



External Debt and Development: Towards a Durable Solution to the Debt Problems of Developing Countries

In the past two centuries, certain countries have undergone a rapid change in social and economic dispositions. The industrial revolution has changed the way people live, but also the way wealth is distributed. It may seem that the countries that are yet to undergo this process have an easier task, having a role model to look up to, but it has been shown that due to cultural, geographical, and political diversity, it has been more than difficult for a developing country to successfully engage in international trade and according to the World Bank's 2008 data at least 80% of people live on less than \$10 a day. In our demanding age, developing countries are facing a challenge to maintain economic growth and to improve living standards of their citizens, while keeping their external debts sustainable. In fact, some countries spend over 75% of their budgets on debt repayments. So what are the poverty reduction strategies that the international community has adopted so far?

United Nations Millennium Declaration

In 2000, the General Assembly adopted the Millennium Declaration which requires that all member states cooperate closely in order to eradicate poverty and to ensure minimum living standards are achieved in 3rd World countries, taking collective responsibility by establishing a set of goals that are to be achieved by international cooperation.

Millennium Development Goals (MDGs)

1. Eradicate Extreme Hunger and Poverty
2. Achieve Universal Primary Education
3. Promote Gender Equality and Empower Women
4. Reduce Child Mortality
5. Improve Maternal Health
6. Combat HIV/AIDS, Malaria and other diseases
7. Ensure Environmental Sustainability
8. Develop a Global Partnership for Development

The MDGs have since been acknowledged in resolutions addressing indebtedness of developing countries as a sort of "constitution" that has been

followed when finding new approaches to all global problems.

Heavily Indebted Poor Countries Initiative (HIPC)

The HIPC Initiative, which is meant to prevent poor countries from unmanageable debt, was introduced by the International Monetary Fund and the World Bank in 1996. In 2005, the **Multilateral Debt Relief Initiative** (proposed by G-8) was launched as a sub-section of HIPC, providing these countries with debt relief needed in order to meet the MDGs.

A country needs to qualify for support not only by facing unsustainable debt, but it also needs to show some determination to solve its situation by measures implemented in the past. Once a country is found eligible, it receives an interim debt relief. The country then proves its liability by reaching a certain level of debt sustainability. If it reaches this point and implements certain measures given by the Executive Boards of the IMF and the World Bank, the country is then provided with a full debt relief. This enables countries to maintain their debts at manageable levels, but also to invest more into health, education and other vital public services, eradicating poverty and helping to fulfill the MDGs.

Countries that had received debt relief in full extent by 2012 were Afghanistan, Central African Republic, Republic of Congo, Ghana, Haiti and 27 others. Seven other countries were still in the process of reaching the so called "completion point".

The Paris Club

The Paris Club is an informal organization of some 19 richest states. It was created after crisis talks between Argentina and its creditors in 1960. These countries as creditors are ad-hoc reducing or renegotiating official debt owed to them by a developing country.

If an indebted country wants to renegotiate a debt owed to commercial banks, they turn to the London Club instead. London Club is an informal group of private international creditors. It first met in 1976 to discuss Zaire's debt.

The joint Debt Sustainability Framework of the IMF and the World Bank

This framework provides the low-income countries with guidance when evaluating borrowing strategies. Its aim is to ensure that there is money available in low-income countries to fund development without excessive build-up of debt.

Internal Solutions

There are not only external factors that can contribute to debt sustainability and it is vital for governments to embrace effective policies to help maintain debt sustainability in the long run.

Domestic debt

Considering the overall debt sustainability, domestic public debt should also be taken into account. A case in which a borrower government simply switches from increasing external debt to increasing domestic debt cannot be seen as desirable. The HIPC Initiative had been criticized for not taking domestic debt into consideration.

Stable macroeconomic framework

In order to boost economic growth, it is important to establish a realistic framework. A policy framework should provide a government with future investment plans regarding health, education, energy, agriculture, justice, and other sectors. Heavily indebted countries produce these Poverty Reduction Strategy Papers in order to qualify for the HIPC Initiative support.

Transparency and accountable public financing

On December 9th, 2013, the International Anti-Corruption Day, the joint UN Office on Drugs and Crime and United Nations Development Programme launched a campaign called Zero Corruption - 100% Development. This title speaks for itself. For example, according to the Director of Economic Commission for Africa's sub-regional office in Central Africa, Mr. Emile Ahohe, following acts of corruption occur across the continent: bribery, influence peddling, the siphoning of resources, fraudulent management, illegal amassing of wealth, favoritism, illegal profit making, the misuse of public goods and money laundering.

"Corruption is a barrier to achieving the Millennium Development Goals and needs to be taken into account in defining and implementing a robust post-2015 development agenda" - The UN Secretary General, Ban Ki-moon

Preserving peace and stability

It is important to prevent conflict and armed violence as sustainable peace is needed when reaching sustainable development. Yet this topic sometimes seems to be overlooked. Maintaining peaceful environment means creating predictable investment climate, attracting new investors, and increasing employment rates. The role of ECOSOC in these cases is clear and important. In 2002, the ECOSOC Ad Hoc Advisory Groups were established to support particular countries emerging from conflicts. In 2005, the Peacebuilding Commission was launched by the United Nations, aiming to help post-conflict countries to recover. The UN General Assembly affirmed the importance of cooperation between ECOSOC and the Peacebuilding Commission, and also stressed the benefits that the Council can bring by engaging in peacebuilding missions.

Conclusion

As the MDGs, adopted in 2000, were targeting year 2015, it is now time to review, revise and improve poverty reduction strategies and learn from their deficiencies. Poverty eradication is a long journey and it cannot be done overnight. On September 25th, 2013, member states committed to hold a new Summit in 2015 to embrace new goals that will help to progress towards achievement of the MDGs. ECOSOC is expected to engage in this process contributing with valuable experiences.

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