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Chairman: Mr. Wali . . . . (Nigeria)
later: Mr. Hart (Vice-Chairman) . . . . (Barbados)

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The meeting was called to order at 10.10 a.m.

1. **The Chairman** expressed condolences to the Governments of Afghanistan, India and Pakistan, which had recently been struck by a powerful earthquake.

Statement by the Under-Secretary-General for Economic and Social Affairs

2. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) presented the *World Economic and Social Survey 2005: Financing for Development* (E/2005/51/Rev.1), which was part of the follow-up to the Monterrey Conference on Financing for Development.

3. With regard to mobilizing domestic resources for development, there was strong positive correlation between saving, investment and growth in the developing world. Deep and inclusive financial development should be ensured by means of a sound banking system and a strong domestic capital market, preferably in the national currency. Three elements were of key importance: long-term financing, scarce in developing countries; inclusive financing, aimed at enhancing access by the poor; and prudential regulation and supervision, whose effectiveness often required institutional reform.

4. With regard to the role of international trade as an engine for development, it was necessary to establish a "universal, rule-based, open, non-discriminatory and equitable multilateral trading system", as the Secretary-General and the recent World Summit had recently stressed in connection with the Doha Round. The pattern of specialization of developing countries was positively correlated with their economic growth and therefore critical. Many commodity-dependent economies, active on international markets that were not dynamic, faced particular challenges and non-oil commodity terms of trade were displaying a long-term downward trend, while developing countries focusing on technology products were increasing their market share, especially in high technology sectors. In terms of growth, developing countries exporting manufactured goods performed better than countries that were net commodity exporters, all of which, including oil exporters, needed new instruments to harness market volatility.

5. The promotion of stable sources of external financing was crucial. When international private capital flows proceeded from countries with abundant capital resources to countries lacking capital and helped smooth out external shocks, they could in fact stimulate development. Yet — save for foreign direct investment (FDI) that met those requirements — there was strong evidence that those two premises did not always apply. In the long term, private capital flows other than FDI tended to be highly pro-cyclical. After declining as a result of the Asian crisis, they had been recovering in the last several years and many developing countries had used much of that increase to build international reserves as a kind of self-insurance against crises. The net transfer of capital resources to developing countries had thereby turned negative and that flow of capital to the industrial world was increasing. It had exceeded $350 billion in 2004. Instruments to counteract the pro-cyclical performance of private capital flows by encouraging counter-cyclical flows included commodity- and GDP-linked bonds and, especially, local currency financing. International financial institutions should also proceed in a counter-cyclical manner. Attracting capital to low-income countries was a priority for the international community and should be pursued through appropriate policies, including the provision of adequate information to potential investors, the use of market instruments such as insurance and guarantee schemes and the introduction of a subsidy element in such schemes.

6. Official development assistance (ODA) was one of three areas covered by the *Survey* (the other two being multilateral development banks and innovative sources of financing). The Monterrey Conference had reversed — particularly in the case of least developed countries — the downward trend of ODA, which was currently rising and expected by 2010 to attain 0.36 of the GDP of industrial countries — approximately half of the 0.7 level target — generally referred to but most of that increase had consisted of debt relief, emergency aid and technical assistance and was channelled to a small number of specific countries. In real terms, the amount of ODA used to fund development projects in 2003 and 2004 had not differed significantly from the 1990 level. Increasing that ODA component was the main current challenge.

7. A major advance had been the approval of the Paris Declaration on Aid Effectiveness, which set out

five major principles: (a) ownership of development strategies by partner countries; (b) alignment of donor support with those strategies; (c) harmonization of donor action; (d) managing for results; and (e) mutual accountability of donors and partners. Accordingly, more aid should be channelled through State budgets and used according to national priorities. The international community should set a specific target for an amount of aid in that form and long-term commitments should be made to providing predictable aid flows to recipient countries.

8. Excessive flows of debt and a series of debt crises in the post-war period had resulted in debt overhangs that, in the 1970s and particularly in the 1980s, had been costly in terms of development. Progress during the preceding two and a half decades had been small, as debt levels had failed to decrease significantly. Three related initiatives should be noted: the HIPC Initiative, recently enhanced by the G-8, approved in that form by the Bretton Woods institutions and aimed at completing debt write-off; some Paris Club initiatives, particularly the Evian approach, which provided for effective one-time — instead of repeated — renegotiations on a case-by-case basis and had already been applied to the cases of Iraq and Nigeria; and, in respect of negotiations with private creditors, such measures as collective action clauses, bond issues and voluntary codes of conduct, although in those cases discussions on negation and arbitration mechanisms should continue. Lastly, it was necessary to accept the redefinition of debt sustainability, proposed by the Secretary-General in his report entitled “In larger freedom” (A/59/2005), as the level of debt that allowed a country to achieve the Millennium Development Goals and to reach 2015 without an increase in debt ratios.

9. With regard to systemic issues, there were two broad areas: vulnerabilities of the international financial system and problems related to institutional design. In the first area, the major issues were: global macroeconomic imbalances; growing concentration in the unregulated market segments worldwide and a concomitant reduction in the market’s ability to cope with downward risk expectations, although admittedly the financial system had at the same time become more sophisticated and flexible with a view to ensuring better risk management; and pro-cyclical private financing patterns. In the second area, IMF should insist more on consistency among the macroeconomic policies of major countries; and there was need for greater ownership of economic policies by the developing countries. Facilities of a more automatic and low-conditionality character to manage capital account reversals, commodity shocks and other emergencies were necessary in view of the pro-cyclical flows and the shocks faced by developing countries; and the international community should further debate the use of special drawing rights as a temporary mechanism in the face of crises or, in relation to innovative sources of financing, as a mechanism for financing development projects. Furthermore, in respect of the voice and participation of developing countries in international financial decision-making, Asia and Africa were underrepresented in IMF and other institutions in view of their relative share in world output.

10. With regard to South-South cooperation, various types of initiatives were being undertaken in addition to technical cooperation, particularly through development banks totally owned by developing countries, Arab institutions, the Andean Development Corporation and the Asian Bond Markets Initiative. More broadly, South-South cooperation provided a basis for supporting developing countries during crises, for instance through the Latin American Reserve Fund, active for some time in the Andean region, and the more recent Chiang Mai Initiative of ASEAN+3. Furthermore, macroeconomic policy consultation and, in the future, coordination among developing countries on a regional basis were promising areas.

11. **Mr. Lorenzo** (Dominican Republic) said that, in view of the low level of savings and investment in developing countries, which constrained development, and of those countries’ need for enhanced production capacity in addition to access to export markets, he would welcome information on whether the Under-Secretary-General considered the inadequacy of international financial flows as the main obstacle to economic growth and poverty eradication, and whether he shared the view recently expounded to the Committee by Professor Dani Rodrik, according to which the impact of reforms depended heavily on circumstances and a positive growth rate was the key challenge faced by developing countries. Moreover, an internationally agreed mechanism should be established to address the problem of heavily indebted middle-income countries that were not eligible under the HIPC Initiative. Lastly, in order to prevent future

financial crises, debt cancellation should be accompanied by economic, institutional and political reform.

12. **Mr. Kariuki** (United Kingdom) said that the European Union would make a full statement on issues related to financing for development under the agenda item on that issue. According to deliberations during the fifty-ninth session of the General Assembly, a negative net transfer of resources might not be a useful indicator with regard to development, because outward investment from some developing countries evidenced their integration into the world economy. In some cases, such flows could have a positive impact on the trade balance.

13. The effectiveness of ODA was linked to the way recipients used that aid. The OECD countries were strongly committed to aid effectiveness. The move towards budget support was not important for aid effectiveness. In fact, the provision of effective budget support and predictable assistance depended on the climate in which that aid would be used. Accountability to domestic taxpayers required the ability to demonstrate, not through some macroeconomic conditionality but through a degree of confidence in the development partnership, that aid would be used appropriately. In that sense, aid effectiveness was a two-sided concept.

14. A huge breakthrough had been made in 2005 with regard to cancellation of multilateral debt for HIPCs, and additional information on recent developments in that area would be welcome. However, not all HIPC debt should be forgiven, since in some cases, possibly including instances of bad governance, domestic circumstances did not warrant sufficient confidence regarding the use of those resources. The Secretary-General's definition of sustainability was problematic because it indirectly implied that a specific amount of resources should be released for attaining the Millennium Development Goals. Defining a sustainable level of debt was difficult in view of other available means of action, over and above debt forgiveness, such as trade, aid and private flows. Lastly, the question of voice and participation was not a straightforward issue of developing countries versus developed countries but was related to the distribution of representation among developing countries; correcting the Asian situation of insufficient voice based on the size of the continent's economy could have a negative impact on African representation.

15. **Ms. Mammadova** (Azerbaijan), referring to heterogeneity among developing countries in terms of development level, type of economic performance, size of economy and geographic location, said that her delegation would in future welcome analytical information based on such parameters and also, in particular, regarding the development challenges faced by mineral-exporting countries in view of their current development efforts, especially in relation to the transparent management of fiscal revenues.

16. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs), replying to the question from the representative of the Dominican Republic on whether capital flows were the major constraint on the growth of developing countries, said that the answer depended on the economic cycle and on the country. Although, generally speaking, sharp reduction in capital flows affected the growth prospects of developing countries, it was hard to say that capital flows were the major current constraint on development, especially in view of their increase in the last three years. Moreover, access to capital markets was uneven among developing countries and particularly restricted, even in periods of increasing private flows to developing countries, in the case of low-income countries and middle-income countries with a debt overhang. The cycle and access aspects of the issue were central to the Monterrey agenda. Lastly, some of the policy reform issues raised by Professor Rodrik would be addressed in the 2006 *Survey*.

17. With regard to the observations of the representative of the United Kingdom, outward investment for developing countries could indeed in some cases be a sign of integration into capital markets and not necessarily an adverse occurrence. However, net transfer of capital was a relevant measure of the extent to which developing countries and transition economies as a whole were net financial flow recipients. The current accumulation of international reserves for self-insurance purposes indicated a malfunction in the international financial system. Budget support was only one way of channelling ODA through the budgets of recipient countries; on other modality was support for some of their education, health and other programmes. Alignment meant an increasing use of the budget of the developing countries in providing ODA. That was the only system consistent with enhancing democracy, since budget approval was a major parliamentary function. Funds

not channelled through recipient country budgets were not approved by parliaments, thereby circumventing a fundamental democratic principle of public sector financing. The share of ODA actually transferred through budgets that was currently reported by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) was not particularly encouraging. The *Survey* did not cover debt cancellation initiatives discussed at meetings of the Bretton Woods institutions after its preparation. The Secretary-General's definition of debt sustainability made the significant point that debt should not be serviced at the expense of major development efforts undertaken under the international agenda with a view to attaining the Millennium Development Goals, as would happen if the countries concerned adopted highly contractionary policies. The point regarding voice and participation was well taken. The main issue was that over time the number of votes of developing countries had become excessively small.

18. The issue of the heterogeneity of transitional economies raised by the representative of Azerbaijan would be addressed in the report entitled *World Economic Situation and Prospects*, to be produced jointly with the United Nations Conference on Trade and Development (UNCTAD) in January 2006. The particular challenges of commodity-exporting countries in general, including mineral and agricultural product-exporting economies, and the related prospects and transparent management requirements would be addressed in the 2006 edition of the *Survey*.

19. *Mr. Hart (Barbados), Vice-Chairman, took the Chair.*

20. **Mr. Leglise-Costa** (France), noting the increasing differences between the situations of emerging countries that had a direct impact on global macroeconomic balances and those of very poor countries which were excluded from any form of participation, said that an overly prescriptive approach must be avoided. Effective alignment in accordance with national priorities should take into account such diversity. While the allocation of 25 per cent of ODA to budget support was a welcome development, budget support was not suited to all situations. Indeed, in some cases, it had serious adverse consequences. All programmes designed for developing countries needed to be aligned with national priorities without necessarily having to be in the form of budget support. In his delegation's view, more stable and predictable resources were needed for the financing of long-term projects, which was why a greater volume of good quality innovative sources of financing was critical to achieving the Millennium Development Goals. As far as debt was concerned, situations should be evaluated on a case-by-case basis. His delegation was against a generalized grant-based approach. While such an approach might be necessary in some cases for a specific period of time, in no case should that be allowed to ban an entire category of countries from access to a full range of instruments.

21. **Mr. Ocampo** (Under Secretary-General for Economic and Social Affairs) said that, despite the diversity of situations, there were issues, such as financing and commodity price cycles, that affected developing countries as a whole. Furthermore, developing countries could not borrow in their own currencies because world currencies were the currencies of industrial countries. That generated additional risks for developing countries, which should be addressed. On the issue of alignment, he noted that the current practice was for all lending by development banks, such as the World Bank, to be channelled through the budgets of recipient countries. It was only in the case of ODA that the practice was not fully followed. The amount of funds channelled through the budgets of recipient countries should be used as a basic indicator of alignment. He agreed with the French delegation on the importance of predictability and innovative sources of financing. Grant-based financing, in contrast to loans, could indeed affect sovereignty, although what was basically at stake was the amount of funds required by individual countries. While countries could borrow up to a certain proportion without incurring excessive debt, if a bigger volume of resources was required, there was no alternative to increasing grant financing. Poorer countries could not absorb 10, 15 or 20 per cent of GDP in any other form than grants. That was why the move towards grant-based financing was a significant achievement in the ODA debate.

Agenda item 50: Macroeconomic policy questions

(b) International financial system and development (A/60/163)

(c) External debt crisis and development (A/60/139)

22. **Ms. Orr** (Financing for Development Office, Department of Economic and Social Affairs) introduced the report of the Secretary-General on the international financial system and development (A/60/163).

23. Although developing countries as a group continued to experience a net outward transfer of resources, there was an increasingly widespread improvement in their net export balances as a result of increases in export volumes and prices. They had also registered a record increase in international reserves in 2004 resulting from higher trade surpluses and net private capital inflows. The reasons for the accumulation of international reserves included the decision by some Governments to stabilize the value of their currencies and the perceived need by countries for “self-insurance” to protect the domestic economy from international financial instability.

24. In strengthening the international financial system, increased attention had been given to national and international measures aimed at better preventing and managing financial crises. Multilateral surveillance remained at the centre of crisis prevention efforts and should focus on improving analytical tools for early identification of specific areas of country weakness.

25. With financial globalization, surveillance should focus on the stability of the global financial system as a whole. There was a clear need for greater international cooperation and coordination to ensure a smooth adjustment of global macroeconomic imbalances. That involved reinforcing the role of IMF in supporting the management of the world economy. It was necessary to provide larger margins of safety to deal with financial imbalances, which built up during cyclical upswings and downturns. Regional reserve funds could be a valuable complement to the IMF role. Indeed, greater attention in recent years to regional financial arrangements might reflect the slow pace of reform of the international financial system. On the issue of voice and participation in the Bretton Woods institutions, she noted that real changes in representation could be achieved only through political will to undertake fundamental reform. Moreover, the discussion of that issue needed to be extended to other international policymaking bodies.

26. **Ms. Tran-Nguyen** (United Nations Conference on Trade and Development (UNCTAD)), introducing the report on external debt crisis and development (A/60/139), said that increases in income, exports and reserves, together with a slower rise in total debt stocks in 2004, had been translated into lower debt-to-income and debt-service-to-export ratios for developing countries. The growth of gross national income (GNI) in developing countries had outpaced the growth in debt in 2004, improving total debt-to-income ratios for all developing countries to an estimated 35.2 per cent, down from 38.6 per cent in 2003.

27. However, many heavily indebted low- and middle-income countries continued to face unsustainable debt burdens, which hindered their growth and development and their efforts to attain the Millennium Development Goals. Indeed, there was increasing recognition that the heavily indebted poor countries, including those that had gone beyond the completion point, were falling short of the Goals and would not be likely to reach them by 2015 without substantial additional development assistance. In response to the Secretary-General’s call for full debt cancellation to support those countries’ efforts to reach the Goals, the Group of Eight (G-8) had agreed in July 2005 to cancel all the outstanding debt of the heavily indebted poor countries to the International Monetary Fund (IMF), the World Bank and the African Development Bank. While that initiative was welcome, there were many questions relating to its modalities.

28. Debt sustainability of the poorest countries was best secured if financial resources were provided in the form of grants and if donors consequently agreed to increase substantially grant-based ODA. In that regard, she welcomed the G-8 commitment to double annual aid to Africa and other proposals on innovative forms of development financing to generate additional sources of finance. In that regard, while the Evian approach was an improvement on the traditional terms applied to middle-income countries, it raised a number of questions.

29. Turning to debt restructuring with private creditors, she observed that there were considerable delays in some cases, leading to costly defaults and

worsened economic conditions. The risk of litigation had also increased, especially because of a lack of collective representation mechanisms, the presence of vulture investors or legal implications in bilateral investment treaties. However, those experiences had also shown that the economy recovered very quickly and countries truly exited from debt when debt restructuring gave enough breathing space and released resource constraints on development. The lessons learned pointed to the need to reach an international understanding on debt restructuring modalities which would bring together official and private creditors in a collaborative and constructive dialogue with a view to resolving debt problems in an expeditious and timely manner and equitably protecting the interests of debtors and creditors alike.

30. **Ms. Schmidt** (Director of the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States) delivered a statement on behalf of the Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States.

31. Despite the positive developments that had occurred during the past year, if the Millennium Development Goals were to be met, the debts of all the least developed countries must be fully written off without further delay. Even though net private inflows to developing countries had improved, the net resource outflows from those countries in 2004 had been negative for the second consecutive year. The recent agreement to cancel the debt of 18 heavily indebted countries, 13 of which were least developed countries, was very welcome. In the case of the countries of sub-Saharan Africa, total debt had declined 5.6 per cent in 2004, reducing those countries' debt-to-income ratio from 58 per cent in 2003 to 49.3 per cent in 2004. Unfortunately, that had been counterbalanced by an increase of approximately US$ 3 billion (26.6 per cent) in total long-term debt in 2004. A substantial part of the debt was owed to multilateral institutions. As 30 of the 38 countries currently eligible under the HIPC Initiative were least developed countries, it was clear that the external debt crisis had its severest impact on that most vulnerable group of countries.

32. As had been recognized at the 2005 World Summit, least developed countries deserved special attention, including ODA in accordance with the Brussels Programme of Action, which called for assistance on the order of 0.15 to 0.20 per cent of donors' gross national income. The current level of ODA still fell far short of the 0.20 per cent commitment. At the same time, least developed countries had made great strides to create an enabling environment, mobilize domestic resources and attract foreign direct investment (FDI). However, the increased volume of FDI flowing into the developing countries in 2004 had largely bypassed the least developed countries.

33. The Under-Secretary-General welcomed the call for enhancing the voice and participation of developing countries in international financial decision-making. With regard to the paucity of information about least developed countries in official reports, attention was drawn to Council resolution 2005/44, which requested the Secretary-General to include least developed country issues in all relevant reports in the economic, social and related fields, in particular those that analysed global development trends, in order to ensure the follow-up of their development in a broader context. In the future, as that request was fulfilled, data and analysis of financial flows and external debt should be provided specifically with respect to least developed countries. The commitment of the international community was clear: 100 per cent write-off of those countries' debts and substantial increases in ODA to ensure that they would be able to achieve the Millennium Development Goals and the goals of the Brussels Programme of Action.

34. **Mr. Neil** (Jamaica), speaking on behalf of the Group of 77 and China, pointed to encouraging initiatives in recent months such as the endorsement by the Development Committee of the World Bank and IMF of the G-8 decision to cancel the debt of 18 heavily indebted poor countries and the adoption of the 2005 World Summit Outcome. Nevertheless, consideration should be given to additional debt relief measures involving other multilateral institutions.

35. With reference to agenda item 50 (b), many developing countries, including some which had reached the completion point under the HIPC Initiative, continued to face large, unsustainable debt burdens. Their economic vulnerability continued to increase, whether because of adjustments to global imbalances or economic dislocations due to natural disasters or situations of conflict, with the result that it was even more difficult to achieve the Millennium

Development Goals. Debt sustainability should be linked to a country's capacity to achieve its national development goals, including the Millennium Development Goals, in view of the need to link debt policy more closely with growth and development, to recognize the country-specific character of sustainability, to apply greater case-by-case flexibility in the setting and implementation of thresholds and to consider debt scenarios in the face of possible external shocks.

36. The efforts of developing countries to maintain debt sustainability would be greatly facilitated by improved market access for their exports. Special measures were required for countries affected by exogenous shocks or by natural disasters. Countries in or emerging from situations of conflict also required specific mechanisms to ease their debt burdens. Creditors and debtors should share the responsibility to prevent and resolve unsustainable debt situations. Long-term sustainability of debt would require additional resources to finance investment. Debt relief could play a role in liberating resources, but should not replace other sources of financing. Accordingly, the Group of 77 and China supported the Secretary-General's recommendation in favour of substantially increased grant-based ODA in keeping with efforts to ensure debt sustainability for the poorest countries. There were also low- and middle-income developing countries outside the scope of the HIPC Initiative, for which debt relief, including debt cancellation, would be necessary if they were to achieve their development goals.

37. With reference to agenda item 50 (c), he noted that since 1997, the expected global pattern of financial flows had been reversed, as resources were transferred from developing to developed countries. Multilateral financial institutions had become net recipients of financial resources from developing countries, as loan repayments had started to outstrip loan disbursements. That trend pointed to the need for change in international financial systems, to improve the allocation of resources to support development. The policy and structural reform conditionalities of the World Bank and IMF served to undermine natural ownership of programmes and hinder implementation. The Fund had recognized that difficulty to some degree, and had adopted new guidelines in 2002 that eased the problem. The expanding use of conditionalities by the World Bank, however, was worrying. Measures were still needed urgently to mitigate the impact of excessively volatile short-term capital flows and to improve the transparency of and information about financial capital flows, and consequently international financial institutions had to deploy a suitable array of financial facilities and resources to respond to such financial crises. One weakness of the current system was the inadequate surveillance, particularly by IMF, of the economies of major industrialized countries. The role of IMF should be developed further in that respect.

38. Sound domestic policies at the national level should be complemented at the international level by effective global governance. Voice and effective participation were central to promoting the legitimacy, relevance and effectiveness of the international financial system, and of international financial institutions. The time was long overdue for action and genuine reform. Developing countries must have a voice in global macroeconomic policymaking, and the Council should play an integral role in that process.

39. **Mr. Jenie** (Indonesia), speaking on behalf of ASEAN member countries, said that the development capacity of developing countries was being undermined as net transfers of financial resources were flowing to developed countries rather than to developing countries. Although the purpose of the international financial system was to enhance efficiency and stability in financial markets and promote global economic activity, the objective of improving the living standards of the poor could not be relegated to a secondary level of priority. The international financial architecture had to be sufficiently flexible to accommodate different levels of economic development in different regions. Specifically, developing countries should have a greater voice in international economic decision-making and norm-setting.

40. ASEAN was looking forward to more concrete measures pursuant to the communiqué issued by the International Monetary and Financial Committee of the International Monetary Fund on 24 September 2005. It was taking its own steps to offset the negative financial flows in the region, such as the Asian Bond Market Initiative launched in 2002, the ASEAN Roadmap for financial integration, the Initiative for ASEAN Integration and the network of bilateral swap arrangements under the Chiang Mai Initiative to provide short-term liquidity support when needed.

Regional approaches, however, were not a substitute for multilateral action.

41. Momentum should not be lost in finding a comprehensive, lasting and development-oriented solution to the debt problem. Debt servicing was one of the biggest drains on the resources of a developing country, and there was a risk that it would be handed down to successive generations. If less were spent on paying interest to developed countries, more could be spent on better infrastructure, education and health, to the benefit of the poor.

42. The G-8 proposal for 100 per cent debt cancellation for eligible heavily indebted poor countries was a step in the right direction, but debt was a problem for middle-income countries as well. Innovative debt schemes could provide countries faced with staggering debt servicing obligations with adequate resources for specific development projects identified in their national development plans. A number of proposed innovative mechanisms relating to debt relief deserved serious consideration, such as the debt-swap mechanism and debt-for-equity arrangements in connection with the Millennium Development Goals.

43. **Mr. Sen** (India) said that poverty and internal conflicts were not simply the legacy of the colonial past or the result of current poor governance, but were the outgrowth of liberalization and the policies of international economic institutions. The imperatives of liberalization and the attraction of foreign capital were inevitably accompanied by risks: low tax-to-GDP ratios reinforced by IMF-style structural adjustment reduced investment in social infrastructure, especially health and education. In some regions, such policies also had a negative impact on rural infrastructure and food security, as evidenced in sub-Saharan Africa. Growth by itself was not enough; "trickle-down economics" seldom happened. As a consequence, direct national action in the areas of health, education and job creation were critical for any successful anti-poverty policy.

44. The Secretary-General had stated that lack of real national ownership was the most important obstacle to effective programme implementation, and one could add that, by implication, it was the most important obstacle to development. Regimes that eroded the autonomy of policy-setting needed to be reformed and checked. Unfortunately, the revised conditionality guidelines of the IMF Board of Governors had not really reduced or streamlined conditionalities. Although it was a cooperative institution, the Fund did not charge interest rates lower than market rates. The Fund and the Bank had strayed far from one of their original purposes, namely, Keynesian demand management to maintain high levels of employment. The Bretton Woods institutions had the power but no longer had the mandate. The Council had the mandate but not the power.

45. There was no alternative to a far-reaching reform of the Bretton Woods institutions, including an overhaul of the Fund's Articles of Agreement. The World Summit Outcome rightly called for increasing the voice and participation of developing countries in the Bretton Woods institutions. Even before tackling the central structural issue of voting power, it should be possible to enhance the voice of developing countries by making the Fund's internal management process more equitable and transparent. Particular attention should be paid to suggestions put forward in the Secretary-General's report, such as, in the short term, liberalizing conditionality and introducing a subsidy element for low-income countries in the Compensatory Financing Facility and, in the longer term, calculating quotas using purchasing-power-parity measures of gross national income.

46. The commitments announced by some donor countries to increase ODA were welcome, but a larger agenda for crisis prevention remained unaddressed. Effective surveillance to promote stability, by enhancing countries' resilience to economic shocks, was the key to crisis prevention. As the Secretary-General had rightly observed, the Fund's ability to influence policies through surveillance was more limited in the case of developed countries: accordingly, the effectiveness and even-handedness of its surveillance across its membership needed to be improved.

47. The G-8 proposal for cancelling the debt of heavily indebted poor countries was welcome, and had generated high expectations. Key points of the initiative needed to be clarified in regard to the additionality of resources, the possible inclusion of additional beneficiary countries and policy conditionalities such as privatization and trade liberalization, which in some cases had been detrimental to development. It was important to ensure that the financial integrity of the International

Development Association (IDA) would not in any way be impaired. It was critical to have binding commitments beyond the IDA-14 replenishment period, and a participatory process to develop mechanisms to monitor and prevent recurring cycles of indebtedness. The Development Committee was rightly concerned with the need for donor countries to guarantee financing to compensate IDA fully for forgone reflows resulting from debt relief.

48. The financial integrity of international financial institutions had to be preserved in the larger interest of the global development agenda. Replenishing the reserve account and subsidy account of the Poverty Reduction and Growth Facility (PRGF) was essential for sustaining concessional lending operations.

49. **Mr. Aboutahir** (Morocco) said it was satisfying to learn that, in 2004, gross national income had increased in almost all developing countries and that the short-term outlook was optimistic. Unfortunately, for the countries of sub-Saharan Africa, even an increase of almost 5 per cent in gross domestic product was insufficient to ensure they could meet their Millennium Development Goals. The Goals could not be attained unless the international community took urgent, collective and concerted action. In a very volatile financial system, developing countries continued to be net exporters of capital, at a time when they needed that capital to develop capabilities and spur growth.

50. Morocco welcomed the announcement that the member countries of both the Organization for Economic Cooperation and Development (OECD) and the European Union would increase the level of their assistance; also, the World Bank’s Africa Action Plan would support the efforts of the African countries to accelerate growth, eradicate poverty and attain the Goals. In keeping with their Monterrey commitments, the developed countries had a leading role to play in supporting actions that benefited the countries of Africa and his delegation commended the initiative of the Group of Eight countries to double the assistance destined for Africa by 2010. That would increase the global volume of aid, which represented only 0.25 per cent of donor countries’ GNP, far from the goal of 0.7 per cent that the international community had set for itself. Moreover, assistance had been granted in the form of debt relief rather than as new financial resources to implement development programmes.

51. Improved national policies and increased ODA should be accompanied by farsighted measures in the area of international trade, including market access for the products and services of developing countries to support the growth required to achieve the Goals. The necessary liberalization and fairness in international trade could be achieved only by eliminating non-tariff and tariff barriers to exports from developing countries, particularly agricultural products, as well as agricultural subsidies. Likewise, the effective participation of developing countries in international economic decision-making and in norm-setting was extremely important both for those countries, and for the legitimacy, utility and effectiveness of the international financial institutions.

52. With regard to debt relief, it was important to ensure that the development needs of the heavily indebted poor countries did not create fresh debt burdens. Morocco applauded the G-8 initiative to cancel 100 per cent of the debt of the heavily indebted poor countries. It hoped that the resources committed by donors to finance debt relief were additional to the resources allocated to ODA and urged the donor community to find solutions to the debt problems of other low-income and middle-income developing countries that had serious problems in meeting their debt-servicing obligations.

53. **Mr. Chowdhury** (Bangladesh) said the world was witnessing both unprecedented prosperity and extreme poverty. Net outflows of financial resources were paradoxically in favour of developed countries but developing countries were forced to disburse huge amounts in debt repayment that could otherwise have been used for urgently needed social spending. Debt sustainability should be redefined as the level of debt consistent with achieving the Millennium Development Goals without creating new debt obligations.

54. Bangladesh welcomed the proposed cancellation of 100 per cent of the debt of some heavily indebted poor countries by the G-8, as well as the recent efforts to include more countries in that category. The proposal should be extended to all the least developed countries and the bilateral and multilateral loans of that group should be written off immediately. That would release the capital required for investment in priority sectors to attain the Millennium Goals and other development goals. The World Bank group should increase its efforts to support achievement of the Goals through enhanced delivery of aid commitments and

improved harmonization among development partners. For the poorer countries, IDA should shift to an all-grants facility and developing countries should be provided with increased policy space. Developing countries were seriously underrepresented in the Bretton Woods institutions; a new quota formula was required that more accurately reflected the legitimate voices of the developing countries. They also needed to be more adequately represented at staff and senior management levels in the international financial institutions.

55. Since the 2002 Monterrey Conference, there had been renewed focus on aid effectiveness and the Paris Declaration on Aid Effectiveness provided a framework to ensure the quality of aid. However, the appropriate use of aid could be a problem for countries with weak institutions and bad governance and Bangladesh had made its own commitment to improve governance. It had adopted a new approach to enhance the effectiveness of foreign aid utilization in consultation with its development partners aimed at bringing coherence to their policies, practices and procedures for channelling aid.

56. **Mr. Nijhar** (Malaysia) said that, following the 1990s financial crisis, the Asian region had made significant progress in strengthening the underlying economic structures of the region's financial system. In addition to promoting domestic growth, the Asian economies had also increased regional economic and financial cooperation and further liberalized the economic and financial sectors, thus increasing the potential for the Asian economies to contribute to global growth and stability.

57. Malaysia had registered steady growth in recent years, driven mainly by the private sector. New areas of comparative advantage continued to be explored, which had contributed to a well-diversified economic structure and increased the economy's resilience to external factors. The financial sector had also been significantly transformed with the restructuring of the banking sector. A comprehensive and robust financial system based on Islamic Shariah principles now operated in parallel with the conventional domestic financial system, which had been deregulated and liberalized. In July 2005, the national currency had been unpegged, which had placed the country in a better position to respond to structural changes in the global and regional environment. Nevertheless, the measures taken to strengthen domestic financial systems were insufficient to ensure international financial stability; thus international efforts to ensure such stability across the board had to be integrated and further strengthened.

58. Developing countries remained highly vulnerable to the increasingly challenging and competitive global financial environment. The prevailing imbalances compounded by high oil prices also had negative consequences for their fragile economies, which were highly susceptible to the volatility of external financial flows. More needed to be done to reform the international financial architecture, particularly of the Bretton Woods institutions, to take into account the perspective of emerging and developing economies. The Monterrey Consensus had stressed the need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting, and to ensure them adequate representation in the institutions, consistent with their relative positions in the world economy. The International Monetary Fund, as the institution for global monetary cooperation, should be the forum for collective action.

59. **Ms. Bai** Yongjie (China) said that the uncertainty of geopolitics, rising oil prices and the outflow of international capital to the developed countries posed new challenges to international economic development. The economic structure and capacity of developing countries to confront risks was still very weak and they had inadequate voice and representation in the international financial institutions, which needed to be reformed as they no longer met current needs. Likewise, the decision-making mechanisms of those institutions should be improved. The developed countries should increase coordination to ensure the relative stability of the exchange rates of the three main currencies, while the World Bank and the International Monetary Fund needed to strengthen their monitoring of the policies of the major industrialized countries issuing reserve currencies. In the area of capital markets, the impact on the stability of evolving financial institutions and instruments should be examined. Rules should be strengthened on the regulation of large financial corporations and coordination of international financial monitoring should be enhanced.

60. Financing and the resulting debt posed the key challenge for economic growth and sustainable development in developing countries. Solving their

debt problem had become an important precondition for helping them to eradicate poverty and achieve economic development. The problem had historical and political roots and could be attributed to the unfair international economic order. The developed countries, as the main creditors, should honour the commitments made in the Monterrey Consensus and the Outcome of the 2005 World Summit concerning ODA, and the new global monitoring mechanism should supervise implementation. Relevant international and regional organizations should continue to help developing countries and countries with economies in transition strengthen capacity-building, infrastructure and other priority areas, while multilateral institutions should tailor reform and development programmes to national circumstances, instead of imposing the developed countries' model.

61. The Chinese Government had always attached great importance to the debt problems of developing countries and had recently contributed to South-South cooperation by providing debt relief to all the heavily indebted poor countries that had diplomatic relations with China.

62. **Mr. Ndjonkou** (International Labour Organization (ILO)) said that, although the information contained in the report of the Secretary-General on the international financial system and development (A/60/163) seemed to give evidence of positive economic trends, the World Employment Report of ILO pointed to serious challenges. In 2004, despite a fairly robust rate of growth of 5 per cent, global employment had expanded by only 1.7 per cent. There was a high incidence of jobless growth which was not politically, socially or economically sustainable, so that employment needed to be viewed as an integral part of the goals of macroeconomic policy.

63. There was a global "jobs crisis" which demanded a global response, yet with specific attention focused at the national level. Decent work was central to efforts to reduce poverty and achieve equitable, inclusive and sustainable development. Consequently, all major policies, particularly macroeconomic, investment and social policies, had to incorporate employment generation and enterprise creation as a central national development objective.

64. Structural problems must be addressed, and employment growth must be generated from increased investment and output growth, taking advantage of the enormous job-creating potential of small enterprises.

65. South-South cooperation promoted development through the mobilization and sharing of existing resources and expertise. It created an enabling environment to build stronger linkages with the local economy, and helped to address labour abuse. By working together, countries could escape the trap of low productivity, low quality, low wages, low development return and adverse external conditionalities.

66. **Mr. Mushy** (United Republic of Tanzania) said that, while there had been a substantial increase in assistance to developing countries, net outflow for debt servicing now outpaced loan disbursement. In that situation, aid effectiveness should apply to both developed and developing countries. Also, the issue of the developing countries' voice and participation in decision-making and norm-setting in the international financial and trade institutions remained unresolved. It was regrettable that the Outcome of the 2005 World Summit lacked specific, actionable proposals to address the issue. Action was needed to address the deficiency and make multilateral institutions more effective, inclusive, transparent and representative. His delegation urged the Committee to adopt a resolution that would change rhetoric to action.

67. Debt repayment by developing countries had siphoned off essential resources that could have been used to eradicate poverty and achieve the Millennium Goals and other development goals. In that context, recent debt relief commitments by the Group of Eight for some heavily indebted poor countries were to be applauded. However, concern remained about the debts of those countries to other bilateral and multilateral creditors. His country had recently been assured of debt relief amounting to US$ 2 billion in net present value terms and, while that had had a positive and visible impact on the health and education sectors, it had been insufficient to sustain the economic growth needed to achieve the Goals. Even with the current relief, his country continued to carry a significant debt burden that risked undermining the potential benefits.

68. **Ms. Nieto** (Ecuador) said that poverty eradication continued to be the goal of most members of the United Nations. However, at times, countries had to postpone achievement of their development needs, in order to comply with their international debt

obligations. The problem required viable, long-term solutions and, in the case of middle-income countries, might involve a commitment by creditors to exchange the debt for development projects.

69. Public investment in development was a necessity; however, the debt burden was often an obstacle to the relevant policies. To attain the Millennium Development Goals by 2015, the terms for renegotiating the external debt should be made more flexible, taking into consideration the specific circumstances and needs of each country. Current procedures for renegotiating the debt should also be clarified to avoid additional costs. Debt sustainability was essential: the capacity of a country to make the necessary investments to satisfy social needs, without increasing its debt ratio. For instance, many countries suffered natural disasters of a cyclical nature that affected their people and economies; it was essential to envisage funds or mechanisms to alleviate such crises that did not affect the existing debt. The Outcome of the 2005 World Summit had recommended the relief or restructuring of a large part of the debt of middle-income countries, as well as mechanisms to solve all the debt problems of such countries. Ecuador had benefited from mechanisms that provided partial relief by exchanging debt for social projects. It urged more creditors to use such mechanisms, bearing in mind development priorities.

The meeting rose at 1.20 p.m.