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Held at Headquarters, New York, on Monday, 9 October 2006, at 3 p.m.

Chairperson: Ms. Intelmann . . . . (Estonia)
later: Mr. Atiyanto (Vice-Chairperson) . . . . (Indonesia)
later: Ms. Intelmann (Chairperson) . . . . (Estonia)

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The meeting was called to order at 3.10 p.m.

Agenda item 51: Macroeconomic policy questions (*continued*)

(b) International financial system and development (*continued*) (A/61/136)

(c) External debt crisis and development (*continued*) (A/61/152)

(d) Commodities (*continued*) (A/61/202)

1. **Mr. Le Roux** (South Africa), speaking on behalf of the Group of 77 and China, noted that billions of people still lived in hunger and poverty. If development goals were to be met by 2015, the commitments made at United Nations summits and conferences must be implemented. In that regard, there was an urgent need for concerted multilateral action. The Bretton Woods institutions must play a more active role in formulating a global strategy to eradicate poverty and hunger. Strengthening the voice and participation of developing countries in their decision-making processes was essential. He reiterated the Group's call for a comprehensive package that dealt with all the major issues within a firm deadline.

2. Expressing concern about the pattern of lending conditionalities at the International Monetary Fund (IMF) and the World Bank, he said that assistance to developing countries must give due regard to the need for national policy space and freedom to design policies in accordance with national conditions and national development strategies.

3. The international financial institutions played a crucial role in monitoring developed country economies. While the recent agreement to strengthen IMF surveillance was noteworthy, more intense efforts were required to bring stability to the system as a whole. There was also an urgent need to mitigate the impact of the excessive volatility of short-term capital flows and to improve the transparency of, and information about, financial flows. In that regard, the international financial institutions must adopt an array of financial facilities to respond to financial crises and their contagion effect. Lastly, the international community must investigate more coherent and coordinated measures to support the national development efforts of middle-income developing countries. If poverty was to be eradicated in such countries, there was an urgent need to balance out global economic, financial and trading regimes.

4. The Group welcomed the progress on implementation of the Multilateral Debt Relief Initiative and the steps taken by IMF, the World Bank and the African Development Bank to implement debt cancellation, but stressed the need for continued emphasis on additionality mechanisms and for targets to be met. Consideration must also be given to additional measures and initiatives to ensure long-term debt sustainability through increased grant-based financing, cancellation of all official debt of heavily indebted poor countries and debt relief or restructuring for low- and middle-income developing countries that were not part of the Heavily Indebted Poor Countries (HIPC) Initiative, as well as exploration of mechanisms to comprehensively address their debt problems. Debt sustainability analyses should be applied in a flexible manner and not be premised on subjective governance indicators. Rather, consideration should be given to the growth and long-term development needs of developing countries.

5. Turning to commodities, he said that it was important to maximize that sector's contribution to sustained economic growth and sustainable development. Many developing countries were commodity-dependent. Despite recent increases in some commodity prices, it was unlikely that the declining trend had been reversed for good. Moreover, difficulties relating to supply capacity and effective participation in value chains still prevented many developing countries from benefiting fully from such increases.

6. The Group noted with concern that the Secretary-General's report on world commodity trends and prospects (A/61/202) concentrated on South-South commodity trade, when North-South commodity trade remained the key element for creating an equitable global market. The report also failed to address the North's ongoing domination of commodity markets, which hampered market access for developing countries. The Group was also concerned that the International Task Force on Commodities launched at the eleventh session of the United Nations Conference on Trade and Development (UNCTAD XI) had not come into existence, owing to lack of financial support. Lastly, it called on developed countries to work

towards the full and timely implementation of the global partnership for development.

7. **Mr. Rosengren** (Finland), speaking on behalf of the European Union; the acceding countries Bulgaria and Romania; the candidate countries Croatia, the former Yugoslav Republic of Macedonia and Turkey; the stabilization and association process countries Albania, Bosnia and Herzegovina, Montenegro and Serbia; and, in addition, the Republic of Moldova and Ukraine, said that the main thrust of the Monterrey Consensus continued to be valid. The European Union remained fully committed to the global partnership for development, which was key to attaining common development goals. Follow-up to and implementation of the outcome of the International Conference on Financing for Development had already been considered at the Economic and Social Council's special high-level meeting with the Bretton Woods institutions, the World Trade Organization (WTO) and UNCTAD in April and again at its substantive session in Geneva. The European Union looked forward to the next high-level dialogue of the General Assembly in 2007. Such opportunities were key to enhancing the global partnership and fostering exchange of views among key stakeholders.

8. As a result of strong global economic growth in recent years, millions of people had been lifted out of poverty. However, equity and sustainable development continued to be key challenges, as did maintaining macroeconomic stability, improving public sector financial management and strengthening domestic resource mobilization, business climate and governance. Achievement of the internationally agreed development goals would require increased efforts on all sides. The European Union was pleased that a growing number of countries had adopted and continued to improve their poverty reduction strategy papers (PRSPs), thus providing a comprehensive framework for all actors. Economic growth based on a vigorous private sector, though essential, was not enough to ensure sustainable development. To be of lasting benefit, it must be underpinned by a sustainable environment. In that regard, he welcomed the ongoing efforts by IMF to address global imbalances, while sustaining global growth. The benefits of growth would extend to the entire population only if inequalities in income and income distribution and access to productive resources, health, education and employment were addressed. People with limited resources should be the drivers, not passive recipients, of growth. To that end, having a productive job was key, as were equity, social cohesion and gender equality.

9. Good governance, too, was essential for achieving sustainable development. In line with the European Consensus for Development, the European Union was strengthening its mechanisms and partnerships to support good governance, which included not only the fight against corruption, but also respect for human rights, adherence to democratic principles and the rule of law, and sound economic, financial, social and environmental management. In that vein, he welcomed the World Bank discussion on the strategy to increase the focus on governance.

10. On the subject of aid, the European Union members had adopted a timetable for achieving the target of devoting 0.7 per cent of their GNI to ODA by 2015, with an intermediate collective target of 0.56 per cent by 2010. It called on partners to follow that lead. Together, European Union and European Community member States were the largest net provider of ODA. The European Union's share was likely to be even larger in the future. It had also undertaken to send half of all aid increases to Africa. The European Union was also very attentive to the quality of aid. Recalling the commitments made in the Paris Declaration on Aid Effectiveness and the principles set out in the European Consensus for Development, he said that multilateral institutions and regional organizations must live up to their responsibility and continue to make aid more efficient and coherent. The Paris Declaration would succeed only if donors and recipients honoured their commitments. The European Union was also playing a leading role in various initiatives on innovative sources of financing. In particular, it welcomed voluntary initiatives. Innovative financing initiatives should reflect the principles established in the Paris Declaration and be based, to the extent possible, on existing aid delivery mechanisms.

11. The European Union regretted the suspension, earlier in the year, of the Doha Development Agenda, the central priority of its trade policy, and remained committed to the case for open markets, progressive trade liberalization and stronger multilateral rules. In that spirit, it was necessary to look ahead and rebuild. Offers on the table must be retained and comparable offers made. All WTO members must be ready to

restart negotiations on that basis as soon as circumstances allowed. For its part, the European Union was committed to a result that delivered real cuts in tariffs and subsidies and real new trade flows. It would further ensure that the Doha Round benefited the poorest countries. Aid for trade remained on the agenda regardless of the future of the Doha negotiations. The European Union also welcomed the reports of the Integrated Framework Task Force and the task force on Aid for Trade and was committed to working with its WTO partners to implement the recommendations contained therein. South-South trade, an increasingly important element of world trade, provided new development opportunities. In that regard, he welcomed the General Assembly's continued attention to commodities. It was encouraging that commodity prices were now more stable and had even risen in real terms. For its part, the European Union had undertaken important efforts in the context of its action plan on commodities and the specific European Union-Africa partnership on cotton.

12. The European Union supported the HIPC Initiative and the work on the implementation of the Multilateral Debt Relief Initiative, which sought to deepen debt relief to heavily indebted poor countries and safeguard the long-term financial capacity of international financial institutions. The European Union welcomed the debt relief. While recognizing the Millennium Development Goal-related financing needs of developing countries, it was important for countries to take a prudent approach to new borrowing and for new resources to be provided on appropriately concessional terms, so as not to lead to a renewal of unsustainable debt burdens. In that regard, he welcomed discussions on strengthening the debt sustainability framework.

13. FDI was an important complement to domestic investments. The European Union welcomed recent developments in FDI flows from middle-income developing countries to other developing countries. To ensure continued and strengthened flows, further efforts were needed to achieve transparent, stable and predictable investment climates. The European Union welcomed public-private partnerships in that regard and encouraged efforts towards good corporate governance and citizenship. While migrant remittances could be an important contribution to development, they should not be a substitute for ODA. There was also a need to promote cheaper and safer transfer of remittances in source and recipient countries, and to facilitate the impact on recipient country development through an enabling policy and institutional environment. In reference to the recent annual meeting of the Bretton Woods institutions, the European Union supported the resolution on quotas and voice in IMF. The two main goals were to ensure that quota distribution reflected member countries' economic weight and role in the global economy, and their ability to contribute financially, and to strengthen the voice of low-income countries. The European Union was committed to the effective participation of developing countries and countries with economies in transition in the international financial institutions.

14. Lastly, recalling the General Assembly's decision, contained in resolution 60/188, to hold a follow-up international conference on financing for development at a time between 2008 and 2009, he said that the European Union looked forward to a resolution on financing for development including the timing and other modalities of that conference. However, the existing mechanisms mentioned in the resolution continued to be a major part of reviewing implementation of the Monterrey Consensus.

15. **Mr. Jenie** (Indonesia), speaking on behalf of the Association of Southeast Asian Nations (ASEAN), said that two conclusions could be drawn from the Secretary-General's report on the international financial system and development (A/61/136): the international financial system continued to play a key role in making the world's economies more interdependent and interconnected; and, while steps had been taken to address the challenges facing that system, more needed to be done.

16. He welcomed the increase in ODA in recent years. According to the Organization for Economic Cooperation and Development (OECD), ODA flows had reached $106.5 billion in 2005 (a 31.4 per cent increase over 2004), or 0.34 per cent of developed world GNI. However, that figure included one-off commitments, was still unevenly spread and was still less than half of the 0.7 per cent target. ASEAN was nonetheless pleased that some countries had adopted timetables for achieving the 0.7 per cent target by 2015. The European Union had also adopted an intermediate target of 0.56 per cent by 2010; he urged all developed countries to do the same.

17. However, such efforts would be deficient without reforms in the international financial architecture. While ASEAN supported efforts to improve the international financial institutions' governance structure, in particular the recent revision of IMF quotas, developing countries were still underrepresented. It stressed the importance of taking the long overdue reform process forward and the need for a clear political commitment to making progress on the second stage.

18. Despite increasing competition, ASEAN countries continued to attract investments. In 2005, FDI flows had reached a record $38 billion, while external trade had reached almost $1 trillion in 2004. ASEAN would continue to work to make the region an integrated, seamless market which could serve as an international production base by 2015. In that regard, it had recently agreed to accelerate economic integration from 2020 to 2015. A major effort had also been made to implement the 2004 Vientiane Action Programme.

19. While there had been a general improvement in the external debt situation, severe indebtedness still burdened many developing countries, very high ratios of external debt to GDP with current account deficits plagued a number of middle-income developing countries and looming risks, including rising oil prices, threatened developing countries' efforts to achieve the Millennium Development Goals. It was necessary to adopt additional measures and initiatives to ensure long-term debt sustainability, as outlined by the representative of South Africa on behalf of the Group of 77 and China. Countries should be allowed to achieve their national development goals without an increase in their debt ratios. In that regard, debt sustainability analyses should consider developing countries' long-term development needs, rather than relying too heavily on governance indicators. The proposal to more expeditiously implement the HIPC Initiative and the Multilateral Debt Relief Initiative — both of which would be significantly enhanced with the implementation of additionality mechanisms — merited further consideration, as did other innovative options such as debt-swap schemes, including in the field of education, poverty eradication, health, clean water and environmental protection.

20. The role of finance in development and debt sustainability was more critical than ever. ASEAN was encouraged by recent developments and stood ready to participate effectively in efforts to fulfil the commitments made in Monterrey.

21. **Mr. Talbot** (Guyana), speaking on behalf of the Rio Group, said that the Group supported all measures conducive to ensuring the creation of a stable international financial system capable of responding to the challenges of development, especially in developing countries. The Group noted with concern that, although the increase in foreign direct investment had mainly been the result of increased cross-border merger and acquisition activity, greenfield investment had weakened, with substantial declines in Latin America.

22. In its deliberations on the reform of the international financial system, the United Nations should bear in mind the dimensions of equity and social justice, and should — together with the Bretton Woods institutions, the World Trade Organization, regional institutions and other relevant actors at all levels and in all sectors — build a consensus for reforms that would ensure a more equitable, participatory, sound and stable international financial and trade system.

23. A stronger development partnership to facilitate increased international cooperation was needed in order to remove obstacles to the attainment of the Millennium Development Goals. Priority should be given, in particular, to assistance for vulnerable groups of countries, including the least developed countries, the land-locked developing countries and small island developing States.

24. The Rio Group welcomed IMF's ad hoc quota increase for China, Korea, Mexico and Turkey. However, the current package of reforms did not adequately address the fundamental issue of the underrepresentation of developing countries, and creative measures were needed to increase their voice and participation in international economic decision-making and norm-setting processes.

25. Although the overall external debt situation of developing countries had improved, some countries and groups of countries still faced debt problems. For example, many middle-income countries in the Rio Group region still had very high ratios of external debt to GDP while running large current account deficits. Effective mechanisms for debt relief and reduction, including debt swaps, should be considered.

26. The Rio Group was pleased that South-South trade was growing and becoming more dynamic but regretted the absence from the Secretary-General's report on world commodity trends and prospects (A/61/202) of a more comprehensive analysis of North-South trade. Moreover, given the key role of agricultural products in international trade in commodities, the Group was gravely concerned at the suspension of the Doha Round and called for its prompt resumption so that it could address, among other issues, the serious distortions affecting world trade in agricultural products.

27. *Mr. Atiyanto (Indonesia), Vice-Chairperson, took the Chair*.

28. **Ms. Ferrari** (Saint Vincent and the Grenadines), speaking on behalf of CARICOM, said that comprehensive reform of the international financial architecture was needed in order to enhance the voice and participation of developing countries in international financial policymaking.

29. CARICOM welcomed the positive indicators of financial flows cited in document A/61/136. However, its member States, like other small vulnerable economies, had experienced declines in foreign direct investment, ODA and capital flows. CARICOM member Governments had begun to implement investment promotion policies in a bid to reverse those troubling trends. The success of the policies would depend in large measure on the structure of the international financial architecture.

30. The CARICOM countries were severely affected by the volatility of financial flows and were highly vulnerable to external shocks. The volatility characterizing the world economy was linked in part to the macroeconomic policies of the major developed countries. CARICOM therefore welcomed the recent IMF agreement to strengthen policy surveillance through multilateral consultations.

31. The CARICOM member States were encouraged that the external debt position of some developing countries had improved overall and believed it was important to ensure that the downward trend became widespread. Particular attention should be paid to countries with special needs, such as the least developed countries, the land-locked developing countries and small island developing States.

32. The international community should address the onerous debt situation of middle-income countries, which included most CARICOM member States. Due consideration must be given to, inter alia, country-specific circumstances and fundamental changes in a country's economic situation caused by natural disasters and changes in global growth prospects, including changes in the terms of trade, especially for commodity-dependent developing countries.

33. CARICOM noted with concern that, despite reported increases in some commodity prices, the increases were not of the magnitude required to reverse the declining long-term trend in real prices. The continued suspension of the Doha trade negotiations could undermine prospects for improving the functioning of world markets for agricultural products and supportive measures for developing countries. The issue should be addressed as a matter of urgency, and developed countries should take the lead to address global trade imbalances. Special attention should be paid to technical assistance and capacity-building, which were critical to improving the competitiveness of commodity producers.

34. **Mr. Ananiev** (Russian Federation) said that, although the fairly positive trends over the past year in external indebtedness indicators prompted some optimism, his delegation shared the concerns of the Secretary-General that an uncoordinated and disorderly resolution of global current account imbalances could threaten global economic growth, with strong negative impact on exports and GDP growth of developing countries, which in turn could trigger another debt crisis.

35. His delegation also agreed that, given the deepening of financial integration, the focus of monitoring should be to ensure the overall stability of the international financial system, inasmuch as such stability was a key requirement for sustainable development. Priority should be devoted to preventing financial crises, strengthening national financial and banking sectors and improving their regulatory and oversight systems.

36. He welcomed efforts to develop common approaches to strengthening the international financial system, including through dialogue between the Economic and Social Council, the Bretton Woods institutions, the World Trade Organization, regional

financial institutions, the regional economic commissions and the private sector.

37. The Russian Federation had already demonstrated that it was a reliable and responsible partner. For example, it had made early payments to the International Monetary Fund and the Paris Club and, calculated as a proportion of GDP, its contribution to the Heavily Indebted Poor Countries Initiative was the highest by a donor. As the financial and economic situation improved and internal social problems were resolved, the Russian Federation intended to play a more active role in providing international assistance for development. He cited figures demonstrating that his country had already cancelled significant amounts of the debt of African countries and said that it planned to cancel or write off additional large sums. It had also continued to contribute to the resources of the International Development Association, and planned to provide financial support to the Global Village Energy Partnership.

38. In conclusion, he underscored his country's interest in improving the functioning of commodities markets and ensuring more stable and predictable commodity prices.

39. **Mr. Benmellouk** (Morocco) said that his delegation looked forward to the successful implementation of the Heavily Indebted Poor Countries (HIPC) Initiative and hoped that considerable resources would be mobilized to enable additional low-income heavily indebted countries to benefit from the Initiative. Under the enhanced HIPC Initiative, the resources freed up by debt relief, which would be used for public expenditures, should be additional to existing aid, as should resources provided under the Multilateral Debt Relief Initiative.

40. The debt sustainability framework developed by the World Bank and IMF to benefit low-income countries should be flexible and adapted to the particular needs of those countries. Donors should provide those countries with additional highly concessional grants and loans to enable them to finance development projects in a manner that would not adversely affect their debt indicators. He encouraged all donors to provide aid in an effective and predictable manner and to align it with beneficiary countries' strategies. In that connection, it was necessary fully to implement the Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability.

41. With a view to attaining the Millennium Development Goals by 2015 without creating debt servicing problems, grants should constitute a larger share of the aid provided to most of the countries benefiting from the HIPC Initiative. Resources freed up by debt relief should be devoted entirely to poverty reduction and human development, which meant that the countries benefiting from debt relief must devote increased attention to good governance and to utilizing those and additional resources effectively.

42. **Mr. Nor-Eddine** (Algeria) underscored the importance of a stable and predictable international financial system capable of promoting growth, poverty reduction, sustainable development and economic and social justice, particularly in the most vulnerable developing countries. The system should mobilize international capital flows, ODA and external debt relief for developing countries. The system must also support an open, predictable and non-discriminatory international trade system, with which it was intricately linked.

43. His delegation viewed with concern the increasing net outward transfers of financial resources from developing countries to developed countries. A thorough study was needed to determine what constituted an adequate level of exchange reserves, so that amounts in excess of that level could be directed to productive development projects. Developing countries should be assured of access to liquidity in times of crisis so that they would not have to resort to accumulating excessive reserves.

44. The reforms recently launched by IMF should not focus solely on quotas. Rather, the emphasis should be on more fundamental issues such as ensuring adequate representation for the developing countries. The Monterrey Consensus had underscored the need to expand and strengthen participation by developing countries and countries in transition in international decision-making and norm-setting.

45. The international community must honour its commitment to assist heavily indebted low-income countries through debt cancellation and debt relief. His delegation welcomed the steps taken thus far by development partners to provide such assistance to 18 heavily indebted poor countries. The ability of the poorest developing countries to attain the Millennium

Development Goals hinged on their receiving additional debt relief and increased ODA from the international community. Moreover, adequate international surveillance was essential in order to protect vulnerable economies from economic crises.

46. **Mr. Leong** (Singapore) said that private capital had come to dominate the world's financial architecture and that changes were needed at the international level in order more effectively to manage capital flows, global imbalances and increasingly sophisticated capital markets, with a view to maximizing their benefits and mitigating their risks. Issues that should be addressed included governance, multilateral surveillance, harmonization of standards, transparency and crisis prevention. Some developing countries, particularly the least developed countries, would need assistance to cope with the evolving financial system. His delegation was pleased that IMF had recently enhanced the voting rights of some countries and that the World Bank and IMF had announced plans to implement further reforms.

47. Capital, particularly FDI, naturally could also be a positive force. It generated employment, productive capacity, market access and technology transfers, and cross-border production chains offered opportunities for FDI to be spread more widely. The Monterrey Consensus and the 2005 World Summit Outcome provided guidance on how developing countries could benefit from capital inflows and mitigate any adverse effects. Countries should strengthen governance, establish an attractive investment climate and build sound domestic financial sectors. They must also tailor their economic strategies to their specific circumstances. For example, although Singapore had no capital controls, it actively managed its exchange rate using a trade-weighted currency basket.

48. Asian countries had learned from the 1997 financial crisis and had generally restructured their financial sectors, raised foreign reserves, reduced external debt and adopted more flexible exchange rates, with the result that growth had gradually recovered and expanded. Those countries were working to strengthen financial stability in the region, and he described a number of measures being taken by the Association of Southeast Asian Nations (ASEAN) to foster monetary and financial integration, partly for the purpose of creating a regional economic community. Governments could also improve efficiency, lower financing costs and share risks by inviting private sector participation in infrastructure development, and could seek financing from capital markets instead of relying solely on banks. Global private capital could contribute to development if countries were careful to integrate it meaningfully and coherently in their national development efforts.

49. **Mr. Adekanye** (Nigeria) said that the international financial architecture remained skewed to the detriment of developing countries. Rather than a catalyst for development, the international financial system constituted a stumbling block. The Secretary-General's report on the international financial system and development (A/61/136) had once more highlighted the unabated flow of resources from developing to developed countries, contrary to expectations that capital would flow from developed to developing countries. Compounding the problem, many developing countries had been compelled by circumstances to build up huge external reserves to protect themselves against exogenous shocks and financial instability. That was largely due to the failure of IMF to act as a lender to meet balance-of-payments needs in times of crisis. The absence of capital from the Fund made developing countries more reliant on the capital markets, resulting in continuing growth in private capital flows fuelled by a search for yield in international investments and an appetite for risk in a situation of low interest rates and excess liquidity.

50. Nigeria therefore echoed the call for multilateral action to address global imbalances, and the urgent need for shared responsibility in managing financial risks. It noted with satisfaction the decision of IMF to undertake a midterm strategic policy review, as well as its recent decision to increase the quota of four underrepresented countries. However, that decision did not comprehensively address the overall question of voice and participation for developing countries, especially those in sub-Saharan Africa. The deficiency must be addressed expeditiously in order to give greater legitimacy to the Bretton Woods institutions, whose decisions greatly impacted the lives of many people around the world and whose accountability and transparency were of interest to all. Equally important was an improvement in IMF surveillance and oversight of financial, monetary, fiscal and exchange rate policies.

51. With regard to the external debt crisis, the Secretary-General's report on recent developments in external debt (A/61/152) indicated an increase of 1.6 per cent in the total external debt of developing

countries. Notwithstanding the significant slowdown in debt accumulation that that represented, it was evident that the measures to achieve reduction in debt stocks, such as building of external reserves, domestic borrowings and debt buy-back, were not sustainable. While Nigeria recognized and indeed relied on debt financing as a necessary instrument for development, it also acknowledged the challenges inherent in its management and advocated a more robust global partnership for financing development, particularly as the HIPC Initiative could not free adequate resources for development purposes.

52. In 2005, Nigeria had finally reached a settlement with the Paris Club on its protracted external debt problem. As the Secretary-General had pointed out in his report, Nigeria's case had had a number of unique features, but the country was ready to share its experiences with other developing countries. There was a serious need to address the complex terms governing external debts, with respect to the treatment of arrears, interest and late interest, consolidation periods and repayment terms, as well as the agreed minutes of a negotiated debt restructuring/rescheduling arrangement. Those terms constituted the core problems that exacerbated the external debt crises. A discussion at the forthcoming Development Cooperation Forum should enhance understanding and appreciation among the development partners concerning the negative effects of external debt servicing under complex and stringent management terms.

53. Fully subscribing to good governance, Nigeria stressed the need for credit rating agencies to share their methodologies and determinants and the variables used in their ratings. Similarly, efforts should be made to involve developing countries in the Financial Stability Forum and the Basel Committee on Banking Supervision, where only a few countries set the standards and codes for universal application. Ultimately, there was no substitute for reforming the international financial architecture to make it more equitable and representative and to give developing countries greater voice and participation in decision-making in international financial institutions. The developing countries should also be given the policy space they needed to decide on, adopt and implement the policies that best suited their circumstances.

54. *Ms. Intelmann (Estonia), Chairperson, resumed the Chair.*

55. **Mr. Yuan** Yuan (China) noted that, although in recent years there had been no systemic financial crisis in the world, financial risks had not decreased. The worsening imbalances in global development, the fragility of the financial systems of the developing countries and changes in the international economic landscape had confronted the international financial system with new challenges. Members of the international community should strengthen dialogue and cooperation in order to reform the international financial system and enable it both to respond more effectively to financial crises and to prevent financial instability in a timely fashion.

56. The decision-making mechanisms of the system should be improved. Developed countries should strengthen dialogue and consultations with developing countries in order to set up, on a basis of equality and mutual benefit, a policy framework characterized by coordination and mutual trust. Special attention should be given to helping developing countries build up financial capacity so as to withstand financial risks. Meanwhile, the representation of developing countries should be increased in the World Bank, IMF and other financial forums as a step towards democratization of international economic relations. China welcomed the recent decision by the IMF Executive Board to grant ad hoc quota increases to a group of the most clearly underrepresented countries.

57. International financial policy coordination mechanisms should also be improved. The major industrialized countries in particular should strengthen coordination, stabilize market expectations through prudent and orderly adjustment, ensure the relative stability of exchange rates among major reserve currencies, and promote an orderly correction of global imbalances. Furthermore, international financial institutions should strengthen oversight of the fiscal policies of countries whose currencies were major reserve currencies, focus attention on the monitoring and control of short-term capital flows with a view to guiding them in a rational manner, refine the regulations of large financial corporations, promote and strengthen the coordination of international financial oversight efforts, and guard against systemic financial risks.

58. Relief of the debt burden was an important prerequisite for poverty elimination and economic development of many developing countries, especially the least developed. The problem had far-reaching

historical and political causes and was directly related to the unjust and irrational international economic order. The international community should provide substantive help to the developing countries to extricate them from the vicious circle of debt once and for all.

59. Developed countries should actively fulfil their ODA commitments, as set forth in the Monterrey Consensus and the 2005 World Summit Outcome, increasing assistance and rendering it more efficient. With the Multilateral Debt Relief Initiative launched by the Group of Eight in 2005 moving ahead smoothly, countries should intensify their efforts to guarantee the additionality of debt relief funds.

60. International and regional institutions should adhere to the principle of non-politicization, focus on poverty reduction and development and help developing countries to enhance capacity-building and achieve debt alleviation and economic and social development. When providing policy advice and financial assistance, multilateral institutions should respect the special needs and delivery capabilities of developing countries and base development proposals on local conditions. It was important not simply to copy the models of the developed countries and not to emphasize governance and the fight against corruption at the expense of poverty reduction, development and other more urgent issues.

61. As a developing country, China had always attached importance to the debt problem, and had, within the framework of South-South cooperation, provided assistance to other developing countries, based on full respect for the needs and ownership of the recipients. Its main purpose was to supplement the development funds of those countries, promote local economic and social development, and enhance their development capacity. China also endeavoured to offer large-scale debt relief. To date, it had cancelled 208 debts owed to it by 46 developing countries. At the 2005 World Summit, President Hu Jintao had announced a series of new measures to help other developing countries speed up development, including zero tariff treatment, debt reduction and cancellation, concessional loans, public health cooperation and human resources training.

62. The rebound in commodity prices since 2003 was beneficial to the economic growth of developing countries, in particular the least developed. Those countries' concerns on commodity issues deserved the attention of the international community. The suspension of the Doha Development Round had put on hold many issues of concern to the developing countries, such as the reduction of domestic agricultural subsidies by the developed countries. China hoped that all WTO members would demonstrate political good faith, and that the Doha Round would be resumed, so that a balanced multilateral trade agreement in line with the spirit of the Doha Development Agenda could eventually be reached.

63. Since 1992, China had been gradually cutting its average tariff rate for agricultural products, most recently to 15.35 per cent in 2005, which represented a major contribution by China to the promotion of world trade. China would continue actively to promote South-South trade, increase exchanges with other developing countries and support their endeavours to expand trade as a means to achieve economic development and poverty eradication.

64. **Mr. Chowdhury** (Bangladesh) observed that, despite numerous initiatives, the external debt of developing countries continued to increase and had reached US$ 2.8 trillion in 2005. The developing countries were home to the majority of the world's poor and their policymakers faced a dilemma in using their scarce resources for debt servicing, when so much needed to be spent on the social sectors.

65. The Multilateral Debt Relief Initiative of the Bretton Woods institutions was to be welcomed. However, about half of the eligible countries had yet to benefit from debt relief under the HIPC Initiative. That benefit should be extended to all least developed countries without any selectivity on political grounds before the sunset clause took effect on 31 December 2006. While many highly indebted poor countries still had unsustainable debt, the HIPC Initiative was not the only solution. The World Bank Independent Evaluation Group on HIPC had found that debt relief, by itself, could not ensure sustainable levels of debt. Significant measures were needed also to improve the repayment capacity of the countries, including through sustained improvements in export diversification.

66. The current international reserve system was inequitable and inefficient. According to the figures from the Currency Composition of Official Foreign Exchange Reserves (COFER) of IMF, the total reserves held by the developing countries amounted to

US$ 3.26 trillion, or 71 per cent of total global reserves. While these reserves were sitting almost idle, developing countries were borrowing at very high interest rates to finance their own development. That situation must be reversed. The international financial system should adopt a mechanism to collateralize foreign exchange reserves, allowing the least developing countries to borrow, at zero interest, against their own reserves.

67. Developing countries were seriously underrepresented in the Bretton Woods institutions and a new quota formula was needed to reflect more accurately their legitimate voices. The need for changes in representation and in the distribution of quotas had finally been recognized and the ad hoc quota increase for a few countries was welcome. However, in order to address the special circumstances of the low-income countries, a substantial increase in basic votes was necessary. Special weight should be accorded to the least developing countries, since their voices were critical.

68. The World Bank group needed to augment its efforts to support the achievement of the Millennium Development Goals through enhanced delivery of assistance and improved harmonization among development partners. For the poorest countries, ODA should shift to an all-grant facility without any conditionality. The developing countries should be provided with greater policy space. The 2005 Summit Outcome embodied the global community's commitment to sustainable debt financing and external debt relief, recommending further debt cancellation, an improvement in the quality and quantity of aid, fairer trade and a greater voice for the developing countries in the decision-making processes of the international financial institutions. Unless such measures were adopted and the benefits of globalization redistributed, the concept of globalization ran the risk of being rejected by the developing world.

69. **Mr. Chandrappan** (India) observed that global growth prospects for 2006 had improved in recent months and the growth scenario was more broad-based. However, downside risks from inflationary pressures, high and volatile oil prices and a disorderly unwinding of global imbalances continued to exist. Widening income inequality between developed and developing countries and increased protectionism due to the collapse of the Doha Round were added causes for concern. The twin challenges currently facing the international community were how to mitigate the specific downside risks that could dampen medium-term growth prospects and how to leverage the benign growth scenario to promote the broader development agenda.

70. The deepening of global imbalances continued to pose a major risk to global growth and stability and, by implication, to the development prospects of the developing countries. Underlying the current imbalances were fundamental structural problems, which it was imperative to redress. The World Bank and IMF had strayed from one of their original objectives — Keynesian demand management to maintain high levels of employment — and the mission for a world free of poverty. It was, therefore, no coincidence that at the 2005 World Summit the world leaders had emphasized that "enhancing the voice and participation of developing countries in the Bretton Woods institutions remains a continuous concern".

71. The World Bank must remain steadfast in its mission and its strategy must remain embedded in the historical development-centric approach. Governance was not a substitute for but a means to achieve important development objectives. It was extremely important to avoid a sequential approach of improving governance before tackling the development agenda.

72. Despite a general improvement in the external debt situation, there remained a large number of severely indebted countries. A substantial scaling up of aid was called for. Several developing countries continued to depend on export income from commodities; despite the recent increase in some commodity prices, the fundamental causes underlining the declining price trend had not been addressed. While South-South trade in commodities offered some opportunity, developed countries continued to account for almost two thirds of world non-fuel commodity imports, and would remain a dominating influence with a crucial role in improving conditions on international commodity markets. It would be useful if a future session of the Committee could consider a detailed analysis of factors that might help to establish conditions on international commodity markets favourable to developing countries. Following the suspension of the Doha Round, the distortions in agricultural production and trade caused by the high levels of subsidies and production provided by many developed countries would continue, seriously affecting much of the commodity-based development

and diversification efforts of many developing countries. Additionally, the resource constraints faced by UNCTAD needed to be addressed urgently in order to implement its decision to establish an International Task Force on Commodities.

73. The 2005 World Summit had reiterated the need for the United Nations to play a fundamental role in the area of development, including by promoting system-wide coordination to advance the development agenda. The Organization must provide directions for the comprehensive reform of the international financial, monetary and trading systems and for promoting the implementation of the development agenda. The Economic and Social Council should be strengthened to enable it to discharge its functions effectively, in particular the regular assessment of the performance of international financial, monetary and trade institutions.

74. **Ms. Enkhtsetseg** (Mongolia) said that the commodity price recovery over the last three years had by and large had a positive impact on most commodity-exporting developing countries. South-South trade had become a sizable part of world commodity trade, and that new dynamism must be fully utilized in support of development and poverty reduction. Yet, depending on the commodities in which they traded, many developing countries were not able to benefit fully from the current positive trends. Much remained to be done by the United Nations, in particular UNCTAD, in assisting commodity-dependent developing countries, through technical assistance in support of policy development and capacity-building, especially in order to enable them to adjust to the requirements of expanding South-South trade.

75. A number of important medium-term and long-term recommendations made at the Meeting of Eminent Persons on Commodity Issues held in September 2003 still needed to be implemented. They covered such important areas as compensatory financing schemes, capacity-building to improve supplies, experience sharing on commodity policies, institution-building in fiscal management of commodity revenues, market-based management of price risk and diversification of productive capacity.

76. Many commodity-dependent developing countries lacked the capacity to benefit from potential market openings. Therefore, support to strengthen supply capacity in the commodity sector should be made an integral part of international assistance to such countries. That support should include policy-level support to design and implement strategies, policies and measures for commodity-based development and diversification, and improvement of domestic research and development capacities taking into account the specific needs and potential of each individual country. Commodity issues should become an explicit part of poverty reduction strategies.

77. Mongolia also believed that early establishment of an Export Diversification Fund could strengthen the ability of countries to move away from excessive dependence on a few commodities. In the meantime, the existing Common Fund for Commodities needed to be further strengthened and enhanced in order to implement the relevant provisions of the 2005 World Summit Outcome. Mongolia was currently studying the possibility of taking part in relevant projects of the Common Fund for Commodities designed to improve and diversify commodities production and trade.

78. Mongolia assigned high priority to the development of its commodity sector as the country was largely dependent on a few commodities in both exports and imports. Its main export items were cashmere and mining products, principally copper and gold, whereas petroleum dominated imports. Accordingly, the impact of recent commodity price trends, with an increase in both mineral and oil prices, had been mixed. Nonetheless, the Government had endeavoured to convert the export revenues resulting from recent price increases for minerals into development gains by adopting fast-impact poverty reduction and income generation measures, within the framework of its national Millennium Development Goals. Responsible management of natural resources focusing on long-term development of the country would continue to be a central priority.

79. The Government had taken a number of steps to expand commodity export markets and attract more foreign investment to the mining sector, including commitment to implementation of the Extractive Industries Transparency Initiative that was designed to improve openness about financial conditions surrounding investments in mining industries. In addition, policy measures were being undertaken to reduce the country’s dependence on the export of a few commodities, through diversification, improved processing of primary commodities and increased share of agricultural products in its exports.

80. **Mr. Godo** (Kenya) regretted that, since the adoption of the Monterrey Consensus, very little had been achieved in terms of meeting the commitments concerning ODA, FDI, trade liberalization, external debt and commodities. Developing countries were still grappling with extreme poverty and other problems of underdevelopment, including unemployment and the debt burden.

81. In honouring their ODA commitments, development partners should emphasize grants rather than loans, and ODA should be channelled to the priorities and needs identified by developing countries themselves. The diversion of scarce resources from financing infrastructure and social expenditures to debt service obligations worked against the efforts of developing countries to achieve the development goals.

82. In the area of international trade, progress was needed in negotiations on agriculture, non-agricultural market access and services, taking into account the special needs of developing countries. Furthermore, the genuine concerns of developing countries regarding preference erosion must be addressed in future agreements. Countries did not all derive equal benefits from the rise in commodity prices, because the actual benefit depended on the composition of commodity exports. Most developing countries exported raw or semi-processed products that did not attract high prices on the world market. His delegation therefore called for implementation of the Arusha Plan of Action on African Commodities, establishment of the proposed International Task Force on Commodities and adoption of other initiatives to solve problems of commodity trade. It welcomed recent initiatives to reform the financial and economic decision-making process at the international level. Macroeconomic policies could succeed only if there were consistency and equity in the governance of the international financial system.

83. **Mr. Kapoma** (Zambia) said that national efforts should complement those made at the international level, and developing countries must continue to implement prudent macroeconomic management policies and development plans that were not only pro-poor but were also aimed at taking advantage of external opportunities.

84. The efforts of some developed countries to meet commitments to developing countries were laudable, and he commended the Group of Eight on its debt cancellation policy, an initiative from which Zambia had benefited. The savings accrued would go a long way towards addressing the challenges faced in meeting the Millennium Development Goals.

85. Through improved macroeconomic management, Zambia had made progress in the implementation of its commitments under the Brussels Programme of Action. Real gross domestic product had reached an average of 4.7 per cent, leading to a positive per capita income, and the level of inflation had fallen to a single digit in 2006. Government domestic borrowing had declined, which had contributed to a fall in interest rates and acted as a catalyst for private sector investment. Exports had risen by 129 per cent in 2005 and non-traditional exports had grown by an annual average of 18 per cent.

86. Nevertheless, Zambia needed to make a greater effort to produce high and sustainable growth rates, strengthen export facilitation and diversification, expand economic infrastructure, and, as a matter of urgency, improve human resource capacity. The Government would also endeavour to accelerate structural reforms, improve aid management and reverse environmental damage, while ensuring the sustainable use of natural resources and further reducing Zambia's foreign debt.

87. The rising trend in oil prices and the suspension of the Doha Round were regrettable. Trade played a catalytic role in enhancing private sector development, which in turn created employment opportunities and alleviated poverty. In order to emerge from poverty and achieve meaningful development, developing countries must establish policies, strategies and resources aimed at the poor and at wealth creation. At the same time, their development partners must fulfil the commitments made at various international forums.

88. **Ms. Osman** (Sudan) said that her country's total external debt stood at $27.7 billion, with estimated debt stock representing 690 per cent of the three-year average of exports of goods and services. The total external debt had represented 87.7 per cent of GDP in 2005, down from 390 per cent in 1995. Excessive debt service obligations limited the Sudan's capacity to meet its payments and had resulted in accumulated arrears. The debt burden further obstructed the Sudan's efforts to meet its obligations under the Comprehensive Peace Agreement and the Darfur Peace Agreement, seriously undermining the Government's efforts at reconstruction, rehabilitation, resettlement, disarmament,

demobilization and reintegration, as well as efforts to achieve the internationally agreed development goals.

89. The Sudan had, however, implemented a wide range of economic, social and political reforms, and had undertaken trade liberalization, privatization and banking reforms. Sound management of the budget and increased revenue generation had resulted in a drastic reduction of inflation from 130 per cent in 1996 to 8.4 per cent in 2005. There had been a corresponding growth in GDP, from 6 per cent in 1997 to over 8 per cent in 2005. All those reforms had been achieved without international financial support.

90. The Sudan was finalizing the first phase of its poverty reduction strategy paper, but had faced conflicting challenges, including the overriding concern of restoring peace, building institutional capacity and improving coordination with partner countries. Furthermore, in spite of the sound economic policies adopted by the Government, it had not benefited from any of the debt relief initiatives. Since debt relief could free resources and relieve economic difficulties, its role in achieving lasting peace, development and conflict prevention could not be overemphasized. The Sudan renewed its call to the international community to accelerate efforts to cancel its debts, and to remove conditionalities to that process.

91. **Mr. Tun** (Myanmar) agreed that reform of the international financial architecture was needed to enhance the voice and active participation of developing countries in decision-making within the Bretton Woods system. The pattern of lending conditionalities continued to raise concern. New IMF guidelines had somewhat eased such concern, but the application of conditionalities by the World Bank was still worrisome. The international financial institutions should give countries adequate policy space and flexibility, and freedom to be guided by their national conditions and development strategies.

92. While noting that total ODA had increased by 31.4 per cent in 2005, and welcoming decisions recently taken on debt relief and cancellation, he reiterated his Government’s position on the link between debt sustainability and the capacity to achieve national development goals. Improved market access for exports from developing countries and other measures to enhance productive capacity were crucial to debt sustainability.

93. The suspension of the Doha trade negotiations would delay the hope for improvements in the global market for agricultural products, on which many developing countries were highly dependent. Since effective international arrangements to solve the problem of weak and volatile commodity prices were necessary, he was encouraged by the fact that the international commodity price index had recovered to a value of 187 in 2006, after a sharp decline between 1997 and 2003.

94. Developing countries were aware of their responsibility for their development, but implementation of the commitment to the global partnership was also crucial in helping countries to achieve sustainable economic growth and development.

95. **Mr. Tameo** (Papua New Guinea) said that the international community must ensure that the international monetary, financial and trading systems were open, fair and inclusive. Papua New Guinea was extremely concerned over the lack of progress in reforming the international financial architecture in order to make developing countries effective partners in economic decision-making and norm-setting processes within the Bretton Woods institutions and other economic and financial institutions.

96. Papua New Guinea had a good record in servicing its debt commitments. More recently, the gains from higher commodity prices had helped it to handle its repayments, although the use of scarce resources for such purposes diverted much needed capital from investments in productive sectors, development of infrastructure, and the provision of health, education and other services.

97. Papua New Guinea supported innovative approaches for developing countries, with the assistance of the international community, including debt swap initiatives, grant-based financial initiatives, and proposals to address the debt crisis facing developing countries.

98. **Mr. Blas** (Philippines) said that debt repayment posed a challenge to developing countries in their attempts to implement poverty reduction and economic growth strategies. He cited rising interest rates, exchange rate fluctuations and unexpected occurrences among the risks that could create hardships for countries caught in the cycle of debt. Countries that found themselves unable to meet their repayment

obligations were faced with the dilemma of default or the loss of economic sovereignty.

99. A legal framework should be established to determine the fate of countries unable to repay debts, in a manner that restructured debt in a fair, efficient and expeditious manner, suggesting, for instance, risk-sharing, innovative sources of financing and conservative borrowing that stressed the importance of domestic resource mobilization.

100. **Mr. Lawrence** (United States of America) said that his delegation viewed the outflow of resources from developing countries to developed countries as a positive sign that should be applauded, rather than a problem. One of the most common explanations was that the outflow indicated a paying down of debt. A more troubling, but understandable, explanation was that the domestic financial sector of developing countries did not provide the level of stability and transparency required to retain investment and attract new investment. As noted in the Secretary-General's report, such flows were generated by growing exports and higher prices of oil and non-oil commodities; some of the countries that had objected to the phenomenon had in fact benefited from higher oil prices.

101. Member States should create an enabling environment for development, which was a prerequisite for mobilizing domestic financial resources and attracting FDI. States could make themselves resilient to financial risk by maintaining sound macroeconomic policies and a healthy financial sector.

Organization of work

102. **Ms. Pliner** (Secretary of the Committee) announced the establishment of Lotus QuickPlace, a secure, Internet-based workspace for collaboration among members of the Committee.

The meeting rose at 6 p.m.