STATEMENT BY MR. SANTOSH BAGRODIA, MEMBER OF PARLIAMENT AND MEMBER OF THE INDIAN DELEGATION, ON AGENDA ITEM 52 – MACROECONOMIC POLICY QUESTIONS: [B] INTERNATIONAL FINANCIAL SYSTEM AND DEVELOPMENT; AND [C] EXTERNAL DEBT CRISIS AND DEVELOPMENT AT THE SECOND COMMITTEE OF THE 62ND SESSION OF THE UNITED GENERAL ASSEMBLY ON OCTOBER 15, 2007

Mr. Chairman,

We would like to thank the Secretary-General for the detailed and comprehensive reports on the macroeconomic policy questions being considered on the agenda today. We associate ourselves with the statement made by Pakistan on behalf of the Group of 77.

Mr. Chairman,

It is a matter of grave concern that 2006 was the tenth year in succession with net financial resources transfer from developing countries to developed countries. Rather than promoting transfer of resources from developed to developing countries in order to assist national development efforts of the latter, the international financial architecture appears to support and encourage such flows. Worse, this resource transfer is steadily increasing, and has now reached US$ 0.6 trillion. Surely, this gigantic sum of money would have been better utilized in promoting poverty eradication in developing countries!

Despite variations across countries, reserve accumulation accounts for a significant portion of the resource flow from developing countries to developed countries. The Secretary-General's reports have correctly highlighted this to be "self-insurance" reserves i.e. reserves to minimize the need for reliance on international bailout in case of future crisis. It has also correctly noted that these reserves are for precautionary reasons, not mercantilist. We must collectively acknowledge that such actions are a direct consequence of conditionalities, later proven to be harmful, imposed by the Bretton Woods Institutions [BWIs] in their lending policies. Such actions are also a telling comment on the failure of these institutions in fulfilling their basic mandate, including in the guarantee of global financial stability. We have been witnessing a growing trend among borrowers to pre-pay their loan obligations rather than continue with BWI mandated "policy packages". This is also highlighted in the Secretary-General's report, which notes the large negative flows from BWIs during the last three years. We fully agree with the Secretary-General that this pattern raises profound questions about the role of these institutions in financing for development, and on their continued relevance and effectiveness. There is an urgent need to address the fundamental structural problems of the international financial architecture.

We have repeatedly stressed on the need for urgent reform of the BWIs in order to provide greater legitimacy and increase the effectiveness of these institutions. The reform must enhance the voice and participation of developing countries in these institutions, thereby responding to the needs of concerns of the majority of countries affected by their operations. The Secretary-General is right in stating that "comprehensive governance reforms aimed at solving the problem of under-representation of developing countries in global financial institutions are indispensable at this time". Given its unique role and legitimacy, the United Nations must oversee this process and conduct periodic reviews of BWIs. The newly strengthened Economic and Social Council [ECOSOC] would be the most appropriate body to implement this. For this purpose, there is an urgent need to effectively strengthen the technical capacity of the Department of Economic and Social Affairs, so that it could assist the ECOSOC in discharging these functions.

While the International Monetary Fund has taken some initial steps towards reform in September 2006, this must be carried to its logical conclusion. Fundamental reform of the quota formula, and subsequent increase of quotas for all under-represented countries must be completed by the 2008 Spring Meetings. However, it must be ensured that any revision in quota formula is not at the cost of diminished quotas for LDCs and small states. The World Bank must also swiftly move forward to redress the voting weight iniquities in its governing board.

Mr. Chairman,

While there has been an increase in private sector flows to developing countries, these do not offset the outflow of resources from developing countries mentioned earlier. Such flows also include speculative portfolio and equity investments, which are subject to flight at short notice, at the first signs of turbulence. Thus, the imperative of enhancing and predictable financing for developing countries has not been achieved. Moreover, private flows are not attracted towards social sectors and other development related sectors. There is, therefore, a need to enhance Official Development Assistance [ODA]. Regrettably, the trend in this regard is negative, and far below the target of 0.7 % of Gross National Income. Projections for future increases in ODA are also pessimistic.

Moreover, debt relief has become a significant component of ODA without any additional aid. As the report of the Secretary-General notes, given the varying level of arrears in debt servicing, resources released for development by debt-relief were much smaller in actual practice. In a strange irony, countries with large arrears and, thus, needing the maximum assistance, have benefited the least from debt-relief in terms of freeing resources for development. That this is happening after so many years of liberalization and globalization highlights our collective failure. We agree with the Secretary-General that debt relief has been too slow, and the process must be expedited. As a creditor, the International Monetary Fund would have a vested interest in this process. Accordingly, the United Nations, through the Economic and Social Council, is the appropriate body to oversee the process. We need to consider new measures, like an international debt commission, to redress the problem of developing country debt. On the other hand, in the larger interest of the global development agenda, debt cancellation should not impact the financial integrity of international financial institutions.

Debt sustainability must be defined in terms of being able to service the debt as well as allocate resources in order to meet the Millennium Development Goals [MDGs], rather than being limited to subjective judgements on good governance. As the Secretary-General's report notes, it must also distinguish between solvency and liquidity problems. Given the recent turmoil in financial markets of developed countries caused by esoteric financial instruments, we would also caution against exotic new debt instruments.

Mr. Chairman,

This recent financial turmoil has also highlighted the need for greater surveillance in the international financial system. We welcome the revision of the surveillance framework of the International Monetary Fund in June 2007. More remains to be done to enhance the pro-growth orientation of surveillance. We agree with the Secretary-General that if reform of the surveillance process is to succeed at restoring its effectiveness, it should enhance focus and effectiveness. We must also remember that while surveillance in non-programme countries is for preventive purposes, in programmed countries it is more of a curative nature.

We support the role of the Fund in assisting low-income countries, including through Policy Support Instruments. It is important for the Fund to assist countries that do not need or want the Fund's financing. However, we are concerned that macroeconomic stability goals of the Fund are restricting utilization of much needed additional aid, particularly when assessments on absorption capacity of a country are subjective. This only serves to reinforce the need for comprehensive reform of the Fund, giving voice to developing countries.

In conclusion, Mr. Chairman, we would like to emphasize the need for action, rather than words, in ensuring that we create, under the guidance of the United Nations, an international economic and financial environment conducive to development.

Thank you.

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