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Held at Headquarters, New York, on Monday, 13 October 2008, at 10 a.m.

Chairperson: Ms. Ogwu . . . . (Nigeria)

later: Mr. Hoppe (Vice-Chairperson) . . . . (Germany)

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08-54633 (E)

The meeting was called to order at 10.05 a.m.

Agenda item 47: Macroeconomic policy questions

(b) International financial system and development (A/63/96)

(c) External debt and development: towards a durable solution to the debt problems of developing countries (A/63/181)

(d) Commodities (A/63/267)

1. **Mr. Montes** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs) introduced the report of the Secretary-General on the international financial system and development (A/63/96) and made a number of additional comments in light of the current financial crisis.

2. With regard to the continued increase in net resource outflows from developing to developed countries, he said that the pattern whereby the poor were funding the consumption of the rich should have acted as an early warning of the current financial crisis and was clearly unsustainable in the long term. Moreover, the practice whereby emerging economy Governments took long-term equity positions in developed countries' financial markets through their sovereign wealth funds had recently ceased, owing to the continued disintegration of those markets.

3. With regard to the substantial increase in private capital flows to developing countries, he cautioned that, historically, such flows had been volatile and subject to reverses during periods of recession. That was evident today with the higher London Inter-Bank Offered Rate (LIBOR), the increase in emerging country spreads and the plunging stock market values in countries with emerging economies.

4. Lastly, he noted that paragraphs 36 and 38 of the report, in particular, had been validated by recent events and drew attention to the related recommendations contained in paragraphs 75 and 76.

5. **Ms. Li** Yuefen (United Nations Conference on Trade and Development (UNCTAD)), introducing the report of the Secretary-General entitled "Towards a durable solution to the debt problems of developing countries" (A/63/181), said that the favourable global economic conditions that had underpinned developing countries' improved external debt situation were facing significant downside risks owing to the ongoing financial crisis in a number of major developed countries. Thus far, the financial contagion from developed to developing countries had been limited. Some developing countries with current account surpluses had bought toxic assets and endured losses, but those losses had not been sufficient to cause liquidity problems in their financial system. However, owing to increased integration in the global economy, the crisis would affect the financial sector and real economy of developing countries. The credit crunch would reduce investment worldwide, an economic slowdown in developed countries would weaken demand for commodities and manufactures, remittances would fall and tourism would suffer. In short, no country could escape the expected economic slowdown. In view of the fact that the poorest would be hit the hardest, the Trade and Development Board of UNCTAD would be holding an executive session in November 2008 to discuss, inter alia, the implications of the crisis for developing countries.

6. By reviewing recent developments, the report of the Secretary-General (A/63/181) gave an insight into how the financial crisis might affect developing countries' external debt situation and development. The fact that the external debt-to-Gross National Product (GNP) ratio of developing countries and countries with economies in transition had dropped to 24.4 per cent in 2007 and that, owing to a significant accumulation of international reserves by some countries, by 2008 developing countries and countries with economies in transition as a group had no net external debt did not mean that external debt was no longer a problem. Averages and aggregates hid and even distorted many real stories. For example, the external debt-to-GNP ratio for 2007, though 24.4 per cent for developing countries and countries with economies in transition as a group, had been 40.9 per cent for Europe and Central Asia. Furthermore, smaller and poorer countries tended to have more net external debt.

7. More importantly, the underlying forces that had driven those improvements in debt ratios might become less powerful or even disappear altogether in the future. The first underlying force was high economic growth in developing countries, partly as a result of high commodity prices. The current economic downturn was likely to reverse that trend. As global demand contracted, manufactures exporters in developing countries would see worsening terms of

trade and, therefore, a decline in export revenue. Compounded by food and energy insecurity, the picture was far from bright. In fact, signs of deterioration in developing countries' external positions had begun to surface during 2007, while private flows to developing countries had begun to slow down in late 2007/early 2008.

8. The second underlying force concerned changes in debt structure and composition as a result of countries turning increasingly to domestic public borrowing. However, the current downturn was likely to have an adverse effect on the fiscal position of developing countries, since risk aversion by commercial banks and foreign institutional investors would make it more difficult and more costly to raise domestic funds.

9. The third underlying force related to international debt relief initiatives, namely the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). However, debt relief was likely to be reversed in coming years, as debt write-offs under the HIPC Initiative were set to decline.

10. In view of the above, debt sustainability was even more important than ever. As noted in paragraph 18 of the Secretary-General's report, the 2007 HIPC Initiative and MDRI status of implementation report suggested that more than half of the post-completion point countries were still considered to have either a moderate or a high risk of debt distress and only 10 out of 22 post-completion point countries had graduated to the low-risk category. Since debt sustainability was also an issue for low- and middle-income countries, debt relief efforts should not discriminate among different groups of countries.

11. As noted in paragraph 22 of the Secretary-General's report, the increase in aggregate official development assistance (ODA) up until 2005 had been driven by debt relief, which was included in total ODA data, and by a few countries in special circumstances. Since then, ODA had declined in real terms. The 8.4 per cent decline of ODA in 2007 was significant enough to cause concern. It also proved that, contrary to the provisions of the Monterrey Consensus, debt relief had not been fully financed through additional resources. Furthermore, if current aggregate ODA was compared to the commitments made since the Millennium Summit and to the 0.7 per cent of GNP target, it was clear that most donors were not on track to meet their commitments. Aid effectiveness also needed to be improved further. More — and more effective — ODA was essential if low-income countries were to attain the Millennium Development Goals.

12. Lastly, the current financial crisis might jeopardize the delivery of development aid to developing countries. Now more than ever, the spirit of Monterrey must be preserved and the global partnership for development strengthened, so as to ensure that the crisis did not diminish efforts to achieve internationally agreed development goals, including the Millennium Development Goals.

13. **Mr. Rahman** (United Nations Conference on Trade and Development (UNCTAD)), introduced the report of the Secretary-General on world commodity trends and prospects (A/63/267), which discussed, inter alia, the sustained upward trend in commodity prices since 2002, the reasons behind that trend and the impact on developing countries. It was important to note that, in the case of most commodity groups, prices were not at an all-time high in either nominal or real terms. Furthermore, the depreciation of the dollar — the currency in which commodity prices were quoted — had made prices seem higher than they actually were.

14. Global financial turmoil had intensified since the issuance of the report. Investors were abandoning commodities, causing shares to plummet. The forecasted decline in global growth was also a concern; if high growth had pushed commodity prices up, low growth would surely bring them down. Another factor was the stronger dollar; even if a commodity's real value did not change, the nominal price in current dollars would be lower. Against such a backdrop, prices were set to fall.

15. Looking ahead, the main areas of concern from the perspective of commodity-exporting countries would continue to be the unfair distribution of the gains from higher commodity prices and their lack of control over commodity supply chains and, therefore, prices. In addition, many countries would continue to face issues relating to food and energy security, meaning food demand would increase. About 50 countries had only three months' worth of reserves to pay for imports; they would need the most support from the international community. ODA must not be allowed to fall victim to financial belt-tightening.

16. **Mr. Blake** (Antigua and Barbuda), speaking on behalf of the Group of 77 and China, asked how developing countries should proceed, given the mixed picture that had been painted. The issue was particularly important in view of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held in Doha in late November.

17. *Mr. Hoppe* (*Germany*), *Vice-Chairperson, took the Chair*.

18. **Mr. Lolo** (Nigeria) asked how developing countries should respond to the depreciation of the dollar, given that commodity prices had not changed as much in real terms as they had in nominal terms. He also requested more information about the problem of debt stock management. The upcoming Follow-up International Conference on Financing for Development must not be a mere talking shop, but must result in substantive commitments in key areas and send a clear message to poor countries that the international community cared about them.

19. **Ms. Houngbedji** (Benin) asked what the future of the market economy would be. In view of the current international crisis, she would also like to know how it was possible to ensure that ODA levels were maintained, given that commitments had never been respected even when economies were strong.

20. **Mr. Montes** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs), responding to the question regarding lessons to be learned from the crisis, said that the conclusions of the report of the Secretary-General (A/63/96, paras. 75-80) were still valid, despite the further deterioration of the crisis. The failure of Lehman Brothers, for example, amply demonstrated the need for a cooperative and multilaterally coordinated approach to regulatory reform in the financial sector, since it was in essence the lack of synchronization between the regulatory systems of the United States and United Kingdom that had led to the investment bank being allowed to file for bankruptcy. The Follow-up International Conference on Financing for Development would provide an opportunity to achieve progress on the various recommendations contained in the report.

21. In response to the question on debt management posed by the representative of Nigeria, he reiterated that developing countries were now net creditors to the whole financial system. As mentioned in the Secretary-General's report (A/63/96), the sovereign wealth funds of various developing countries had initially invested capital in the private investment banks that were now to be recapitalized by governments. Developing countries therefore had an abiding interest in a rules-based and impartial debt workout system; while the current system was controlled by the Paris Club, developing countries needed to be involved in its restructuring.

22. **Ms. Li** Yuefen (United Nations Conference on Trade and Development), responding to the representative of Antigua and Barbuda, said that the Committee should consider the issue of debt management by poorer developing countries. The improvement seen in overall debt ratios had mainly been attributable to some larger debtors, especially middle-income countries, which had taken advantage of low interest rates to retire their debt early, as well as to some commodity-producing countries that had benefited from improved conditions owing to their physical resources. Debt management would pose greater challenges in future years for smaller, poorer developing countries, since their narrower tax bases, undiversified economies and other weaknesses made them more sensitive to external shocks. Some developing countries had begun to borrow on their home markets in recent years, but would find it hard to roll over that debt, since liquidity had dried up on both domestic and international markets.

23. With regard to ODA, empirical studies had shown that such flows were not particularly sensitive to short periods of financial crisis but were highly correlated to the global economic growth rate. Since global economic growth forecasts were being downgraded, the probability was that ODA would also drop, which had in fact already started to happen. Since donors tended to become more inward-looking during times of crisis, it was the task of the Committee, and the Follow-up International Conference on Financing for Development, to warn against that tendency and call on developed country partners to honour their commitments. The globalized and integrated nature of the world economy meant, moreover, that developed countries also stood to benefit from a better debt situation in developing countries.

24. **Mr. Rahman** (United Nations Conference on Trade and Development), responding to the question about the future of the market economy, said that both

markets and governments were needed. Markets did not work perfectly and, when they did not, ordinary people often suffered the most. With regard to the Follow-up International Conference on Financing for Development, it would be important to bear in mind that around 50 small commodity-producing countries — some of them net food importers and most of them net energy importers — were in a serious predicament owing to the interlinked nature of the various crises. If, for example, they wanted to increase their food production, they needed to invest more in fertilizers and energy, which had also become more expensive. Many of them had no way of solving the problem by themselves and would have to depend on ODA for their continued progress.

25. **The Chairperson** invited the Committee to engage in a general discussion on the item.

26. **Mr. Blake** (Antigua and Barbuda), speaking on behalf of the Group of 77 and China, said that the current situation, in which the global economy was facing a significant economic downturn and the financial crisis had intensified into a broad-based crisis, illustrated the lack of capacity and legitimacy of international institutions to promote and facilitate coordinated responses. In that regard, it was noteworthy that the first coordinated action among the central banks of the major economies had not occurred until well after individual countries had begun to take isolated actions, which had proved inadequate to curb the spread of the financial and economic crisis. Developing countries had for many years been pointing out that the international development agenda, and in particular the achievement of the internationally agreed development goals, including the Millennium Development Goals, was being undermined by uncoordinated and incoherent policies and policy actions.

27. Those long-standing challenges, compounded by the multiple global crises now facing the international community, significantly increased the relevance of the Committee's work on all the macroeconomic policy questions before it. The Secretary-General's reports had pointed to significant volatility in all those areas, making it all the more difficult to discern policy conclusions.

28. Increasingly, the Committee's resolutions on macroeconomic policy questions were less action-oriented and adopted with less urgency The Group of 77 and China would therefore continue to articulate the substantive elements of the policy directives that the General Assembly should issue through the Committee. With the current situation requiring even greater cooperation among Member States in order to address major macroeconomic challenges, and with the crisis now spreading beyond the financial sphere, the United Nations must position itself to search for collective, multidimensional solutions.

29. Given that the world was facing a major agricultural crisis arising from inappropriate agricultural and trade policies, the work of the Committee should prioritize food security and agricultural development, ensuring that the current crisis was not only addressed as an emergency but also in a coherent and coordinated way for the long-term transformation and development of the agricultural sector. It was, moreover, vital to take due account of the perspectives of developing countries, as well as to deal with the problems relating to the workings of the international trading system and trade policies, especially in relation to commodities. The loss of markets, both domestic and international, had also been a major problem for developing countries over the past two decades, before the onset of the crisis, and strong signals were needed to ensure that developing countries' products were not driven out of the commodities markets when production recovered in developed countries. Such measures would increase the development and poverty reduction impact of commodity trade.

30. While the Follow-up International Conference on Financing for Development provided an ideal opportunity to address all the relevant macroeconomic issues in depth, it was also critical for Member States to show the necessary political will. The current economic and financial crisis posed a major challenge to the achievement of the objectives of the Monterrey Consensus, and if that were not recognized, and corresponding action were not taken, the Conference would be a failure.

31. **Mr. Delacroix** (France), speaking on behalf of the European Union, said that the European Union reaffirmed its commitment to the implementation of the Monterrey Consensus. It was only through a genuine spirit of partnership and joint participation that the objectives of the Monterrey Consensus could be achieved.

32. The adoption of the outcome document of the Follow-up International Conference on Financing for Development would conclude the review process carried out by the co-facilitators, while a number of other meetings held in 2008 — from the special high-level meeting of the Economic and Social Council to the recent high-level events held during the general debate of the plenary Assembly — would also enrich its discussions. It was vital to take into account the major changes in the global context and the acceleration in the pace of transformation that had been brought about by globalization. The current financial crisis highlighted both the interdependence of economies and the need to rethink regulatory mechanisms that no longer seemed adequate in the new globalized world. The European Union hoped that the outcome of the Follow-up International Conference on Financing for Development, to which it intended to make a substantial and constructive contribution, would be commensurate with the challenges.

33. As stated in the Monterrey Consensus, each country had primary responsibility for its own development and the role of national policies and development strategies could not be overemphasized. It was therefore crucial to establish a favourable environment, not only in terms of sound macroeconomic policies, good governance and transparency, among other factors, but also by combating corruption and tax evasion, and strengthening national tax systems so that the State in question could raise the revenues needed to finance development. The actions of the international community in support of such efforts would complement the measures taken by States themselves. Since foreign direct investment was also a vital complement to public investment, ongoing efforts were needed to foster a transparent, stable and predictable investment climate.

34. On the subject of international trade, the European Union was committed to securing an ambitious, balanced, comprehensive and development-oriented outcome to the Doha Development Round and achieving a global multilateral trading system based on open, non-discriminatory and equitable rules, which would require the commitment of all actors. It was also important to strengthen the Aid for Trade initiative and support the development of regional trade.

35. Reaffirming all its ODA commitments, the European Union believed that such development assistance had a unique role to play, particularly in terms of mobilizing other financial flows. The new aid architecture, with the emergence of new public and private donors and the development of South-South cooperation, as well as the quality of aid, should also be taken into account and innovative financing should be expanded.

36. Significant progress had been made on the implementation of the external debt provisions of the Monterrey Consensus; debt relief, among other factors, had helped to liberate additional national resources for public expenditure in areas of key importance for development and poverty reduction. That progress must be consolidated in order to meet the challenge of debt sustainability, enhance dialogue with emerging donors and address the issue of litigating creditors.

37. The food crisis highlighted the complexity of the factors contributing to food security and the need for a multidimensional and coordinated response in the short, medium and long term. A global partnership on agriculture and food would provide a forum for dialogue, coordination and mobilization of all relevant actors from developed and developing countries, including governments, the private sector, farmers and other experts. The fine work of the High-level Task Force on the Global Food Security Crisis to coordinate the actions of multilateral agencies should be continued. Bilateral agencies should follow its example and improve their own coordination.

38. The European Union was fully engaged in efforts to ensure the security and stability of the financial system; it was also committed to dealing with, and providing funding for, new and emerging issues, particularly in the areas of climate change and food and energy security.

39. **Mr. Talbot** (Guyana), speaking on behalf of the Caribbean Community (CARICOM), said that recent global developments leading to greater economic, political and social instability worldwide had made the task of achieving the macroeconomic goals of CARICOM a more difficult undertaking, and could reverse the gains made over the past decade.

40. Prudent macroeconomic policies underpinned the efforts of CARICOM member States to address some of the particular challenges the region faced and foster sustained development by creating a Caribbean Single Market and Economy. A coherent, facilitative and supportive international macroeconomic framework

was needed to attain the development goals of the region's small economies. CARICOM was therefore disheartened by the lack of significant progress in creating an international environment more conducive to growth and development and called for a special focus on the peculiar conditions of small, vulnerable economies.

41. The recent broad-based rise in commodities prices had improved the growth and development prospects of commodity-producing countries; however, the benefits had been offset by soaring fuel and food prices. Food and energy security were crucial to the CARICOM economies. High prices for agricultural products belied the rationale for farm subsidies and protection; global development initiatives should again accord preference to agriculture, particularly in view of its key role in poverty reduction. In that connection, the General Assembly should monitor proper implementation of the actions recommended by UNCTAD at its twelfth session and in the Comprehensive Framework for Action of the High-level Task Force on the Global Food Security Crisis.

42. Debt sustainability continued to be a significant macroeconomic hurdle for CARICOM countries. Increased demands for development funding had led already heavily indebted countries to resort to borrowing on commercial terms, with negative effects on all aspects of the economy and development. CARICOM called on the international community to examine the severe debt situation of small vulnerable States classified as middle-income or lower-middle-income countries, and to recognize CARICOM members as a special category of small, vulnerable, highly indebted middle-income countries.

43. Financing debt relief through additional resources was a central tenet of the Monterrey Consensus. However, debt relief had tended to take the place of aid flows; consequently, the creation of a mechanism guaranteeing a prompt resolution of debt crises and fair burden-sharing among creditors and debtors should be considered. In addition, CARICOM agreed that the Debt Sustainability Framework for Low-Income Countries should be reviewed to make it more responsive to a wider range of considerations.

44. Developing countries required greater access to stable and predictable sources of financing to achieve the internationally agreed development goals, since volatile aid flows made planning impossible. Regrettably, aid flows to the CARICOM region were declining. Innovative sources of financing for development were crucial but should complement — not replace — ODA. The developed countries should honour their long-standing commitments, including their obligation to attain the 0.7 per cent target for ODA.

45. The current food crisis illustrated the need for increased levels of aid. Many CARICOM countries had introduced food subsidies to mitigate the negative impact of higher food and oil prices on the poorest segments of the population; nevertheless, such interventions had often proved to be unsustainable. A system of regular, comprehensive review, perhaps within the framework of the Development Cooperation Forum, might be useful to ensure that aid was predictable, responsive and aimed at maximizing development results.

46. CARICOM joined the almost universal consensus on the need for reform of the international financial institutions, considering that factors related to their mandate and functioning had contributed to the current crisis. There was an urgent need for truly global and democratic institutions of economic governance, with mandates adapted to the current circumstances, and tools to discharge those mandates effectively. Moreover, they should be given the critical role of preserving financial stability, preventing systemic crises at the national, regional and global levels and providing an early warning system.

47. The growth of inequity and inequality threatened the development of transparent and democratic institutions and systems in the economic, political and social domains and increased the challenge for countries, including the members of CARICOM, to achieve their socio-economic objectives. The Follow-up International Conference on Financing for Development would provide an opportunity for increased cooperation in a globalized environment.

48. **Mr. Natalegawa** (Indonesia), speaking on behalf of the Association of Southeast Asian Nations (ASEAN), said that the type and effectiveness of the responses provided by the United Nations to the current challenges, particularly the financial crisis, would determine its relevance to the diverse economic interests in play. The depth and systemic nature of the crisis required a global effort to address it and ASEAN welcomed the recent commitments of the Group of

Seven (G-7) and the Group of Twenty Finance Ministers and Central Bank Governors (G-20) to work together in that regard. It was the task of the Second Committee to ensure that the United Nations made a difference. Its effectiveness would depend on measures undertaken at the national level; consequently, countries should ensure that their macroeconomic fundamentals were properly managed. Nevertheless, the international financial system should be so finely tuned that it could anticipate and avoid future financial crises. Accordingly, ASEAN members welcomed the proposal to hold a special session on the financial crisis.

49. The economic fundamentals of the ASEAN countries remained sound and they had responded to rising inflation with appropriate macroeconomic policies; moreover, their direct exposure to the deterioration of the credit markets in the United States and elsewhere was limited. ASEAN was moving towards implementing the Chiang Mai Initiative during the first half of 2009; building on existing bilateral swap mechanisms, it would provide short-term liquidity support through a self-managed pooling arrangement. Other regional integration and cooperation initiatives were also under way, and ASEAN was establishing a new high-level macroeconomic and finance surveillance office to help boost regional financial stability and accelerate regional integration.

50. The current financial crisis indicated the urgent need to reform the international financial architecture. Developing countries must be empowered to regulate capital flows to protect themselves against volatility. The timing of the Follow-up International Conference on Financing for Development was opportune; the Conference should address systemic issues in the international financial sector. Furthermore, the threat of global recession had heightened the concern of ASEAN about the continuing impasse in the Doha Round and it called for action by all members, but particularly the major players. ASEAN also supported the early accession of the Lao People's Democratic Republic to WTO as a least developed country.

51. ASEAN fully supported efforts to promote economic growth worldwide and to bolster attempts to achieve the Millennium Development Goals by the target date. The Association had taken a regional approach to achieving the Goals, placing strong emphasis on the social dimensions of development. It was now working towards an MDG-Plus concept, whereby the Goals would become merely the minimum standard for human development. In addition, the ASEAN Regional Centre of Excellence on MDGs recently established in Bangkok sought the full involvement of all stakeholders. Many ASEAN members were commodity exporters and, since extracting the greatest benefit from the high prices of commodities was critical for achieving the Goals, ASEAN believed that the Second Committee should focus on that issue, particularly on market access.

52. Lastly, in November 2007, the ASEAN Charter had been signed, transforming ASEAN from a loosely governed association to one with a legal personality and adherence to a rules-based approach.

53. **Mr. Owuor** (Kenya), speaking on behalf of the Group of African States, said that the ability of African countries to achieve their Millennium Development Goals by 2015 and to implement the New Partnership for Africa's Development (NEPAD) agenda depended on a healthy global socio-economic environment. NEPAD had established the African Peer Review Mechanism with a view to promoting transparency and accountability in governance and Africa had made considerable progress in that regard. However, there was concern that recent reforms would be jeopardized by an imminent global economic recession, exacerbated by the impact of climate change, unpredictable capital inflows and inefficient infrastructure.

54. Nevertheless, the African Group was encouraged by the international community's commitment to continue addressing Africa's development needs and commended the United Nations for providing the necessary leadership, as illustrated by the recent High-level Meeting on Africa's Development Needs and the 2008 High-level Event on the Millennium Development Goals. The successful completion of the Doha Round of trade negotiations would undoubtedly improve Africa's trade prospects if the developed countries agreed to reduce agricultural subsidies and to expand market access for the region's exports. Africa's development partners should also provide adequate resources to improve the infrastructure base, including the roads, railways, ports and power systems that connected its markets to the rest of the world.

55. Inconsistencies in aid delivery to Africa needed to be addressed, since even modest growth in developing countries helped guarantee global peace, stability and prosperity. The African Group urged development partners to consider full implementation

of the Secretary-General's proposal that external financing for development in Africa should reach $72 billion a year in order to help achieve the MDGs. Africa's total official debt had been greatly reduced because 19 African countries had received debt relief from their creditors; unfortunately, at the same time, Africa's private debt had increased. The African Group therefore called for the extension of a comprehensive debt relief facility to the heavily indebted and low-income African countries that were not benefiting from the HIPC Initiative and MDRI.

56. Africa's economy was mainly commodity-based. The resumption of the Doha Round negotiations should examine how volatile commodity prices, combined with climate change, high energy costs and the increasing use of agricultural products as sources of renewable energy multiplied the challenges to development. Moreover, the results of the deteriorating global economic environment called for a more inclusive governance mechanism for the international financial system that allowed adequate African participation in decision-making. Lastly, Africa remained confident in the Monterrey Consensus and urged stakeholders to address all the macroeconomic issues in a balanced and comprehensive manner at the Doha Review Conference.

57. **Ms. Jahan** (Bangladesh), speaking on behalf of the least developed countries, said that the world's leading economies needed to adopt comprehensive actions to address the current financial crisis, which could reverse the development achievements of developing countries, address risk management and regulatory weaknesses in their financial sectors, and implement the policy recommendations of the Financial Stability Forum.

58. Developing countries continued to make net capital transfers to developed countries, contributing to a global imbalance that should be addressed urgently. In addition, surveillance activities of the International Monetary Fund (IMF) needed to be strengthened to prevent the macroeconomic and financial policies of the larger economies from affecting other countries; also, surveillance over systemically important countries that issued major reserve currencies should be more rigorous.

59. The Bretton Woods institutions were currently running a deficit, which jeopardized their ability to play a credible role in the international financial system. They should ensure easy access to their resources without any conditionalities, particularly for the least developed countries. In addition, a fundamental reform of their voting system and accountability structure was required with the overarching objective of achieving a significant redistribution of voting power that favoured all developing countries, particularly the least developed countries.

60. Despite numerous initiatives, the external debt and debt-servicing obligations of developing countries continued to grow, and the accumulated debt burden had hindered development in many cases. While MDRI and the HIPC Initiative had benefited some developing countries, those programmes were insufficient and could be improved. All the outstanding debt of all the least developed countries should be written off immediately and future development assistance should be grant-based to avoid a recurrence of debt unsustainability. Moreover, debt relief had not been additional to ODA as promised in the Monterrey Consensus, and ODA was decreasing. The least developed countries had to borrow in foreign currencies and faced devaluation risks; exchange rate risks should be given more attention and a new mechanism developed for loans in domestic currencies.

61. Primary commodities constituted a large percentage of the gross domestic product (GDP) of developing countries and were significant for employment, income generation and Government revenue. Volatile commodity prices had a negative impact on macroeconomic stability and balance of payment sustainability, as well as on investment and production planning for both exporting and importing countries. It was crucial to address the factors that caused large commodity market fluctuations and to impose strict regulatory measures to help contain speculation on commodity markets.

62. Soaring food prices had had a devastating impact on developing countries, particularly the least developed countries. International organizations should provide rapid and favourable financial facilities to food-deficit countries, while market distortions were addressed. Trade barriers adversely affected commodity-exporting developing countries and all countries in a position to do so should provide immediate duty-free and quota-free market access for all products from the least developed countries, even before the conclusion of the Doha Round. Those

countries also required international support to develop their trade-related infrastructure, human capital and technological innovation.

63. **Mr. Heidt** (United States) said that there was understandable concern about the current economic slowdown, following six years of prolonged and unprecedented growth around the globe. The debate in the Committee would doubtlessly focus on how economic development might be affected. His delegation was committed to a constructive dialogue on the best way forward. The current situation in United States financial markets would not change that commitment.

64. The G-7 countries had pledged to work, collectively and individually, on measures to maintain the world's financial health. United States financial regulators were working, through the Financial Stability Forum, to deal with the regulatory, accounting and credit rating problems that had arisen in order to prevent their recurrence. The United States would continue to act decisively to restore stability and confidence to financial markets through existing channels. There were difficult times ahead, but the United States would make every effort to ensure that the impact on the global financial system was mitigated as much as possible. The multilateral system was also responding with urgency to the financial crisis and other development challenges. His delegation looked forward to working with other Member States to make progress on the development agenda.

65. **Ms. Bai** Yongjie (China) said that the current financial crisis, which had originated in a highly developed country, was spreading all over the world, sparing neither developed nor developing countries. It was clear that the existing international financial system had deep-rooted problems and required wholesale reform. Energy price fluctuations, the acute food security problem and growing inflation all added to the uncertainty. The international community should therefore work more closely together to expedite reforms to the system, which should reflect changing economic patterns. In particular, the representation of developing countries in the international financial institutions should be increased. Her delegation welcomed measures taken by the International Monetary Fund (IMF) to that end in the first half of 2008. IMF should maintain the momentum, gradually building up the long-term effectiveness of quota reform. It should also play a greater role in maintaining the stability of the international financial market, strengthening policy oversight on major reserve-currency countries and the international financial market, especially with regard to short-term capital flow, and providing early warning mechanisms. It should also push for greater coordination of international financial regulations.

66. Her delegation welcomed the fact that, in recent years, the World Bank had appointed candidates from developing countries to senior posts and devoted greater attention to climate change and food security. The Bank should build on that foundation and mobilize more development resources to help developing countries adapt to economic globalization.

67. External debt had long hindered the developing countries' economic and social development. An appropriate solution to the problem must be found if the Millennium Development Goals were to be attained, especially in the least developed countries. Such countries should be helped to extricate themselves once and for all from the vicious circle of debt: the developed countries should expand assistance and debt relief, so as to increase the net capital inflow to developing countries, while international and regional financial institutions should increase financial support and technical assistance, always adhering to the principle of non-politicization. Debt relief initiatives should respect the right of recipient countries to control how funds were used. The international community should also endeavour to mitigate the impact of the current financial turmoil on developing countries.

68. China itself had been active in providing debt relief, within the framework of South-South cooperation. Following two debt relief programmes in 2005 and 2006, the Prime Minister had recently announced that China would forgive interest-free loans outstanding at the end of 2008 owed to China by some of the least developed countries. China had taken an active part in the debt relief initiatives of international and regional organizations, including IMF, the African Development Bank, the West African Development Bank and the Caribbean Development Bank. Its assistance to other developing countries was provided on the basis of need, however, with a view to enhancing the development capacity of the countries concerned.

69. The commodities trade was critical to sustainable development. The international community should further assist the developing countries that were dependent on the export of commodities to diversify and increase added value. Although commodity prices had risen continuously since 2002, they remained volatile. The sharp rise in oil and food prices since 2007 also posed formidable challenges. The international community should recognize that such rises were not exclusively due to higher demand on the part of developing countries. To make any such presumption would not be conducive to resolving the problem. The international community should rather strive to reduce trade-distorting agricultural subsidies, push for the early resumption of the Doha Round and generally promote the establishment of a fair commodities system that avoided violent price fluctuations. Her delegation commended the outcome of UNCTAD XII with regard to commodities.

70. **Ms. Hart** (Australia), speaking on behalf of the delegations of Canada, Australia and New Zealand (CANZ), welcomed the fact that policymakers around the world were embarking on initiatives to deal with the current turmoil on the commodity markets and the global food crisis. It was also encouraging that national authorities were pursuing policies to stabilize domestic financial conditions. In particular, the CANZ, welcomed the comprehensive framework for action advanced by the High-Level Task Force on the Global Food Security Crisis and the action envisaged under the Accra Accord following UNCTAD XII. The General Assembly should monitor the activities concerned in order to ensure that they met their goals in the long and the short term.

71. Debt sustainability remained a crucial problem for many low-income countries and the CANZ delegations hoped that all stakeholders would cooperate in drawing the full benefit from existing schemes, including the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative (MDRI) and the Evian approach. The CANZ group supported international efforts to make the international financial institutions more effective and accountable. Reform would also enable more voices to be heard within the financial institutions, including the Bretton Woods institutions. While supporting reform, however, the Committee should not duplicate or undermine successes achieved in other international forums.

72. **Ms. Osman** (Sudan) said that, since the current financial crisis had proved to be more profound and persistent than many had expected, global action was needed to safeguard the development of developing countries, lest the achievements of past years were reversed. Against that background, the external debt crisis acquired special significance. Any debt relief must maintain the development paradigm. Countries not covered by the HIPC Initiative continued to face an unsustainable burden of debt, which perpetuated a vicious circle of poverty and aid dependency, hindering the implementation of national development strategies and the attainment of the Millennium Development Goals.

73. The Sudan struggled with a set of complex and unique challenges. At the end of 2007, its total external debt had stood at US$ 31.9 billion, 56 per cent of which constituted contractual and penalty interest. The debt amounted to about 65 per cent of its GDP and 468 per cent of its exports. According to all indicators, the country's external debt was unsustainable, to the detriment of macroeconomic stability and growth, poverty eradication and social cohesion. It also obstructed the Government's efforts to meet the obligations of its peace agreements and undermined reconstruction, rehabilitation and development activities. The obligation to meet peace-related demands, which were likely to increase, given the pressing need to proceed with demobilization, limited the Government's room for manoeuvre on a number of economic and financial policies. The Sudan had been forced to rely on non-concessional facilities to finance important development and social programmes.

74. The situation would improve considerably if the international community recognized the Sudan's accomplishments and honoured its commitment to help the peace process. The Sudan had implemented a wide range of economic, social and political reforms, include trade liberalization, privatization and banking reforms. Inflation had been drastically reduced through sound budget management.

75. An external debt unit established within the Central Bank, and run jointly with the Ministry of Finance, was tasked with improving transparency and accountability and introducing a debt management strategy. Still, the country had received no debt relief, for political reasons, despite the fact that it had met all the technical requirements. More innovative mechanisms to deal with the external debt problems

facing post-conflict countries that embarked on reconstruction and development should be explored, in line with General Assembly resolution 62/186. Her delegation called on the international community to take urgent action, including full debt cancellation and access to concessional lending, to address the chronic debt problem of countries like hers that had met the criteria for debt relief.

76. **Ms. Blum** (Colombia) said that it was more than ever urgent to reform the international financial architecture, as urged for many years by the developing countries. The continuing decline of the global economy accentuated the need to promote policies on the oversight and regulation of the financial and banking systems.

77. The gravity of the situation made it imperative for countries to extend their commitments under the Monterrey Consensus. The Follow-up International Conference on Financing for Development should be the occasion to launch the action required. Proposals to reform the international financial system should focus on the needs of developing countries, while also minimizing uncertainty for debtors, creditors and investors. Confidence in the markets should be restored. At the same time, the international financial authorities should seek to introduce guidelines on market transparency. Good governance at every institutional level was vital. The developed countries should also refrain from imposing unnecessary restrictions on access by developing countries to credit and international trade as a result of the crisis.

78. The concomitant crisis — the increase in commodity prices, especially oil and food — should not be neglected. Multilateral institutions should analyse the impact of oil price rises, especially as they affected food production and transportation. In Colombia, where agricultural production constituted about 13 per cent of GDP, the Ministry of Agriculture and Rural Development had found that the price of oil and fertilizers constituted 30 to 40 per cent of the cost of agricultural production. The persistent instability of fuel prices should be urgently reviewed from a structural and long-term perspective. Stressing the importance of trade in commodities to developing countries, she called for a substantial reduction in the subsidies received by producers in developed countries, as well as a simpler tariff system and greater transparency towards producers in developing countries.

79. **Mr. Alimov** (Russian Federation) said that there could be no gainsaying the fact that the international financial system, in its current form, did not meet modern requirements. The severity of the current crisis made it essential to establish new regulatory mechanisms, although that would require political will and a responsible approach on the part of the international community. His delegation did not advocate the wholesale break-up of financial institutions that had been built up over decades; but reforms should be introduced in those areas where performance had been unsatisfactory. Above all, it should be possible to prevent the world economy, and individual countries' economies, from overheating. The system should be more flexible and better protected from risk. It should be more altruistic and, above all, fair to all States. In other words, it should be modernized. It should not be centred on any one country or currency but rather it should represent a balance of a number of leading economies and reserve currencies. At the World Policy Conference recently held in Evian, France, the President of the Russian Federation had proposed streamlining and systematizing national and international regulatory institutions; eliminating the imbalances between the quantity of financial instruments issued and the real returns on investment programmes; strengthening the risk management system; improving requirements on maximum transparency and full disclosure for companies and on stricter oversight for rating agencies and audit companies; and removing barriers to international trade and the free movement of capital.

80. The Russian Federation intended to make a practical contribution to the establishment of a more sustainable international financial system: it proposed to make the Russian rouble a regional reserve currency. Preparations were being made to establish an international financial centre in the Russian Federation, which involved modernizing the infrastructure, broadening the range of financial instruments, updating legislation and tax regimes and ensuring transparency. Russian markets had, like others, been affected by the current financial crisis. It was hoped, however, that the country could become a major financial hub of the region and eventually compete in global financial markets. An international financial centre would make a real contribution to greater economic integration between the Commonwealth of Independent States and other States.

81. It was particularly important to develop measures to prevent mounting debt in the developing countries, particularly those that were beneficiaries of the HIPC Initiative and MDRI. In that connection, his delegation supported the adoption of a code of conduct for responsible lending. The principles of the Joint World Bank/IMF Debt Sustainability Framework for Low-Income Countries should be observed. It was to be hoped that work would continue on updating the Framework in order to prevent external debt from mounting up again.

82. Over the past two years, the Russian Federation had taken practical action to resolve the debt problems of developing countries. It had written off some $10 billion-worth of African debt. In 2008, the country had signed a settlement agreement with Iraq cancelling $12.9 billion-worth of debt. It had participated in the cancellation of Liberia's debt to IMF, in the amount of 35.4 million Special Drawing Rights. It was also considering the possible cancellation of the debt of the poorest countries not meeting ODA criteria. The result would be a reduction of their debt by $750 million.

83. As one of the major players on the global commodities market, the Russian Federation actively advocated the establishment of stable and predictable markets. Through its membership in the Common Fund for Commodities, it supported the expansion of the export capacities of developing and least developed countries.

84. The current global food crisis underlined the importance of food commodities. At the Group of Eight Summit held in Hokkaido, Japan, the Russian Federation had proposed a special session on grain issues, to be held in Moscow in 2009 in cooperation with the International Grains Council. The session would aim to evaluate grain pricing policies and mechanisms and consider ways of stabilizing the situation. Consideration should be given to establishing an international grain fund and coordinating national agriculture development programmes so that humanitarian missions did not reduce the incentive for countries to produce their own food.

The meeting rose at 12.55 p.m.