

**Statement by Mr. Mohammad Ali Zarie Zare (Islamic Republic of Iran), on behalf of the Group of 77, at the Second Session of the Preparatory Committee for the High-Level International Intergovernmental Event for Financing for Development: Debt**

**New York, 16 February 2001**

Mr. Chairman,

We have all been trying to find a durable solution for external debt and debt-servicing problems of developing countries through enhancing international cooperation to assist our countries to exit from the rescheduling process and unsustainable debt burdens. It has been on the agenda of the South and relevant international institutions for decades. The Group of 77 and China believes that the external debt is a crucial challenge for almost all developing countries to varying degrees. Therefore it calls for appropriate strategies compatible with a range of situations. It undermines domestic resource base and deprives developing countries from those resources. Over the years some mechanisms and measures have been introduced to harness the adverse impact of external debt on developing countries as the most serious problem and greatest obstacle to growth and development. Nevertheless, the total outstanding debt of developing countries in a broad sense is more than 2,500 billion dollars and those initiatives have not been able to effectively address this serious challenge. The existing evidence and facts clearly indicate that there are grave shortcomings in the existing international initiatives for resolution of debt problems of developing countries as these problems persist in a large number of countries hindering any attempt to mobilize resources for development. Any new comprehensive initiative should address the debt problems of all developing countries in a multidimensional manner including provision of technical assistance for optimized management of outstanding debts. There are two categories of indebted developing countries, namely, low income countries and middle income countries, which are now facing accumulated debt and external debt servicing obligation, which, in its on turn, hinders their capabilities for development, capacity building and in particular for supporting poverty eradication programs.

Low-income developing countries debt. This group of countries has been the motivation and also target of the HIPC initiative, which was devised to reduce their debts, to sustainable levels. The revised target for the Enhanced Heavily Indebted Poor Countries (HIPC) initiative as of October 2000 was to have 20 countries reach the " decision point" by the end of the year. We are delighted to have learned that this target has in fact surpassed by 10 percent and 22 countries have reached that situation. The Group of 77 and China welcomes the launch of " floating " completion point in the Enhanced Initiatives, which provides some flexibility, allowing debt relief to be activated by evidence of good performance rather than being bound by strict time requirement. Although there has been some positive steps in the right direction, some concerns still need to be addressed. As of early November 2000, only \$854 million out of \$2,188 million pledged by donor countries had been disbursed to the Trust Fund. This problem could undermine the long-term prospects of the initiative. All low-income countries should be given the opportunity to benefit from this initiatives and more flexibility should be exercised in this respect. It is also unclear whether the HIPC countries will achieve debt sustainability when the program has been completed. The Group of 77 and China supports the idea that all creditors should pursue debt relief measures for low-income countries vigorously and expeditiously. Provision of a moratorium or even debt cancellation for those countries also has the support of the Group. The resources for these initiative should not be at the expense of other ODA flows, should not be detracted from resources already intended for development and should not be at the expense of concessional funding for other low-income countries should be new and additional to the existing ODA. New financing for HIPC countries should also be in the form of grant or at highly concessional terms. We hope that the Third United Nations Conference on Least Developed Countries, which will take place in May 2001 in Brussels, will take further measures to address the debt problems of LCD's and other low-income countries.

Middle-income developing countries debt. More than 80 percent of outstanding debt stock in a broad sense belongs to the middle-income developing countries. They have access to international capital markets and thus have a mix of official, quasi-official and private creditors and their situation is more complex. The Group of 77 and China believes that a multifaceted approach is necessary to address the challenges of the debt of this group of countries. The stock of their debts and the recent financial crises clearly indicate that if their debt is not managed in a prudential manner at the national, regional and international levels it can cause serious challenges for the continuity and stability of the international financial system. Prevention is one of the important measures for dealing with the debt problem and new initiatives at the national, regional and the 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 resolution of debt in crisis situations, among others, are some measures for prevention of debt problems. In the official lending of the debt workouts the focus should be on provision of balance of payment support to enable countries to finance current operations to prevent deepening of the crisis, which can cause collapse of currencies and hike in interest rates. Clearer principles and more transparent mechanisms for working out debt problems of middle-income 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. Proposals for a simultaneous, fair and full treatment of all foreign debt obligation of a country along with the provision of new funds by the international community or other creditors and through a mediation-type mechanism deserves more consideration. The Group of 77 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. International financial institutions should also enhance transparency in financial transactions so as to strengthen capacity for liability management by national authorities. International organizations should also provide the necessary financial and technical assistance to developing countries to promote their debt management capacities. The linkages of the external debt with other aspects of development and their interactions are also important issues for thorough considerations. In this context, the creation of a conducive international environment is necessary to complement the domestic endeavors to address debt problems.

Another major development in recent years has been bond issuance in the international financial markets which from 5 percent of total long-term commercial debt of developing countries in 1980, amounted to 40 percent by the end of the 1990s and is gaining importance particularly as a source of external private financing for sovereign borrowers. The notion of restructuring of the sovereign bonds needs more attention and there are no established mechanisms for restructuring bonds. These serious problems are associated with bond restructuring, including, lack of communication between bond issuer and bond holders, both individual and institutional, which will be further aggravated if bonds are traded in the secondary markets. The introduction of "collective Actions " clauses in bond contracts deserves more attention and consideration.

Finally, Mr. Chairman, the terms of debt relief had been inadequate to solve the debt problems of developing countries and there is a need for further measures and new initiatives for dealing with external debt and debt-servicing problems of developing countries, for both groups, low-income as well as middle-income countries. It is imperative that we should find more comprehensive solutions for external debts of developing countries rather than dragging out these challenges in still more incremental steps.

Thank you, Mr. Chairman.