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Summary record of the 8th meeting

Held at Headquarters, New York, on Monday, 15 October 2007, at 3 p.m.

Chairperson: Mr. Le Roux (Vice-Chairperson) . . . . (South Africa)

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07-53946 (E)

In the absence of Ms. Lintonen (Finland), Mr. Le Roux (South Africa), Vice-Chairperson, took the Chair.

The meeting was called to order at 3.05 p.m.

Agenda item 52: Macroeconomic policy questions (*continued*)

(b) International financial system and development (*continued*) (A/62/119 and A/62/71-E/2007/46)

(c) External debt crisis and development (*continued*) (A/62/151 and A/62/71-E/2007/46)

1. **Mr. Bagrodia** (India) said that the steadily increasing net transfer of financial resources from developing to developed countries seemed to be supported by the international financial architecture. Reserve accumulation accounted for a significant portion of the resource flow, as a precaution against future crises and was a direct consequence of harmful conditionalities imposed by the Bretton Woods institutions in their lending policies. Those institutions were failing to fulfil their basic mandate and borrowers were increasingly pre-paying their loan obligations rather than continuing with the “policy packages”. The structural problems of the international financial architecture had to be addressed urgently.

2. The Bretton Woods institutions needed urgent reform with enhancement of the voice and participation of developing countries. The United Nations should oversee that process and conduct periodic reviews. The newly strengthened Economic and Social Council would be the most appropriate body for implementation. The technical capacity of the Department of Economic and Social Affairs should be strengthened so that it could assist the Economic and Social Council in discharging those functions.

3. The initial reform steps taken by the International Monetary Fund in September 2006 should be carried to their logical conclusion. Reform of the quota formula and a subsequent increase of quotas for all underrepresented countries should be completed by the 2008 spring meetings. Any revision of the quota formula, however, should not reduce quotas for the least developed States and small States. The World Bank should also address the voting weight iniquities in its Board of Governors.

4. The increase in private sector flows to developing countries did not offset the outflow of resources from them. Such flows also included speculative portfolio and equity investments, which were subject to flight at the first signs of turbulence. The goal of enhanced and predictable financing for developing countries had not been achieved. Moreover, private flows were not attracted to social and other development-related sectors. ODA was far below the target of 0.7 per cent of GNI and future projections were also pessimistic.

5. Debt relief had become a significant component of ODA without offering additional aid. The resources allocated to development assistance were much smaller in practice owing to arrears in debt servicing. Countries with the largest arrears were receiving the least from debt relief in terms of freeing resources for development. The International Monetary Fund, as a creditor, had a vested interest in that process and the Economic and Social Council was thus the appropriate oversight body. New measures were needed, such as an international debt commission, to address the problem of developing country debt. In the larger interest of the development agenda, debt cancellation should not impact the financial integrity of international financial institutions.

6. Debt sustainability had to be defined in terms of debt-servicing capacity as well as the allocation of resources in order to meet the Millennium Development Goals. In view of the recent turmoil in the financial markets of developed countries caused by esoteric financial instruments, his delegation also cautioned against new debt instruments. Greater surveillance was needed in the international financial system. He welcomed the revision of the IMF surveillance framework in June 2007 and recalled that, while the role of surveillance in programme countries was curative, in non-programme countries it was preventive.

7. He supported the role of IMF in assisting low-income countries through Policy Support Instruments and other methods. It was important for the Fund to assist countries that did not need or want the Fund’s financing. However, the macroeconomic stability goals of IMF were restricting the utilization of much-needed additional aid, particularly through subjective assessments of a country’s absorption capacity. That only reinforced the need for comprehensive reform of the Fund. Action was needed rather than words to ensure that an international economic and financial environment conducive to development was created under the guidance of the United Nations.

8. **Mr. Bakr** (Iraq) said that Iraq had entered a new phase following the fall of Saddam Hussein's regime, which had drained the country's economy and destroyed its institutions. The current Iraqi leadership was committed to rebuilding the country's economy, infrastructure and institutions and, most importantly, to establishing the rule of law.

9. The International Compact with Iraq had been launched in May 2007 and was based on political progress, security and the rule of law, and economic reform and reconstruction. The Commission on Public Integrity had been established in January 2007 to promote the rule of law and prevent corruption at all levels of government.

10. In relation to economic reforms, Iraq was in the process of reducing government subsidies, expanding the private sector, promoting investment, restructuring the financial sector and strengthening regional and international economic integration. Other highlights of the past year included implementation of a new investment law and reform of the banking sector. Steps had also been taken to consolidate and improve decision-making in financial policies through a Memorandum of Understanding between the Central Bank of Iraq and the Ministry of Finance.

11. During the launch of the International Compact with Iraq, some of Iraq's creditors had offered commitments on debt relief. He encouraged other States to take actions similar to those taken by members of the Paris Club to alleviate debt incurred under the previous regime. The Iraqi people should not be forced to bear that burden as they sought to build a new Iraq.

12. Iraq also requested a review of the compensation paid by Iraq to Kuwait as a result of Iraq's invasion and occupation of Kuwait in 1990. A request had been made to the Security Council for reconsideration of Iraq's obligations under that programme, especially as Iraq had already paid over $22 billion through April 2007 and was continuing to make payments. The burden was too heavy for the present critical phase of Iraq's democratic and economic transition.

13. Security remained the biggest challenge in implementing Government policies and programmes. Substantial progress had been made towards the assumption of primary responsibility for security in Iraq by its own security forces. The Higher Ministerial Committee for Security Sector Reform had begun its work to ensure respect for human rights.

14. The Kurdistan Regional Government had sought to implement a clear vision for the region within a federal Iraq by setting and meeting high standards of transparency and accountability in governance. Since the collapse of Saddam Hussein's regime, the Kurdistan Region had experienced economic growth which could be considered a model for the rest of Iraq in terms of political and social development, human rights and religious tolerance. The economic programme had been the result of the Region's commitment to private sector development and expanding foreign investment. The Kurdistan Region Investment Law of 2006 provided incentives to foreign investors, and $5 billion of foreign investment was expected in the region by 2010. The regional oil law complied fully with Iraq's constitution and the draft federal oil law and should be a model for transparency and accountability in Iraq and other oil-producing countries. Revenue from oil and gas were the foundation of the economy and would provide financial support for infrastructure reconstruction.

15. Other priorities were eliminating corruption and reforming education. He invited further United Nations involvement in Iraq and particularly in the Kurdistan region, which could serve as the gateway to the rest of Iraq, in order to implement a sustainable development plan.

16. Recently the President of the Kurdistan Region had called for a meeting of Iraq's political leaders on federalism as a means of governance in Iraq. All friendly Member States should support that invitation, which was vital for progress in the political process in Iraq.

17. **Ms. Rodriguez de Ortiz** (Bolivarian Republic of Venezuela) said that her country had been active in the current round of WTO negotiations, promoting the transparency and inclusion that should be part of the decision-making process. Safeguards for the development process should be a mainstream part of the negotiations. Special and differentiated treatment was an essential element for correcting the imbalance in the multilateral trading system and additional, predictable and sufficient resources should be allocated to infrastructure, supply capacity and competitiveness.

18. Her delegation supported any action that strengthened the work of the United Nations

Conference on Trade and Development (UNCTAD), which was the multilateral agency in which developing countries had emphasized the importance of maintaining policy space in view of the increase in trade, the flow of investments, the imbalance of the international financial architecture, information and communication technologies, business development and concern for sustainable development.

19. Her country supported any action to implement the commitments adopted in Doha and Monterrey. The world trading system should benefit the developing countries and should never ask developing countries to open their markets further when developed countries were increasing their protectionist measures. She valued the message delivered by heads of State and Government of other South countries in the recent general debate in plenary, especially in relation to the right of developing countries to more extensive and fairer participation in international world trade. The developed countries should give serious consideration to developing countries' concerns in the context of international trade negotiations.

20. The efforts made by States to reach development goals, including the Millennium Development Goals, should be complemented by an appropriate international environment. The industrialized countries had the responsibility of applying social, financial and macroeconomic policies that supported appropriate and harmonious international growth.

21. The reality of millions of human beings immersed in hunger and poverty showed very clearly that the international financial system had to allow mobilization of all sources of financing for development, especially internal resources, international investment flows, official development assistance, external debt relief and an open, rule-based and non-discriminatory multilateral trading system. Scant progress had been made, in part because of the need for coherence between the international financial system and development and the lack of reference to the specific needs of developing countries in the mandates of international financial institutions. The mobilization of financial resources required a strengthening of public and private financing and of institutional structures to facilitate savings and their channelling to productive investment. The allocation of resources for development served no purpose if they were used to repay external debt. Official development assistance should not be subject to conditionalities by the developed countries or multilateral financial institutions as that affected the self-determination and sovereign rights of States.

22. Recent initiatives relating to the external debt crisis had been limited to low-income countries, excluding middle-income countries and thus almost all Latin American countries, although they devoted a large part of their resources to debt servicing. Alternative mechanisms should be created that would not increase indebtedness and would achieve international social justice.

23. A review of the principles of the financial institutions was needed in order to benefit developing countries. There was a need for innovative approaches to financing for development and mechanisms that allowed a general and uniform increase in the representation and visibility of developing countries within the Bretton Woods institutions.

24. Her country had developed a financial policy of the South for the South in the context of the effective exercise of sovereign management of resources. Bilateral financial assistance initiatives with other South countries had involved the acquisition of debt securities of other countries in the region. That was a good example of developing countries' new strategies to encourage intraregional financing and reduce dependence on and vulnerability to international capital markets. It also meant better use of the fund cycles associated with the prices of commodity exports and their rational use in the financing of regional development strategies to favour investment in infrastructure, growth and integration.

25. The financial authorities of seven Latin American countries had announced the consolidation of the Bank of the South. Its establishment would be defined in November 2007. The goal of that Latin American financial integration strategy was to finance the development of countries of the Union of South American Nations that were members of the banking entity in order to strengthen integration, reduce asymmetries and promote an equitable distribution of investments. It would also finance projects in social sectors to reduce poverty and social exclusion and to support the process of South American integration. The reaction of the principal world capitals to the creation of the bank had been a media campaign to demonize any initiative by southern countries to manage their own resources in a sovereign manner.

26. Her country's defence against such attacks was the commitment of her Government, together with others, to reducing the poverty and social exclusion to which they had been subjected for decades by the conditionalities of the main international financial institutions. That commitment had materialized in reimbursable cooperation initiatives providing a total of about $500 million in reimbursable and $15 million in non-reimbursable cooperation. The initiative was a result of the countries' sovereign decision to implement rational macroeconomic policies that would maintain high growth rates, full employment, poverty eradication, stable prices and sustainable fiscal balances so that growth would benefit all.

27. **Mr. Toh** (Côte d'Ivoire) said that scattered economic success stories around the world should not obscure the fact that the scourge of debt continued to impede social and economic development in most developing countries. As a result, many children in those countries lacked access to health care and education and one third of their people lacked access to drinking water, three of the criteria for attainment of the Millennium Development Goals. Notwithstanding concerted efforts by many developing countries, often in difficult circumstances, to implement relevant national strategies, those efforts would count for little without support from the international community.

28. In that context, he reviewed efforts by Côte d'Ivoire to restore its economic and financial situation, following five years of political turmoil, including cooperation with IMF, with a view to securing debt relief under the Heavily Indebted Poor Countries Initiative. However, the eligibility conditions failed to take account of a country's specific circumstances, such as the military and political conflict experienced by Côte d'Ivoire. For a conflict-ravaged country with very limited resources, Côte d'Ivoire's debt-service payments posed an intolerable burden, amounting to some two thirds of GDP and seriously impeding its recovery from the crisis.

29. **Mr. Teshome** (Ethiopia) said that, as debt cancellation and reduction were more predictable than bilateral aid, they offered a more effective means of financing development. In addition, improving debt management to achieve long-term debt sustainability contributed to the attainment of poverty reduction strategies and the Millennium Development Goals. At the same time, debt relief should not supplant other sources of financing and new aid should be delivered in the form of grants rather than loans. Although the level of debt had declined specifically for the heavily indebted poor countries, debt sustainability in the long term remained an issue and should be pursued as a requisite for underpinning growth and achieving the Millennium Development Goals.

30. As a result of multilateral and bilateral debt relief and cancellation, Ethiopia's debt stock had dropped from US$ 6 billion in June 2006 to US$ 2.3 billion in July 2007. More progress towards attaining the Millennium Development Goals could have been possible, however, if more resources had become available through the international development cooperation framework. Noting the important global challenge of eradicating poverty, he said that the resource gap in Ethiopia and the limited capacity of the economy to mobilize resources were impeding its efforts to implement its poverty reduction strategy programme. Added to which, ODA to Ethiopia was considerably lower than ODA to other low-income countries, including those in sub-Saharan Africa. While the Government had been making every effort to mobilize domestic resources, it also needed increased and well coordinated inflows of external finances, including increased ODA, to boost growth, to ensure effective implementation of the strategy and to attain its targets under the Millennium Development Goals.

31. Given Ethiopia's deep-rooted poverty and its complex economic and social problems, concerted and sustained efforts were necessary to deepen the gains achieved thus far and fundamentally transform its economy. Through prudent macroeconomic management and innovative policies, the country had achieved fairly rapid growth with measurable improvements in its human development indicators, but it still faced major challenges in such areas as inflationary pressures, rising inequality, particularly in the urban areas, and infrastructure.

32. In conclusion, he urged the multilateral financial institutions to show a greater commitment to providing policy advice, technical assistance and financial support, with due regard for the special needs and implementing capacities of developing countries, and called on development partners to continue to give priority to the struggle of eradicating poverty.

33. **Mr. Jarra** (Gambia) drew attention to the undemocratic architecture of the global financial system, in which both the participation and influence

of developing countries remained extremely marginal, despite the significant impact which financial decisions had on their growth and development, and reiterated the need for the all-inclusive reform of the system, which should clearly recognize the purpose for which the international financial institutions had originally been established.

34. In many cases, the level of debt of developing countries far exceeded their GDP and seriously impeded progress towards the Millennium Development Goals and human development in general. Loans were not an effective means of financing development, as the resulting debt increased with the repayment of interest and capital. As a result, loans served as a self-perpetuating mechanism of poverty aggravation and a block on economic development on the periphery of the capitalist world system.

35. Despite the relative improvement in the external debt of the developing countries through improved debt management strategies and international cooperation, their total external debt had still increased in nominal terms. He cast doubt on the efficacy of recent debt-relief initiatives in helping the developing countries to realize the internationally agreed development goals. In particular, the Heavily Indebted Poor Countries Initiative concerned only a very limited number of poor countries, and its aim was to make the debt burden sustainable without questioning its legitimacy. Nor did debt equity swaps constitute a solution, because they were often used to support privatization programmes and changes in the national structures of capital ownership in favour of foreign transnational companies.

36. Accordingly, there was a need for additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based financing, cancellation of the totality of the official multilateral and bilateral debt of heavily indebted poor countries and significant debt relief or restructuring for developing countries with an unsustainable debt burden. Debt relief could be only a partial mechanism for liberating resources, but it should not replace other sources of development financing and, in that context, he called for strengthened aid commitments, improved market access for developing countries' exports and other measures to enhance their productive capacity.

The meeting rose at 4 p.m.