STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY AMBASSADOR STAFFORD NEIL, PERMANENT REPRESENTATIVE OF JAMAICA TO THE UNITED NATIONS AND CHAIRMAN OF THE GROUP OF 77, ON AGENDA ITEM 50 (b): EXTERNAL DEBT CRISIS AND DEVELOPMENT & ITEM 50 (c): INTERNATIONAL FINANCIAL SYSTEM AND DEVELOPMENT, IN THE SECOND COMMITTEE OF THE GENERAL ASSEMBLY (New York , 10 October 2005)

Mr. Chairman,

This year's debate on the impact of the external debt crisis on development follows a series of encouraging initiatives in recent months. The recent endorsement by the Development Committee of the World Bank and the IMF of the G8 decision to cancel the debt of 18 HIPC countries, and the adoption of the 2005 World Summit Outcome in which debt issues featured prominently in the overall deliberations, highlight some of the progress made over the past year. Together they provide an important framework for maintaining momentum for even deeper and broader commitments to provide effective and more comprehensive solutions to the debt problems of developing countries. We look forward to further clarification on exactly how the G8 proposals are to be implemented. We would hope, nonetheless, that consideration would be given to additional debt relief measures that would incorporate other multilateral institutions to which many developing countries are indebted, beyond those currently covered under the G8 initiative. I now wish to draw attention to some issues that still warrant further consideration.

Mr. Chairman,

Despite the strong growth of the global economy in 2004 and the improvements in several traditional debt indicators for developing countries as a group, many developing countries, including some of those which have reached completion point under the HIPC Initiative, continue to face large, unsustainable debt burdens. Changes in global growth prospects due to adjustments to global imbalances or economic dislocation due to natural disasters or conflict situations continue to increase economic vulnerabilities and make it even more difficult for developing countries to achieve the MDGs and other development goals.

It is in this context that the issue of debt sustainability takes on even more significance. Debt sustainability, both in terms of its definition and calculation, is critical to the whole debate around debt relief. For this reason, the Group of 77 and China wishes to reiterate its long-held position that debt sustainability should be linked to a country's capacity to achieve its national development goals including the MDGs. While this explicit link is lost in the 2005 World Summit Outcome, it is worth reiterating in view of the need, first to link more closely debt policy with growth and development; second to recognize the country-specific character of sustainability; third to apply greater case-by-case flexibility in the setting and implementation of thresholds; and fourth to consider debt scenarios in the face of possible external shocks.

The efforts of developing countries to maintain debt sustainability would be greatly facilitated by improved market access for their exports and other measures to enhance their productive capacity, without which, growth and sustainable development cannot be attained. The prospects for sustained economic growth, the fulfilment of trade commitments and the consideration of appropriate debt swap mechanisms will be critical to this discourse. Special measures are required to address countries affected by exogenous shocks and by natural disasters. Countries in situations of conflict or emerging from conflict also require specific mechanisms to ease their debt burdens, as part of the measures to build and sustain peace. We also emphasize that creditors and debtors should share the responsibility to prevent and resolve unsustainable debt situations.

Mr. Chairman,

Long-term sustainability of debt for developing countries will require additional resources to finance investment. The importance of additional resources and the need for the full implementation of aid commitments is integrally linked to the comprehensive treatment of the debt problems of developing countries. Debt relief can play a role in liberating resources but it should not replace other sources of financing. For this reason, resources to accommodate the recently endorsed G8 proposals on debt should be additional to overall ODA resources and should not be shifted from other allocations within the same aid budget. We support the Secretary General's recommendation in paragraph 20 of document A/60/139 in favour of substantially increased grant-based ODA in keeping with efforts to ensure debt sustainability for the poorest countries. It should also be borne in mind that there are low-and middle-income developing countries outside the HIPC for whom debt relief, including debt cancellation, will be necessary to achieve their development goals. There is an urgent need for serious measures to address the debt problem of these countries.

We look forward to the progress report to be submitted by the World Bank in the next meeting of the Development Committee of the Bank and the IMF, on the impact of fiscal space on growth and achievement of the MDGs, as mentioned in its latest Communiqué. This is of particular importance to developing countries and it deserves special attention.

Mr. Chairman,

I now turn to agenda item 50 (c) on the international financial system and development. The Secretary General's Report in document A/60/163 provides useful information on the areas in which real progress is required. Paragraphs 74 and 80 cogently examine policy implications of recent trends and we agree with the broad conclusions and policy guidelines that are recommended. I intend to focus on three aspects, namely, the issue of resource flows to developing countries; trends in lending conditionalities; and the reform of the international financial architecture.

First, the Report describes in very pointed terms what has steadily characterized financial flows since 1997 – the outward transfer of resources from developing to developed countries. The reversal of what the Report correctly describes as "the expected global pattern of financial flows" in the form of lending by developed countries to the developing world raises is of importance for the G77. Not least because although there have been increases in FDI and portfolio investment these have been highly concentrated in some areas, resulting in significant variations in the regional distribution of these flows. What should also be noted is that multilateral financial institutions have also emerged as net recipients of financial resources from developing countries as loan repayments now outstrip loan disbursements. These growing trends correctly point to the need for measures for change and effectiveness of the international financial systems to improve the allocation of resources to support development.

Second, we continue to have concerns about the pattern of lending conditionalities of the IMF and World Bank. Policy and structural reform conditionalities undermine national ownership of programmes and hinder implementation. There has been some recognition of this difficulty and the new guidelines adopted by the IMF in 2002 have eased the problem. But what is worrying is the expanding use of conditionalities by the World Bank. Policy advice, technical assistance and financial support to developing countries should be conducted with due regard to the need for adequate policy space, and the freedom for design policies in accordance with national conditions and national development strategies.

Third, there is still need for urgent measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial capital flows. To this end, it is imperative that IFIs have a suitable array of financial facilities and resources to respond to such financial crises and their contagion effect on developing countries.

One weakness of the current system is the inadequacy of surveillance of economies of the major industrialized countries which is needed in view of the effect of their macroeconomic policies on global growth and development. Paragraph 27 of the Secretary-General's Report draws attention to the limited role of the IMF in the surveillance of large developed countries. We concur with the assessment that the role of the IMF should be further developed in this area.

Good governance at the national and international levels is mutually reinforcing. Sound domestic policies at the national level should be complemented at the international level by effective global governance including greater opportunity for developing countries to effectively participate and have a voice in global economic decision-making.

Voice and effective participation are central to promoting the legitimacy, relevance and effectiveness of the international financial system and international financial institutions, in particular. It is of grave concern, therefore, that despite the numerous discussions on the matter, very little progress has been made. The time is long overdue for action and real reform. We hope that during the coming year, there will be forward movement that will take us beyond the ongoing technical discussions that have yielded nothing in the past, thereby paving the way for developing countries to have a voice in global macroeconomic policy making. We expect that in this process that the ECOSOC will also play an integral role.

Thank you, Mr. Chairman.