United Nations A/C.2/59/SR.9

General Assembly
Fifty-ninth session

Official Records

Distr.: General
1 November 2004

Original: English

Second Committee

Summary record of the 9th meeting
Held at Headquarters, New York, on 12 October 2004, at 3 p.m.

Chairman: Mr. Balarezo . . . . (Peru)

Contents

04-54656 (E)

0454656

The meeting was called to order at 3.10 p.m.

Agenda item 83: Macroeconomic policy questions (*continued*) (A/59/80-E/2004/61, A/59/80/Corr.1-E/2004/61/Corr.1, A/59/115 and A/59/155-E/2004/96)

(b) International financial system and development (*continued*) (A/59/218)

(c) External debt crisis and development (*continued*) (A/59/219)

1. **Mr. Massieu** (Mexico) said that, at the International Conference on Financing for Development, Member States had recognized the need for reform of the international financial architecture based on transparency and enhanced participation of developing countries and economies in transition. Although progress had been made on transparency, thanks to the monitoring activities of the International Monetary Fund (IMF), more needed to be done to involve such countries in international economic decision-making.

2. The United Nations had a role to play in promoting the international machinery to attract capital flows to developing countries, thereby partly mitigating the negative effect of the net transfer of resources from developing countries abroad. Developed and developing countries, multilateral banks and all stakeholders in the partnership forged in Monterrey must study how to obtain greater flows of foreign direct investment (FDI) to improve the general investment climate. The report of the Commission on the Private Sector and Development contained several useful recommendations on that subject.

3. At the multilateral level, his Government had contributed $40 million in special drawing rights to help to finance loans made by the IMF on concessional terms. It had also contributed to the World Bank's Heavily Indebted Poor Countries (HIPC) Initiative. At the bilateral level, it had restructured debts on very favourable terms for some countries in Central America. As the International Conference on Financing for Development had highlighted, external debt relief was critical for sustainable development. It was therefore the shared responsibility of creditors and debtors to strengthen initiatives to reduce the debt burden, including debt cancellation.

4. **Mr. Musambachime** (Zambia) said that external debt had continued to consume a large proportion of the national income of developing countries, especially the least developed countries. His delegation therefore welcomed the debt-policy recommendations contained in the report of the Secretary-General on external debt and development (A/59/219). He noted with concern the $95 billion increase in the total external debt of developing countries during the previous year. The rise in private debt in sub-Saharan Africa, Eastern Europe and Central Asia had increased long-term debt in those regions. Zambia had not been spared by the fall in the debt-to-exports ratio and debt-service-to-exports ratio and the decline in gross national income, resulting in arrears for developing countries and transition economies.

5. Although his Government had not reached the completion point, it was making progress on qualifying for interim relief, and hoped to be eligible for the full amount of debt relief possible under the HIPC Initiative by the end of 2004. It was also striving to achieve debt sustainability, long-term growth and poverty reduction within the context of implementing poverty reduction strategy papers, which called for spending on social sectors, including education and health. The need to strike a balance between allocating resources to servicing external debt and implementing the papers, both of which were necessary to qualify for the completion point, had led to reduced investment in infrastructure and production.

6. The IMF macroeconomic frameworks and poverty reduction strategy papers in Zambia were not sufficiently targeted on growth and the Millennium Development Goals, as they focused on reducing inflation and controlling interest and exchange rates. International financial institutions must therefore review their lending policies and hold more extensive consultations, particularly with low-income countries, to generate the necessary additional resources to achieve the Goals. His Government hoped for continued and increased project-related grants to countries that reached completion points and called on the international community to extend the HIPC Initiative.

7. Current analyses of the external debt structure did not take into account such variables as exports, imports, the size of non-debt-creating capital inflows such as FDI and ODA, outflows of profits, production structures, real exchange rates, returns on investments,

fiscal revenue and export supplies. Resource mobilization and debt financing must always reflect national development strategies and policies. External debt had continued to hinder economic and social development. A lasting solution to debt burden must be sought, including the option of debt cancellation.

8. **Mr. Rahman** (Malaysia) said that the Asian financial crisis of 1997 clearly demonstrated the vulnerability of developing countries and the frightening imbalances in the global economy. Developing countries had learned at great cost that the international financial architecture had not been crafted to protect small and fragile emerging economies lacking sufficient institutional capacity. In the light of the bitter experience with unfettered and poorly regulated activities of speculators, his Government and other developing countries had repeatedly called for the reform of the international financial architecture to provide greater support and protection — calls that had gone largely unheeded by those who controlled the system. Although some efforts had been made to curb the activities of financial speculators, they fell far short of the expectations of developing countries.

9. More comprehensive reform of the international financial architecture was needed. As stated in the report of the Secretary-General, the focus must be crisis prevention. While maintaining surveillance of developing countries, the IMF must also monitor the policies of developed countries more closely. There was also a need to enhance information and transparency with respect to the market, including, in particular, the role of hedge funds. The IMF should not exaggerate the need for transparency at the expense of its role as a confidential adviser and must be held responsible for the policy advice that it provided to member countries. Too much emphasis had been given to increasing transparency in the public sector. The quality of information from the private sector must also be enhanced. His delegation noted with satisfaction the progress achieved in persuading highly leveraged institutions, rating agencies and offshore financial centres to be more transparent in their operations.

10. His Government was moving towards a market-based system to regulate capital market activities and to ensure that regulations were applied consistently to institutions and actors involved in similar activities. The efforts to reform its domestic financial system, however, had not been sufficient to ensure financial stability; strengthened efforts by international financial institutions were also needed. Those institutions must be reformed to ensure wider, more inclusive and more equitable participation of developing countries in policy planning and decision-making.

11. **Mr. Rana** (Nepal) said that his delegation was encouraged by the positive macroeconomic policies that had contributed to economic growth and recovery and the decision by the World Trade Organization (WTO) following the collapse of negotiations in Cancún to set a framework for future negotiations on trade liberalization under the Doha work programme. However, global economic growth was at risk. Many national economies had severe fiscal deficits; fiscal policies varied noticeably from country to country; and financial flows continued to leave developing countries in a vulnerable position.

12. The existing international institutional financial arrangements had not adequately addressed the concerns and interests of developing countries. The international community must make sincere efforts to enable developing countries to achieve the Millennium Development Goals, including through ODA. The initiatives undertaken in past years to alleviate the severe debt burden of developing countries were also inadequate. The HIPC Initiative must be properly funded and expanded to cover all the least developed countries.

13. The least developed countries had been marginalized and afflicted by illiteracy, hunger and unemployment. Without generous support from the international community, they would be unable to emerge from the vicious circle of poverty. The international community, including the transit developing countries, must also help landlocked developing countries to overcome their geographical handicap by implementing the Almaty Programme of Action. Support from the international community was crucial for the effective implementation of his Government’s current national development programme, which focused on reducing poverty and generating employment opportunities, and its efforts to implement the Brussels Programme of Action.

14. Lastly, debt cancellation was urgently needed. Developing countries must mobilize more resources to accelerate development. His delegation supported the establishment of innovative financial mechanisms to promote sustained economic growth in developing countries.

15. **Mr. Mushy** (United Republic of Tanzania) said that developing countries had implemented a number of reforms, including privatization, trade liberalization and anti-corruption bureaux, which had led to impressive economic growth. Between 1997 and 2002, his country's GDP had grown between 3.3 and 6.2 per cent annually. Thanks to its reforms, it had qualified for the HIPC completion point in November 2001 and had been granted debt relief amounting to $2 billion in net present value terms. The relief was much needed and allowed for investment in the social sector, including pro-poor water, health, education and agriculture programmes. Reaching the completion point had also opened doors for donor budget support.

16. Despite a strategy to strengthen national debt management, total debt was still increasing and remained a serious impediment to the financing of development. In the United Republic of Tanzania, 42 per cent of the budget went towards servicing the debt. The HIPC Initiative resources were directed mainly to the social service sectors as opposed to production or infrastructure. His Government had been forced to choose between financing for development and servicing the debt. The need to borrow, the obligation to pay and the imperative to invest in development had resulted in chronic indebtedness for most developing countries. Compound interest and the obligation to pay off the principal in countries with weak economies had made debt sustainability elusive. There was therefore an urgent need to explore further viable solutions, including debt cancellation.

17. **Mr. Elkoni** (Libyan Arab Jamahiriya) said that the external debt of developing countries and transition economies had increased by 4 per cent in 2003, and the ratio of total debt to gross national income continued to worsen in Latin America and the Caribbean, North Africa and the Middle East. Despite the HIPC Initiative, the debt burden remained an obstacle to growth for developing and middle-income countries. Foreign direct investment must be increased, innovative financing mechanisms found and projects to boost employment explored.

18. There was also an urgent need for debt relief or cancellation, especially for the least developed countries, and for reform of the international financial architecture. That reform must include efforts to strengthen the debt sustainability and export growth of developing countries and to muster the resources, including ODA, to ensure that the international financial system responded to development needs.

19. **Mr. Belkas** (Algeria) said that the international financial system must play a preponderant role in international economic life by promoting sustainable development, sustained economic growth and poverty reduction and facilitate coherent mobilization of resources to finance development, including domestic resources, international capital flows, ODA and external debt relief.

20. While welcoming the economic recovery in some countries, his delegation was concerned that the recovery was unbalanced and undermined the developing countries' untiring efforts to eliminate poverty. It was also concerned by the growth in the net transfer of financial resources from developing to developed countries, which was caused by ever-rising debt servicing payments and the increase in foreign exchange reserves in a number of countries. Rather than strengthening international assistance for the financing of development, in accordance with the commitments made at the Millennium Summit and the International Conference on Financing for Development, financial flows had tended to go from developing to developed countries. His delegation noted with concern that FDI and ODA were far from meeting the international commitments made to ensuring development in developing countries. Despite the measures taken by developing countries to enhance the dissemination of information and strengthen regulations and surveillance of financial markets, they remained extremely vulnerable to economic crises and international macroeconomic cycles.

21. The international community must therefore take measures to protect those countries from such crises, redress international imbalances and ensure the coordination of long-term development policies. His delegation called on the international community, the United Nations, the Bretton Woods institutions and the private sector to fulfil the commitments made at various international forums, including the Millennium Summit and International Conference on Financing for Development, to provide relief for debt-distressed countries and welcomed the decision by the Bretton Woods institutions to extend the HIPC Initiative. The Initiative had been on the verge of collapse during the past few years as outstanding debt continued to rise. His delegation also commended the HIPC Capacity-Building Programme in Debt Analysis. That

international technical assistance in the area of debt management would benefit more than 100 countries.

22. The only solution to the debt problem lay in a collective decision by the international community to implement its commitments to granting debt relief or, in some cases, debt cancellation and to devoting 0.7 per cent of gross national product to ODA.

23. **Mr. Kogda** (Burkina Faso) said that countries burdened by external debt must have access to new types of resources adapted to the challenges of economic and social development and poverty eradication. Neither the HIPC Initiative nor the European Union mechanisms had lowered the external debt of many countries to sustainable levels, or had a meaningful impact on poverty eradication.

24. Since the problem of external debt could not be tackled outside the context of domestic economic and financial policy, and debt sustainability and effectiveness were closely linked to domestic economic performance, aid measures should be strengthened to ensure the mobilization of private capital to remedy the shortfall in financial resources in African countries. Increased foreign direct investment (FDI) would be promoted by the establishment of greater political stability and better governance supported by an impartial legal system and judiciary to guarantee the enforcement of contracts and agreements. Burkina Faso had qualified as a beneficiary under the HIPC Initiative in September 1997. Despite the adoption of a series of debt relief measures, its external debt remained critical, and resources under the HIPC Initiative accounted for a relatively small percentage of budget allocations.

25. He shared the view expressed in the report of the Secretary-General (document A/59/219) that the implementation of the Initiative could be enhanced by a further streamlining of conditionality through sustained measures for clearing arrears and the reduction of debt ratios. Grants to the poorest countries should be increased.

26. **Mr. Sunaga** (Japan) said, with regard to financial sustainability, that Japan welcomed recent progress made by the International Monetary Fund (IMF) and the World Bank in refining the framework for debt sustainability and improving analysis of the financial sector. Japan fully recognized the importance of debt sustainability in poverty reduction and sustainable development and had taken measures to ease the burden of developing countries. As the largest bilateral creditor in the world, Japan had reduced a significant amount of its credit under the enhanced HIPC Initiative and had cancelled approximately US$3 billion in debt. His Government would make further efforts to accelerate the implementation of the Initiative and would endeavour to widen the circle of global solidarity for heavily indebted poor countries by encouraging the participation of other creditors.

27. **Mr. Talbot** (Guyana), speaking on behalf of the member States of the Caribbean Community (CARICOM), said that financing the process of development posed major challenges for the small and vulnerable economies of the Caribbean subregion. In particular, the dismantling of preferential trade arrangements had triggered a significant decline in the agricultural sector and disrupted traditional lifestyles and culture. Recent hurricanes had further compounded the challenges to economic and social development, adding to existing structural and institutional disadvantages. Their size, openness, lack of access to capital markets and exposure to large exogenous changes in terms of trade continued to have profound effects on the fiscal and balance-of-payments position of the countries concerned: per capita gross domestic product had increased on average by less than 2 per cent annually.

28. One of the pressing challenges to CARICOM States in their attainment of the Millennium Development Goals was their vulnerability to financial crises. They had taken aggressive action to reduce inflation rates, strengthen the domestic and regional sectors and to reduce external balances. Such initiatives had placed a high premium on macroeconomic and financial policies in regional economies. Access to external finance had facilitated the development of numerous initiatives over the past decade, but at the same time there had been rising fiscal deficits and debt burdens. As a result, several CARICOM member States were among the most indebted countries.

29. A greater effort should be made by the international financial institutions to eliminate balance sheet risks and provide credible forms of contingency financial resources to address the extraordinary needs of small vulnerable economies. Such approaches should be complemented by policies that ensured effective surveillance of the global economy, a framework for sovereign debt restructuring, and new and additional sources of financing.

30. In addition to the expansion of IMF surveillance to include structural and institutional policies, and advocacy for a more stable pattern of external financing, greater effort was required on the part of the Group of 77 countries to coordinate their macroeconomic policies. CARICOM member States also supported more effective regulation of international capital markets and the development of multilateral rules to involve the private sector in the resolution of financial crises. Greater attention should be paid to the representation of developing countries on the executive boards of the Bretton Woods institutions, in global decision-making and in the establishment of norms on economic and financial issues.

31. Urgent action was needed to promote international cooperation on tax matters: there was no intergovernmental forum that considered tax cooperation issues on an ongoing basis.

32. While countries were ultimately responsible for their own development, the international community bore a shared responsibility for creating an enabling environment for developmental efforts. It should ensure that debt sustainability was comprehensively addressed, with the ultimate goal of providing greater opportunities for private investment and economic growth in developing countries. He referred to the views expressed in document A/59/219, particularly with respect to debt sustainability and attainment of the Millennium Development Goals, and welcomed the extension of the HIPC Initiative.

33. **Mr. Malanda** (Congo) said that the hopes for debt relief placed by many developing countries in the HIPC Initiative had been dashed. The Congo was one of the countries that might not reach the completion point, particularly if the HIPC Initiative were to be halted at the end of 2004. The IMF had recently estimated that the country’s external debt stood at approximately US$ 591 million, one of the highest levels in the world, and the repayment of that debt, with interest, seemed unlikely. The country had endured several years of devastating civil strife, which had deprived it of resources for national reconstruction. The latest IMF mission had deemed the Government’s performance satisfactory in terms of its management of the country’s petroleum resources and good governance, and in particular with respect to transparency and control of public spending. The Congo looked forward to having enough resources to ensure sustained growth and sustainable development.

34. His delegation joined previous speakers who had appealed for greater flexibility so that the HIPC Initiative could soon provide benefits to all requesting countries. He expressed gratitude to the Paris Club donors, who had reduced the debt owed by the Congo by US$ 443 million during the period 2004-2005, and reassured them that the use of the funds generated by the cancellation of debt would be governed by transparency.

35. **Mr. Fonseca** (Brazil), speaking on behalf of the Rio Group, said that he shared the view that debt relief was crucial in freeing up resources for poverty eradication activities, sustained economic growth and sustainable development. He regretted that the concepts recognized by the Monterrey Consensus had not been translated into practical measures to facilitate debt repayment, establish economic solvency and debt servicing capacity, or to promote growth and sustainable development. As middle-income countries, the member States of the Rio Group wished to reaffirm the need for deeper international cooperation at all levels in order to sustain their efforts in the areas of structural adjustment, market access and governance. In terms of external debt, they wished to underscore the need, in accordance with their individual capacities and national circumstances, to promote the fight against hunger and poverty, within the main framework of the Millennium Development Goals.

36. **Mr. Zoubi** (Jordan) said that Jordan was vulnerable to external shocks, and its capacity to absorb them was limited, so that it was almost impossible to finance appropriate precautions and safety nets. There had not been a decade since the middle of the 1950s when Jordan had not faced one or more of the shocks outlined in the report of the Secretary-General on external debt crisis and development.

37. Describing the historical context for the evolution of Jordan’s debt problem, he said that the Government had launched a process of reform, culminating in the development of a sustainable macroeconomic management policy. Nevertheless, the challenges of growth in real output were not completely solved; nor were external debt and the budget deficit reduced to acceptable levels. Jordan’s financial commitment resulting from the servicing of external debt would increase in June 2007, when the first instalment of principal and interest would fall due. In preparation, a number of sectoral development strategies in critical areas at the microeconomic level would be implemented.

38. Referring to the difficulties mentioned by the Secretary-General in his report on the external debt crisis, he said that investment in the Social and Economic Development Plan (2004-2006) would be allocated to programmes that included human resources development, basic government services, rural development and poverty relief. It was hoped that, by the year 2006, a GDP growth rate of 6 per cent and a per capita income growth of 3.6 per cent would have been achieved. The deficit and external debt were expected to fall to 2.8 per cent and 24.5 per cent of GDP.

39. **Mr. Toro Jimenez** (Venezuela) called on the developed countries to support the efforts of the international community to ease the debt burden of developing countries, and to mitigate the effects of the high social and economic costs of debt servicing. International financial credit institutions and other multilateral organizations often imposed adjustment programme policies and conditionalities which had served to exacerbate indebtedness and poverty.

40. The issue of debt had been trivialized in international discussions and little tangible action had been taken that could satisfy the aspirations for the sustainable development of poor countries. At each summit and major international conference, the state of the world’s poorest countries had been stated in rhetorical terms, but targets such as the Millennium Development Goals were far from being achieved.

41. For its part, Venezuela had managed to overcome the strictures of debt servicing to improve its long-term situation and had actually repaid 80 per cent of the amount due for 2004. Venezuela had achieved low-risk status, in terms of debt, attributable in part to the results of a recent presidential referendum, high levels of international reserves and improved domestic revenue collection.

42. Venezuela stood ready to work in close cooperation with groups and movements representing developing countries in the United Nations, the Group of 77 and the Non-Aligned Movement, and with all regional groups in order to coordinate the implementation of initiatives that might lead to a just and lasting solution of the problem.

The meeting rose at 4.45 p.m.