approach with a "four or five-size fits all" approach.
- Debt sustainability framework is based on primary debt servicing and does not explicitly include an evaluation of the needs that are necessary for reaching MDGs.[2]

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2nd Instrument HIGHLY INDEBTED POOR COUNTRIES (HIPC)

HIPIC was aimed at ensuring that no poor country faces a debt burden it cannot manage. This major purpose was modified to provide "faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies."[3] HIPC was also intended to release finances for poverty reduction and to provide opportunity to strengthen the economic prospects of a beneficiary country, to qualify, such a country was required to take the policy measures necessary to become eligible for the initiative.[4] Some of these policies were austere measures carried over from the SAPs period!

Current policy space is conditioned by current debt relief mechanisms that don't recognize past failures of HIPC. Besides HIPC agreements only covered about a quarter of all the people thought to be living in poverty.

Genuine policy space should be built around analysis that provides additional resources to help countries meet the Millennium Development Goals and Beijing Platform for Action.[5] (See 2007 Report of the Secretary-General on FfD, paras 97-102).

The other HIPC failure is with regard to the additionality principle. Killick refers to the OECD report that draws attention to the effects of the Enhanced-HIPC (E-HIPC). The resources provided by creditors to finance the E-HIPC was formerly agreed to as additional but this has not been observed. Had this been done it would have been a substantial net addition to the total volume of transfers to poor countries. But clearly this was not included in the E-HIPC provisions to ensure:

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[2] Recent Developments in External Debt: Report of the Secretary General; 26 July 2007, A/62/151 Pp 5, 9 and 11.

[3] International Monetary Fund: Debt Relief Under the Highly Indebted Poor Countries (HIPIC) Initiative; A Fact Sheet-September 2007.

[4] UN: Monterrey Consensus on Financing for Development; Monterrey, Mexico 18-22 March 2002.

[5] Follow-up to and Implementation of the outcomes of the International Conference on Financing for Development (FfD); Report of the Secretary General, A/62/217, 10 august 2007.

- That additionality was observed
- That the early evidence does not suggest that it has been achieved in practice.
- The introduction of the original HIPC scheme in 1995 coincided with very sharp fall in total transfers to HIPC countries, to levels which have not since recovered.[6]

In 2005 to help accelerate progress towards the Millennium Development Goals (MDGs), the HIPIC was replaced by the Multilateral Debt Relief Initiative (MDRI). Under the MDRI, 100% relief on eligible debt by three multilateral institutions-IMF, IDA and the World Bank and the African Development Fund was provided for countries completing HIPIC but this did not reduce countries dependence on significant levels of concessional external assistance![7] This was because their debt service payments for many years, according to IMF, were much larger than their receipts of assistance.

In addition ODA less debt forgiveness is well below its pre-HIPC levels according to Killick.[8]

3rd Instrument POLICY SPACE

The FfD process also needs to revisit the analysis and debates between the Jubilee campaign and other civil society movers on policy dialogue, austere economic measures and conditionalities. ***The Kenyan Minister for Foreign Affairs Hon. Raphael Tuju in his address to the UN General Assembly typifies the near desperate call for policy dialogue. He characterizes these policies as"…short sighted policies of the WTO, IMF and World Bank"***.[9] Indebted governments need the space to initiate a new and genuine policy space on debt management to enable countries to overcome debt distress.

Policy dialogue according to the Advisory Group encompasses all representational, advocacy and watch dog functions[10]. In addition policy dialogue and accountability issues condition all of the official relationship identified between donor-country or donor civil society recipient of resources. Yet mutual accountability under the new aid agenda is for development results through systems, procedures and capacities in donor and recipient countries that measure aid performance only.

Since the emphasis on mutual accountability is on the extent to which donors and aid recipients have remained focused on national spending priorities, it makes it difficult for developing countries to raise objections to past policy that continue to limit them from meeting even the MDGs.

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[6] Tonny Killick: Development Policy Review, 2004, 22 (1): 5-29.
[7] IMF Fact sheet September 2007.
[8] Secretary General's Report: A/62/151; Page 12.

[9] Hon Raphael Tuju, Minister for Foreign Affairs; Kenya, Address to the 62nd Session of the UN General assembly.
[10] Advisory Group Concept Paper: Civil Society and Aid Effectiveness; Version of June 10, 2007.

“NEW INSRTUMENTS”

There has been an attempt at improving debt management have been through new instruments and systems. These have been created in order for example to address fair burden-sharing and to expand the instruments that are available for any indebted country. Some of them are:

- **A safer debt structure**-whereas this can reduce the probability of debt crisis, the risk of sovereign borrowing it does not provide links between the borrower’s ability to pay and the payment contract among other things.
- **New forms of lending** that move the IFIs away from lending in foreign currencies. These however have not been popularly adopted.
- **Credit default swaps** though they lead to a better distribution of risks and increases efficiency, ignores the high cost of risk modeling and management. It is further complicated, among others, by the fact that it is not possible to keep track of these risks even if they were modeled.

At best these “new instruments” are inadequate remedies for debt condition that have reached desperate and chronic levels.

WHAT NEXT?

1. Assess debt sustainability that is centered on human development and develop sustainability criteria for debt management on a case-to-case basis,[11] with full engagement of borrower governments, civil society organizations and subject it to public scrutiny.
2. Debt sustainability framework needs to be based on primary debt servicing and explicitly include an evaluation of the needs that are necessary for reaching MDGs.
3. Debt audit to include an audit of legitimacy or illegitimacy of all previous debts.
4. Have adequate information on debt structure to be used to eliminate debt crisis, the risk of sovereign borrowing and links the borrower’s ability to pay with contracts that do not sacrifice its people’s human rights.
5. Policy dialogue and accountability to involve all stakeholders to monitor and critique all the official relationship identified between donor-country or donor civil society recipient of resources.
6. Create (or strengthen UNCTAD’s) Independent Debt Management Financial Analysis System Programme that will create space for civil society to in-put into the process and determine how resources freed from debt cancellation is invested.
7. The commitment to provided resources by creditors to finance the E-HIPC must be observed in order to raise substantial net addition to the total volume of transfers to poor countries.

[11] Secretary General’s Report: A/62/151; page 16

8. Mechanisms need to be instituted to de-link funding realized from debt cancellation from additional funding from Official Development Assistance (ODA) commitment of 0.7%.
9. Repackaging of the out comes of past assessments of debt servicing on sectors that affect women most such as education, health care, environment and trade to name a few.
10. National policies, priority should enable effective resource allocations for achieving the MDGs and other internationally agreed development goals, including: full and productive employment and decent work; ensuring access to basic utilities and social services for all; ensuring that women have equal access to employment opportunities and labour market services, and to social services.
11. A significant share of ODA should be targeted for women's empowerment and gender equality. Institutional frameworks at national levels and among international aid agencies should be engendered and strengthened with a view to improving aid effectiveness, accountability and benchmarking for the achievement of gender equality outcomes.
12. Cancellation of debt guided by the Jubilee principle. External debt increased heavily during the period of structural adjustment so that by 1998, the debt to export ratios of Sub Saharan Africa, were greater than 350%. At this level it is impossible for a country to generate the exports to pay for debt.

External debt burden is not only heavy but was entered into "dishonestly" by both donors and recipients who are no longer in positions of decision-making and power. These unjustified unsustainable debts continue to bred anger and discontent.

2007 a JUBILEE YEAR!

The Jubilee principle is an ethical and moral discourse that is built on considerations that make both economic and ethical sense on debt management. The moral inspiration is drawn from a concept of justice in Leviticus 25 and Deuteronomy 15; a requirement that first applied to the Jews and was later practiced by Christians; every seven years and other times 50 years. The other texts are in Luke chapter 4, Isaiah Chapter 61.

"Seven weeks of years shall you count-seven times seven years so that the seven cycles amount to forty-nine years. Then, on the tenth day of the seventh month let the trumpet sound; on this, the day of Atonement, the trumpet blast and shall re-echo through out your land. This fiftieth year you shall make sacred by proclaiming liberty in the land for all its inhabitants. It shall be Jubilee, for you, when every one of you shall return to his own property, every one to his own family estate. In this fiftieth year, your year of jubilee, you shall not sow, nor shall you reap the after-growth or pick the grapes from the untrimmed vines…this is he jubilee, which shall be sacred for you" [12]

[12] Leviticus 25:8-12a.

Jubilee requirements are:

- **To let the land lie fallow** "…stop sowing, reaping…" to keep the Sabbath 7th year of rest or what today in academia translates into the Sabbatical year of leave. Meaning nature, non-human and humans take a rest. This is also applicable to environmental concerns as it gives rest to the earth, the water, the trees and to care for the natural world; and express gratitude for earth's gift of food and nourishment.
- **To proclaim freedom** as enshrined in Universal Human rights even freedom from Debt! It is about both equality and equity. It is about rights and it includes all rights even the right to water, clean air, medicine/health care, education, self expression etc.
- **To practice forgiveness "…**forgive us our trespasses as we forgive those who trespass against us is the basis for this."[13] In addition to the texts in Leviticus and Deuteronomy.
- **To do justice.** Leviticus describes returning property to the owner as an act of justice especially if that property was lost through indebtedness and poverty or "policy" bondage (conditionality) or in this case economic slavery.
- **To hold a great feast.** When restorative justice is done and the poor/indebted are set free, the natural thing is to celebrate.
- **Civil Society participation-** FFD has been at short notice / adhoc.

Would it not be "meet and right" to HOLDING A FEAST at the FfD in Ghana 2008!

I thank you for listening.

[13] From "The Lord's Prayer" Mathew 6:9-13.