

STATEMENT BY AMBASSADOR MAKARIM WIBISONO ON BEHALF OF THE GROUP OF 77 AND CHINA BEFORE THE RESUMED FIFTY-SECOND SESSION OF THE SECOND COMMITTEE ON HIGH-LEVEL INTERNATIONAL INTERGOVERNMENTAL CONSIDERATION ON FINANCING FOR DEVELOPMENT

New York, 19 March 1998

Mr. Chairman,

1. Let me begin, on behalf of the Group of 77 and China, by expressing our deep appreciation to Deputy Secretary-General, Mrs. Louise Frechette for her insightful remarks at the opening of this Resumed Session of the General Assembly. I would like to reiterate the commitment and the importance that the Group attaches to our discussion on this critical constraining factor on economic development associated with the issue of financing for development.

2. Our discussions at this session take place against a complex and challenging backdrop. There is no doubt that the lack of adequate financial resources for development is possibly the most constraining factor inhibiting development today. Though the 1980s were characterized as a lost decade for development, the monumental changes in the 1990s, driven largely by globalization and the liberalization of trade and investment as well as technological innovation and the erosion of multilateralism, have presented the international community with opportunities and major challenges. In this context, the overall questions of development finance must be answered by the international community if we hope to achieve sustainable development for all.

3. While none of us can look into the crystal ball and foretell the future, there are certain fundamentals that are clearly discernable and, from the perspective of the Group of 77 and China, they should be included in the forthcoming discussions. In this regard, and taking into account the mandate of GA resolution 52/179, the Group of 77 and China believes that our discussions during the resumed session should be basically confined to deciding upon the major themes and elements to be included on the agenda. We should not divert our focus into negotiating the agenda.

4. Resolution A/52/179, which called for convening this resumed session of the Assembly, set in motion a process of deliberations on the revitalization of financing for development as a major step forward. For this purpose it is imperative, as implied in the resolution, to review the issue in a comprehensive and integrated manner. In pursuing this course we should seek a broad spectrum of inputs and viewpoints on the key elements and topics to be included in the discussions leading up to the high-level international intergovernmental forum. We firmly believe that for such a process to be successful, it should be based upon constructive dialogue and broad participation. Although the need for international conference on financing for development after 7 years of negotiations has not yet been fully acclaimed we are now more encouraged in proceeding with the process. In this regard, it is important that the multidimensional problems facing developing countries in their efforts to integrate themselves in the mainstream of the international economic system are emphasized. And we should also indicate the possible sources that could contribute to the process.

Mr. Chairman,

5. According to World Bank figures, private capital flows and investment have expanded exponentially in the 1990s and have reached as high as 85% of the total financial flows to the developing countries by 1996. What is of critical importance to note is that 95% of these resources have gone to 26 developing countries while the remaining 5% had to be shared by 140 countries. Such an imbalance in financial flows however constitutes a major crisis in development assistance for the majority of the developing countries. It is also ironic that,

while the development needs of the developing countries have mushroomed in the past decade, available financial resources have been shrinking rapidly. Thus, the majority of the developing countries have been essentially excluded from the main flow of development finances in the 1990s. As a result they must rely on a declining ODA as their principal form of development financing. For the most part, the developing countries' strenuous efforts to adjust their economies to attract private capital including foreign direct investment (FDI) as a means of supplementing declining levels of ODA, have not yet been successful.

6. Regrettably, ODA has become an early casualty of globalization and has sharply declined in real terms. Aid fatigue and fiscal stringency in the developed countries have also contributed to this downturn. In addition, ODA flows to the least developed countries has declined steadily in the 1990s to 0.06 in 1995 far below the United Nations aid target of 0.20 per cent of donor GNP. In consequence, an enormous toll has been exacted on their social and economic development. Thus, ODA and its revitalization should become a top priority for the forthcoming preparations.

7. Moreover, many of those countries that have indeed been successful in integrating into the world economy and attracting private financial flows, have suddenly had their long years growth and development achievements virtually scuttled overnight. This has resulted largely from the volatility associated with investor confidence and the assumptions and decisions of private and corporate money managers. Thus, the need to understand the nature of private capital flows and how they can be best harnessed to the development needs of the developing countries should constitute a major theme of our deliberations over the coming years. It is important that sources of information for the intergovernmental negotiations on this topic should not be confined to such mechanisms as the Group of 7. Rather, they should be inclusive and represent the broad array of interests and needs of all countries, both developed and developing alike.

8. It is also important in this context that we explore the main United Nations development programmes and funds. Central to those activities, which have been mainly designed to strengthen human, technical and institutional capacities, is the continued availability of financial resources. The hard facts remain that while the role of the United Nations has grown in both scope and complexity particularly since the 1960s, and provide about \$5 billion annually for social and economic development, the core resources of these programmes as reflected in their respective annual pledging conferences have greatly declined.

9. In a similar vein, we believe that the Bretton Woods institutions have an enormous role to play in the ongoing and future financing for development. For this reason, these institutions should constitute an important part of our preparations. Though they are formally a part of the United Nations, these institutions are autonomous with little or no cooperation with that organization's main funds or programmes. But given the vast changes sweeping the world and the rapid changes in development financing in recent years the Group of 77 and China believe that it is now timely and productive for these agencies to further integrate and cooperate with that the United Nations major programmes, funds and specialized agencies. Other issues that demand our attention within this topic include discussions on the IDA, the ESAF and Regional Banks.

10. The Group of 77 and China has always considered the perennial issue of external indebtedness and its debilitating overhang as a major drain on financing for development. External indebtedness, with its bilateral, multilateral and commercial dimensions, is a broad and complex phenomenon. By recent World Bank accounts, over half of the developing countries continue to be saddled by insurmountable debt burdens that greatly inhibit their progress. One of the more notable and recent developments in the evolving global strategy on indebtedness is the Heavily Indebted Poor Country Initiative. While this is a positive step forward progress has been constrained by the failure to secure adequate resources estimated to implement this agreement.

11. What should not be forgotten in this context, is that both the middle income and lower income developing

countries who are mired in indebtedness also require new initiatives to facilitate their development. While many measures and policies employed in the past, including rescheduling have been helpful in alleviating the immediate situation, they have not achieved a durable solution. Thus, in any such discussion on debt, we believe that the "once and for all" debt reduction policy arrangements should be seriously considered so as to speed up the release of financial resources for more productive usage.

12. This brings us to the question of managing the international financial and monetary system. The Group of 77 and China has for years pointed to the inadequacies of the present system for achieving the goals and objectives of development and they have called for meaningful reforms. It is now increasingly recognized that the gravity of that challenge is increasingly manifest, particularly the wake of the Asian financial crisis. With market forces to the fore, a change in confidence can be sudden, subjective and have a great impact on the entire system. Thus, the issue of management should therefore become an important and major focus for our discussions.

13. For many years the international financial and monetary system has functioned well in facilitating and promoting the world economy. But now, in an era of globalization and unprecedented financial flows, the adequacy of the Bretton Woods Institutions to effectively manage the world economy has become increasingly strained. Though we did get a wake up call with the Mexico currency crisis in recent years, the global financial institutions have not responded by either predicting the scope of the Asian crisis or by preventing it. For instance, the IMF, which was designed to primarily maintain a system of fixed but adjustable exchange rates, is now facing enormous challenges in effectively managing current international financial and monetary system. It goes without saying that such inadequacies must be thoroughly addressed.

14. It is therefore urgent that we review the capabilities and modalities of these institutions to respond effectively and timely to financial crisis induced by large scale capital movements. Obviously this calls for strengthening their preventative capacities and exploring innovative approaches. In such a search we must be mindful that the decision-making structures of the Bretton Woods Institutions also need to be reviewed and made more democratic. Broadening the decision-making process would help to foster stability in the system. Other important questions that should be explored include the management of global private financial flows so as to, among other things, control the global impact of interest and exchange rate policies.

15. One of the most persistent problems and dilemmas confronting the developing countries within the context of the current financial and monetary system is that of painful adjustments particularly in the absence of a conducive external financial environment. As a result many developing countries continue to be weighed down by inordinate debt overhangs. These imbalances should be fully addressed. Likewise, other inadequacies that continue to plague the system should also be identified and rectified. For instance, the role of the Fund should be enhanced so as to enable it to play a more positive role in providing a cushion for the acute social costs of adjustment. Other areas of reform should include the enlargement of the Fund's capacity to provide balance-of-payment supports and new liquidity for development. Moreover, the Fund's decision-making structures lack a democratic approach. More democracy could be achieved through expanded participation.

16. An enabling environment and other supportive measures of mobilizing resources is another critical element that should be considered in the preparations for the high-level intergovernmental meeting. We should explore what conditions are required at both the domestic and international levels to ensure a supportive environment. Primary among these, the Group believes, is the need for the coordination of macro-economic policies. In this context, the role of the Fund could also be strengthened to ensure that the economic policies of the more powerful economies would not be detrimental to the growth and development of the developing countries. These measures are indispensable if we are to help create a conducive environment for encouraging financial flows, for offsetting the risk of financial crises, and for helping the developing economies to effectively integrate into global financial markets.

17. A proven means for both helping foster development and for effectively integrating the developing countries into the global economy and financial markets is through South-South cooperation. It is therefore important that the high-level meeting should explore ways of strengthening South-South cooperation. These could include among others the tripartite and evolutionary approaches as well as the important need to involve the private sector.

18. As to the peace dividend, it is important that this concept is reviewed during the high-level meeting for it is still valid that the possible savings from a reduction in excessive military expenditures of the developed countries to be directed towards international cooperation for development. The reality that very little of these savings have in fact been reallocated towards economic and social development in the post cold war period, does not preclude such flows being deployed in the future particularly as global political tensions further subside.

19. Before concluding, Mr. Chairman, I would like to touch briefly upon some procedural issues. We believe that in light of the various important issues that we have to deal with to prepare the high-level international intergovernmental consideration of financing for development, it would be advisable that several briefings leading to the establishment of an Ad-Hoc Working Group be held in accordance with the key elements and topics indicated by the member countries. It is important that all such briefings should maintain a clear balance between ongoing discussions and any innovative ideas on financing for development that may present themselves. There is also a need to strike a balance between the number of experts representing the developed and developing countries. Taking into account the time and budget constraints, however, we should avail of the expertise and knowledge of any experts that may be in New York for other meetings prior to the establishment of the said Ad-Hoc Working Group.

20. Finally, Mr. Chairman, the Group of 77 and China strongly believes that we should keep up the momentum to launch the process of addressing the various issues of financing for development more squarely so as to comprehensively address the daunting trends in the financing for development. We would like to see that the strenuous efforts exerted by the developing countries in domestic resource mobilization through various structural adjustment programmes be balanced by concerted efforts of the international community to address the continuing lack of financial resources for development. Having said that, Mr. Chairman, allow me to submit, herewith, the position of the Group of 77 and China on the key elements and sources of inputs for our consideration on this important question of financing for development to be circulated as the document of the General Assembly.

Thank you, Mr. Chairman.