



Bangladesh

Statement
on behalf of the Least Developed Countries (LDCs)

by

Her Excellency Ismat Jahan
Ambassador and Permanent Representative
Permanent Mission of Bangladesh to the United Nations

at

the informal review session of the General Assembly
on Chapter# VI of the Monterrey Consensus
Systemic issues: enhancing the coherence and consistency of
the international monetary, financial and trading systems
in support of development

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PERMANENT MISSION OF BANGLADESH
TO THE UNITED NATIONS

227 East, 45th Street, 14th Floor, New York, NY 10017

Tel: (212) 867-3434 • Fax: (212) 972-4038 • E-mail: bangladesh@un.int

web site: www.un.int/bangladesh

Mr. Co-Chairmen,

I have the honour to speak on behalf of the least developed countries. We align ourselves with the statement of Antigua and Barbuda on behalf of the G77 and China.

The international monetary, financial and trading institutions were established to ensure an orderly and stable global financial and trading system. The Monterey Consensus recognizes that one major objective of the reform of the BWIs is to enhance financing for development and poverty eradication. These entities, however, have not been able to deliver this objective.

During last few years, the flow of resources from these entities has become negative. The net flow from the BWIs was us\$ 28.8 billion in 1998, and the figure has become negative and reached US\$ 25.8 billion in the year 2006. This raises serious concerns among the developing countries. In addition to that, the recent build-up in international reserves by developing countries, ostensibly for reasons of "self-insurance", indicates the diminished reliance of the developing countries on these institutions. The recent financial turmoil, which signals a downside risks for the global outlook, has again turned the spotlight on the problem of global macroeconomic imbalances.

It is now critically important to reinvigorate the role of these entities in addressing looming international challenges. The international community should undertake a comprehensive reform to redress the lack of legitimacy and democratic deficits in the Bretton Woods institutions that have significantly lost their effectiveness and public support.

The Monterey consensus stress the need for creating liquidity facilities that could help affected countries to fight financial crises and contagion. However, the financial and balance of payment crises in the 1990 and early 2000s, did not receive the expected level of support from these organizations. The cost of assistance was exorbitantly high. Such experience further deepened the lack of confidence in the existing multilateral instruments of crisis prevention.

The developing countries have now been engaged heavily in self-insurance, through accumulation of significant level of international reserves. As per available statistics, the total reserves held by the developing countries is \$ 3.26 trillion, which is 70% of the total global reserve. Global and domestic factors have caused this situation where developing countries are exporting real savings to developed countries with accumulation of large volume of reserves. These resources could be better used if invested domestically instead of being "exported". While these reserves are sitting almost idle, developing countries are borrowing at a very high interest rate to finance their own development. This needs to be reversed. There must be a new system, which would allow the LDCs to borrow, at zero interest mark-up, against their own reserves.

Good governance in the international financial system is critically important to safeguard the interest of the developing countries. Developing countries in particular the LDCs are seriously under-represented in the BWIs. The governance regime of the BWIs needs to be changed. There must be fundamental reform of the institution's voting system and accountability structure. Significant redistribution of voting power in favor of the developing countries in particular the LDCs, should be the overarching objective of the reform. This redistribution should not be an exercise which satisfies some developing countries at the expenses of others in the same group.

The Singapore resolution of 2006 called for at least a doubling of basic votes. Doubling of basic votes, as called for by the IMF Board decision, or tripling it, can contribute to correct the loss of basic votes. However, it would not affect the distribution of power or redress the democratic deficit that prevails in governance system of the BWIs. It needs to be supported by the revision in the quota formula. The redistribution of quotas should be the direct outcome of a simple, transparent and robust formula. It must contribute to increase the calculated quotas of developing countries compared to their shares in actual quotas. The proposal of a double-majority voting system (one-country, one-vote" and on a weighted vote) for decision making also deserves serious consideration.

A large number of global standards and codes, which are meant for global financial regulation, are being formulated outside multilateral system. The governance problems in these entities are even more serious. We concur with the SG that "a broader representation in those bodies could result in a fairer, more widely accepted and truly universal regulation, which could contribute to a more stable financial system with welfare-enhancing effects for all".

The importance of multilateral surveillance and the associated process of policy coordination can not be overstated. The Monterrey Consensus invited the multilateral financial institutions, in particular the International Monetary Fund, to give high priority to the identification and prevention of potential crises. We stress the need for the Fund to further strengthen its surveillance activities for all economies. The focus of the surveillance should be on the stability of the system as a whole, particularly on the spillover impact of macroeconomic and financial policies of the larger economies on other countries. It would require more rigorous surveillance over systemically important countries issuing major reserve currencies.

Significant potential remains in enhancing international cooperation in tax matters. It can contribute to mobilizing additional resources through revenue gains. The United Nations should broaden and intensify its tax cooperation work and play a greater practical role in dealing with tax matters.

In conclusion, International Financial Institutions, in particular the BWIs, should augment their suthe MDGs through enhanced delivery of technical assistance and concessional lending. For the least developed countries, the IDA needs to shift to

an all-grant facility without any conditionality. The LDCs should also enjoy full flexibility in determining their own macroeconomic policies.

The review Conference of the Monterey consensus should explore the ways and means to eliminate the democratic deficit in the governance of multilateral financial institutions. The UN is the most aptly suited to lead the process to explore these alternatives given its one-country-one-vote governance mechanism. It is in the UN that member states can jointly examine strategies to promote systematic stability.

I thank you Mr. Co-chairmen.