



**STATEMENT BY MR. NIRUPAM SEN, PERMANENT REPRESENTATIVE,
ON AGENDA ITEM 50: MACROECONOMIC POLICY QUESTIONS: [B]
INTERNATIONAL FINANCIAL SYSTEM AND DEVELOPMENT; AND [C]
EXTERNAL DEBT CRISIS AND DEVELOPMENT IN THE SECOND
COMMITTEE OF THE 60TH SESSION OF THE UN GENERAL ASSEMBLY ON
OCTOBER 10, 2005**

Mr. Chairman,

We would like to express our appreciation to the Secretary-General for the reports on macro-economic policy questions. We associate ourselves with the statement made by the distinguished representative of Jamaica on behalf of the Group of 77.

Mr. Chairman,

Many of us had much higher expectation from the 2005 World Summit in the area of development, particularly with regard to clear political direction in the areas of finance, trade, technology and debt relief. Poverty and internal conflicts are not simply the legacy of the colonial past or the result of current poor governance but are epiphenomena of liberalisation and the policies of international economic institutions. The imperative of liberalisation and attracting foreign capital is inevitably accompanied by risks: low tax-GDP ratios reinforced by IMF style structural adjustment reduces investment in the social infrastructure (especially health and education). Such policies in some regions have additionally had a negative impact on rural infrastructure and food security. The problems of sub-Saharan Africa amply demonstrate the systemic impact of such policies. Growth by itself is not enough; trickle-down economics seldom happens. Therefore, direct national action in the areas of health, education and employment generation are critical for any successful anti-poverty policy. Net outflow of resources from developing countries ultimately point to a need for reform of the international financial system.

Some striking statistics are provided in the report of the Secretary-General on structural policy conditions attached to IMF loans - until the 1980's conditionality mainly focussed on monetary, fiscal and exchange rate policies; but by the late 1980's and especially in the 1990's, IMF financing was increasingly made conditional on structural changes involving policy processes, legislation and institutional reforms; this resulted in a sharp fall in compliance from 50 per cent in the late 1970's to 16 per cent in the 1990's. The Secretary-General states that "it has become clear that lack of real national

ownership is the most important obstacle to effective programme implementation”, and here I would add, by implication, to development. For defending livelihoods, the sovereign functions of the State cannot be undermined and regimes that erode the autonomy of policy space need to be reformed and checked.

Unfortunately, the revised conditionality guidelines (of September 2002) of the IMF Board of Governors have neither really reduced nor streamlined conditionalities. From Standby to Conditionality has been but a step. Though a cooperative institution the IMF does not charge interest rates lower than market rates. The Fund and Bank have strayed far from one of their original purposes – Keynesian demand management to maintain high levels of employment. The Bretton Woods institutions have the power but no longer have the mandate. ECOSOC has the mandate but not the power.

There is no alternative to a far-reaching reform of the Bretton Woods institutions. Gerrymandering shaped the origin of these institutions: the architect of the formulae fiddled with national income and trade statistics of countries to arrive at weights that would achieve pre-determined quotas (on which he was instructed by the US Treasury). Incidentally, Keynes argued for at least unconditional drawings within quota limits (with conditionalities applicable only to above quota drawings). This remains ahead even of our time. He objected to some of the economics and all of the English (calling the language of the IMF’s Articles of Agreement Cherokee and attributing it to the Treasury Department lawyers). Therefore, there are strong linguistic and economic arguments for revising the Articles of Agreement. The Outcome Document rightly calls for increasing the voice and participation of developing countries in the Bretton Woods institutions. At present, the voting system is weighted against them: they cannot muster the 85 per cent majority required to approve important proposals. Borrowings and allocations are proportionate to quotas and, therefore, neither economically nor morally defensible. The Fund eventually would have to reconstruct alternative formulae with weights proportionally linked to economic factors behind growth in countries and their quotas reflecting this growth: in short different matrices with economically logical back-up. Even before tackling the central structural issue of voting power, it should be possible to enhance the voice of developing countries if the internal management process in the Fund is more equitable and transparent. Short term suggestions in the UNSG’s Report such as liberalizing conditionality and introducing a subsidy element for low income countries in the Compensatory Financing Facility and longer term suggestions on calculating quotas such as using purchasing power parity measures of gross national income merit attention.

Official flows from the multilateral development and financial institutions continued to remain negative for the second consecutive year in 2004; loan repayment outpaced loan disbursements; for many developing countries, Official Development Assistance [ODA] which is a major source for financing development continues to remain at a low level of 0.25 per cent as against the 0.7 per cent target. In this regard, we welcome the announcements by some donor countries of their commitments to increase ODA as well as the progress made in finding innovative sources of financing. As proposals for innovative sources for financing reach maturity, establishment of robust and efficient mechanisms to track ODA flows would become vital, more so in the context of recent debt relief initiative.

A larger agenda for crisis prevention still remains un-addressed. Effective surveillance to promote stability, through enhanced resilience of countries to economic shocks, is the key to crisis prevention. Much remains to be done to strengthen the effectiveness of surveillance and enhancement of its pro-growth orientation. The Secretary-General has rightly observed that the IMF's ability to influence policies through surveillance is more limited with regard to developed countries. Hence the need to improve the effectiveness and even-handedness of the Fund's surveillance across the membership. As the Report says, the policy consistency of major economies is necessary for the stability of the system as a whole. There is also need for controls on speculative capital flows for ensuring financial stability. A Tobin Tax kind of measure is not simply a means of innovative financing but also of strengthening policy autonomy through checking speculative capital flows.

Mr. Chairman,

The debt problems faced by many low and middle-income developing countries continue to act as severe constraints on their ability to accelerate economic development and to achieve the Millennium Development Goals. We welcome the G-8 proposal for irrevocable debt cancellation for the HIPC countries. The proposal has generated high expectation in the eligible countries. The modalities for the implementation of this initiative need to be further clarified, notably on the additionality of resources, the possible inclusion of additional beneficiary countries, and policy conditionalities such as privatization and trade liberalization which have in some cases been detrimental to development. It is important to ensure that the financial integrity of IDA, which is a premier multilateral development agency, is not in anyway impaired. It will also be critical to undertake concrete steps in terms of binding commitments beyond the IDA-14 period and to put in place a participatory process to develop mechanisms to monitor and prevent recurring cycles of indebtedness. The Development Committee communiqué of September 25, while maintaining the need for donor countries to ensure financing to fully compensate IDA for forgone re-flows resulting from debt relief in order to reach a final agreement on the proposal, has rightly advised the World Bank to prepare a compensation schedule and monitoring system of all donor contributions urgently.

The financial integrity of IFIs has to be preserved in the larger interest of the global development agenda. If the PRGF reserve account and the PRGF subsidy account of the IMF are drawn down for debt stock cancellation their subsequent replenishment are essential for sustaining concessional lending operations. It is heartening to note that the IMF, as envisaged in the International Financial And Monitoring Committee communiqué of 24 September 2005, intends to finalise the arrangements to deliver debt relief by end-2005. It has also stressed the importance of ensuring that the IMF's capacity to provide financing to low-income countries is maintained. The report of the Secretary-General has an interesting idea on a more optimal debt sustainability analysis. In short, while debt relief has opened a window for social spending, cases of increasing debt-export ratios even after debt relief could again close this window. Therefore, the UN has a central role in giving appropriate direction.

In conclusion, Mr. Chairman, we would like to emphasise the need to build on the agreements reached at the 2005 World Summit and the UN will have to set the pace and provide the political direction for implementation.

Thank you, Mr. Chairman.

[BACK TO TABLE OF CONTENTS](#)