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Agenda item 50 (c)

## **Macroeconomic policy questions: external debt crisis and development**

### **Report of the Second Committee\***

*Rapporteur:* Mr. Abdulmalik Alshabibi (Yemen)

#### **I. Introduction**

1. The Second Committee held a substantive debate on agenda item 50 (c) (see A/60/486, para. 2). Action on sub-item (c) was taken at the 34th meeting, on 7 December 2005. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/60/SR.8 and 9).

#### **II. Consideration of draft resolutions A/C.2/60/L.3 and A/C.2/60/L.51**

2. At the 11th meeting, on 13 October, the representative of Jamaica, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced and corrected a draft resolution entitled "External debt crisis and development" (A/C.2/60/L.3), which read:

*"The General Assembly,*

*"Recalling its resolutions 58/203 of 23 December 2003 and 59/223 of 22 December 2004 on the external debt crisis and development,*

*"Reaffirming the Monterrey Consensus of the International Conference on Financing for Development, which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,*

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\* The report of the Committee on this item will be issued in four parts, under the symbol A/60/486 and Add.1-3.

*“Recalling* the United Nations Millennium Declaration adopted on 8 September 2000, which reaffirms the need to deal comprehensively and effectively with the debt problems of low- and middle-income developing countries,

*“Recalling also* section II on development of the 2005 World Summit Outcome,

*“Recalling further* its resolution 57/270 B of 23 June 2003,

*“Concerned* that many developing countries continue to struggle for a durable solution to their serious debt problems, where continuing debt and debt-servicing obligations adversely affect their sustainable development,

*“Noting* that the Heavily Indebted Poor Countries Initiative aims to promote debt sustainability in the poorest countries and that its implementation could be enhanced by streamlining conditionalities, and while acknowledging further progress in the implementation of the Initiative, that many heavily indebted poor countries continue to face substantial debt burdens after reaching the completion point under the Initiative,

*“Noting with concern* that some other highly indebted low- and middle-income developing countries are facing serious difficulties in meeting their external debt-servicing obligations,

*“Emphasizing* the need to ensure that debt relief does not replace other sources of financing, and welcoming in this regard the letter dated 13 September 2005 to the President of the World Bank from the Finance Ministers of the Group of Eight on its debt proposal in which it is acknowledged that the key element of the proposal is that debt relief will be fully financed by donors to ensure that the financing capacity of international financial institutions is not reduced,

*“Reaffirming* that debt relief can play a key role in liberating resources that could be directed towards activities consistent with hunger and poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including those contained in the United Nations Millennium Declaration,

*“Convinced* that enhanced market access to developed countries’ markets for goods and services in the export interest of developing countries would significantly contribute to debt sustainability in developing countries,

“1. *Takes note* of the report of the Secretary-General;

“2. *Emphasizes* the urgent need for the international community to adopt an effective, comprehensive, equitable, durable and development-oriented solution to the debt problems of developing countries and, in this regard, welcomes the current discussion on initiatives on debt reduction and cancellation, depending on the level of development and specific circumstances of debtor countries;

“3. *Underlines* that the long-term sustainability of debt for developing countries depends on the economic growth and export prospects of debtor countries and hence, on the success in overcoming structural development problems, and stresses that this will further require additional resources to

finance development, including through enhanced market access to developed countries' markets for goods and services in the export interest of developing countries and investments in developing countries;

“4. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels and should also take into account the level of debt that allows a country to achieve the Millennium Development Goals and national development plans without an increase in debt ratios, and that countries should direct those resources freed through debt relief, in particular through debt reduction and cancellation, towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including those contained in the United Nations Millennium Declaration;

“5. *Underscores* the fact that no single indicator should be used to make definitive judgements about debt sustainability and, in this regard, while acknowledging the need to use transparent and comparable indicators, emphasizes that country-specific circumstances, social and development needs and the impact of external shocks caused by, inter alia, natural disasters, conflicts, changes in global growth prospects, and adverse terms of trade, especially for commodity-exporting developing countries, should be taken into account in debt sustainability analyses and reiterating the invitation to the International Monetary Fund and the World Bank to take into account country-specific factors in their assessment of debt sustainability, requests both institutions to present a progress report on the issue at the 2006 special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development;

“6. *Reiterates* the need for the World Bank and the International Monetary Fund to keep the overall implications of the debt sustainability framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and welcomes the intention to disclose the International Development Association country performance ratings that form part of the framework;

“7. *Welcomes* the decision taken by the Group of Eight at its July 2005 summit held in Gleneagles, United Kingdom of Great Britain and Northern Ireland, to cancel 100 per cent of debt owed by heavily indebted poor countries and stresses that it should be expeditiously implemented by the concerned multilateral financial institutions and that the funds for this process should be additional to existing aid commitments, and also stresses the need for the Group of Eight initiative to include debt owed to multilateral financial institutions other than the International Monetary Fund, the World Bank and the African Development Bank and to enlarge the number of beneficiary countries to include all heavily indebted poor countries and non-heavily indebted poor country least developed countries and low- and middle-income developing countries; and, in this regard, stresses the need to further clarify the modalities of implementation of the Group of Eight initiative, notably on the additionality of donor resources available to all multilateral institutions for the purpose of debt relief and on the possible inclusion of additional beneficiary

countries before the end of 2005 and requests the International Monetary Fund, the World Bank and the African Development Bank to present a progress report on the issue at the 2006 special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development;

“8. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability and that the implementation of the Initiative has not contributed to a real alleviation of the budgetary burden because debt relief often results in a swap of fiscal expenditures in domestic currency;

“9. *Stresses* the importance of further flexibility with regard to the eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative, in particular for low-income developing countries emerging from conflicts and/or affected by natural disasters, and the need to keep the computational procedures and assumptions underlying debt sustainability analysis under review;

“10. *Also stresses* the need to find a solution for the debt problems of heavily indebted least developed countries, and low- and middle-income developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries Initiative and, in this regard, invites creditors and debtors to further explore, where appropriate, the use of innovative mechanisms such as debt swaps, including the ‘Debt for Equity in Millennium Development Goal Projects’, for alleviating the debt burden of non-heavily indebted poor country least developed countries and low- and middle-income developing countries;

“11. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium-to-long term, and stresses the need to take steps to ensure that resources provided for debt relief do not detract from official development assistance resources;

“12. *Emphasizes* that the Evian approach of the Paris Club, decided by creditors in October 2003, deals with the debt of non-heavily indebted poor countries and low- and middle-income countries, taking into account not only the financing gaps but also the medium-term debt sustainability of these countries, and welcomes the fact that its objective is to tailor debt restructuring to the financial needs of the country concerned and to ensure debt sustainability as well as an exit from Paris Club debt reschedulings;

“13. *Calls upon* creditor countries to ensure that a more tailored response to debt restructuring under the Evian approach of the Paris Club reflects the social and development needs of debtor countries, their financial vulnerabilities and the objective of enhancing long-lasting debt sustainability and, in this respect, emphasizes that creditors and debtors must share responsibility for preventing and resolving unsustainable debt situations in a timely and efficient manner and also calls for further discussion to improve the

understanding of creditors and debtors on economic indicators that distinguish liquidity from solvency problems in debtor countries, in order to prevent liquidity difficulties from evolving into insolvency;

“14. *Acknowledges* the ongoing work towards a more comprehensive approach to sovereign debt restructuring, supports the increasing inclusion of collective action clauses in international bond issuing, and strongly encourages borrowers, lenders and multilateral institutions to continue working towards reaching an international understanding on debt restructuring modalities, including voluntary code and international arbitration or mediation mechanisms, which would bring together debtors and official and private creditors in a collaborative and constructive dialogue with a view to resolving debt problems in an expeditious and timely manner and to equitably protecting the interests of debtors and creditors, bearing in mind the need not to preclude emergency financing in times of crisis;

“15. *Welcomes* the efforts of the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

“16. *Stresses* the need for the international community to provide flexibility to developing countries affected by natural disasters so as to allow them to adequately address their debt concerns including those arising from reconstruction activities;

“17. *Welcomes* the efforts of, and further calls upon, the international community to support institutional capacity-building in developing countries and countries with economies in transition for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

“18. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions, to hold frequent consultations and strengthen their coordination in respect of capacity-building activities in developing countries in the area of debt management;

“19. *Calls upon* all Member States and the United Nations system and invites the Bretton Woods institutions as well as the private sector to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those relating to the question of the external debt problems of developing countries;

“20. *Requests* the Secretary-General to submit to the General Assembly at its sixty-first session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries;

“21. *Decides* to include in the provisional agenda of its sixty-first session, under the item entitled ‘Macroeconomic policy questions’, the sub-item entitled ‘External debt crisis and development’.”

3. At its 34th meeting, on 7 December, the Committee had before it a draft resolution entitled “External debt crisis and development” (A/C.2/60/L.51), submitted by the Vice-Chairman of the Committee, Selwin Hart (Barbados), on the basis of informal consultations held on draft resolution A/C.2/60/L.3.

4. At the same meeting, the Vice-Chairman orally corrected the draft resolution as follows:

(a) In the first preambular paragraph, the word “the” was deleted before the words “external debt crisis and development”;

(b) In operative paragraph 11, the words “to implement the proposal and to ensure that the funds” were replaced by the words “to implement the proposal, and that the funds”;

(c) In operative paragraph 13, the word “the” was inserted after the word “*Welcomes*”.

5. Also at the same meeting, the Committee adopted draft resolution A/C.2/60/L.51 as orally corrected (see para. 8).

6. In the light of the adoption of draft resolution A/C.2/60/L.51, draft resolution A/C.2/60/L.3 was withdrawn by its sponsors.

7. After the adoption of the draft resolution, a statement was made by the representative of the Bolivarian Republic of Venezuela (see A/C.2/60/SR.34).

### III. Recommendation of the Second Committee

8. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

#### **External debt crisis and development**

*The General Assembly,*

*Recalling* its resolutions 58/203 of 23 December 2003 and 59/223 of 22 December 2004 on external debt crisis and development,

*Reaffirming* the Monterrey Consensus of the International Conference on Financing for Development,<sup>1</sup> which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

*Recalling* the United Nations Millennium Declaration, adopted on 8 September 2000,<sup>2</sup>

*Recalling also* the 2005 World Summit Outcome,<sup>3</sup>

*Recalling further* its resolution 57/270 B of 23 June 2003,

*Welcoming* that total debt service for developing countries decreased in the period from 2003 to 2004, leading to improvements in several traditional debt indicators,<sup>4</sup> but concerned that some low-income and middle-income developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries Initiative are still facing difficulties in finding a durable solution in meeting their external debt-servicing obligations, which could adversely affect their sustainable development,

*Welcoming also* that the Heavily Indebted Poor Countries Initiative has enabled heavily indebted poor countries to markedly increase their expenditures on health, education and other social services consistent with national priorities and development plans, emphasizing in this regard the need to ensure that debt relief does not replace other sources of financing, stressing the importance of addressing the challenges of those heavily indebted poor countries that are facing difficulties in reaching the completion point under the Initiative, and expressing concern that some heavily indebted poor countries continue to face substantial debt burdens and need to avoid rebuilding unsustainable debt burdens after reaching the completion point under the Initiative,

*Welcoming further* the recent proposal of the Group of Eight, as endorsed by the Bretton Woods institutions at their 2005 annual meetings, to cancel 100 per cent of the outstanding debt of eligible heavily indebted poor countries owed to the International Monetary Fund, the International Development Association and the

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<sup>1</sup> *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

<sup>2</sup> See resolution 55/2.

<sup>3</sup> Resolution 60/1.

<sup>4</sup> See A/60/139, paras. 2 and 6.

African Development Fund and to provide additional resources to ensure that the financing capacity of the international financial institutions is not reduced,

*Emphasizing* that debt sustainability is essential for underpinning growth, and underlining the importance of debt sustainability to the efforts to achieve national development goals, including the Millennium Development Goals, and that countries should direct those resources freed through debt relief, in particular through debt reduction and cancellation, towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

*Convinced* that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in developing countries,

1. *Takes note* of the report of the Secretary-General;<sup>5</sup>
2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries, since debt financing and relief can be an important source of capital for economic growth and development;
3. *Stresses* the importance of promoting responsible borrowing and lending;
4. *Emphasizes* that creditors and debtors must share responsibility for preventing unsustainable debt situations;
5. *Underlines* that the long-term sustainability of debt depends, inter alia, on the economic growth, mobilization of domestic resources and export prospects of debtor countries and, hence, on the creation of an enabling environment conducive to development, progress in following sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems;
6. *Reiterates* its call upon developed countries, as expressed in the Millennium Declaration,<sup>2</sup> to complete the enhanced programme of debt relief for the Heavily Indebted Poor Countries Initiative and to ensure that it is fully financed, and in this regard underscores the importance of full creditor participation in contributing their share to implementing the enhanced Heavily Indebted Poor Countries Initiative;
7. *Recognizes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to improve their domestic policies and economic management, inter alia, through poverty reduction strategies, and to create a domestic environment conducive to private-sector development, economic growth and poverty reduction, including a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites all creditors, both private and public, to encourage those efforts, for example, through further participation in the delivery of debt relief in the framework of the enhanced Heavily Indebted Poor Countries Initiative and continued provision of adequate and sufficiently

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<sup>5</sup> A/60/139.



concessional financing by international financing institutions and the donor community;

8. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards these objectives;

9. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels, emphasizes that country-specific circumstances and the impact of external shocks should be taken into account in debt sustainability analyses, underscores the fact that no single indicator should be used to make definitive judgements about debt sustainability, and in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused by, inter alia, natural disasters, conflicts, changes in global growth prospects or in the terms of trade, especially for commodity-dependent developing countries, and to continue to provide information on this issue using existing cooperation forums, including those involving Member States;

10. *Reiterates also* its invitation to the World Bank and the International Monetary Fund to keep the overall implications of the debt sustainability framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and welcomes the intention to disclose the country performance ratings of the International Development Association that form part of the framework;

11. *Welcomes* the Gleneagles proposal by the Group of Eight, as endorsed by the Bretton Woods institutions at their 2005 annual meetings, to cancel 100 per cent of the debt owed by heavily indebted poor countries to the International Monetary Fund, the International Development Association and the African Development Fund and their emphasis that it should be expeditiously implemented by the concerned multilateral financial institutions, also welcomes their efforts to proceed with steps to ensure all necessary arrangements to implement the proposal, and that the funds for this process be fully additional to existing aid commitments to the International Development Association and the African Development Fund, looks forward to the remaining heavily indebted poor countries with unsustainable debt burdens, including countries that may enter the Heavily Indebted Poor Countries Initiative process based on their debt burdens at the end of 2004, becoming eligible for such treatment as they reach the completion point, emphasizes that the key element of the proposal is that debt relief will be fully financed by donors to ensure that the financing capacity of international financial institutions is not reduced, and in particular that the financial integrity and capacity of the International Development Association and the African Development Bank to assist developing countries in the future is maintained, and also emphasizes the importance of eligible countries maintaining sound economic policies and performance;

12. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability, stresses the importance of promoting responsible borrowing and lending and the need to help these countries to manage their borrowing and to avoid a build-up of unsustainable debt, including through the use of grants, and in this regard welcomes the ongoing work by the International Monetary Fund and the World Bank to develop a forward-looking debt sustainability framework for heavily indebted poor countries and low-income countries;

13. *Welcomes* the continued flexibility with regard to the application of eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative, in particular for low-income developing countries emerging from conflicts and/or affected by natural disasters, and on the computational procedures and assumptions underlying debt sustainability analysis, and in this regard takes note of the work on identifying low-income countries with unsustainable debt as of the end of 2004, with a view to finalization, by early 2006, of the list of countries potentially eligible for assistance under the Heavily Indebted Poor Countries Initiative;

14. *Emphasizes* that the Evian approach of the Paris Club, decided upon by creditors in October 2003, deals with the bilateral debt of non-heavily indebted poor countries and low- and middle-income countries, taking into account not only the financing gaps but also the medium-term debt sustainability of these countries, and welcomes the fact that its objective is to tailor debt restructuring to the financial needs of the country concerned and to ensure long-lasting debt sustainability for countries that have adopted policies that will secure an exit from Paris Club debt reschedulings;

15. *Calls upon* creditor countries, in this regard, to continue to ensure that a tailored response to debt restructuring is granted only in a case of imminent default and is not considered by debtor countries as an alternative to more expensive sources of finance, and takes into account country-specific circumstances, financial vulnerabilities and the objective of enhancing long-lasting debt sustainability, while emphasizing that creditors and debtors must share responsibility for preventing and resolving unsustainable debt situations in a timely and efficient manner;

16. *Acknowledges* the ongoing work towards a more comprehensive approach to sovereign debt restructuring, supports the increasing inclusion of collective action clauses in international bond issuing, takes note of the work on issues related to international arbitration and mediation mechanisms, and welcomes the efforts by borrowing countries and private-sector creditors to broaden the consensus on the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets, which could contribute to strengthening crisis prevention and enhancing predictability of crisis management, bearing in mind the need not to preclude emergency financing in times of crisis, to promote fair burden-sharing and to minimize moral hazard;

17. *Stresses* the need to find a solution for the debt problems of low- and middle-income developing countries with unsustainable debt burdens that are not eligible for assistance under the Heavily Indebted Poor Countries Initiative, and in this regard invites creditors and debtors to continue to use, where appropriate and on a case-by-case basis, mechanisms such as debt swaps for alleviating their debt burden, and also stresses that this should be achieved in a fashion that does not

detract from official development assistance resources, while maintaining the financial integrity of the multilateral financial institutions;

18. *Takes note* of the recent discussions and assessment by the Paris Club of the proposal for “Debt for Equity in Millennium Development Goal Projects”;

19. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability;

20. *Welcomes* the efforts of the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

21. *Welcomes also* the efforts by creditors to provide flexibility to developing countries affected by natural disasters on a case-by-case basis so as to allow them to address their debt concerns;

22. *Welcomes further* the efforts of, and further calls upon, the international community to support institutional capacity-building in developing countries and countries with economies in transition for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

23. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions, to continue cooperation in respect of capacity-building activities in developing countries in the area of debt management;

24. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions as well as the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those relating to the question of the external debt problems of developing countries;

25. *Takes note* of the contribution provided by the multi-stakeholder dialogues on sovereign debt organized by the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat;

26. *Requests* the Secretary-General to submit to the General Assembly at its sixty-first session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries;

27. *Decides* to include in the provisional agenda of its sixty-first session, under the item entitled “Macroeconomic policy questions”, the sub-item entitled “External debt crisis and development”.