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PREPARATORY PROCESS
FOR THE THIRD INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT
SUBSTANTIVE INFORMAL SESSION
ON
"Debt crisis prevention and resolution"

STATEMENT
BY

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TO THE UNITED NATIONS,
CHAIR OF THE GLOBAL COORDINATION BUREAU OF LDCs

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Mr. Co-Chairs
Distinguished panel members
Excellencies and colleagues,

I have the honour to make this statement on behalf of the least developed countries. We align ourselves with the statement of Bolivia on behalf of the G77 and China.

The external debt situation of LDCs remains a serious concern. Despite numerous initiatives, the external debt and debt servicing obligation of this group of countries continues to grow. In 2013, the outstanding debt of the 48 LDCs increased by $16.8 billion or 9.5 per cent compared with 2012. The debt to GDP ratio has increased from 25.5 to 26.5 per cent and the ratio of total debt as a percentage of exports also increased from 87.1 to 89.4 per cent. For many of them, the accumulated debt burden has become a drawback for financing their development. It vindicates that the past international initiatives and engagements have failed to yield positive results.

We recognize the benefits that some LDCs have derived from the Multilateral Debt Relief Initiative (MDRI) and the Heavily Indebted Poor Country (HIPC) initiative. However, HIPC and MDRI do not reward LDCs that manage to maintain low levels of debt. While there have been some sign of improvements in the debt situation of HIPCs, many continue to be at risk of debt distress despite completing the Initiative. As of March 2014, there was one LDC in debt distress and nine of them are at a high risk of debt distress, seven of which have already benefited from the MDRI.

The Group of LDCs subscribes to the observation made in the Secretary-General's report that the end of the HIPC Initiative and MDRI debt relief will not bring an end to debt crises. The international community must also respond to new challenges that have emerged since the launch of the HIPC Initiative. HIPC sunset clause needs to be extended so that countries in debt distress can afforded the same opportunity and benefit. The political components need to be decoupled from the eligibility criteria for HIPC and MDRI.

Getting full debt relief from all creditors is still a big challenge. Non-Paris Club official bilateral creditors, and commercial creditors, which together account for about 26 percent of total HIPC Initiative costs, have only delivered a small share of their expected relief so far. Some commercial creditors have initiated litigations against HIPCs, which is also a big challenge.

The sovereign debt restructuring mechanism has assumed a new dimension in the face of the epic battle between Argentina and a group of hedge funds. This illustrates a fundamental flaw in the sovereign bond market. It demonstrates that there is no orderly, well-established way for financially troubled governments to get relief from their creditors.

Taking into account all these complexities and lack of comprehensiveness in the existing debt relief mechanisms, LDCs are consistently asking for full debt cancellation. If a country fulfils the criteria of being an LDC, it should be eligible for debt write-off. The Group therefore calls upon the international community to undertake necessary measure to write off all outstanding debt, both multilateral and bilateral, of all LDCs immediately.

The current debt relief initiative has failed to liberate sufficient resource for the concerned countries. The resources released for development were in actual practice, much smaller than those indicated by aid statistics. Debt relief has not been additional to ODA as it was committed in the Monterrey Consensus.
We are deeply concerned that, net ODA to LDCs reduced by more than 9 per cent in 2012. This reduction will have direct implications on accumulating further external debt by LDCs.

Debt sustainability assessments must be based on countries need for achieving the MDGs and post-2015 development agenda as well as realistic and objective risk assumptions, in order to avoid unduly constraining investment and growth. If a country borrows for investment in the productive sector, there should not be any arbitrary “debt limit”.

Against the backdrop of insufficiency of the external assistance as well as high development needs, some of our countries (such as Angola, Rwanda, Senegal, Tanzania and Zambia) have turn to international markets to raise funds by issuing Eurobonds. These countries have succeeded in mobilizing some resources to meet their long-term infrastructure needs for economic growth. International community must support these countries to cushion against any kind of uncertainties that may associate with the bonds in the form of rollover risk, currency risk and greater macroeconomic volatility. The efforts to access to international financial market should not affect the allocation of ODA to these countries.

LDCs mostly borrow in foreign currencies. It is an absolute imperative that the creditor nations and the international financial institutions take the exchange rate risks more seriously and develop a new mechanism for loans in domestic currencies.

The roles and services of the Credit Rating Agencies (CRAs), run by an oligopolistic industry, are subject to a severe criticism by all corners. Time and again they have proven to be ineffective and causing “cliff effects”. They failed to accurately assess the risks inherent in more complicated financial instruments, issuing incorrect ratings that proved to be disastrous to the financial system. There is a consensus that a massive reform is warranted in the business model of the CRAs. They must be brought under tighter regulation and accountability framework in order to purge conflicts of interest and ensure objectivity and prudence in their reporting.

In this regard, the Group of LDCs would like to propose the establishment of an intergovernmental mechanism under the auspices of the General Assembly to develop a global methodology and a standardized approach with a set of universally approved criteria for undertaking the ratings. An intergovernmental committee of experts, in the form of the existing "UN Committee for Development Policy" could be seriously considered in this regard.

In conclusion, Mr. Chair, we have been facing multiple and mutually-devastating challenges. This may jeopardize their hard-earned development gains. We would therefore, need to undertake comprehensive measures at all levels to overcome these crises. National efforts must be buttressed by necessary support of the development partners, who to begin with, must fulfill their commitments expeditiously.

I thank you all for your kind attention.