



**Statement
by**

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and
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at the

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Second Committee**

on

**Item 83 (C) :
External debt crisis and development
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Mr. Chairman,

Distinguished delegates,

Among the issues that are deliberated in the Second Committee, "External Debt Crisis and Development" under the agenda item on macroeconomic policy questions has a very special significance in the context of global cooperation for development.

Today I would like to draw your attention again on the seriousness of the debt burden for the 50 Least Developed Countries (LDCs), the poorest and weakest segment of the international community.

The Third United Nations Conference for the Least Developed Countries (UN LDC-III), held in Brussels in May 2001, clearly acknowledged that outstanding external debt greatly inhibits the ability of more than one half of LDCs, considered "debt-distressed", to make any meaningful effort for implementing their development plans.

There can not be any doubt and scope for debate on the all pervasive debilitating impact of debt and debt servicing on the everyday lives of the LDCs population who struggle for their very existence on less than dollar a day against abysmal hunger and poverty.

The latest Report of UNCTAD on LDCs estimates that the total external debt of the 46 LDCs for which data were available increased by around \$ 7.6 billion, from \$137.3 in 2001 to \$144.9 billion in 2002, despite efforts towards debt forgiveness.

The seriousness of the situation is better recognised when we find that in 2002 itself, the Least Developed Countries paid about \$5.1 billion as interest on their debt. On top of that the matter becomes unbearable when we find that this amount is nearly one third of the official development assistance volume of \$17.5 billion to all LDCs for the same period. For some LDCs, the debt service absorbed more than one quarter of their public income. In Sao Tome and Principe and Senegal the debt service absorbed almost 36% of the

government revenue in 2003. This ratio is 30% for Malawi and 24 % for Zambia. Today, as the New York Times said editorially on 1 October 2004, the “sub-Saharan Africa pays \$1.30 in debt service for every dollar it gets in aid, four times what it spends on health care.”

Such a huge debt service payment by the LDCs results in the regular diversion of a large part of scarce budgetary resources from crucial poverty reduction, food security, education and health programmes. The challenges presented by HIV/AIDS pandemic and recurrent natural disasters have added on to the unsustainability of the debt servicing by the LDCs. These countries are being forced to choose between servicing their debts and making investments in health, education and infrastructure.

The Secretary General’s Report (A/59/219) introduced just now depicts the intricate interrelationship between debt and development. It stresses the need to vigorously and expeditiously pursue debt-relief measures, and calls for the speedy implementation of the enhanced Heavily Indebted Poor Countries Initiative (HIPC).

The HIPC initiative was established with good intentions for resolving debt burden in the poorest countries. It provides for at least 90 per cent debt cancellation from the Paris Club members; it covers debt owed to multilateral institutions; and it links debt relief more directly to poverty reduction. Nevertheless, the Initiative has turned out to be too slow, insufficient and didn’t provide a durable exit from the debt problem as expected.

The current composition of the HIPC illustrates that external debt concerns principally the Least Developed Countries. As of September this year, 30 LDCs out of 38 HIPC are potentially eligible to receive debt relief. Since the establishment of the initiative only 10 of LDCs reached the “Completion Point”. 11 had reached the “Decision Point” and the remaining 9 LDCs had yet to be considered for a debt relief programme under the enhanced HIPC initiative.

According to the IMF and the World Bank's own analysis, some completion point countries, such as **Uganda**, currently have debt ratios exceeding sustainable levels as defined by the Initiative. Various reasons for this had been listed, such as the drastic fall in commodity prices between the late 1990s to the end of 2002, over-optimistic assumptions for economic and export growth, and in some cases new borrowings.

All said, it is good news that there is an agreement last week for the extension of the HIPC Initiative for another two years. This decision will allow the pre-decision point countries, 9 out of 11 such countries being LDCs, an opportunity to qualify for HIPC debt relief.

The High Level Segment of the 2004 Session of the Economic and Social Council in July accorded special attention to the need for the alleviation of the debt burden of the LDCs. Recent initiatives by the United Kingdom and the United States have raised new expectations for concrete and tangible progress towards the cancellation of most of the debt of the poorest countries. It is absolutely important that the debt forgiveness for the LDCs should be at the core of any agreement based on these proposals. Without that, no agreement would be meaningful.

Some argue that a write-off of the debt of the poorest countries may provoke an international financial crisis. Given the relatively insignificant size of the total debt of the LDCs in the global context, it is doubtful that a write-off of their debt will cause distress of the international financial system.

It is widely recognized that unsustainable debt presents serious impediment to development, especially in LDCs. As highlighted in this statement, the LDCs have little chance of making any progress in combating poverty while repaying debt. Their levels of debt compromises critically needed public investment in human development. It also dissuades private investment in productive sectors, since the crucial conditions for attracting it are absent. The LDCs are in danger of failing to meet internationally established goals aimed at eradication of poverty.

Cancellation of debt for the world's poorest countries is a moral and a practical imperative, especially when we consider their struggle with extreme poverty and the HIV/AIDS pandemic. Their debt burden also stunts progress towards meeting the Millennium Development Goals (MDGs).

My conclusion is clear: if the Millennium Development Goals are to be met, we have to ensure that all LDCs get their never ending debts fully written-off without any further delay. By that action, achievement of the two major goals of the Millennium Declaration – that of poverty reduction and of global partnerships – would be greatly enhanced. It should not be seen as an act of charity, but as an action in the best interest of the peoples of the world.

As we prepare for the stock-taking summit for the MDGs in 2005, it would be a worthwhile expression of international solidarity if we begin the New Year through decisive action canceling all debts for the Least Developed Countries. We call for full support of all development partners, including civil society, to this action.
