

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 ON FINANCING FOR DEVELOPMENT

New York, 13 February 2001

Mr. Chairman,

Let me, at the outset, begin my statement on behalf of the Group of 77 and China by expressing our hope that the discussions on the six headings and items before us will be guided by the spirit of partnership and cooperation. Such a working spirit and constructive dialogue on these issues will facilitate our negotiations in the near future. We consider the Report of the Secretary-General a broad framework and an important input for our discussions, which should lead us to the setting of the parameters and final platform for negotiation on substantive and core issues of financing for development.

Mr. Chairman,

The Group of 77 and China believes that countries have the primary responsibility for their economic development. The domestic resources are the principal source and the primary means to finance the developmental activities in any country. At the same time the existing facts indicate that external financial flows have been a critical factor in determining success of development efforts by playing a complementary and supportive role to domestic resources mobilization.

An enabling environment. Countries should make every stride to create an enabling environment to expand the domestic resource base; establish and strengthen mechanisms and institutions to increase and preserve those resources and to make the best and the most efficient use of those resources. Economic growth in any country is essential for enhancing the mobilization of domestic resources. However, many developing countries are far from reaching necessary economic growth rates that could increase their savings and investment ratios conducive to the sustaining development. Moreover, as is known to all of us, in a large number of developing countries, especially LCD's, African countries, Small Island Developing States (SIDS), Land-Locked Developing Countries and other small and vulnerable economies low level of domestic resources and savings are largely due to low levels of income and poverty, inherent economic problems, poor resources base, low productivity, lack of financial institutions, weak economic growth rates and poor foreign trade performance.

Developing countries have made many attempts to pursue sound macro-economic policies, develop their human resources and to promote good governance and cooperate with civil society. They have undertaken structural reforms and opened their economies in an effort to integrate into the global economy in order to provide a conducive environment to mobilize more resources, including domestic resources. However the expectations that these policies would result in increased domestic resources have not materialized.

Developing countries are cognizant of the factors and elements that are crucial for domestic mobilization of resources. These factors are, among others, sound national macro-economic policies that enhance saving and productive investment; development of institutional structures for planning and implementation of macro-economic policies; efficient tax system and encouragement of tax culture; effective financial systems; and regulatory mechanisms, including prudential regulations. An enabling environment for formulation of macro-economic policies on medium-term framework, developing and strengthening macro-economic institutions, as well as, developing instruments to deal with fluctuations in fiscal balance and foreign exchange reserve such as fiscal stabilization funds and creation of supervisory bodies is also attracting more attention from various corners of the developing world. Developing countries pursue these policies very favorably, but lack

of resources and technical skills seriously constrain the efforts of a large number of developing countries in this field.

Strengthening of public finances. Strengthening and efficient use of public finances for better mobilization of domestic resources for development has been on the table for policy discussions in developing countries for many years. In this context, many developing countries have developed perspective planning and medium-term fiscal framework for revenue and expenditures as useful tool for strategic and helpful vision in designing macro-economic policies. Developing countries also subscribe to idea of developing progressive and equitable tax system compatible to their national capacities, policies and priorities and based on the capabilities and role of various sectors in the national economy. These countries have made every endeavor to ensure the simplicity, suitability, equitably and broad coverage of their tax systems. It should be underlined, however, that there is not a unique modality In preparation of national budget and countries follow different procedures. Developing countries also follow various mechanisms and practices to ensure broad base participation and consultations in budget procedures in accordance with their national perspectives and parameters. However, we should also be cognizant of the fact that there are serious challenges before developing countries, which could compromise their policies for long-term planning and efficient utilization of public finances. In the era of globalization, international developments could easily undermine the overall macro-economic policies and medium-term plans of developing countries in terms of revenues and expenditures and we as developing countries do not have the capacity to address these serious challenge.

Strengthening the domestic financial sector. Development of well functioning financial markets, which are transparent, efficient and stable, is one of the most important objectives of developing countries. They are also willing to promote access to long and short-term credit, provide crop insurance and other services to farmers, fishfolks and small rural producers and strengthen their social safety nets as an integral part of their national development policies. Cooperative movements and micro-financial institutions in many developing countries have made strides to increase the availability of financial resources to the farmers and also vulnerable groups and the poor. Nonetheless, limited financial resources, lack of capacities, capabilities and institutions militate against such policies and efforts in many developing countries to fulfill these objectives. We are looking forward to the financial and technical assistance of bilateral and multilateral financing and development agencies and institutions for capacity building for the strengthening of the financial sector. I would also like to add that mobilization of domestic resources in a large number of developing countries is strongly correlated to the revenues coming from a single or at best few commodities. Fluctuations in commodity prices at the international markets could adversely affect the incomes and resource base for domestic mobilization of resources, which in turn seriously limits the options for financial instruments. The Group of 77 would as well like to stress that in the development of international codes and standards for financial markets the developing countries should participate effectively and more inclusive modalities for these processes are necessary.

Finally, Mr. Chairman, let me address one of the most important and major factors in mobilizing domestic financial resources for development, namely, the need for a supportive and conducive international environment. Mobilization of domestic resources cannot be viewed in isolation from the international environment. Globalization has transformed various sectors in our national economies and hence, our capacities for mobilizing domestic financial resources. Therefore, it goes without saying that our domestic policies require a supportive international environment. International macro-economic stability through more stable and non-discriminatory fiscal, monetary and trading regimes; enhanced and meaningful participation of developing countries in the international decision-making and norm setting processes; regulatory mechanisms for reducing volatility in capital flows; transparency in the development of criteria for credit ratings; mechanisms for sustainable management of external debt; and due consideration by developed countries on the impact of changes of their interest rates and exchange policies on the developing world, among others, are major factors for creating a conducive international environment which can contribute to an optimized mobilization of domestic financial resources in the developing countries.

Thank you, Mr. Chairman,

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