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

PRESENTED BY: HELLEN GRACE AKWII-WANGUSA
ANGLICAN OBSERVER and PERSONAL REPRESENTATIVE of the ARCHBISHOP of CENTERBURY to the UNITED NATIONS.

OCTOBER 22-24, 2007

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.

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[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 INDEBT

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 educa