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

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The meeting was called to order at 10.15 a.m.

Organization of work

1. **The Chairman** said that in accordance with the arrangements set out in paragraph 4 of the second report of the General Committee on the organization of the fifty-ninth regular session of the General Assembly and the allocation of agenda items (A/59/250/Add.1) the relevant questions in chapter I of the report of the Economic and Social Council for 2004 would be considered by the Second Committee.

Agenda item 83: Macroeconomic policy questions (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 (A/59/218)

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

2. **Mr. Kregel** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs), introducing the report of the Secretary-General on the international financial system and development (A/59/218), recalled that past United Nations resolutions had encouraged increased net inward transfers of financial resources to the developing countries because they supplemented gross domestic saving and allowed countries in the early and middle stages of economic development to achieve higher levels of investment and growth. Since 1997, developing countries had made increased net outward financial transfers in every year and in 2003 total net transfers from developing countries had risen to an estimated $248 billion, surpassing the previous peak. There had also been a net outward financial transfer of $28 billion from transition economies. In the case of eastern and southern Asian countries the large net outward transfers of resources in 2003 had been the result of continued strong export growth complemented by policies to support domestic demand. In Latin America the transfers had largely been the result of policies designed to compress domestic expenditure and to repay and service external debt.

3. In high-saving economies, net outward transfers might be part of a rational development strategy if the resources could earn higher returns abroad than at home. However, in many Asian countries the recent increases in net flows had primarily been used to augment foreign exchange reserves. Since the bulk of reserves were held in low-risk and low-yield government securities of developing countries, it was not clear that they provided superior returns.

4. In a number of emerging market economies, the increased reserves were the result of the decision by monetary authorities to avoid appreciation of their currencies. They also reflected the decision to provide “self-insurance” against the negative impact of capital account volatility on growth. While the costs of holding reserves might be reduced with more flexible exchange rates, in the absence of clear evidence that similar benefits could be attained, most countries had resisted that suggestion. Such insurance was to have been provided by the contingent credit line introduced by the International Monetary Fund (IMF), but the facility had never been used and had now lapsed without replacement. An attractive facility that would provide pooling of reserves would remove some of the incentives to hold large reserve balances.

5. The net outward transfer of resources from developing to developed countries had coincided in 2003 with an increase in net capital flows to many developing countries and countries with economies in transition. Those net flows had been boosted by a recovery in private financial flows to the highest level since the Asian financial crisis in 1997.

6. Foreign direct investment (FDI) continued to be the most important source of external financing for developing countries, although net inflows of FDI in 2003 had fallen to their lowest level in nearly a decade. The fall in FDI had, however, been more than compensated by other private flows so that net private capital flows to developing countries had shown a considerable increase to more than $131 billion in 2003, their highest level since 1997.

7. Net official flows had continued to decline in 2003 as net flows from the multilateral development and financial institutions fell to negligible levels, despite considerable increases in flows of official development assistance from the member countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development.

8. The major focus of international financial system reform in 2003 had been on early identification of

debt-related systemic vulnerabilities, strengthening the role of surveillance and enhancing its pro-growth orientation, and better coordination of multilateral and regional surveillance. Continued incidents of corporate fraud and mismanagement had renewed concerns, particularly in developed countries.

9. Surveillance by IMF which had previously focused mainly on macroeconomic policies had now included measures to improve the transparency of national policies, observance of various standards and codes, and financial sector soundness. Since insufficient attention was given to the policies of the major developed countries, assessing the impact of developed economy policies should be among efforts to further improve the overall surveillance framework.

10. Better assessment of a country's debt burden and its ability to service that debt was particularly important to both crisis prevention and resolution. In 2002, IMF had introduced a new analytical framework that was now being applied in the context of surveillance and in the use of IMF resources. It could also guide debtors and creditors in their discussions on how much debt reduction was required in order to reach a manageable schedule of repayments over time.

11. The increasingly frequent financial crises in the 1990s had renewed interest in regional monetary cooperation as a means of achieving greater regional financial stability. The most advanced of those initiatives was the Chiang Mai Initiative adopted by the Association of South-East Asian Nations (ASEAN) plus China, Japan and the Republic of Korea to strengthen regional cooperation through an expanded network of swap facilities among their central banks and regional policy dialogues to improve cooperation in the areas of surveillance and monitoring capital flows. Policy discussions were also under way in other developing country regional groupings, including the West African Economic and Monetary Community, the Central African Economic and Monetary Community, the East Caribbean Currency Union and the Maghreb countries associated with the European Union.

12. A critical component of crisis resolution was having clear parameters for official intervention. To improve official responses to capital account crises, IMF had introduced a framework to provide larger loans than were normally allowed if a country met certain criteria, the most controversial of which being on debt sustainability. In order to be credible, those judgements should be as consistent as possible in providing signals to markets concerning when the international community's support would be forthcoming.

13. When debt burdens were truly unsustainable, Fund support should be accompanied by orderly, predictable and effective debt restructuring. Otherwise, committing new IMF resources might compromise the Fund's credibility, thereby making the whole process of crisis resolution more difficult. In recent years, efforts had been made to develop a strategy capable of helping insolvent middle-income countries return to long-term debt sustainability and restore access to private financing. In that connection, it had been suggested that the implementation of the Fund's "lending into arrears" framework should be strengthened.

14. Although progress had been made on several important issues relating to the process of debt restructuring, agreeing on a statutory approach to reaching a speedy and fair agreement with creditors that might help reduce the social and economic costs of default would probably continue to be a major challenge.

15. The Monterrey Consensus stressed the need to broaden and strengthen the participation of developing countries and countries with economies in transition in economic decision-making, both in multilateral intergovernmental institutions and ad hoc forums setting special standards. However, despite a number of reports on the issue, too little progress had been made in addressing the representation of Member countries on executive boards and devising a new formula for assigning votes. Those issues were complex, but critically important for efficient and equitable representation of Member States.

16. **Mr. Busuttil** (Director for Management, United Nations Conference on Trade and Development (UNCTAD)) introduced the report of the Secretary-General on the external debt crisis and development (A/59/219) which complemented the Secretary-General's report on the follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/59/270). The report provided an analysis of the evolution of debt indicators of developing countries and countries with economies in transition in the context of recent developments in international trade and payments, and in international capital markets. It gave an assessment

of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and debt restructuring at the Paris Club and it also discussed a number of aspects of debt management in developing countries and recent developments with regard to mechanisms that could help solve problems related to sovereign debt owed to private creditors.

17. It was generally recognized that increased and concerted efforts must be made to reach a lasting solution to the external debt problems of developing countries, not least as debt servicing at any level was incompatible with attaining the goals of the United Nations Millennium Declaration. As had been stressed in a recently published study by UNCTAD on Africa, in order to ensure that Africa would be able to reduce poverty by half by 2015, in accordance with the Millennium Development Goals, growth levels at the very least would have to double to some 7 per cent or 8 per cent per annum for the next decade. The financial requirements of such an increase were incompatible with present and projected levels of debt servicing. The debt profile of those countries had moved from sustainability in the 1970s to crisis in the first half of the 1980s with much of the debt being contracted between 1985 and 1995 under the guidance of structural adjustment programmes. Thus, low levels of savings and investment leading to high poverty and adverse social conditions were among the biggest constraints on growth in low income countries. Continuing debt servicing by heavily indebted countries would nominally constitute a reverse transfer of resources to creditors by a group of countries that could least afford it.

18. There was a need for the assessment of debt sustainability based on a realistic and comprehensive set of criteria, including those of meeting the Millennium Development Goals. That was particularly so because the HIPC Initiative failed to take account of domestic debt, which in recent years had become an important factor in the total indebtedness of African countries.

19. It should also be stressed that even full debt forgiveness would only be a first step towards restoring growth and meeting the Millennium Development Goals. In the case of the poorest countries, UNCTAD had estimated that such a write-off would represent less than half of those countries' resource requirements, with the gap filled by increased official development assistance (ODA) grants as a prelude to increasing the level of domestic savings and investment required for robust and sustainable growth.

20. Eight years after the launching of the HIPC Initiative, despite some initial progress, heavily indebted poor countries were still far from achieving sustainable debt levels. It was therefore becoming increasingly doubtful whether HIPC beneficiaries could attain sustainable debt levels, based on export and revenue criteria, after completion point, and maintain those in the long term. It was also noted in paragraphs 30 and 34 of the Secretary-General's report that account should be taken of the country-specific character of debt sustainability such as the dependence of many low-income countries on one or a small number of primary commodities.

21. Finally, in order for any debt relief framework to deliver tangible results, poor countries needed actively to pursue policies for prudent debt management, economic diversification and sustained economic growth. In the case of Africa, for example, the New Partnership for Africa's Development (NEPAD) had set up a framework for that undertaking. However, the international community had to recognize the need to improve access to markets and for much increased investment in human and physical infrastructure.

22. **Mr. Chowdhury** (Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States) emphasized the seriousness of the debt burden for the 50 least developed countries (LDCs), the poorest and weakest segment of the international community. He recalled that the participants in the Third United Nations Conference for the Least Developed Countries had acknowledged that outstanding external debt greatly inhibited the ability of more than one half of the LDCs, considered "debt distressed" to make any meaningful effort to implement their development plans.

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

24. The seriousness of the situation was particularly striking in the light of the fact that, in 2002 alone, the LDCs paid about \$5.1 billion as interest on their debt and that that amount was nearly one third of the

official development assistance volume of $17.5 billion to all least developed countries for the same period. For some LDCs, the debt service absorbed more than one quarter of their public income.

25. Such a huge debt service payment by the LDCs resulted in the regular diversion of a large part of scarce budgetary resources from crucial poverty reduction, food security, education and health programmes. The situation was exacerbated by the HIV/AIDS pandemic and recurrent natural disasters as a result of which those countries were being forced to choose between servicing their debts and making investments in health, education and infrastructure. The Secretary-General's support on the external debt crisis and development (A/59/219) described the complexity of the relationship of those two problems.

26. The HIPC Initiative was slow and insufficient and had not provided a durable exit from the debt problem as expected. The current composition of the Initiative illustrated that external debt principally concerned the LDCs. As of September 2004, 30 out of 38 countries eligible under the Initiative had fulfilled their debt-relief requirements. Since the establishment of the Initiative, only 10 of the LDCs had reached completion point, 11 had reached the decision point and 9 had yet to be considered for a debt-relief programme under the new enhanced Initiative.

27. IMF and the World Bank had themselves observed that some completion-point countries, such as Uganda, currently had debt ratios exceeding sustainable levels as defined by the Initiative. Various reasons had been listed, including the drastic fall in commodity prices between the late 1990s and the end of 2002, over-optimistic assumptions for economic and export growth and, in some countries, new borrowings.

28. It was good news that it had been agreed the previous week to extend the HIPC Initiative for another two years. He stressed the importance of alleviating the debt burden of the LDCs; given the insignificant size of their total debt in the global financial context, it was doubtful that a write-off would have major repercussions.

29. It was widely recognized that unsustainable debt presented a serious impediment to development, especially in the LDCs, which had little chance of making any progress in combating poverty while repaying debt. Their levels of debt seriously compromised much-needed public investment in human development and their struggle with the HIV/AIDS pandemic, as well as their attainment of the Millennium Development Goals. Clearly, if the Millennium Development Goals were to be met, the never-ending debt of all LDCs must be fully written off without further delay. That should not be seen as an act of charity, but as an action in the best interest of the peoples of the world. In the run-up to the stock-taking summit for the Millennium Development Goals in 2005, decisive action cancelling all those debts would be a worthwhile expression of international solidarity. He called for the support of development partners, including civil society, for that action.

Question time

30. **The Chairman** raised the issue of the current tendency of countries to amass foreign exchange reserves, even if it put them heavily into debt, without daring to spend them on their development because of their fear of a financial crisis and wondered what could be done to avert financial crises, restore the balance of foreign exchange reserves and encourage greater use of national revenues. He would also like to know why some countries had a much higher debt-to-exports ratio than others.

31. **Mr. Kregel** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs) said that since the Asian crisis a number of emerging market countries had opted to use their considerable trade surpluses to boost foreign exchange reserves as a "self-insurance" strategy against capital-account volatility. However, those reserves were often held in low-yield government securities.

32. Those countries had not applied to IMF, the main body for providing foreign exchange reserves, because the resources supplied through the Fund's lending programmes did not suffice to allow them to cope with substantial deficits. It would therefore be useful to make more resources available to countries. Countries resorted to two practices designed to achieve the same objective: faced with unstable capital flows, some used their trade surpluses to amass foreign exchange, while others used them to reduce their outstanding debts. IMF was currently finalizing an early-warning mechanism that would make it possible to forestall financial crises and shifts in capital flows. Although good indicators existed, it was still difficult to determine exactly when a crisis would occur.

33. Another solution would consist in greater flexibility of exchange rate management, although opinion differed on that subject too, since some countries believed that having fixed exchange rates would help to ensure constant growth.

34. **Mr. Manis** (Sudan) said that the LDCs had undertaken to pursue a policy geared to the interests of the people but that their heavy debt burden made it very hard for them to pursue the Millennium Development Goals.

35. **Mr. Ramadan** (Lebanon) observed that it was difficult for the LDCs to honour their debts, which often entailed cutting back on social spending, and still expect to attain the Millennium Development Goals. Ten years after its establishment, the HIPC Initiative had failed to yield the expected results. The time had come to review the conditions required for debt alleviation in that context.

36. **Mr. Léglise-Costa** (France) asked whether one should not see in the sizeable negative balance of transfers of financial resources a sign that the developing countries had rediscovered some degree of growth and preferred to invest in the developed countries' markets.

37. **Mr. Kregel** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs) explained that the HIPC Initiative had been extended for two years and that the World Bank and IMF were engaged in developing improved debt indicators, which would be applied once the two institutions had agreed on their definition in connection with the lending programme. Also, several other initiatives had been launched with a view to alleviating the debt of countries with similar characteristics to those involved in the HIPC Initiative and to helping debtor countries reconcile their debt repayment imperatives with their fulfilment of the Millennium Development Goals.

38. Replying to the representative of France, he acknowledged that the negative balance of resource transfers was indicative, up to a point, of the economic growth of various developing countries, but that it also meant that those countries were using their trade surpluses to establish reserves of foreign exchange from the developed countries and not for investment in developing countries. All in all, that growth had little direct impact on the developing countries but a more serious effect on the developed countries, hence the alarming nature of the deficit.

39. **Mr. Mushy** (United Republic of Tanzania) wondered about the very concept of debt tolerance. In order to be able to attain the Millennium Development Goals, many already heavily indebted countries were continuing to borrow at ever-increasing interest rates. It would perhaps be wiser to sustain full debt cancellation rather than continue to promote the HIPC Initiative, which had not produced the results expected of it. One might also wonder about the responsibility of creditors, who should take a new look at their lending policies.

40. **Mr. Kregel** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs) explained that debt tolerance referred to a country's capacity to repay its debt without compromising its own development or its pursuit of the Millennium Development Goals. He acknowledged that the existing debt indicators were unsatisfactory and that more appropriate ones needed to be defined. Full debt cancellation was in fact supported by some countries, which also advocated increasing the share of grants in the transfer of resources. Attempts were also being made to ensure that creditor countries harmonized their policies for bilateral loans to the developing countries.

41. **The Chairman** requested clarification from the representative of IMF of the reasons for extending the Initiative and of the Fund's new debt-analysis framework.

42. **The representative of the International Monetary Fund** (IMF) said that the Initiative had been extended for two more years in order to benefit a greater number of countries. Currently, the Fund was reviewing its debt sustainability analysis framework for low-income countries in order to render it more operational.

43. **The Chairman** invited participants to begin the general debate on agenda items 83 (b) and (c).

44. **Mr. Al-Mahmoud** (Qatar), speaking on behalf of the Group of 77 and China, said that social development had always been a priority. Although ODA had increased, it still fell below the expectations of developing countries, which were committed to attaining the Millennium Development Goals. It had therefore become important for developed countries to

contribute more to ODA. With a view to participating in the decision-making of the international financial institutions and to promoting dialogue aimed at addressing the development needs of the developing countries, the Group of 77 and China awaited with interest the findings of ongoing or planned studies on the technicalities of development financing.

45. The indebtedness of many developing and transition economy countries continued to increase, and only a few countries had reported increased export earnings. Countries had the concurrent obligations of maintaining debt sustainability, achieving long-term growth and reducing poverty. To address the external debt crisis, debt policy should be more closely linked to growth and development in order to reflect country-specific debt sustainability and to incorporate the required flexibility in setting and applying thresholds and considering various scenarios to deal with the ever-present possibility of external shocks. The Group of 77 and China remained convinced that estimates of national debt sustainability should be based on a country's capacity to carry out its own development and achieve the Millennium Development Goals. Special measures needed to be instituted to assist the highly indebted poor countries to recover from financial crises due to the collapse of commodity exports or natural disasters. Mechanisms should also be put in place to provide debt relief for countries experiencing or emerging from conflict within the framework of a strategy aimed at establishing lasting peace.

46. The external debt crisis could be resolved only with the cooperation of creditors and debtors alike. For that reason, the Group of 77 and China remain convinced that debt relief would free resources that countries could then devote to poverty alleviation, economic recovery and sustainable development.

47. Developing countries would more easily be able to pay back their debt if they could find export markets and improve their productivity with the help of the international community. The Evian approach, devised as a more flexible way to address the problems of indebtedness and other aspects of debt management in developing countries, should be further considered, as should the mechanisms adopted by the international community to resolve issues of sovereign debt owed to private creditors.

48. **Mr. Van den Berg** (Netherlands), speaking on behalf of the European Union (EU), the candidate countries (Bulgaria, Croatia, Romania and Turkey) and the stabilization and association process and potential candidate countries (Albania, Bosnia and Herzegovina, Serbia and Montenegro and the former Yugoslav Republic of Macedonia), said that for the Millennium Development Goals to be achieved in sub-Saharan Africa, urgent action would have to be taken to save the lives of millions threatened by armed conflict and the HIV/AIDS pandemic, among other things, and give the countries of that region a chance to develop.

49. The full implementation of the Monterrey Consensus was crucial for reaching the Millennium Development Goals, yet, as indicated in the report of the Secretary-General on the international financial system and development (A/59/218), much remained to be done in that regard. Developing countries should strengthen their efforts to fulfil the commitments they had made in Monterrey by ensuring good governance and mobilizing optimal domestic resources, while developed countries should fulfil their commitments relating to ODA, trade and development and debt relief.

50. The Union was fully aware of its responsibilities in that regard. The European Commission reported annually and publicly on the implementation of the Barcelona commitments in the context of the preparations for the Monterrey Conference and was currently reviewing the progress made to date in the implementation of the Millennium Development Goals, including Goal 8 on forging a global partnership for development.

51. Under the Barcelona commitments, the EU member States had reaffirmed their commitment to devoting 0.7 per cent of their gross national product to ODA. It seemed likely that the Union would not only meet its ODA commitments but actually exceed them. All the new member States were currently making the transition to become donor countries and were committed to implementing EU development policy.

52. In line with the second commitment made in Barcelona and as further developed in the Rome Declaration on Harmonization in 2003, more effective use must be made of ODA. Improving the quality of ODA would require all development partners to enhance joint planning, joint financial arrangements and joint monitoring and evaluation. It was particularly

important for the partner country to own the process and to make maximum use of its systems, procedures and policies, including country poverty reduction and other strategies. In that regard, the Union would seek complementarity with existing initiatives.

53. With regard to trade, policy coherence should be sharpened and become more development-focused. Progress had been made in that respect, notably with the adoption of the trade integration mechanism by IMF. The European Union remained fully committed to an open, equitable, rules-based, predictable and non-discriminatory multilateral trading system and a successful Doha Round, including progress towards a substantial reduction of subsidies for agricultural products and further improvements in market access for developing countries. It was allocating on average 700 million euros annually to trade-related technical assistance, which made it the single largest donor for such assistance. Its efforts, however, could only succeed if developing countries mainstreamed trade into their national development strategies. In that connection, the Union was committed to regional integration and supported South-South trade, as it had stated at the eleventh session of the United Nations Conference on Trade and Development held at São Paolo in June 2004.

54. The Union remained committed to helping to resolve the debt problem of developing countries and supported the HIPC Initiative, providing about 60 per cent of the financing. In addition, all EU countries had announced their intention of exceeding HIPC targets by providing officially 100 per cent of bilateral pre-cut-off date debt relief for HIPC countries. To make sure that developing country debts did not reach a threshold that would be impossible to sustain in the long term, since debt sustainability remained an essential condition for their economic stability, growth and development, a thorough, case-by-case assessment should be conducted.

55. The Union felt that it would be helpful to prepare, on development issues, a single report which would give a sharper focus to the development policy debate. The Secretary-General's report on the follow-up to the International Conference on Financing for Development, for example, could address the issues of trade, debt and the international financial system, which were currently dealt with in other reports.

56. With regard to the Millennium Development Goals, the Union looked forward to reviewing proposals for innovative financing with great interest and would judge them on their practical feasibility, predictability and sustainability. In that regard, it welcomed the opportunity to examine them thanks to the study sponsored by Brazil, Chile, France, and Spain, to other initiatives of EU member States, and to the report by the World Institute for Development Economics Research of the United Nations University on innovative resources for development. Its first priority, however, remained increased ODA, improved efficiency of aid and other steps agreed at Monterrey.

57. In keeping with the Monterrey Consensus, the European Union had encouraged, and would continue to encourage, IMF and the World Bank to find practical, innovative methods of broadening developing countries' participation in decisions regarding development financing, which, as the Secretary-General had stated, was an important issue. To that end, it would be wise to improve procedures and strengthen capacities at the country level by invigorating the process for drawing up poverty-reduction strategy documents and supporting capacity-building initiatives. Another interesting possibility lay in giving developing counties a greater say in decisions by increasing the number of votes they had in multilateral financial institutions.

58. **Ms. Zhang** (China) said that, although the world economy had clearly been picking up since the beginning of the year, developing countries were obviously still struggling to consolidate the foundations of their economy and protect themselves from economic risks. As they were inadequately represented in world financial organizations, they might well become the first victims of any financial squeeze. The international community should therefore vigorously promote structural reform in the global financial system.

59. In that connection, the United Nations should make full use of its influence to speed up that reform. The new world financial system should respect the principle of equality and mutual benefit, permit developing countries wider participation in the running of world economic affairs and reduce their financial risks. The reform should not, however, be limited to asking those countries to improve the efficiency and transparency of their financial systems, but should also make it possible to supervise and rationalize worldwide

flows of financial resources and to create early warnings systems and mechanisms to handle crises.

60. Debt had long stymied developing countries' socio-economic development. Under the HIPC Initiative one third of their debt had been exempted, but it still stood at some US$ 90 billion. Scaling back the developing countries' levels of debt was essential for those countries, especially the least advanced among them, if they were to eradicate poverty and achieve economic development.

61. There were historical and political reasons for the situation in which the developing countries found themselves, but it was also the product of an unfair and unreasonable economic order. The international community therefore had a duty to provide developing countries with practical assistance so that they could free themselves from the debt trap and secure economic development. The developed countries, as the main creditors, should engage in a determined effort to honour the commitments they had given at the International Conference on Financing for Development, something which new global monitoring mechanisms should ensure. Similarly, the relevant international and regional agencies should continue, by various means, to help developing countries to build capacity and, when they provided policy guidance and financial assistance, they should pay due heed to those countries' particular needs and implementation capacity and suggest feasible reforms and development plans.

62. In an attempt to solve the developing countries' debt problem, her Government had made enormous efforts within the framework of South-South cooperation. For example, it had adopted measures in favour of the developing countries in the China-Africa Cooperation Forum and at the ASEAN 10 + 3 Summit and had undertaken to steadily increase the aid it was channelling to Africa through the China-Africa Cooperation Forum, to remove customs duties from certain imports from the least advanced African countries and to augment its financial contribution to the African Human Resources Development Fund. Furthermore, it was prepared to join with other countries in exploring new ways of further lightening the developing countries' debt burden.

63. **Mr. Chulkov** (Russian Federation) said that his country supported the setting up of an effective mechanism to monitor the international financial architecture and the framing of appropriate measures and strategies for responding rapidly to crises and preventing global shocks in the long term, since a stable and efficient financial system was a sine qua non of internal and external conditions facilitating the attainment of sustainable development goals and promoting larger financial flows to developing countries and countries with economies in transition.

64. The Russian Federation was pleased to note that work on stricter surveillance was continuing at IMF. In that context, the possibility of setting up a separate regional monitoring instrument should be studied.

65. The timely identification of potentially vulnerable economic sectors in various countries was very important. In that respect, his Government was convinced that, in the long term, despite the difficulties posed by its implementation, the balance-sheet approach, which would combine indicators of vulnerability in both the public and private sectors, might become one of the main surveillance tools.

66. As for the financial instruments of the Fund, as the Secretary-General had so rightly noted, the contingent credit line had never been used and had ultimately expired. At the same time, the idea of simplifying access conditions to the Fund's resources for countries which pursued a responsible economic policy was still relevant. Current proposals for improvements to preventive financial instruments should offer alternative solutions in that area. Furthermore, it would be desirable to strengthen the role of the Bretton Woods institutions in the surveillance of speculative capital flows and offshore centres' activities, as well as in combating the financing of terrorism and money laundering.

67. The question of broadening the participation of developing countries and countries with economies in transition in the decision-making processes of international financial institutions had to be viewed primarily from the angle of boosting the efficiency of development aid. Those institutions' activities had to be subordinated to the interests of client countries. The issue of redistributing votes at the World Bank or IMF, which had been central to debates for some time, would inevitably entail a futile confrontation between protagonists which was likely to jeopardize the principle of consensus. The Russian Federation was striving to secure the adoption of pragmatic decisions which would solve current practical problems without

giving rise to dissension or requiring a revision of international financial institutions' statutes.

68. The support which the Russian Federation had given the HIPC Initiative had been crucial to its actual implementation, especially as the volume of financial aid disbursed by the other creditors had depended on the amount of relief granted by Russia. As far as the sum total of those reductions was concerned, Russia was fourth among donors and, by reference to GDP, it came first. Having said that, the HIPC Initiative and the new strategy aimed at ensuring the viability of external debt were merely instruments and in no way guaranteed that the poorest countries would manage to extract themselves from debt. Debt relief would not produce the desired results unless it was accompanied by sensible financial, economic and budgetary policies, structural reforms, a strengthening of public institutions and a more propitious investment climate in the poorest countries. Experience showed that constantly upping the volume of loans and simultaneously cancelling previous debts was irrational. That practice damaged fiscal transparency, weakened the international financial architecture and taught borrowing countries bad habits. It was necessary to reconsider the problem and to find a solution based on a comprehensive approach. The Fund and the World Bank should think about devising new financial regulatory mechanisms which would not lead to mounting debts.

69. **Mr. Jha** (India), having stated that his delegation associated itself with the statement made by the representative of Qatar on behalf of the Group of 77 and China, noted that the report of the Secretary-General on the external debt crisis and development (A/59/219) said that the net transfer of resources to developing countries had remained negative, reaching an alarming level of $248 billion in 2003. Net inflows of foreign direct investment to those countries had fallen to their lowest levels since 1996 and resources provided by multilateral development and financial institutions had continued to decline. There was also a significant shortfall in ODA in comparison to the commitments made at the Monterrey Conference and increases in such assistance thus far were mostly reflected in debt forgiveness rather than development aid. Reform of the international financial system was therefore a matter of great urgency.

70. As the report of the Secretary-General indicated, the developing countries had taken a wide range of measures in recent years to strengthen financial regulations and supervision in order to lessen their susceptibility to external shocks. The international community needed to take measures to reduce the developing countries' exposure to such shocks, to sustain the global recovery process and to correct global imbalances among countries. That would require a coordinated and cooperative approach, together with determination to share equitably the burden of necessary adjustments.

71. Economic surveillance must be exercised to improve countries' resilience to economic shocks and market fluctuations and, ultimately, to prevent crises, but much remained to be done to strengthen the effectiveness of surveillance. One particular problem was that developing countries did not perceive the policy recommendations made to them as adequately taking into account their priorities, as well as their institutional framework and circumstances. As the Secretary-General had proposed, surveillance should be oriented towards the policies of the developed economies, making it possible to improve the overall surveillance framework.

72. Another important dimension in crisis prevention would be for multilateral financial institutions to develop financial facilities for contingent situations, to help countries to deal with crises. That would inspire confidence in the market and minimize the contagion risks arising out of fluctuations in private capital flows. The creation by IMF of a trade integration mechanism was a welcome development.

73. As for the regulation and supervision of the financial sector, as the Secretary-General had stated in his report on the international financial system and development (A/59/218) the New Basel Capital Accord did not necessarily respond to all the concerns of the developing countries. It was important to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes. Although a number of proposals had been mooted with a view to redesigning the international financial architecture in that direction, there had been little progress. The high-level meeting to be held in 2005 pursuant to General Assembly resolution 58/291 should lead to decisions in those matters.

74. His delegation welcomed discussions on innovative financial mechanisms and sources of financing, but those should not diminish the existing

level of resource flows or deny the need for greater participation by the developing countries in international financial institutions and their functioning and decision-making. Also, they should not enable the developed countries to shirk the obligations they had undertaken in the area of ODA or lead to greater burdens on developing countries.

75. The debt problems faced by low- and middle-income countries continued to act as severe constraints on their economic development and prevent them from achieving the Millennium Development Goals. The operational framework for measuring debt sustainability in respect of those countries, therefore, must strike an appropriate balance between rules and discretion in relation to their obligations.

76. The need for a speedy conclusion of the fourteenth replenishment of the International Development Association could not be over-emphasized. Also, if it came into effect, the possibilities offered by the fourth amendment to the IMF Statutes, as approved by the Board of IMF in 1997, to grant special allocations of special drawing rights must be utilized to the full.

77. **Mr. Mustapha** (Nigeria) said that his delegation aligned itself with the statement made by Qatar on behalf of the Group of 77 and China. The Secretary-General's reports (A/59/218 and A/59/219) painted a familiar picture of an international financial system in which the net transfer of resources was from developing to developed countries. In the absence of real political will on the part of the developed countries, the developing countries were not able to make themselves heard or to participate in the functioning of the international financial system. They therefore remained vulnerable to global uncertainties and were at the mercy of incoherence between policies and measures adopted to promote their economic growth and development.

78. As for the surveillance exercised by IMF, the latter should do more to increase the transparency of its assessments of the financial sector in member countries. By focusing on monitoring the implementation of the programmes it was financing rather than on national priorities and needs, it was likely to commit errors in assessing the results of its policies. Nigeria hoped that the pilot case studies undertaken by IMF in a number of countries in order to protect public investments would not be concentrated in one region of the world, as seemed to be the case according to the Secretary-General's report.

79. Turning to the issue of representation of African countries in international financial institutions, the democratic governance deficit currently existing in the operations of those institutions should be addressed urgently. In particular, his delegation strongly believed that Africa's gross underrepresentation on the Boards of the World Bank and IMF must be addressed. The creation of additional positions for representatives of the two African groups in the offices of the administrators representing certain developing countries and in the capitals of those countries, desirable though it was, would be seriously insufficient; only a structural reform of those institutions would give Africa greater representation.

80. As for the external debt crisis and development, Nigeria knew from experience that external debt obligations over a prolonged period could jeopardize development efforts. In Africa, where the external debt crisis was very acute, money spent on servicing the external debt and other debts was money taken away from much-needed social programmes. His delegation had emphasized that point during the fifty-eighth session of the General Assembly, but was raising the matter again because the situation had not changed, and had even worsened in many African countries.

81. Salutary as the HIPC Initiative might be, its drawback was that it took a piecemeal approach to the debt problem, which required a more comprehensive and radical solution. The international community should take urgent steps to give effect to the provisions of the numerous General Assembly resolutions on the subject.

82. In the absence of a multilateral forum or instrument to resolve the external debt crisis, his delegation remained convinced that the United Nations offered the best opportunity to seek a lasting solution to that pandemic. A debate on external debt, in the context of the dialogue held every spring by the Economic and Social Council with the Bretton Woods institutions was a good way to seek a solution that would be in the interest of all members of the international community.

83. **Mr. Amayo** (Kenya) said that his delegation associated itself with the statement made by Qatar on behalf of the Group of 77 and China. He noted that the scenario described in the report of the Secretary-

General (A/59/218), particularly the increase in net outward financial transfers from the developing countries and a further decline in net official flows, was not favourable to the developing countries. There was an urgent need to define a strategy to reverse those negative flows, including appropriate measures to increase FDI flows to the developing countries, reform the international banking sector and solve the external debt problem of the developing countries.

84. Although developing countries were playing an increasingly important role in the world economy, they continued to be underrepresented in international economic and financial decision-making bodies. The decision-making process of the multilateral financial institutions still lacked transparency and democracy, contrary to the global trend. There was a need to reform the system of appointments to top positions in those institutions in order to ensure truly equal opportunities for all countries.

85. The total external debt of developing countries and countries with economies in transition had increased in 2003 and there had been a corresponding rise in private debt in sub-Saharan Africa. The ratio of total debt to gross national income had also continued to worsen, particularly in Africa, Latin America and the Caribbean. The servicing of external debt had been a major constraint on developing countries, particularly in Africa. The need to maintain debt sustainability in order to maintain good relations with the Bretton Woods institutions had seriously compromised Kenya’s efforts to promote long-term growth and to implement poverty-reduction strategies. With the country’s commitment to debt servicing, there remained no available resources for investment in the productive sector and that situation had been further worsened by the poor performance of export commodities in the international markets and the negative effects on the tourism sector.

86. The implementation of the HIPC Initiative was progressing too slowly. In order to ensure its success it was necessary, in particular, to make the rules on decision points more flexible and adopt more realistic debt sustainability criteria. Many low-income countries such as Kenya, which did not qualify for the HIPC Initiative, continued to bear a heavy debt burden and to service their debt at the expense of investment in infrastructure and social amenities. That situation was not sustainable given the enormous difficulties faced by the Government of Kenya in its drive to achieve the Millennium Development Goals. During the current year, his country had obtained debt restructuring in the context of the Paris Club but that would do no more than provide some relief in the short term. The possibilities of the Evian approach and other innovative measures should therefore be explored in order to ensure a lasting solution to the debt problem for those countries that did not benefit from the HIPC Initiative. Priority should also be given to debt cancellation to give developing countries disposable income for investment in the productive sectors and to replace loans to finance project by grants which had higher long-term impacts.

87. **Mr. Pramanik** (Bangladesh) associated his delegation with the statement made by the representative of Qatar on behalf of the Group of 77 and China, and wished to make some additional remarks.

88. For a number of years, the developing countries had been suffering from a net outflow of resources. They had expressed their concerns on many occasions in various forums, including the Second Committee, but nothing had changed. It was absolutely essential to reverse that trend. The volume of ODA remained far below the agreed target of 0.7 per cent of gross national product, despite a slight improvement following the Monterrey Conference. New and innovative means of increasing the current flow of ODA had to be explored. Bangladesh welcomed the proposal to establish an international finance facility and also the recommendations of the expert group set up following the launch of Action against Hunger and Poverty. His delegation was encouraged by the international initiatives for crisis prevention and resolution. The financial sector assessment programme of the World Bank and IMF could prove useful but should not entail new conditionalities. The reforms suggested must take into consideration the social and human consequences.

89. Most developing countries were susceptible to external shocks. That applied particularly to the LDCs, most of which were single commodity exporting countries. Trade financing therefore needed to be made secure and predictable and the larger economies had a greater responsibility in maintaining the stability of the world economy.

90. Despite broad recognition of the need for greater representation of the developing countries in the

international financial decision-making process, little progress had been made to that end. Political will on the part of the development partners would be required to accommodate the wishes of the developing countries in that connection.

91. The debt scenario remained grim for the developing countries, among which the LDCs were the most seriously affected. The serious debt problems of the LDCs required a comprehensive solution. Even though Bangladesh was not a heavily indebted country, it still felt the impact on its resources when repaying its debt. Total cancellation of the bilateral and multilateral debts of the LDCs would release resources that could be used for basic human needs such as food, health, shelter and sanitation, access to safe drinking water and education and in achieving the Millennium Development Goals.

92. **Mr. Benmellouk** (Morocco) said that, in spite of the upturn in the world economy and the favourable outlook for growth, the economic and social situation of developing countries remained precarious, particularly because of the scale of poverty in those countries and their vulnerability to external shocks.

93. Inadequate financial flows remained the main obstacle to the recovery and economic development of those countries. The international community should therefore intensify its efforts to increase capital flows to the developing countries, in particular in the African continent, in order to support the action of those countries to achieve the Millennium Development Goals. The international community should also resolve the difficulties, particularly those of a systemic nature, faced by the developing countries.

94. In a global economy characterized by increased interdependence among national economies, the economic policies of the developed countries had a direct impact on the countries of the South. In that context, the developed countries should honour the commitments they had made in various international forums, particularly at Monterrey, to ensure that their policies were consistent with the attainment of the Millennium Development Goals. IMF had a central role to play in ensuring the balance and stability of the world economy.

95. With respect to the participation of the developing countries in the decision-making processes of the international financial institutions, the current efforts of the World Bank and IMF to strengthen such participation should be supported and a precise timetable drawn up. Efforts should focus on the search for a consensus on structural measures, particularly restoring the number of basic votes to a level at least equivalent to what it was on the date of the establishment of IMF, an increase in quota shares, the establishment of new special majorities, the selective increase in capital and the enlargement of executive boards. Those changes could not take place without political will on the part of the developed countries. It should be recalled that those countries were committed under the Monterrey Consensus to correct anomalies in the decision-making process of the Bretton Woods institutions.

96. The persistent indebtedness and debt-servicing problems of the developing countries were a factor that impeded their development efforts. A reduction in indebtedness could play a vital role by releasing resources to be used for sustainable growth. Morocco welcomed the efforts made by the heavily indebted low-income countries in the context of the HIPC Initiative. The success of that Initiative required a degree of flexibility to overcome the difficulties encountered by the countries concerned which did not manage to meet the admission criteria. In that context, Morocco also welcomed the decision to extend the sunset clause of the HIPC Initiative until the end of 2006.

97. The same flexibility was required for dealing with the debt of all the developing countries. It was also necessary to overcome the difficulties experienced by those States and limit the impact of the instability of the world economy on their ability to manage their debt. The efforts of the international community should be exerted within the context of an approach guided by concern with maintaining a sustainable level of indebtedness in developing countries, particularly the most indebted among them, and with ensuring that resources transferred to those countries were made available to them on terms that did not threaten their medium- and long-term viability. At the same time, Morocco supported the establishment by the World Bank and IMF of a new framework for the evaluation of the indebtedness of low-income countries based on a systematic analysis of the dynamics of that indebtedness. Such an evaluation should take into account not only the indicators that determined the sustainable debt level, but also other, qualitative,

factors, in order to place their financing strategies in a suitable light.

98. **Mr. Jenie** (Indonesia), speaking on behalf of the member countries of ASEAN, said that those countries fully associated themselves with the remarks made by the representative of Qatar on behalf of the Group of 77 and China.

99. Stability of the financial sector was one of the main objectives that ASEAN continually endeavoured to achieve. The financial crises suffered by the region in 1997-1998, after it had experienced one of the fastest growth rates in the world, had made two things clear, namely that the economies of the ASEAN countries were more closely linked to one another than had previously been thought and that they were clearly integrated in the eyes of investors. The lessons drawn from those financial crises became the basis for the launching of the ASEAN Economic Community in October 2003. The aims of the Community were to promote the region's economic development and enhance its resilience, thus increasing its contribution to the world economy and its ability to become part of the engine of global growth.

100. The ASEAN Surveillance Process, which served as an early warning mechanism for any potential problems that might affect the region's financial sector and was based on regular monitoring of national situations and the holding of periodic meetings of the finance ministers of the ASEAN countries, was an ongoing financial cooperation initiative among those countries.

101. As pointed out by the Secretary-General in his report (A/59/218), FDI was still the most important source of external financing for developing countries. ASEAN reaffirmed its commitment to providing investors with a competitive and attractive environment for investment and business operations. That commitment had already given rise to clear-cut positive trends. Wherever feasible, ASEAN was establishing mechanisms with its partners that would strengthen the region's resistance against external factors. The Chiang Mai initiative, for example, had definitely helped the ASEAN countries to overcome the Asian financial crisis. Nevertheless, because those countries were at various stages of development, the region remained vulnerable to global uncertainties and risks. Sustained recovery could not be achieved unless the challenges triggered by the globalized economy were addressed. Indebtedness was no doubt one of the heaviest challenges faced by developing countries, which would surely fall short of achieving the Millennium Development Goals if debt management policy was not linked with growth and development. ASEAN therefore supported the efforts to develop and apply innovative mechanisms to comprehensively address debt problems in developing countries based, among other things, on the use of special drawing rights, debt swaps for nature and development programmes. While duly recognizing the efforts of some developed countries to achieve or surpass the target of 0.7 per cent of gross national product set for ODA, ASEAN noted that the current commitments would not suffice to enable developing countries to achieve the Goals. ASEAN therefore called for greater political will on the part of developed countries.

102. Enhanced participation of developing countries in international economic decision-making, the need for which had been emphasized in the Monterrey Consensus and highlighted in the Secretary-General's report (A/59/218), would greatly facilitate overall reforms in the international financial architecture and the implementation of developing countries' international commitments, particularly the Millennium Development Goals. In that regard, ASEAN called for greater participation of its member countries in the decision- and policy-making of the Bretton Woods institutions and the Doha Round of trade negotiations within the World Trade Organization framework.

103. Also extremely important were the discussions that had led to the issuance of the communiqué of 2 October 2004 by the Development Committee of the World Bank and the evolving recognition of the need for a series of new concepts and instruments that would favour the allocation of new resources and provide more flexible access to financial sources by developing countries.

104. A healthy financial sector was a precondition for supporting development goals. It would have been impossible for the ASEAN countries to surmount the 1997-1998 financial crises without concerted vision and action. Although the global economic outlook was for relative stability, countries must work in unity to prevent future shocks. The high-level event to be held during the sixtieth session of the General Assembly would provide an opportunity for them to discuss such

issues, as it would coincide with the biennial evaluation of the Monterrey Consensus.

105. **Mr. Chiriboga** (Ecuador) said that he associated himself with the statement made by the representative of Qatar on behalf of the Group of 77 and China. The elimination of poverty was still the policy objective of most Members of the Organization, for it was essential to create a world that was more just and equitable. Unfortunately, developing countries often found themselves compelled to defer the implementation of decisions for the achievement of the Millennium Development Goals relating to the elimination of hunger and poverty in order to repay or service their foreign debt. Ecuador, which faced that dilemma, with a foreign debt/gross domestic product ratio that was 42 per cent in 2003, therefore urgently called once again on the international community and the international financial institutions to shoulder their responsibilities in that area and solve the problem.

106. The solutions proposed must be viable and must permit developing countries to realize their social as well as their economic objectives. It was not acceptable that debt repayment or debt service should prevent them from making the necessary investments in the social and productive areas. The terms of the renegotiation of the foreign debt, which were contrary to the principle of State sovereignty, must therefore be softened.

107. One must also ascertain the sustainable debt level of indebted countries, for it was difficult to repay a debt while stimulating long-term growth and reducing poverty. The members of the international community should also make a concerted, decisive effort to set up mechanisms that took into account the situation of developing countries, including middle-income countries.

108. Inasmuch as many developing countries were periodically the victims of natural disasters that struck their populations and their economies full force, they must be able, in such cases, to receive funds or have recourse to aid mechanisms on an emergency basis to ease the effects without thereby adding to their debt.

109. To set up any emergency aid mechanism, it was imperative to take into account each country's situation, in particular its social situation, which must serve as a basis for the establishment of debt-payment capacity.

110. Such mechanisms, however, were not enough to solve the initial problem, which was that of indebtedness. One must therefore remedy the effects of exogenous factors that affected the situation of developing countries, in particular the inequalities inherent in the multilateral trading system, which compromised their development possibilities.

The meeting rose at 1.10 p.m.