Statement by Mr. Mohammad Ali Zarie Zare, on behalf of the Group of 77, at the Third Session of the Preparatory Committee for the International Conference on Financing for Development: Debt

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Debt financing is an important option that countries utilize to mobilize international resources for public and private investment. At the same time, there is always a possibility that external debt – generally considered as the biggest obstacle to growth and development - becomes a long–term burden for developing countries, particularly if managed improperly by debtors and creditors. Imprudent and often politically-motivated lending policies of bilateral and multilateral creditors, so true during the cold war era, is among the factors which have contributed in large measure to this serious challenge.

Excessive external debt undermines domestic resource base and deprives developing countries from those resources. The question of seeking a durable solution for external debt and debt-servicing problems, quite a crucial challenge for almost all developing countries, although to varying degrees, has been on the international community´s agenda for quite a long time. Over the years some mechanisms and measures have been introduced to harness the adverse impact of external debt on developing countries. Nonetheless, the sheer magnitude of the debt problem clearly indicates that the existing international initiatives suffer from grave shortcomings. Given the past experiences and the lessons learnt, it could be said in a very general sense that any new comprehensive debt initiative should address the debt problems of all developing countries in a multidimensional manner. I should say right here that the "Working Paper" of the distinguished Facilitator, a valuable paper in itself, has addressed some aspects of the external debt problem. But, I should also add that it does not reflect most of the ideas and viewpoints we have presented on this topic, particularly with respect to the ways and means to address this serious challenge we all face.

There are two categories of indebted developing countries, namely, low-income countries and middle-income countries, each requiring a particular approach and set of specific measures. Before tackling the problems of each category, I should make a general point on our overall approach to the question at hand.

- The Group of 77 and China believes that first we need to clarify the contribution that could be made by debt relief to attaining the goals of Financing for Development. In our view, the very first consideration is that debt relief should be driven by development programs; it should leverage the mobilization of resources whether domestic flows, foreign private flows, official flows and trade. Moreover, and equally important, it should be driven by development targets and priorities of developing countries. Any future debt relief initiative or measures should be based on the capacity to pay of debtor countries as opposed to the current sustainability criteria. Debt relief strategies should strive to search for a once-and-for–all solution in order to turn the deteriorating debt situations. Multilateral creditors should develop further instruments to address the issue of debt relief. Of the two categories of indebted countries, I turn first to the low-income group.

- The debt relief initiative for low-income developing countries debt should ensure the full, speedy and effective implementation of Enhanced HIPC and accept the need for further measures to complement it. It is quite clear now that this initiative is not enough to allow the poorest developing countries to achieve development and poverty eradication. Only cancellation of all their official bilateral debt could lead to attainment of such objectives, particularly in Africa. Considering a moratorium or even cancellation of all debts in certain situations is also recommended. The Enhanced HIPC should be implemented flexibly to ensure that all low-income countries have the opportunity to benefit from such initiatives. This flexibility for eligibility criteria should be exercised particularly for post-conflict countries. New and additional financing on highly concessional terms or even on grant terms are necessary to continue to stabilize financial situation of those countries and HIPC initiatives should be funded by new and additional resources. Furthermore, it is still unclear whether the HIPC countries will achieve debt sustainability once the program has been completed, and whether further measures will be needed to complement Enhanced HIPC.

- In introducing such measures, we should avoid “cross subsidization” of debt relief by other developing countries through using ODA for such initiatives, detracting from resources already intended for development, channeling concessional funding for other low-income and developing countries to these initiatives, or lack of resources and high interest rates for multilateral borrowing by other developing countries. Instead, resources for such initiatives should be new and additional to the ODA or other resources set aside for development purposes. Provision of technical assistance to these low-income countries to improve their debt management is also quite imperative.

- Lack of capacity has made developing countries more prone to the adverse impact of natural disasters, which, as we have witnessed in certain recent cases, could wipe out the hard-won results of years of endeavors for economic growth and development. More drastic debt relief measures, including cancellation of their debt, could enhance the capacity of these countries for rehabilitation and restructuring. The challenges in Africa - the poorest continent in the world - should be given more serious attention and as called for in the Millennium Declaration, the international community should “ take special measures, including debt cancellation, to address the challenges of poverty eradication and sustainable development, particularly in Africa”.

- Now, I turn to the second group; that is, the middle-income indebted countries. In the Working Paper, as we all know, there is an indirect reference to the middle-income countries with a mix of official and private creditors. The Group of 77 and China believes that the need to address the debt situation of middle-income countries is not a new demand. In fact, the term has been used in the General Assembly resolutions and we should use that agreed terminology. More than 80 percent of the outstanding debt stock in a broad sense belongs to the middle–income developing countries. The Group of 77 and China believes that a multifaceted approach is necessary to address the challenges emanating from these countries´ debt.

- Prevention is one of the important measures for dealing with the debt problems and new initiatives at the national, regional and international levels are necessary in this regard. Exchange of information, increasing transparency and establishing prudential codes of conduct, standards and supervision for creditors, lenders and borrowers, as well as ensuring participation of private creditors in the debt resolution in crisis situations, are, among others, some measures which could contribute to prevention of debt problems. Capacity-building in the middle-income developing countries for improvement of debt management, including in liability management, is necessary to prevent bunching of debt and debt servicing in these countries.

- Clearer principles and more transparent mechanisms for working out debt problems of middle-income developing countries and new and complementary approaches in this area are necessary. In this context, participation of private creditors in the debt workouts should be ensured. Moreover, proposals for a stimulus, fair and full treatment of all foreign debt obligations of a country along with the provision of new funds by the international community or other creditors and considering last resort mechanisms, including a mediation-type mechanism, deserve serious attention. The Group of G77 and China supports the idea that all creditors should support measures to ensure that debt financing becomes an integral part of their development efforts and not a hindrance to them. Within this broad framework, the international community might as well consider a moratorium on debt in support of social sector investments in middle-income developing countries.

- In addition to what I have already touched on, from our point of view, more endeavors are also necessary to enhance systemic cooperation and coordination to develop early warning mechanisms; explore potential links between debt relief and trade; promote closer cooperation among United Nations, World Trade Organization and Bretton Woods Institutions to address the serious challenge of external debt; address the negative transfer of resources from the developing countries to the developed countries; and review the current conditionalities attached to IMF and World Bank instruments in order to ensure, inter-alia, their compatibility with national development priorities and programmes.

Thank You, Mr. Chairman