UNITED
NATIONS

E

# Economic and Social Council

PROVISIONAL

E/1999/SR.6
15 June 1999

ORIGINAL: ENGLISH

Substantive session of 1999

PROVISIONAL SUMMARY RECORD OF THE 6th MEETING

Held at Headquarters, New York,
on Thursday, 29 April 1999, at 9.30 a.m.

President: Mr. FULCI (Italy)

CONTENTS

SPECIAL HIGH-LEVEL MEETING WITH THE BRETTON WOODS INSTITUTIONS: FUNCTIONING OF INTERNATIONAL FINANCIAL MARKETS AND STABILITY IN FINANCING FOR DEVELOPMENT

Corrections to this record should be submitted in one of the working languages. They should be set forth in a memorandum and also incorporated in a copy of the record. They should be sent within one week of the date of this document to the Chief, Official Records Editing Section, room DC2-750, 2 United Nations Plaza.

The meeting was called to order at 9.40 a.m.

SPECIAL HIGH-LEVEL MEETING WITH THE BRETTON WOODS INSTITUTIONS: FUNCTIONING OF INTERNATIONAL FINANCIAL MARKETS AND STABILITY IN FINANCING FOR DEVELOPMENT

Statement by the President

The PRESIDENT, welcoming the participants to the second high-level meeting of the Economic and Social Council with the Bretton Woods institutions, said that the event had become an important feature of the renewed Council and had attracted even greater participation than the year before. Persistent economic crises continued to underscore the need for a comprehensive view of international financial system reform and the problems of development. The Council appeared to be the most natural forum for promoting dialogue on world economic and social issues, and the current meeting was a step in that direction.

The issues to be discussed were the functioning of international financial markets and stability in financing for development. The stability of financial markets was essential to orderly development; however, no financial architecture could stand unless it was based on solid social foundations. The fight against poverty worldwide was not only a noble ideal, but an act of enlightened self-interest. It was therefore very disturbing to note that the gap between rich and poor was increasing, and that overall official development assistance (ODA) had reached its lowest level in 50 years as a percentage of the gross domestic product (GDP) of the developed countries. The poorest countries in particular should be relieved of unsustainable levels of debt in order to free resources to meet elementary human needs.

Luckily, encouraging signals in that regard had been sent by the meetings just concluded in Washington, D.C., of the Interim Committee of the International Monetary Fund (IMF) Board of Governors on the International Monetary System and the Development Committee of the World Bank and IMF. The Council was ready to help by raising awareness of the situation at its substantive session in Geneva, where the priority topic would be poverty

eradication; a draft of a manifesto to eradicate poverty would soon be submitted to the Council.

Another important initiative was the General Assembly's decision to promote a high-level intergovernmental event on financing for development; a report was available from the ad hoc open-ended working group, and the Vice-Chairmen of the group were on hand to answer questions.

Address by the Deputy Secretary-General of the United Nations

The DEPUTY SECRETARY-GENERAL said that one of the Secretary-General's prime objectives had been to forge greater unity of purpose and action among the different entities of the United Nations system; meetings like the present were a useful step towards that goal.

At the previous year's meeting in the midst of financial crisis, there had been widespread agreement on the need for a new international financial architecture. While the worst fears of global recession had not materialized, complacency was not in order, for three main reasons. First, the rate of growth of the world economy had been slowing and was insufficient to reduce the high levels of unemployment in many industrial countries or to sustain existing levels of imports from developing countries, and the decline in the prices of primary commodities had further dampened hopes of rapid growth in developing countries largely dependent upon them as a source of export earnings. Second, in many developing countries, the crisis had reversed in a matter of months the social gains of several decades. Third, a large part of the developing world remained on the margins of the global market.

Given that reality, the priorities were clear. First, the decline in the growth rate of the world economy must be reversed. There was little hope of promoting faster growth and social progress in developing countries without faster growth in the world as a whole. Real commitment would be required from the industrial countries to make that goal the centre of their macroeconomic policy, a view that had been endorsed by the ministers of finance at their meetings in Washington, D.C., earlier in the week.

Second, the work already started on a new international financial architecture must be completed to improve the ability of Governments and international agencies to reduce instability in private capital markets and so prevent the recurrence of crisis. The political will to make tough decisions must not be allowed to fade once the immediate crisis had abated. Among the

proposals for reform put forward by the United Nations, the issue of governance was especially important: neither the design nor the management of the strengthened system should be the prerogative of only a few States.

Third, developing countries must be helped to build the capacity to engage in the global economy on a sustainable basis. Liberalization was not in itself sufficient to achieve the goal. Developing countries must also provide for the economic security and social welfare of all their people, and the multilateral economic and financial institutions should be supportive of those aims.

The United Nations welcomed the increased attention given to social issues by the Bretton Woods institutions. The results of the major United Nations conferences held earlier in the decade should serve as the common frame of reference. Achieving the goals they had set out for poverty eradication should be an integral part of any development strategy.

Fourth, sufficient resources must be found for the task. While trade and private investment were important to development, official development assistance (ODA) would continue to play a critical role in many of the poorer countries. The decline of ODA must be reversed and the external debt burden of highly indebted countries relieved. The United Nations welcomed recent proposals to expand the Heavily Indebted Poor Countries (HIPC) Debt Initiative and to further reduce official bilateral debt, but action on debt should not be taken at the expense of ODA. The United Nations therefore supported proposals to back debt relief for the poorest countries through IMF sales of some of its gold holdings.

Fifth, cooperation and coordination among all stakeholders in development must be reinforced. A holistic approach to sustainable development, integrating economic, social, political and environmental goals, was needed to unite all actors in a common direction. That idea was behind the Secretary-General's United Nations Development Assistance Framework (UNDAF) and the proposal by the President of the World Bank for a Comprehensive Development Framework. It was in the interest of all that those initiatives should complement and support one another.

Statements by panellists

Mr. CIAMPI (Chairman of the Interim Committee of the IMF Board of Governors) said that, at its meeting two days earlier, the Interim Committee had discussed ways to make countries more resilient to crises and better equipped to

participate in a global financial marketplace. It had also considered how the international community could more effectively help countries to deal with financial crises and had discussed the situation of very poor or heavily indebted countries and those emerging from devastating conflict.

Some pragmatic innovations, such as preparatory meetings of groups of deputies, had been introduced in the organization of the Committee's work within the context of the present institutional framework and had resulted in increased country participation and livelier and more constructive dialogue. Some proposals for more drastic reforms over the longer term had already been put forward, but as yet no consensus had been reached.

Although the worst of the financial crisis appeared to be over, the world economy was not growing at its full potential. Policies for sustainable growth were needed, particularly in Europe and Japan, to provide a stimulus to the world economy.

The main issues were how to mitigate the impact of the crisis and prevent future crises. The Fund had set up a contingent credit line to ward off contagion. To be eligible, countries must adopt sustainable foreign exchange policies, practise sound debt management, adhere to international debt standards and involve the private sector in financing their external borrowing requirements. Progress had been made in developing, disseminating and monitoring the implementation of internationally recognized standards on international reserves and in elaborating codes on transparency in fiscal, monetary and financial policies. Work was also going forward on practical ways to involve the private sector in ensuring stable financial flows towards less developed countries.

The most serious aspect of the financial crisis was the toll it had taken on living standards in crisis-stricken countries. The Fund had cooperated closely with the World Bank and the Asian Development Bank to put in place social policies to limit unemployment, increase income transfers and broaden social safety nets. The countries themselves had the responsibility to allocate resources to education, health and other social services rather than to military spending.

The Interim Committee had endorsed the Fund's continued support of the HIPC Debt Initiative and had asked the Fund and the World Bank to provide deeper

relief to a broader group of countries, while strengthening incentives for strong reform programmes and respect for human rights.

The Committee had also discussed the possibility of more concessional lending with longer maturities for countries emerging from conflict. The role of the international financial institutions was to help affected countries address the damage done to their economies and to coordinate the international response to the economic impact of the crisis. Balance of payments and budget financing in such countries should be provided on highly concessional terms.

Mr. NIMMANAHAEMINDA (Chairman of the World Bank-IMF Development Committee) reported that at its meeting the day before, the Development Committee had addressed the debt-related questions raised by the Secretary-General in his note (E/1999/42), particularly concerning the Heavily Indebted Poor Countries (HIPC) Debt Initiative. Many ministers from creditor nations had offered to take bilateral action to ease the debt of the poorest countries and to examine options that would make HIPC debt relief broader, deeper and faster, but they felt that debt relief must be associated with strong policy performance in order to avoid moral hazard and should be closely linked with help in achieving sustainable development and poverty reduction.

The Committee had stressed the need to preserve the financial integrity of international financial institutions. Proposals to expand the HIPC Debt Initiative should be matched by a broad-based effort to find appropriate and equitable financing solutions, including bilateral contributions with fair burden sharing.

Debt relief was only part of the answer. New financing for very poor countries should be on a grant or highly concessional basis. Efforts were needed on both aid and trade fronts. The sharp decline in ODA was viewed with great concern.

Also discussed was a paper on the principles and good practice in social policy prepared by the World Bank in collaboration with United Nations agencies and drawing heavily on the core recommendations emanating from the World Summit on Social Development. The ministers had stressed that the World Bank should concentrate on translating broad principles into practical, country-specific results. Developing best practice was seen as the Bank’s area of comparative advantage.

Turning to Thailand's response to the crisis, he said that in selecting social policy options the Government of Thailand had been guided by three principles: social policies must be consistent with Thai values and culture; they must be sustainable after the crisis; and they must advance the reform agenda of greater transparency and community participation and development. The Government had therefore adopted a two-track set of social policies, using deficit financing to alleviate unemployment and fund key social programmes in the areas of health and education, while seeking to involve civil society and local communities as full partners in social programmes. In addition, a review of the micro-credit sector was under way in Thailand, particularly as intermediated by community-based institutions.

Mr. KARLSSON (Chairman of the Group of 10) said that only with an enhanced degree of global economic governance could common objectives be reached. Poverty could be eradicated faster than recent disappointments and failures might indicate, however. The lessons were clear: investment in a democratic culture, a social market and individual empowerment through education would give the deprived a good chance to take control of their future.

The World Development Indicators, released a few days earlier, confirmed that progress in eradicating poverty was not sufficient, and in some regions poverty was even on the rise. The overarching objective of reducing world poverty by half by 2015 had been well developed in the United Nations, the World Bank and the Fund. Although development assistance was not the key to everything, it was essential. The trend towards declining foreign aid levels, which was at their lowest point in 50 years, must be reversed, as international institutions could not continue to bear the load of increased expectations without concrete support.

Achieving reliable financial markets was the central challenge of globalization; however, in many places around the world, the pace of global economic integration was far exceeding that of political integration. Strong forces of change were at work which were not balanced by a common system of norms, regulations and contingency practices to deal with shocks, instability and other negative effects. Financial stability should be treated as a global public "good", and its opposite, instability, a public "bad". Since financial instability tended to originate in market failures, the ongoing review of the international financial architecture was a welcome step towards correcting them.

Stable financial markets were needed to facilitate the task of securing adequate financial flows for development. Trade and financial markets had expanded rapidly in recent years, to the benefit of both developing and developed countries, but foreign investment in the developing world was distributed unevenly. In an attempt to improve the adequacy and predictability of financing for development, the United Nations was planning a high-level meeting during the General Assembly session in 2001, challenging the international community to link its objectives to its means. With a broadly shared view on the framework for development finance, North-South confidence and commitment would more easily be achieved. Development assistance alone could not create sustainable development, however. The effects of domestic saving and investment and international trade had a much larger potential, which should be recognized.

Debt relief had recently been high on the agenda of IMF and the World Bank. The HIPC Debt Initiative had been a major step forward, with its comprehensive focus on all debt and on achieving sustainable solutions; however, the time had come to revise the initiative, giving countries options for viable exits from the debt trap. Sweden, for example, was encouraging creditor countries to cancel all ODA debt.

The Comprehensive Development Framework recently launched by the World Bank had led to a more integrated United Nations contribution at the country level. Efforts within the Framework should lead to a true partnership between the World Bank and the United Nations system, which would also include regional development banks and IMF.

Mr. SAITO (Vice-Chairman of the Group of 24), reporting on the recent meeting of the Intergovernmental Group of 24 on International Monetary Affairs, said that the Group had focused its discussions on three main points: the global economy and the international monetary system, strengthening the architecture of the global financial system and financing for development. With regard to the international monetary system, concerns remained because of the uncertainty caused by continued weak growth in trade and falling commodity prices. The Group of 24 was pleased that monetary conditions in the industrialized countries had become more flexible and that interest rates were falling. However, those markets must be opened further to the products of developing countries. At the international level, there was a need for stable

exchange rates, which would enable developing countries to benefit from globalization. Some developing economies were showing signs of recovery, and emerging markets were on a solid footing that would give them access to private capital markets. In the changing international economic environment, traditional macroeconomic policy tools could not be used, and measures to guarantee and promote growth must be monitored to ensure the needed flexibility.

Turning to the strengthening of the international financial architecture, he said there was an obvious need to take action to prevent and control economic crises. International organizations, where developing countries were represented on an equal basis, should be involved in efforts to strengthen the system. The Group of 24 believed that a working group comprised of industrialized countries and representatives of the developing countries should be formed for that purpose. Private sector participation in efforts to end the financial crisis was also most welcome. Possible solutions for countries which had fallen behind in private sector debt included the borrowing of resources from IMF and suspension of legal action by creditors. The volatility of short-term capital flows must be curbed in order to allow the developing countries to become integrated into the world financial system. Liberalization of capital accounts should take place in the proper sequence, considering the circumstances of each country. The Group of 24 welcomed the progress achieved in making the international monetary system more transparent, but it stressed the need to focus on areas related to basic IMF activities. It was concerned that the publication of reports extracted from the yearly reviews could harm the dialogue between IMF and member countries. In order to strengthen the decision-making process of the Bretton Woods institutions, the procedures of the Interim Committee and the Development Committee should be improved, without undermining the role of the Executive Director.

Concerning financing for development, the Group of 24 welcomed the widening consensus in support of the HIPC Debt Initiative and the intention of the major industrialized countries to restructure it by means of official development assistance; the Group registered its serious concern, however, at the persistent decline in such assistance flows.

The Group appreciated World Bank mechanisms and initiatives for countries in post-conflict situations which had fallen behind in debt repayment. The lack of human resources for economic development was a major factor hampering growth

in sub-Saharan Africa, and the Group of 24 urged the Bretton Woods institutions and other donors to provide resources for the capacity-building initiative.

With regard to the Comprehensive Development Framework, in order to achieve balance between its macroeconomic and social aspects, consideration must be given to the planning capacity of the countries involved. The Group of 24 urged caution regarding the political aspects of good governance issues; on the other hand, however, it agreed with the basic principles of social development as stipulated in the Copenhagen Declaration and supported the idea of United Nations coordination of the implementation of those principles along with the participation of the Bretton Woods institutions and the regional development banks.

Mr. JAGDEO (Observer for Guyana), speaking on behalf of the Group of 77 and China, said that the major concerns of developing countries surrounding the initiatives described were procedural. Most were pleased with their broad outlines but felt excluded from meaningful participation in their design. He asked what IMF could do, apart from using existing mechanisms, to give small developing countries a sense of ownership of the process. With regard to implementation, he noted that countries which did not pose a systemic risk were often subjected to the tyranny of interdepartmental rivalries within the Fund and asked how such countries could have better access to the upper decision-making levels.

With regard to the HIPC Debt Initiative, it was important to clarify that US $6 billion had been committed to debt relief, but that all the funds had not yet been spent. He would be interested to hear the views of the panellists on the value of the ratio of debt service to revenue as an indicator of sustainability.

Ms. WIECZOREK-ZEUL (Germany), speaking on behalf of the European Union, said that internal and external peace in the next century would depend on how the international community faced the risks of globalization. The multilateral institutions must develop new forms of cooperation towards mutually agreed goals. International financial markets had been thoroughly discussed in many forums, and a full range of innovations aimed at increasing transparency and keeping the volatility of financial flows in check had been launched. The European Union, however, did not believe those measures to be a guarantee of stability in financing for development, for several reasons. First, despite

improved supervision of international capital transactions, the stability of financial flows could be guaranteed only if appropriate safeguards were established at the national level. Only then could investor confidence be restored and flows of private capital resumed. Moreover, such flows were concentrated in a small group of countries and a limited number of sectors. It must be acknowledged that short-term profit was no guarantee of long-term economic viability.

The European Union remained prepared to lend support in times of financial crisis, but public funds should not be used to cover the risk of private investors, nor should regional organizations assume the functions of the international financial institutions. It was the responsibility of IMF to offer liquidity assistance, while multilateral development banks could take on the task of long-term development financing aimed at achieving structural change. Efforts to mobilize private capital within a socially equitable and ecologically sustainable development strategy were welcome. In addition, ODA was very important, especially for the least developed countries. The European Union would increase its efforts to achieve the 0.7 per cent of GNP target, and it called on all donor countries to reaffirm their commitment to the target. The European Union believed that the Comprehensive Development Framework proposed by the World Bank was an interesting concept which should be further elaborated in the light of the experience with the United Nations Development Assistance Framework (UNDAF).

The European Union welcomed the initiative by several creditor countries aimed at delivering deeper, broader and faster debt reduction and linking that relief more closely to poverty reduction. International financing was only one aspect of financing for development, however, and in many partner countries it played a secondary role. Long-term development could not be sustained unless sufficient domestic financing for productive investment was available. Efforts must be undertaken in both the public and private sectors to stabilize State revenue by means of a fair taxation system and to mobilize domestic capital through private sector financing subject to effective bank supervision. The recipient countries themselves must create the fundamental institutional safeguards needed to ensure that any type of financing would have a positive impact on development.

Competition, financial sector reform, transparency and the rule of law, social safety nets and core labour standards were social factors that must be more strongly integrated into the work of the Bretton Woods institutions. In that connection, the World Bank-IMF Development Committee had discussed and welcomed a paper on principles and good practice in the area of social policy.

Mr. LARSON (United States of America) said that, while its dynamism had brought prosperity and hope to hundreds of millions of people all over the world, the global economy remained susceptible to shocks that brought hardship to many and shook their confidence in the future. In order to strengthen the social and political foundations of national economies and to increase their resiliency, greater emphasis must be placed on the family as the most critical social and economic unit in the development process. Families made vital investments in education, health and housing. Indeed, during the recent financial crisis, drops in family income and a loss of confidence had caused a collapse in many Asian economies, which had in turn deepened the recession in countries affected by the crisis. Families must be equipped with the skills needed to succeed in a global economy and have the confidence that a social safety net would help them weather economic shocks in order for them to be willing to take the risks that accompanied economic liberalization and globalization.

In addition, the programmes of the United Nations and Bretton Woods institutions must include a social strategy for resilient growth, with particular emphasis on the promotion of investments in people, equitable sharing of opportunity and of the fruits of growth, credit and regulatory policies that fostered the development of small and medium-sized enterprises, an active exchange of information on innovative social policies and more effective coordination of donor activities, especially in the field.

Citizens also needed accessible and accountable institutions to ensure that the benefits of globalization were not siphoned off by corruption and waste. Good governance, the rule of law and the enforcement of contracts could reduce a country’s vulnerability to economic shock and determine the effectiveness of its response. The United States welcomed the increased attention being paid to that issue by the United Nations and Bretton Woods institutions.

Foreign direct investment, which had remained remarkably resilient during the financial crisis, was perhaps the most stable and effective source of

foreign financing for growth in emerging markets. The international community should therefore work closely with emerging markets to help them identify and implement policies that would make them attractive to foreign investors.

It was also important to foster democracy by giving families a voice in the decisions that affected their lives. Nations that had built truly representative governments seemed better able to ride out even severe financial storms.

Lastly, on the issue of the external debt burden, families in the poorest nations needed to be assured of well-targeted debt relief in order to free resources for environmental protection, child survival and education. His Government's goal was to ensure that no country committed to fundamental reform was left with a debt burden that kept it from meeting its people's basic human needs and spurring growth.

Mr. SHAPOVALIANTS (Russian Federation) said that the international financial institutions had proved unable, in their current form, to prevent the financial crisis in South-East Asia or its spread to other regions. The problem lay not only in the inadequacy of reserves and the failure to reach prompt decisions on the granting of financial assistance to crisis-stricken countries, but in the more fundamental fact that assistance had been provided on terms as strict as those that had applied prior to the crisis. Yet it was clear that, in crisis situations, more favourable terms were necessary. He would like to know whether any steps were being taken in that direction.

He was also concerned that, in their approach to the crisis, the Fund and the World Bank had failed to comply with the principle of universality. The Russian Federation had been the victim of discrimination by those institutions, having been the only one of the crisis-stricken countries not to receive timely international support. During the post-crisis period, the most important task facing the Russian Federation was the restructuring of its banking system, which would require considerable resources. His Government would be counting on the assistance of the world community and the international financial institutions, and wished to know what measures IMF and the World Bank were taking to consolidate banking systems in other crisis-stricken countries.

The financial crisis had thrown into sharp relief the weaknesses in the architecture of the international financial system. Foremost among them were the lack of effectively functioning early-warning and crisis prevention

mechanisms and the absence of an institutional and legal foundation for the sound regulation of transborder capital flows and the alleviation of associated risks for recipient countries. The proposals elaborated in October 1998 by the Finance Ministers of the seven major industrialized countries accurately reflected the necessary reforms. They were, however, merely an outline, and needed to be fleshed out. That process should involve not only IMF and the World Bank, but also the United Nations and other interested international organizations, as well as the regional financial institutions. The report of the Executive Committee on Economic and Social Affairs of the United Nations, entitled "Towards a new international financial architecture", contained a number of valuable proposals, particularly on the enhancement of macroeconomic policy coordination, the broadening of the availability of liquid resources and of the terms and conditions for access to such resources, and the regulation of financial markets. It would be helpful to know what steps had already been taken with a view to reforming the financial architecture and how that process was to be organized in the future, including what arrangements had been made for participation by the United Nations and other interested organizations.

Mr. ULUĞBAY (Turkey) said that greater emphasis should be placed on preventing crises rather than on attenuating their effects. Where a crisis did develop, however, every effort should be made to alleviate its initial impact and to prevent its spread by providing support for other countries likely to be affected. Ultimately, however, the situation of low-income countries could be improved only through the development of their human resources in order to increase their productivity and enable them to participate fully in international trade. The international community must also contribute to the reform efforts of emerging economies, including through the reform of the international financial institutions.

Mr. SOBERÓN (Cuba) stressed the need for more transparency and stricter oversight of certain actors in the world financial system, whose activities sometimes threatened even the economies of developed countries. In that context, he wondered what the prospects were for regulating such operations as hedge funds. On the question of the external debt burden, it was important to increase the flexibility of current debt relief initiatives and to consider extending their benefits to middle-income countries.

Mr. MANUEL (Observer for South Africa) cautioned that it was dangerous to pronounce the financial crisis over, when machinery to regulate international financial activity had not yet been put in place and international capital continued to flow overwhelmingly into the developed market economies, to the exclusion of the emerging economies. In recent years, wealth creation had been mistakenly equated with poverty reduction and too much emphasis had been placed on macroeconomic policies. Debt relief was often too little and too late. He therefore welcomed the Heavily Indebted Poor Countries (HIPC) Debt Initiative, which was not only morally justified but also economically sound. In order for such initiatives to succeed, however, political and financial commitment was needed on the part of creditors and greater emphasis placed on capacity-building in highly indebted poor countries.

Mr. KAMAL (Pakistan), while welcoming recent initiatives to reduce the external debt burden of heavily indebted poor countries, said that a more holistic approach to the problem was needed and wondered whether it might be possible to develop a global plan of action for cancelling the debt of not only the highly indebted poor countries but also of other developing countries. A joint task force of representatives of the United Nations and the Bretton Woods institutions should also be established to provide inputs for the preparatory process that was to lead by 2001 to a high-level international intergovernmental consideration of financing for development.

Mr. CIAMPI (Chairman of the Interim Committee of the IMF Board of Governors), responding to the questions posed from the floor, said that the most recent meeting of the Interim Committee had focused on the problems of the poorest countries and had stressed the importance of speeding up initiatives to reduce the debt burden of heavily indebted poor countries and of integrating their economies into the proposed new international financial architecture. The Italian Government had decided to forgive all official and commercial credits to countries with a per capita income of less than US$ 300 per year, with the only criteria being that they should respect human rights and not be involved in conflict.

The proposed new international financial architecture had two tracks. One was to make the operations of the Interim Committee more efficient by employing all the possibilities of the existing institutional framework. The second was a proposal for institutional change, the criteria for which should be greater

efficiency, better coordination among international financial institutions and greater emphasis on preventing rather than managing crises.

Mr. WOLFENSOHN (President of the World Bank), responding to the comments made by the Observer for Guyana, said that access to the World Bank and IMF was sometimes held hostage to the tyranny of departmental competition. The country director should normally ensure adequate access for representatives of the country concerned. If Guyana's representatives encountered any difficulty using that channel, they should communicate directly with him.

On the question of debt relief, seven countries, one of which was Guyana, were already on track to benefit from the HIPC Debt Initiative, which would be phased in over the period agreed upon between the Bank and the country concerned. Eight other countries were expected to qualify for the Initiative by the end of 1999. It must be remembered that two years previously the Initiative did not even exist and that the Bank had had difficulty in selling the idea of debt relief to its shareholders, who were now strongly inclined to expand the Initiative.

Mr. CAMDESSUS (Managing Director of the International Monetary Fund) said, with regard to access to the Fund by representatives of member States, that it was his policy to receive all ministers of finance and governors of central banks who asked to see him. On the question of the involvement of the smallest countries in the Fund's decisions, it must be remembered that nearly all decisions were taken by consensus, which sometimes gave rise to delays.

The question of establishing a ratio of debt to revenue levels was technically very complex, and its solution depended on the availability of resources. Resources made available under the HIPC Debt Initiative were often tied to the policies of beneficiary countries, which sometimes relaxed their policies after they had been granted relief, thereby causing a deterioration in the ratios.

He shared the view that foreign direct investment had a vital role to play in emerging economies. It was interesting to note that even in times of crisis the level of foreign direct investment continued to increase in those emerging economies which had succeeded in creating a climate favourable to such investment. The Fund also wished to establish a stronger link between debt relief and the allocation of resources for social purposes, such as education

and health. Indeed, the Fund was looking at the possibility of making available at an earlier stage resources that were earmarked for social purposes.

He was surprised by the comments made by the representative of the Russian Federation, which did not reflect the major agreement that had been concluded just the previous day to help the Russian Federation overcome its current financial difficulties. He himself had travelled to the Russian Federation in 1998 to warn the authorities about the danger of a financial crisis and to propose a major package of measures, which, unfortunately, had not been approved by the Russian legislature. The Fund, however, was used to criticisms of its decisions, and would continue to ensure even-handedness in the fulfilment of its responsibilities.

On the question of the transparency and oversight of hedge funds, a study undertaken by the Fund had concluded that stricter regulation of the activities of such funds was needed to ensure their transparency. He had been gratified to learn earlier that day that the United States authorities planned to introduce legislation in the near future to increase oversight of such funds.

With regard to the debt burden, while the Fund shared the view that relief was urgently needed for heavily indebted poor countries and had agreed to sell some of its gold holdings to finance debt relief initiatives, he had not detected any readiness on the part of donor countries to broaden the list of countries that stood to benefit from the HIPC Debt Initiative to include middle-income countries.

Mr. SAITO (Vice-Chairman of the Group of 24) said he agreed that countries should participate more actively in the process of enhancing the international financial system. Over the past five years, the Group of 24 had introduced a number of initiatives to that end. It had established working groups, which had met twice thus far, to consider such important issues as the situation of heavily indebted poor countries, international liquidity and commodities. Representatives of the major industrialized countries had been invited to take part in those discussions. The Group of 24 would support any approach whereby the United Nations might, in concert with the Bretton Woods institutions, become involved in the process.

The world community had learned a number of lessons from the financial crisis in Mexico in 1994 and the series of crises that had followed. The international financial institutions had increased their ability to cope with

such situations, while countries had become aware fo the need for solid economic fundamentals.

Mr. ROBINSON (Canada) said that Canada strongly supported the HIPC Debt Initiative and was pressing for more to be done. Since the mid-1980s, Canada had been providing official development assistance (ODA) on a grant-only basis and had written off almost all ODA debt owed by heavily indebted poor countries. The Canadian Prime Minister had recently announced a strategy to enhance the HIPC Debt Initiative by providing more generous, timely and flexible debt relief and enabling more countries to benefit. In order to be of real use, however, debt relief must form part of wider development strategies that enlisted national efforts towards poverty reduction and must be accompanied by other forms of international assistance. It was vital, in that regard, that debt relief should not be provided at the expense of development resources.

He also wished to emphasize the importance of the social aspects of development. He welcomed, in that connection, the elaboration by the World Bank of a set of general principles of good practice in social policy. The United Nations must continue to play a leading role in the articulation of social goals and to work closely with other players, particularly the Bretton Woods institutions, to ensure that practical measures were taken to achieve those goals.

There must be continued support for the efforts of the United Nations and the World Bank to establish more genuine partnerships with the developing countries, putting them at the centre of the development process. The United Nations Development Assistance Framework (UNDAF) and the Comprehensive Development Framework (CDF) were important initiatives in that regard, and must be complementary and mutually reinforcing. It would be helpful to hear the views of the President of the World Bank and the Deputy Secretary-General on that subject. While cooperation between the United Nations and the Bretton Woods institutions was vital, especially given the roaring demands and lack of resources, regional development banks also had an important role to play, bringing a unique regional perspective to global questions.

Mr. RESTREPO (Colombia) said that the crisis that had begun in Asia in July 1997 had continued longer than expected, despite the strides that had been made over the past year. The greatest challenge facing most emerging countries was sparking economic recovery and creating jobs. A number of decisions had

been taken at the April meeting of IMF and the World Bank, including the adoption of a contingent credit line. However, urgent thought should be given to early-warning mechanisms, and resources should be made available well before there were signs of unsustainable pressure on a country's international reserves. Although Colombia had a solid macroeconomic policy and did not intend to use the IMF standby credits to which it was entitled, it would still not have access to the contingent credit line owing to the eligibility criteria of that mechanism. Clearly such mechanisms needed to be refined in order to ensure that they could promptly come into play before new financial crises erupted.

It was more urgent than ever before to ensure coordination between the fiscal, foreign exchange and financial policies of emerging economies. That issue had been discussed as part of the Comprehensive Development Framework. Since structural adjustment measures had had a considerable adverse social impact on the people of his country, he welcomed the recent proposals to give greater consideration to the social aspects of development. In that connection, since the quest for peace and co-existence was vital to Colombia's economic future, his Government appreciated the multilateral support provided for countries in conflict and in post-conflict situations.

Ms. HERFKENS (Netherlands) said that her delegation welcomed the broad agreement that the decline in ODA must be reversed. The Netherlands devoted 0.8 per cent of its gross domestic product (GDP) to ODA, and her delegation called on other countries to achieve a figure of at least 0.7 per cent.

The Netherlands had long advocated faster, deeper and broader debt relief, and it was one of the largest contributors to the HIPC trust funds. A number of good proposals had been made for enhancing the HIPC Debt Initiative, but few had been accompanied by pledges that would enable them to be put into practice.

With regard to financing for development, it was important to make effective use of the scarce resources available, particularly within the multilateral system. There must therefore be an end to wasteful duplication of work and turf struggles. Enhanced cooperation between the United Nations and the Bretton Woods institutions was vital in that regard. The United Nations was a global forum with a strong normative function, while the World Bank enjoyed a powerful resource base. Each must draw on the other's strengths and they must work together to enable developing countries to derive the maximum benefit from their expertise. Further initiatives along the lines of the current meeting

would promote a more effective partnership between them. She welcomed the commitment to that partnership demonstrated by senior figures on both sides and urged them to inculcate in their staffs a similar spirit of cooperation.

Governments, for their part, must ensure that their representatives in international forums spoke with one voice. All too often, compartmentalization at the national level was exported to international organizations and their governing bodies, undermining attempts at cooperation between them. After decades of ideological confrontation between North and South and Washington, D.C., and New York, a consensus was finally emerging regarding the steps that needed to be taken in the area of development. The World Bank had embraced the 10 commitments of the Copenhagen Declaration on Social Development, while the United Nations had endorsed the approach set out in the World Bank's Comprehensive Development Framework. The time had come for concrete action to build on that consensus.

Mr. AL-ASSAF (Saudi Arabia) said that Saudi Arabia strongly supported the HIPC Debt Initiative and welcomed the proposals to strengthen and broaden the programme. There was a need, however, to ensure that HIPC reform did not undermine the financial integrity of the development banks and funds established to assist the poorest countries. There must also be flexibility in determining the modalities of donor participation. The products of countries benefiting from the Initiative must have unrestrained access to the markets of the industrialized nations, and IMF and the World Bank must consider how to address the severe decline in commodity prices.

Saudi Arabia welcomed the Comprehensive Development Framework, which represented a holistic approach to development. It was concerned, however, that the limited capacities of beneficiary countries might be unduly taxed. The policies and programmes adopted within the Framework must focus on the priorities of developing countries, rather than on those of donor States. The United Nations must continue to play the leading role in addressing the social aspects of development within the context of the follow-up to the World Summit for Social Development.

While his delegation had been encouraged by the international response to the situation in Kosovo, it remained deeply concerned at the plight of the victims of that conflict. More needed to be done, in particular to alleviate the impact of the crisis on neighbouring States.

Mr. LUNDE (Norway) said that Norway was firmly committed to faster, deeper and broader debt relief. In 1998, it had launched a comprehensive debt reduction strategy. One element of that strategy had been the cancellation of all claims against heavily indebted poor countries. With regard to the HIPC Debt Initiative, his delegation considered that the proposals for costly reform put forward by certain major countries could not be taken seriously unless accompanied by a commitment to bear a reasonable share of the financing.

Major lessons had been learned from the recent financial crisis. It had become clear that there was a need for greater cooperation between IMF, the World Bank, the United Nations and the regional development banks, and that the financial, structural and social aspects of the crisis must be addressed simultaneously. The social impact of the crisis had to be accorded higher priority, although that did not mean that structural reform of the social sector was not required in some of the crisis-stricken countries. His delegation welcomed the general principles of good practice in social policy prepared by the World Bank, which had drawn on United Nations expertise in that area. The United Nations must, in turn, learn from the experience of the World Bank.

Norway strongly supported the Comprehensive Development Framework. It was vital that the United Nations should be fully involved in that initiative. While there was the potential for turf struggles, the Framework represented a golden opportunity for the United Nations to become integrated into strategic and sectoral approaches to development.

Mr. NOURBAKSH (Observer for the Islamic Republic of Iran) said that dysfunctional international financial markets and unstable, unbalanced and fragile financial flows to the developing countries constituted the weakest links in the present international economic system. Solutions to those problems must be sought within the framework of legitimate and representative international structures with universal membership in order to harmonize diverse interests and facilitate deeper integration in the world economy.

The Bretton Woods institutions were expected to have the practical capability to address and solve those problems. Any reform of the international financial architecture required the strengthening of the institutional capacity of IMF in designing and implementing sound financial policies, together with enhanced representation of developing countries in the institution. Similarly,

the World Bank's role in intermediating and delivering financing for development must be reinforced.

Considerable thought had been given to strengthening shareholder support for IMF. The proposal to transform the Interim Committee into a council merited serious consideration. Moreover, the new architecture of the international financial system must emphasize social safety nets. The World Bank's proposal on the Comprehensive Development Framework was a positive step which should be further discussed and developed. Closer cooperation between the United Nations and the Bretton Woods institutions could produce positive and mutually reinforcing synergies in developing effective responses to the challenges of globalization.

With regard to financing for development, his country supported the active participation of the Bretton Woods institutions in the ad hoc open-ended working group established by General Assembly resolution 52/179.

Mr. FAINT (United Kingdom) said that his Government welcomed the establishment of the meetings and supported the statement made by the German Minister of Economic Cooperation and Development on behalf of the European Union. There had been a sea change in the response to the debt burden of poor countries. Every major creditor country had now launched its own proposals for debt relief, and a major step forward was within reach.

The development of global consensus on social policy was a key task for the United Nations system. The agreed principles set out in the Copenhagen Declaration were the foundation for the work of the Bank and Fund in financing sustainable development and addressing the effects of financial crises. Moreover, it was important that the principles of social policy agreed in the United Nations should be integrated into the international architecture. The previous autumn, the Development Committee had set out the operational policies and practices for the Bank and Fund to use in their activities in support of the development programmes of member countries. His Government viewed that as a particularly fruitful area for cooperation between the Bretton Woods institutions and the United Nations system.

His Government saw the Comprehensive Development Framework and the United Nations Development Assistance Framework as mechanisms that were supportive of each other and of the recipient countries' own development priorities. They had many common features, including seeing ownership and participation as the keys

to success in long-term sustainable development. Indeed, both mechanisms should be framed in terms of objectives and outcomes, with the international development goals deriving from the great United Nations conferences of the past decade as their foundation. The international community's aim must be to draw together all multilateral and bilateral development agencies as well as the private sector and civil society, in a common effort to reduce and finally eliminate extreme poverty.

Mr. CORR (Observer for Ireland) said that the most difficult aspects of coordination stemmed from the fact that the various international institutions did not listen to each other. The present dialogue was therefore very valuable, as it would considerably strengthen the partnership between the United Nations and the Bretton Woods institutions. One of the central themes that had emerged from the recent meetings was that international economic governance and financial architecture were not just macroeconomic issues. Any examination or change had to consider, inter alia, development, poverty reduction and capacity-building. It had been clearly recognized that the short-term prospects for economic recovery in the emerging markets of developing countries appeared strong. However, he had been struck by the differences between the predictions of the World Bank and those of the Fund, and would therefore welcome any explanation of the differing positions.

The recent crisis had started out as a liquidity crisis which had rapidly mutated into a financial crisis. In that regard, Thailand's dual-track approach to addressing the crisis was interesting, and he would welcome further information about it. It was paradoxical that, at a time when much thought was being given to the architecture of international issues, ODA had continued to decline at a very alarming rate. Ireland, for its part, had increased its development assistance flows in recent years.

Much progress had been achieved in examining ways in which the HIPC Debt Initiative could be expanded and made more flexible. He would welcome the panellists' views on how to assess the social component of adjustment programmes that had had a damaging effect on many developing countries. He welcomed greater cooperation between the United Nations and the international financial institutions. Cooperation needed to take into account change and progress, particularly in the context of the United Nations Development Assistance Framework and the major United Nations conferences held in recent years. There

was now considerable acceptance of the interlinkage between normative and operational goals. How the international community moved forward with greater collaboration in the field and in broad policy terms required some sensitivity and common effort.

Mr. OSMAN (Observer for the Sudan) said that, although the HIPC Debt Initiative was a welcome step, it would not by itself solve the problems of developing countries. Areas that needed to be addressed included investment to improve infrastructure and boost production, thereby increasing income; social development, particularly education and health; poverty alleviation, including social safety nets for those affected by problems arising from structural adjustment; and capacity-building to keep up with the rapid growth of technology in a global economy.

While recent donor country initiatives were welcome, countries in conflict might never benefit from them, since the aid seemed to be geared to post-conflict countries. Moreover, such initiatives excluded neighbouring countries that were being swamped by waves of refugees. He hoped that an international conference would be convened on the HIPC Debt Initiative and on post-conflict countries.

Mr. DOUGLAS (Observer for Saint Kitts and Nevis) said that his delegation had a particular interest in the theme of the high-level meeting. First, as a small island developing State, Saint Kitts and Nevis was especially vulnerable to the impact of financial crises, and it was currently working with other States members of the Organization of Eastern Caribbean States to create a single capital market in the subregion. Second, financial resources were increasingly being provided to developing countries through portfolio financing, while the amount of development assistance channelled to small island States was diminishing. However, as recent events in the Asian financial markets had shown, portfolio financing was extremely fickle and could not be relied upon in the long term. Small island States had to accelerate their integration into the global economic and financial system, yet greater integration carried with it an increased risk of systemic collapse through contagion, which, together with unstable commodity prices and the continuing threat of natural disasters, would add to their vulnerability and magnify the development challenge.

The supervision of financial systems in an increasingly globalized and liberalized environment could pose a grave problem for small island States with

limited technical resources. Thus, any proposal for reform of the financial architecture must include clearly defined mechanisms for cooperation between supervisory authorities and the transfer of technical resources from rich to poor countries. Such transfers would not be a purely altruistic undertaking, since in the new global economy all countries had a vested interest in helping one another.

Financial crises rarely had their origins in purely financial or economic problems. Political, social and trade issues also come into play. It was therefore vital that all those elements should be addressed through broad-based consultation between international institutions with political, economic, trade, financial and social mandates, and the cooperation between the Bretton Woods institutions and the United Nations was most welcome in that regard. The partial collapse of the banana economies of the Eastern Caribbean had drawn particular attention to the link between financial crises and trade issues. He would therefore like to know what mechanisms were in place or were being considered to link the World Trade Organization process with the development process.

Mr. NIMMANAHAEMINDA (Chairman of the World Bank-IMF Development Committee), responding to questions, said that Thailand’s efforts in the area of social development were supported by the Bretton Woods institutions. They were partly funded by the Thai Government and partly by the World Bank. The country had managed to stabilize its economy, and domestic and international confidence had been fully restored. However, much remained to be done. He was confident that a modest growth rate would return during 1999.

While there might be a problem of definition in declaring whether the crisis was over or not, it was safe to say that the risk of world recession was over. As far as hedge funds were concerned, an IMF study had made a number of strong recommendations. Hedge funds did not have their own money and had to borrow in order to leverage their operations. Therefore, control of their borrowing, which was the responsibility of central banks, might be the key to any monitoring efforts.

With regard to agriculture, which had been a great absorber of social problems and crises, his Government was concentrating on improving infrastructure in that field with the assistance of the World Bank and the Asian Development Bank. His Government was also grappling on a daily basis with major

issues such as protecting family institutions during crises, promoting job creation through small and medium-scale enterprises, reviving foreign direct investment and getting citizens involved in bringing crises to an end. It would be a very good idea if the next meeting of the Development Committee addressed such issues.

Mr. KARLSSON (Chairman of the Group of 10), referring to the participation of small countries in decision-making, said that only in practice could the seriousness of partnership be proved. It began with conceptualization. There was capacity around the world which should be linked and used. Through such linkage it could be demonstrated that knowledge was indeed power, and could be transformed into reform. Apart from focusing on conceptualization, there was a need to think about how to discuss issues before coming to decisions, and to interact and build confidence before entering into negotiations.

Mr. Ruttenstorfer (Observer for Austria) said that the recent meetings of the Interim Committee and the Development Committee in Washington, D.C., had confirmed that a measure of stability had returned to the international financial system. There seemed to be a trend towards a broader approach involving not only a financial, but also a development, architecture. The reform of the Interim and Development Committees seemed likely to lead to a greater sense of legitimacy and ownership and to reaffirm the political mandate of the Bretton Woods institutions, and the Comprehensive Development Framework (CDF) should promote the establishment of a coherent framework encompassing the United Nations system, bilateral donors and non-governmental organizations. He wondered what the relationship between the CDF and the United Nations Development Assistance Framework (UNDAF) would be and how it could be ensured that the two frameworks would complement, rather than compete with, one another.

Mr. SATOH (Japan) said that in promoting the recovery of developing and transitional economies, it was essential to ensure adequate liquidity for countries affected by the financial crisis. In his Government’s view, the solution was to strengthen the resource base of IMF and to create a new lending arrangement that would make it possible to extend loans quickly, thus preventing crises from spreading. His Government therefore welcomed the increase in quotas and the establishment of a contingent credit line.

His Government was convinced that regional cooperation had a supplementary role to play within the global framework and had committee itself to providing an additional US$ 30 billion to Asian countries affected by the financial crisis, bringing its total allocation to US$ 80 billion. He hoped that a consensus on a framework for regional financial cooperation would emerge. In that regard, his Government had announced a new initiative which included a proposal for raising the Paris Club debt relief ceiling from the current 67 per cent to 100 per cent for bilateral ODA loans under the HIPC Debt Initiative and would provide grant assistance for debt relief in implementation of that proposal.

Mr. SAMAD (Observer for Bangladesh) said that while a new global financial architecture was necessary, its shape must be clarified. IMF must play a leading role in making financial intermediation easier and more profitable at the national level. There was a need for a participatory process with a level playing field for all.

He had no objection to the focus on heavily indebted poor countries suffering from the current financial crisis. However, many countries of South-East Asia, including Bangladesh, had a solid economic foundation and acceptable social policies but extremely limited access to private, and even global, financial markets. Those countries required far greater financial and technical assistance; it was disturbing that 80 per cent of private capital flows targeted only 10 per cent of developing countries, and that ODA continued to decline despite 20 years of structural adjustment measures. It was also important to achieve better coordination of, and reduced overlap between, the functions of the Bretton Woods institutions and the United Nations system.

Mr. WOLFENSOHN (World Bank) said that all participants in the dialogue were united by a desire to eliminate poverty and make the world a better place; however, organizational issues too often dominated their discussions. The United Nations and the Bretton Woods institutions worked with the same shareholders, including an increasingly large group of poor countries, and must cooperate in the implementation of the principles embodied in the Copenhagen Declaration on Social Development.

It did not matter whether the CDF was implemented as such; rather, it was important to draw on the best of that framework, together with UNDAF and the policy framework papers (PFPs) to create a coordinated partnership involving

Governments, multilateral and bilateral institutions, civil society and the private sector. Such cooperation had already been successfully incorporated into the Bank's pilot programmes.

The link between macroeconomic, fiscal and monetary policy and social, human and structural issues must be reflected in a link between the activities of the United Nations, the Bank and IMF. Just as the HIPC Debt Initiative was only one aspect of financing, the debt question was only one aspect of the development process, which also required good governance, capacity-building and a human dimension. While he was pleased that greater attention was being paid to the debt issue, it was important to adopt a "pay as you go" approach to providing the necessary financing.

Four years previously, the Council's first meeting with representatives of the Bretton Woods institutions had been marked by suspicion. In subsequent years, however, a close relationship had developed between the Bank, IMF and the United Nations system, and it was urgent that they should work together to address the remaining crisis - a human crisis of poverty and inequity - and to deal with matters of substance rather than of form.

Mr. CAMDESSUS (Managing Director of the International Monetary Fund) said that he associated himself with everything said by the representative of the World Bank. It was too soon to say that the crisis was over, not only because such a statement might yet be proved wrong but because Governments might be lulled into a sense of false security that would weaken their support for the needed institutional reforms. It was true that a large measure of financial stability had been restored, and he was pleased that the determined reform efforts of the countries most seriously affected by the crisis had led to a faster recovery than had been anticipated. There was a growing impatience to move from theory to practice, and he agreed that that process should be accelerated. But even if reforms such as codes of conduct for key sectors were adopted rapidly, system-wide implementation would take time. Periods of transition were dangerous and required even greater vigilance and cooperation.

He strongly supported the proposal that the Interim Committee should be transformed into a council which would offer developing countries a forum in which to express their views and play a key role. The proposal had not yet received the support of the majority, but he hoped that it would be adopted in the future.

The Chairman of the Group of 10 had stated that it was time to focus on preventing rather than managing crises and on the adoption of appropriate instruments. In that regard, the contingent credit line was a revolutionary development which would create incentives for countries to take earlier crisis-prevention measures and ensure that private creditors assumed their share of the responsibility for resolving any crises that occurred. He had taken note of the comments made by the representative of Colombia; however, among the purposes of any marriage between the standby facilities and the contingent credit line would be to reduce overall costs and to shift the focus of the instrument from crisis resolution to crisis prevention.

It was clear that the HIPC Debt Initiative could not deliver what it promised without intensive reform efforts by the countries concerned, together with decisive action by industrialized countries to open their markets to the least developed and heavily indebted poor countries and to reverse the declining trend in ODA.

Financial development must be integrated with social considerations and, as the Chairman of the Development Committee had said, social safety nets must be made compatible with local values. However, that process took time and was particularly difficult for countries experiencing the shock of the financial crisis. IMF was working with the institutions of the United Nations system to ensure that safety nets were established well in advance of any crisis and that debt relief was linked to social assistance.

There was a need for greater coordination between the United Nations system and the Bretton Woods institutions. To that end, the International Labour Organization (ILO) had recently been granted observer status with the Bretton Woods institutions as a sign of the increasingly close relationship between those bodies, both at headquarters level and in the field. In reply to the question by the representative of Saint Kitts and Nevis, he said that IMF had also been cooperating closely with the World Trade Organization (WTO) and supported efforts to create a single capital market in the Caribbean.

The DEPUTY SECRETARY-GENERAL said that she agreed with the representative of the World Bank that greater attention should be paid to substance than to form. Competing development frameworks would not be in the interests of the developing countries, and it was not in that spirit that the United Nations approached the World Bank's CDF initiative. She saw no

incompatibility between the goals of that framework and those of UNDAF; the challenge was to ensure a team-based approach through daily cooperation between the bodies concerned. A long history of mistrust and competition between the various institutions would not be overcome in a day; however, progress was being made and events such as the current dialogue could only contribute to the pursuit of the goals shared by the United Nations system and the Bretton Woods institutions.

The meeting rose at 1.30 p.m.