United Nations

A/C.2/53/SR.8

General Assembly

Fifty-third session

Official Records

Distr.: General
24 March 1999
English
Original: Spanish

Second Committee

Summary record of the 8th meeting

Held at Headquarters, New York, on Friday, 9 October 1998, at 3 p.m.

Chairman: Mr. Asadi .... (Islamic Republic of Iran)

Contents

98-81528 (E)

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

Agenda item 91: Macroeconomic policy questions (A/53/60, A/53/62, A/53/69 and A/53/184)

(b) Financing of development, including net transfer of resources between developed and developing countries (A/53/228 and A/53/398)

(d) External debt crisis and development (A/53/373, A/53/72–S/1998/156 and A/53/95–S/1998/311)

1. **The Chairman** invited the Committee to begin consideration of agenda items 91 (b) and (d). The Group of 77 and China had proposed that questions relating to development financing and the improved market access of developing countries, especially the least developed ones, should be included in the cluster of items before the Committee.

2. **Mr. Desai** (Under-Secretary-General for Economic and Social Affairs), introducing the cluster of items to be considered, said that the Committee should focus its work on four major areas. The first one concerned the framing of policy measures to respond to the global economic crisis. The report on global financial flows and their impact on developing countries: addressing the matter of volatility (A/53/298) noted that a new consensus had emerged on macroeconomic policy which was based on greater awareness of the risks inherent in massive short-term capital flows, the importance of ensuring that guidelines and policies reflected the actual situation in each country, and the need for macroeconomic policies to be framed within the context of development objectives, including social objectives. In that regard, the *1998 Trade and Development Report* contained interesting proposals on financial volatility. Moreover, the *World Economic and Social Survey 1998* analysed the origins of the crisis and tried to determine the direction that development should take.

3. Under the second area, the Committee should consider longer term issues, such as the net transfer of resources to developing countries, where official development assistance (ODA) was an important component. In document A/53/228, analytical approaches were put forward in that regard and suggestions for a future course of action were made. Between 1991 and 1996, net transfers of resources to developing countries had amounted to $35 billion, while in 1997 there had been a negative transfer of $8 billion. From all indications, the situation was expected to be even worse in 1998. That reflected a drastic decline in private capital flows beginning from mid-1997 and worsening sharply from mid-1998, which had affected not only countries in crisis but also all developing countries and emerging market economies. As the figures in document A/52/228 showed, there had been a steady erosion of ODA throughout the 1990s. However, there were some signs of improvement, such as the recent announcement by the United Kingdom that it would increase its aid programme substantially. He hoped that other countries would emulate that example since it should be borne in mind that providing long-term development assistance was as important as addressing financial instability.

4. The third area was the external debt, especially that of low income countries. That issue was considered in the report on the debt situation of the developing countries as of mid-1998 (A/53/373). In that regard, the Committee should focus attention on the Heavily Indebted Poor Countries initiative and the slow pace at which countries could become eligible for it. Currently, only one country had benefited from the Initiative and it seemed that four or five others would be able to do so within the next three or four years, although 41 countries met the eligibility criteria. That issue was worthy of consideration and the World Bank and International Monetary Fund had pledged to ensure that the 41 countries would receive assistance as soon as possible.

5. Lastly, the Committee should consider the process to be put into place with respect to financing for development. It would soon have at its disposal two documents on the issue. The first was a report containing an index of basic topics and elements compiled from questionnaires and an account of the bibliographic material received. The second was a report on United Nations system activities in that field. Moreover, a Web site had been set up on that subject.

6. **Mr. Rahman** (Chief, New York office of the United Nations Conference on Trade and Development), introducing the report of the Secretary-General on the debt situation of the developing countries as of mid-1998 (A/53/373), said that debt was making a comeback as a burning problem on the international agenda. The slow process of implementation of the Highly Indebted Poor Countries initiative and the frequency of financial crises affecting middle income countries following their rapid integration into the global financial markets were sources of concern for the international community. Although statistics showed that during 1997 debt indicators had improved for developing countries, those overall trends masked a continued debt overhang in many African countries. Likewise, they did not reveal the liquidity problems which had led to the debt crisis in some East Asian countries in the second half of 1997.

7. The core of the debt problem that had remained to be solved before the East Asian crisis had been the unsustainable debt positions of the group of 41 highly indebted poor

countries. Their total external debt had amounted to $245 billion at the end of 1996. Their debt burden remained severe with a debt stock to export ratio of well over 300 per cent and a debt stock to GNP ratio of 127 per cent in 1996. The debt service ratio for those countries had generally remained below the 20 per cent threshold that warned of debt servicing difficulty, but that had often been the result of the accumulation of arrears, which had itself developed into a problem in some cases.

8. The low-income countries had also been hit hard by financial crises, particularly Mexico and some Latin American countries in 1995, and several East Asian countries in 1997 and 1998. Those crises could be distinguished from the debt crises of the 1980s in that debt had been incurred mostly by private borrowers vis-à-vis private creditors which, in the case of Mexico, had included a diversified group of bond-holders. Those crises had to date been addressed by huge bail-out packages mobilized by IMF to avoid defaults by major debtor countries.

9. IMF remained the linchpin of international debt workout approaches, whether in the framework of the Paris Club, London Club, the Highly Indebted Poor Countries initiative or recent debt rescue packages for middle-income countries. That situation was not likely to change in the foreseeable future since the international creditor community attached importance to the role that IMF was playing in preventing moral hazard behaviour of debtor countries; assisting debtor countries in implementing policies that were intended to promote their creditworthiness; and mobilizing necessary finance, often with the support of and contribution from major creditor countries. Such an approach might tilt too much towards controlling debtor countries and not giving them a voice in determining their own debt sustainability objective. Furthermore, too much burden might be put on the official sector in providing bail-out finance for private creditors, without sufficiently involving the latter in an equitable burden-sharing arrangement.

10. Within both the Paris Club and the HIPC initiative, the rules and procedures for debt relief operations were strictly determined by the creditors. The most stringent conditions were those of the HIPC initiative, which required a complex process of debt sustainability analysis and a rather long period of prior proven performance. It was important to apply criteria and target ranges with flexibility, taking into account different debt situations and avoiding the risk of excluding countries which truly needed some degree of reduction. It was a matter of concern that the implementation of the initiative was very slow: two years had elapsed since its launching and yet only one country, Uganda, had benefited from full-fledged relief. The slowness of the process could be due to two factors: a lack of adequate funding and the complexity of the process itself. With a view to accelerating the implementation of the initiative and enabling all eligible countries to participate by the year 2000, as called for by the Mauritius mandate, it would be necessary to simplify the debt sustainability analysis and fully involve debtors in determining sustainability criteria, shorten the implementation period for individual countries, mobilize an adequate amount of financing through the World Bank and IMF, secure increased contributions by bilateral donors to the HIPC Trust Fund, and, for the poorest of the HIPC countries, give consideration to bolder actions, including conversion into grants of all remaining official bilateral debt and clearing the entire debt stock if warranted.

11. At the same time, the repetitive occurrence of financial crises in developing countries was a matter of serious concern for the international community. In the absence of greater control of capital flows, financial crises were likely to be increasingly frequent, severe and extensive. The bail-out strategies resorted to when a crisis occurred were becoming increasingly problematic: they protected creditors from bearing the responsibility of poor decisions, placing the burden entirely on debtors, tended to encourage imprudent lending practices on the part of international lenders and required such a huge amount of funding that they were reaching the limits of political acceptability. One way of preventing liquidity crises from becoming large-scale insolvencies would be to resort to the principles of orderly debt restructuring patterned on those of chapter 11 of the United States Bankruptcy Code, in particular its principle of "automatic standstill". The *Trade and Development Report 1998* contained a proposal that a country facing an attack on its currency should have the right to impose a standstill. Such a mechanism should be written into the rules and conditions governing international financial contracts, in order to promote a better assessment of risks, eliminate irresponsible behaviour and reduce speculative short-term capital flows to emerging markets. It would also eliminate the need for large-scale bail-outs, an approach which could benefit both lenders and borrowers and promote greater financial stability.

12. **Mr. Hidayat** (Indonesia), speaking on behalf of the Group of 77 and China, said that the financial crisis which had struck Asia in 1997 and continued to spread throughout the world had added a sense of urgency to the work of the Committee. With regard to the volatility of financial flows, he said that while the amount of those flows to the developing countries had increased from $100 billion in 1990 to over $250 billion in 1996, they were composed almost entirely of private capital and were concentrated in a limited number of developing countries. On the other hand, the majority of

developing countries had become more dependent on official development assistance, which was experiencing a drastic and continuing decline. Furthermore, much of the private capital was of a speculative nature and many of the developing countries which had benefited from such flows had seen their hard-won economic growth collapse virtually overnight.

13. The effect of the financial crisis and the adjustment programmes in the affected countries on the world economy had been much larger than expected. For countries directly affected by the crisis, the gross domestic product (GDP) was expected to fall in absolute terms in 1998. Many other countries were experiencing significant slowdowns, while yet others had already plunged into acute economic crisis and recession. In the poorest and most vulnerable developing countries, vast numbers of people had slipped into extreme poverty, which put pressure on the political and social fabric.

14. The Asian crisis clearly demonstrated that one could never be sure of the soundness of a national economy and its ability to endure in the face of volatile short-term capital flows that were driven more by psychology than by fundamental facts. The crisis showed that the playing field of the global economy, on which all countries, large and small, developed and developing, must compete, was not level. It also demonstrated the lack of adequate means of predicting a crisis, containing its scope, alleviating any social costs and preventing its spread. It was therefore essential to establish new structures, including an early warning system and an adequate surveillance mechanism. In that context, it was important to explore the many proposals put forward, including that of the Intergovernmental Group of 24 on International Monetary Affairs on the establishment of a task force of developed and developing countries to design a more effective surveillance mechanism for international financial and capital flows, as well as improved national information systems. Such measures as unilateral actions and extra-territorial application of domestic legislation should be dismantled and all countries requested to refrain from such practices.

15. With regard to the fundamental role of the international financial institutions, the Group of 77 and China would like to receive assurances that liberalization of capital accounts would proceed in an orderly and flexible manner, so as to enable member countries to tailor it to their individual circumstances. It also invited the International Monetary Fund to pursue discussions on the idea of establishing a surveillance and regulatory framework for short-term capital flows and trade in currencies.

16. One of the most persistent and debilitating constraints on financial resources for development was external debt, which had increased by $76 billion to reach $2.2 trillion by the end of 1997 in the world's poorest countries. It should be noted that even before the financial crisis had become widespread, Governments had been unable to service that debt. The international community had crafted a strategy to address that problem with the participation of the General Assembly and had made significant progress within the framework of the Paris Club, in particular through the adoption of debt-relief measures on the basis of the Naples terms in 1994, and more recently through the HIPC initiative, which the Bretton Woods institutions had established in 1996. The Group of 77 and China also appreciated the efforts of the Commonwealth authorities in advancing the implementation of that initiative and reiterated the importance of the Mauritius Mandate on the need for simplifying the concept of debt sustainability.

17. Despite those advances, external indebtedness remained a constraint on development and often ran far in excess of Government funding of such basic services as health care and education. As a result of globalization and the spreading financial crisis, a new dimension had been added to indebtedness, which included problems with liquidity. Thus, any effective, durable and development-oriented solution must focus on two basic aspects: further strengthening of debt relief and debt reduction to allow debtor countries to exit from the never-ending rescheduling process and achieve sustainable development; and ensuring a stable global economy and a more conducive external economic environment which included access to financial resources, markets and technology, improved commodity prices and terms of trade and the stabilization of exchange rates and interest rates.

18. It was interesting to observe recent trends in debt workout strategies. In 1997, there had been a notable reduction in the number of agreements concluded in the framework of the Paris Club because many countries had graduated from the rescheduling process. Unfortunately, that did not mean that the continuing external debt overhang of developing countries was about to be resolved or that liquidity problems were under control. It was essential to observe closely the performance of recently graduated countries to determine whether they were really prepared to deal with the new realities. For the same reason, it was important to take a closer look at current approaches such as the Heavily Indebted Poor Countries (HIPC) initiative, which was moving too slowly. It was necessary to address the complexity of the process, the lack of adequate funding and the possibility of shortening the interval between the decision and completion points. In that context, the Group of 77 and China supported the five priority areas identified in the Secretary-General's

report on Africa, including the conversion into grants of the remaining official bilateral debt of the poorest African countries.

19. With respect to the international response to the Asian financial crisis, the Group of 77 and China believed that the approach taken by the international monetary and financial system involved too many conditionalities and too much control over the internal affairs of the debtor countries. They even harboured doubts about the capacity of international institutions to mobilize emergency funding, which should be an integral part of an international mechanism for crisis management. There was also a need to address moral hazard and, in that connection, to consider seriously efforts to achieve an equitable sharing of the costs of the stabilization process, including the possibility of creating bankruptcy procedures and a lending mechanism of last resort for countries in arrears, with the involvement of the private sector.

20. In sum, the Group of 77 and China wished to see a definitive improvement in the international strategy to reduce the overall debt stock and service to levels that would enable debtor countries to resume solid development. That would involve the adoption of an integrated approach encompassing multilateral, bilateral and commercial debt. Contributions from developed-country creditors should be based on the provision of additional resources so that scarce development funds would not be diverted to debt relief.

21. The Secretary-General's report did not mention an issue to which the Group of 77 and China attached great importance: the need for social safety nets for the vulnerable groups most adversely affected by the implementation of economic reform programmes in debtor countries. To address those and other critical aspects of financing for development and the external debt crisis, it was necessary to consider seriously the proposal of the Group of 77 and China to convene a conference on financing for development.

22. **Mr. Glanzer** (Austria), speaking on behalf of the European Union, the Central and Eastern European countries associated with the European Union, the associated country Cyprus and the European Free Trade Association country member of the European Economic Area, Iceland, referred first to the net transfer of resources and the consequences of the Asian financial crisis for recipient countries in various regions.

23. The European Union was aware that private financial flows alone could not remedy the world's ills, but believed that the emerging focus of private finance on sustainable human development should be reinforced. A close examination of the flow pattern revealed the fundamental economic conditions that had to be addressed to improve countries' access to private capital. In that connection, it was necessary to use official development assistance more effectively and to implement reforms based on greater integration between financial aid and technical assistance. The European Union remained concerned about the decline in official development assistance, particularly the decline in grants to the operational agencies of the United Nations.

24. The European Union remained committed to the promotion of worldwide development as a central policy goal, to the provision of substantial resources for addressing development challenges and to the achievement of measurable progress towards poverty elimination. Efforts should be strengthened to achieve the agreed target of contributing 0.7 per cent of gross domestic product (GDP) in official development assistance as soon as possible. The European Union also attached importance to improving and monitoring the quality and effectiveness of aid, including the development of sector-wide approaches in programming and coordination.

25. With respect to financing for development, the European Union felt that it would be in the common interest to create a broader-based partnership for development based on the consensus reached at recent major United Nations conferences and on the commitments made in that respect by both developed and developing countries. The fight against poverty must be placed at the heart of those endeavours, as a unifying principle for international development efforts.

26. Global financial integration had helped to generate a massive expansion of private capital flows to some developing countries, but also posed enormous challenges to national financial and banking systems in terms of ensuring the sustainability of those flows. In particular, the volatility of short-term capital flows entailed serious risks for emerging market economies. The recent financial turmoil had shown that countries must maintain constant vigilance over all economic, financial and institutional parameters in order to guard against the volatility of other markets and contagion effects, and that each country needed not only sound macroeconomic fundamentals, but also a strong financial and banking system with adequate supervisory and regulatory mechanisms, transparency and good governance. Policy responses in that area must also address the social dimension of crises and the need to provide continued support to poor developing countries to help them improve their institutional and management capabilities in order to cope effectively with those challenges.

27. The recent events had also revealed serious weaknesses in the functioning of the international financial system and in the lending practices of private-sector investors. The

European Union therefore welcomed the measures proposed by the IMF Interim Committee to make the Fund's surveillance more effective, enhance transparency, disseminate best practices for strengthening banking regulation and supervision at the national level and involve the private sector in preventing and resolving financial crises. The European Union echoed the Interim Committee's call for the immediate adoption of appropriate practical measures. Moreover, the increase in quotas approved by the IMF Board of Governors in early 1998 and the New Arrangement to Borrow should be implemented rapidly. The launch of the euro would also make a major contribution to the stability of the international monetary system.

28. The European Union recognized that external debt overhang remained a major obstacle to sustainable development in many poor developing countries and that solutions must continue to be sought to prevent the burden of debt service from offsetting the benefits of reforms in those countries and to ensure their access to financial markets. Initiatives to assist heavily indebted countries included the substantial debt relief granted by bilateral creditors in the framework of the Paris Club. Recently, two countries that had been declared eligible for the Heavily Indebted Poor Countries initiative had benefited from the implementation, for the first time, of the Lyon terms providing for debt reduction of 80 per cent, in the context of the international financial community's general assistance to those countries. The European Union welcomed the substantial progress made in implementing that initiative and supported its speedy and decisive extension to more countries. The latter, in turn, should take the policy measures needed to embark on the process so that all eligible countries could be included in the process by the year 2000. The European Union reaffirmed its willingness to contribute actively and constructively to the alleviation of the debt burden of heavily indebted poor countries.

29. **Mr. Amorim** (Brazil), speaking also on behalf of the members and associate members of the Common Market of the Southern Cone (MERCOSUR), said that the worsening of the crisis in the international financial markets threatened to seriously reduce global economic activity and employment. The systemic nature and complexity of the crisis and its grave political, economic and social consequences highlighted the importance of promoting intergovernmental dialogue and close cooperation between the United Nations and the Bretton Woods institutions. It was necessary to correct the imbalance between financial interdependence and the limited effectiveness of current mechanisms for dialogue and coordination, as well as to strengthen multilateralism as a source of support for national and regional development efforts to create a more stable and predictable economic environment.

30. The member and associate member countries of MERCOSUR considered that the moment was a critical one which required the immediate adoption of crisis-prevention and crisis-management measures. The traditional macroeconomic policy formulas promoted by the multilateral financial institutions and the very architecture of the international financial system should therefore be re-examined. The leaders of the MERCOSUR countries had been stressing for some time the need to promote closer cooperation between monetary authorities at the global level, better coordination of the macroeconomic policies of countries which had the greatest impact on international finances, proper supervision of agents in international financial markets and stabilization of currencies that were the subject of speculation. He therefore welcomed the recent initiatives of the leaders of France, the United Kingdom and the United States of America, among others, as well as the frank discussion of those issues in the Group of 22. The primary task should be to focus on alleviating the crisis, a task that necessarily required the strengthening of the Bretton Woods institutions. It was also necessary, however, to continue to promote the social, economic and environmental aspects of development and for the United Nations to make a major contribution to those efforts.

31. The Ministers of Finance of the developing countries had stressed the need to promote the coordinated monitoring of the financial sector both in countries that provided and those that received capital and to strengthen the supervision of the private financial institutions that engaged in capital transactions across frontiers. The dialogue between governments and the international financial institutions should be frank and transparent and should be based on confidence and respect for the confidentiality of the information provided by governments. They also reiterated the need to proceed cautiously with the liberalization of capital accounts and to keep open the possibility of adopting adequate measures to control the speculative activities of currency markets and stock exchanges. With regard to the new architecture of the international financial system, it was necessary to strengthen the capacity of international institutions in the area of the prevention and management of the crises caused by capital movements, to promote the equitable distribution of the costs of such stabilization between governments and the private sector, to promote mechanisms for the protection of vulnerable sectors, and to ensure the effective participation of developing countries in the decision-making processes.

32. The countries of MERCOSUR recognized the benefits to be derived from the integration of global markets and the

key role of capital flows in the promotion of development and economic and social well-being. In 1997, they had received nearly $20 billion in foreign direct investments and hoped to receive approximately $30 billion in 1998. Privatization programmes had been a decisive element in attracting long-term foreign capital. In late 1997, the member countries of MERCOSUR had begun to feel the contagious effects of the financial crisis and, in accordance with their individual circumstances, had adopted drastic corrective measures to avoid even more harmful consequences. In that connection, they resolutely affirmed their intention to maintain sound economic policies and to continue their integration project.

33. On the subject of General Assembly resolution 52/179, in which the Assembly had decided to establish an intergovernmental process to consider the topic of financing for development, attention should now be focused on defining a substantive programme of work that included the main issues to be considered, namely, official development assistance, the promotion of a national and international environment that was conducive to development, the role of regional and multilateral trade and open markets as a source of resources for development, the regulation of capital flows and the strengthening of the institutional capacity to deal with situations of crisis. Finally, the working group's deliberations should be subject to a system of co-chairmanship with the participation of the countries of the North and South, in order to emphasize the shared responsibility for the process.

34. **Mr. Chowdhury** (Bangladesh) said that Bangladesh aligned itself with the statement made by the representative of Indonesia in his capacity as Chairman of the Group of 77. For many years, the United Nations had been discussing growth and development. It had adopted declarations on international cooperation, outlined international development strategies for four consecutive decades and called for the implementation of the commitments and policies that had been agreed upon, but the goal was still distant. Much of the history of development cooperation had been the result of political priorities rather than a genuine spirit of partnership. However, with the cold war over, those priorities should no longer be viewed as constraints.

35. Financing for development was more than a unidirectional transfer of resources for political ends. It was an investment in the shared progress of humanity. Global prosperity could not be achieved through a process of globalization that benefited mainly the developed countries. For weaker economies, prior investment was necessary to build the capacity that was needed to derive benefits from globalization. Market forces alone could not achieve the expected results.

36. The report of the Secretary-General (A/53/228) presented a gloomy picture of official development assistance. Aid flows continued to dry up and it was necessary to reverse that trend. In order to prepare for the high-level consideration of the topic of financing for development, it was important to focus on a number of key elements: States should begin with the mobilization of domestic resources, review the allocation of national expenditures and their fiscal priorities, look into the private sector and review their legal and administrative structures for rapid growth. Many countries, in particular the weakest and most vulnerable, would be incapable at first of generating the necessary domestic resources and would need an augmented flow of bilateral official development assistance (ODA) and multilateral financing. New and innovative sources of financing must be sought and the possibilities explored of obtaining concessional sources of capital through institutional mechanisms, such as the carbon tax, agreements on the exploitation of the global commons and the introduction of some version of the Tobin tax on speculative movements of capital.

37. **Mr. Winnick** (United States of America) said that financing for development and the architecture of the financing mechanisms were two closely related but separate topics. When the Committee considered financing for development, it was not also required to decide on the architecture to be established for channelling such financing. His delegation had read carefully the report of the Secretary-General on global financial flows, submitted in accordance with General Assembly resolution 52/180. However, the report was drafted as a proposal and not an analysis. It seemed to propose a new financing architecture and included prescriptions for a foreign exchange system, debt restructuring and commodities stabilization funds. His delegation questioned the prescriptive tone of the report.

38. Moreover, it was not clear how the meeting convened by the Secretariat in July had become a structural element of the report. When that meeting had been convened, his delegation had noted that it coincided with the session of the Economic and Social Council and that many delegations would be unable to attend both meetings. The Secretariat had responded that it was not an intergovernmental meeting but rather intended basically for Secretariat staff members. However, such a meeting was treated in the report as evidence of progress "towards a new consensus". According to general practice, a consensuses was achieved in intergovernmental bodies, which adopted resolutions or took decisions by consensus. While his delegation strongly supported the role of the General Assembly in promoting broad dialogue on those and other topics, it believed that, in that particular case, the conclusions of the meeting did not constitute a consensus.

39. He also wondered about the participation of the Bretton Woods institutions in that meeting and in the formulation of the proposals, since that was part of the mandate established in the resolution. Moreover, the mechanism suggested by UNCTAD for debt renegotiation in instances of liquidity crises was referred to in the report as a proposal that had been adopted, whereas the necessary debate in an intergovernmental forum had never taken place.

40. **Mr. Desai** (Under-Secretary-General for Economic and Social Affairs) said that paragraph 7 of the report of the Secretary-General (A/53/398) explained that the term “consensus” was used in the context of what was known as the “Washington consensus” and not in the sense of a consensus among governments. Moreover, the general expert view was that what had been described as the Washington consensus should be extended to other areas and the report attempted to identify which other areas would give a broader meaning to the consensus on what constituted an appropriate policy in that field.

41. With regard to the proposals on debt restructuring, paragraph 46 of the report clearly indicated that the experts were strongly in favour of it; however, there was no mention of agreement. Even footnote 27 specified that it was a proposal by the Group of Ten. The document was the product of broad consultations and contained numerous footnotes indicating the sources consulted. The purpose of the document was to provide the Second Committee with a brief summary of the prevailing views in order to assist it in its work; it would be up to the Committee, however, to take such decisions and formulate such conclusions as it deemed appropriate.

42. **Mr. Kolby** (Norway) said that development required investment in a variety of areas but, above all, in people, and in their health and education. For many countries, particularly the least developed countries, the chief constraint to economic and social progress was the lack of financial resources. While some countries had managed to attract private investment in order to fuel their development, the least developed countries received very limited amounts of private capital and, at the same time, bore heavy debt burdens.

43. Official development assistance was the main source of external financing for the least developed countries. It was therefore regrettable that, increasingly, most of the industrialized countries were falling short of the agreed target of allocating 0.7 per cent of their gross domestic product to development assistance. In order to reverse that trend, it was essential to demonstrate to donor Governments that development assistance was fruitful: that it led to tangible improvements for the poor and was not wasted in bureaucratic tangles or by improper practices or misconduct.

44. His delegation supported the establishment of a new partnership between developing and developed countries. Such a partnership should be based on good governance and the implementation of result-oriented policies in developing countries and a commitment on the part of the developed countries to reach the 0.7 per cent target within an agreed time-frame. Norway had reached that target a long time ago and planned to increase its assistance to 1 per cent. Although it would continue its efforts to counter the declining trend in official development assistance, Norway had repeatedly stressed that such assistance could not depend on a small group of donors, while most countries were not contributing according to their capacity. Nonetheless, experience had shown that official development assistance was not sufficient to lift countries out of poverty. Private capital investments were also essential. The governments of recipient countries must create a political and economic environment that attracted such investments.

45. It was also evident that the adoption of sound economic policies at the national level was not sufficient to achieve sustained growth and development. The international community was responsible for creating an economic environment that would help to relieve the debt burden, improve market access and channel investments into productive activities. The negative aspects of the current economic situation must be reduced to a minimum and the enormous potential of the global market must be harnessed.

46. His delegation believed that the Heavily Indebted Poor Countries Debt Initiative was the most constructive multilateral debt relief scheme ever launched and urged all parties to build on and improve that Initiative. Convinced that the magnitude of current difficulties called for additional measures for resolving the debt problems of the developing countries, Norway had launched a new national strategy which, in addition to supporting and strengthening already existing multilateral schemes, included bilateral debt reduction measures that would be implemented over and above the reductions granted under multilateral operations.

47. **Mr. Sharma** (India) expressed support for the statement made by the Chairman of the Group of 77. He noted that the process initiated with the adoption of General Assembly resolution 52/179 offered an historic opportunity to analyse questions relating to financing for development. That resolution had mandated the establishment of an ad hoc open-ended working group, which was to commence its deliberations not later than January 1999. His delegation hoped that the terms of reference of the working group, which

was to define the form, scope and agenda of the intergovernmental deliberations would be as broad as possible so as to include the whole range of issues relating to the topic of financing for development, and that a new paradigm of partnership for development would emerge from its work.

48. The crisis in South-East Asia, the recession in Japan and the situation in the Russian Federation and some Latin American countries had highlighted a number of systemic or institutional issues. The impact of the crisis, which was intensifying across the globe, had diluted confidence in the stability of the international financial system and in the collective capacity to manage crises. The international community was attempting to remedy that problem through the establishment of more appropriate financial architecture, which should undoubtedly include such elements as better regulation and supervision of the financial systems in all countries in accordance with common standards, better dissemination of information and greater transparency and more effective surveillance.

49. The tremendous human and social costs of the crisis must not be overlooked. It was ironic that, at a time when consensus had been achieved on social and human development priorities, the resources earmarked for the developing countries had diminished. By virtue of its universal membership and broad mandate, the United Nations was the ideal forum for seeking ways and means of creating social safety nets and, at the same time, considering measures needed to restimulate global growth. The question of trade must also be considered in that context. The argument that the developing countries must generate their own resources for development ignored the fact that they had relied mainly on domestically generated savings to finance it and that, in view of the inequities in the structure and functioning of the international trade system, there was a huge gap between countries in terms of resource availability.

50. It was necessary to expand the discussion on official development assistance. Several interdependent factors, such as donor fatigue, fiscal austerity and consolidation, and the questioning of the efficacy of the State as an engine of development, had contributed to a decrease in the volume of development assistance, whether bilateral, multilateral or in the context of operational activities. Moreover, an increasing proportion of assistance was being diverted to countries undergoing an economic transition. The situation was compounded by the growing trend towards using official development assistance for debt relief or to meet immediate humanitarian needs.

51. At a time when countries were increasingly having to look to global markets for resources, it was urgent to address the question of long-term capital flows, or foreign direct investment. It was a matter of concern that developing countries were receiving only 30 per cent of such flows and that, when they arrived, they were not always used to address development priorities. Consequently, the nature, distribution, composition and terms and conditions of foreign direct investment should be analysed to ensure that they were consistent with the evolving international consensus on development and the needs and priorities of developing countries.

52. Another systemic and institutional issue that must be considered was the relationship between the United Nations and private sector financing. In particular, there was a need to examine measures to enhance such flows, and to devise arrangements accountable to the international community that would allow the use of such funds in a manner consistent with the international priorities established through the United Nations.

53. **Mr. Noé Pino** (Honduras), speaking on behalf of the countries members of the Central American Integration System, endorsed the statement made by the Group of 77 and China. The Central American countries were deeply concerned at the burden which debt and debt servicing imposed on the region. That burden limited their capacity to pursue and strengthen programmes of economic reform, structural adjustment and stabilization, restricted their ability to mitigate the social cost of structural adjustment programmes, and had a negative impact on development plans, particularly those aimed at poverty eradication and at meeting the needs of the most vulnerable sectors of the population.

54. Jeopardizing the development and economic growth of one region also threatened international economic growth, which should be achieved through, *inter alia*, appropriate trade relations, good commercial practices and equitable access to markets and technology. To that end, the Central American countries were participating fully in the work of the General Assembly and were endeavouring to establish an international consensus on the strategies needed to reduce indebtedness. For their part, the Central American countries had made tremendous efforts, with the support of the multilateral financial institutions, to comply with the macroeconomic stabilization and economic reform programmes envisaged as part of the international strategy for assisting the heavily indebted countries. Nevertheless, the creditors were not complying with their obligations with the urgency required.

55. It must be acknowledged that the general debt situation had improved since the General Assembly had begun to examine the question in 1986. Nevertheless, external debt continued to limit the opportunities for growth and development of many countries. As was well known, the situation was being addressed at the international level through agreements with the International Monetary Fund (IMF) and the World Bank in the framework of the Heavily Indebted Poor Countries Debt Initiative. There were mechanisms that made it possible to seek resources from those institutions, namely, the Enhanced Structural Adjustment Facility of IMF and the Naples terms, through which the Paris Club was simultaneously considering ways to reduce bilateral debt. In order to be able to use those resources, countries had to fit within certain parameters, such as the current ratio of debt service to gross domestic product (GDP) and export revenues. Those criteria should be reviewed to ascertain whether they had become an obstacle to implementing the Initiative. The question arose, for instance, whether the period of six years required by the Initiative was not excessive, as countries could demonstrate their commitment to implement appropriate economic policies over a much shorter period. The Central American countries shared the concerns of the African countries on that score. It was also important to analyse the underlying notions that were used to determine the so-called “viability” of the debt and whether the national authorities shared them. The concern of the Central American countries was that, despite the urgent need to channel resources to their social programmes, bureaucratic criteria were being applied which artificially delayed the necessary debt relief.

56. Another issue that must be analysed was whether structural adjustment programmes had enabled problems to be solved or had, on the contrary, aggravated them. Deflationary policies, which tended to slow growth in the interests of stabilization, were the object of close scrutiny in medium-income countries, and the question arose whether such policies were also applicable to the heavily indebted poor countries. Without ignoring the significant progress made in the handling of external debt, the conclusion was inescapable that for a large group of countries, including two Central American countries, Honduras and Nicaragua, the debt problem continued to be a major obstacle to their opportunities for growth and participation in the globalization process. Accordingly, the Committee should continue to examine such questions with a view to finding means of agreement that could lead to effective solutions.

57. **Mr. Azaiez** (Tunisia) endorsed the statement made by Indonesia on behalf of the Group of 77 and China. Referring to the problem of financial instability, he said that the aid policies of the Bretton Woods institutions and the donor countries were not a panacea for ending underdevelopment and promoting growth in the countries of the South. As the Secretary-General had rightly noted in his report (A/53/389), the policies based on the Washington consensus were not sufficient to halt East Asia’s economic slide or to protect distant countries from contagion. The Asian miracle had given way to an Asian crisis. The storm that was battering the South-East Asian economies taught a lesson in humility: the measures that were designed for one country did not necessarily apply to others. Privatization did not always entail greater competitiveness, the development of market mechanisms and the dissemination of know-how and new technologies.

58. In the light of the cyclical crises of the past three decades, IMF had developed plans aimed at avoiding a suspension of payments, but such measures had not attacked the root cause of the crisis so as to protect the economies of the developing countries against unstable and speculative capital movements. The current system of global economic management did not provide for mechanisms to regulate such factors, and the financial crises in general were due to macroeconomic shifts linked to the unilateral policies of the big countries.

59. His Government concurred with the observations contained in the report of the Secretary-General concerning a solution to the problem of unstable global financial flows. His Government believed that deregulation in the national financial sector should not be carried to the extreme of absolute laissez-faire, that foreign direct investment was of particular interest to the developing countries, although it should be adapted to the social, economic and environmental priorities of the receiving country, and that it was not easy to distinguish between unstable flows and long-term investment, which should be promoted. Nevertheless, the lack of an appropriate global mechanism for stabilizing capital flows argued in favour of the imposition of controls to protect the economies of developing countries from international financial instability.

60. However, the report shed no light on the relevant policies of developed countries or on the reform of the international financial system. In that regard, the suggestions made by UNCTAD in its *Trade and Development Report 1998* appeared sound, particularly with respect to the possibility of applying at the international level the principles which the United States applied to insolvency at the national level; the declaration of debt standstills, which would allow countries under speculative attack to take the necessary steps to prevent panic from destabilizing their economies; and the need to provide firm support for IMF during the standstill and

the negotiation of a debt reorganization plan, a stage at which the interests of the debtor country would not be taken into account.

61. Because the crisis in South-East Asia was not a new or an isolated problem, the international community should work to reform the system and should consider the possibility of establishing a new body in which the developing countries would be equitably represented. Such an institution might have both broader and more specific responsibilities than those of IMF, so that it could deal with banking issues, capital movements and regulation, the stock market, business administration and the dissemination of information on the economic situation of State and multinational corporations.

62. **Ms. Cardoze** (Panama), speaking on behalf of the Rio Group, said that the consequences for the Rio Group region of the global financial crisis which had begun during the previous year had included a decrease of two percentage points in the growth rate of the gross domestic product (GDP), a decline in imports and exports, particularly of raw materials and semi-manufactured products, an increase in the current account deficit and, in some cases, a decrease in international reserves. At their recent meeting in Panama, the Heads of State and Government of the Rio Group countries had expressed concern at the possibility that the crisis might continue to worsen to the point of a global recession and had urged the financial bodies to participate more effectively in the search for a solution to the international financial crisis.

63. The United Nations should remain the appropriate forum for discussion of the global economy. In that regard, the Committee should focus particularly on global financial integration and its dangers for the economies of developing countries, particularly with respect to massive short-term movements of hot money. It was also necessary to address the critical problem that, despite the encouraging prospects which the international financial system appeared to offer, its effectiveness was currently compromised in the developing countries. Investment and funding from various sources had been attracted by the centres of gravity of the most developed countries. It was necessary to prevent such imbalances from worsening and to ensure that social injustice and political instability did not develop. Investment flows must be made to respond to the needs of developing countries. That task would involve the balancing of interests and the adoption of a historical perspective which was a fundamental duty of the United Nations, whereas work of a more technical nature fell to IMF, the World Bank and the World Trade Organization (WTO). In that regard, she noted that the ministerial communiqué adopted by the Economic and Social Council had recognized the need for greater coherence between the development objectives agreed to by the international community and the functioning of the international trading and financial system. In order to achieve that coordination, there must be close cooperation between the United Nations and the international financial institutions.

64. The declining trend in official development assistance (ODA) and the increasingly frequent imposition of conditions of an economic and financial or a political, legal or humanitarian nature had forced many developing countries to resort to private capital flows, which had been concentrated in a small number of countries and had proved unstable and crisis-prone. The adoption of resolution 52/179 should mark the beginning of a major consultation process leading to the convening not later than the year 2001 of a conference on financing of development. The Rio Group countries would participate actively in the working group established for that purpose.

65. The heavy burden of external debt on developing countries and the high cost of debt servicing were a source of concern to the Rio Group countries. In that regard, she reiterated the urgent need to seek new and more flexible terms of payment in order to achieve debt reduction and to explore new formulas that would make it possible to lighten the conditions imposed on debtor countries in a way that did not affect national programmes for the promotion of economic growth and social development. While it was true that the external public debt problem of developing countries was not of the same scope and dimensions as during the early 1980s, the burden which it imposed in times of crisis tended to restrict a government’s ability to promote economic viability and democratic governance.

66. **Monsignor Panikulam** (Observer for the Holy See) said that His Eminence Pope John Paul II had often spoken of the poorest countries’ international debt problem and had noted the urgent need for a definitive solution. The Holy See had recently made another appeal to all leaders in the field of international finance and development to take decisive steps so that as many poor countries as possible could achieve real and substantial debt relief by the year 2000. The HIPC initiative had been established for that purpose, and due credit should be given to its promoters. However, it must be applied more rapidly, flexibly and effectively. At the same time, the initiative needed broader support, particularly on the part of the wealthiest countries. It was essential for all creditor countries to fulfil their commitments and for more countries to contribute to voluntary mechanisms such as the HIPC Trust Fund.

67. The results of debt relief should be evaluated in the light of the contribution to poverty alleviation and the establishment of stable, lasting policies for economic and

social development. With assistance levels at their lowest point, there was a need for a new consensus on international development cooperation and for a continuing review of the social impact of all economic reform programmes. Debtor countries should receive technical assistance for their structural reforms to ensure that the poorest sectors of society did not assume a disproportionate burden, and fiscal reforms should be undertaken with a view to achieving greater equity between citizens. It would be paradoxical if social goals, particularly those related to education and health care, which were essential to long-term development, were to be affected by budget cuts. The Holy See was also concerned that the social progress of some debtor countries was being held back by continual wars and civil conflicts and, in some cases, by increased military spending.

68. In view of the serious economic situation in many regions, there was a risk that urgent attention might not be paid to the needs of the poorest countries. The incorporation of the least developed countries into the global economic system must be facilitated in the interests of all.

The meeting rose at 5.35 p.m.