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Chairman: Mr. Escanero . . . . (Mexico)

Contents

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The meeting was called to order at 10.10 a.m.

Agenda item 92: Macroeconomic policy questions

(e) Financing of development, including net transfer of resources between developing and developed countries (A/55/187 and Add.1 and 2)

1. **Mr. Kinniburgh** (Director, Development Policy Analysis Division, Department of Economic and Social Affairs), introducing the Secretary-General's report on building a stable international financial system responsive to the challenges of development, especially in the developing countries (A/55/187), recalled that in its resolution 54/197 the General Assembly had called upon the Secretary-General to make recommendations for an agenda for a strengthened and more stable international financial system. In response to that request, the Secretary-General proposed in paragraph 76 of his report an agenda comprising a number of universal principles and actions to be taken to produce a more stable international financial system. Those actions related to three major issues: the prevention of international financial crises, the resolution of such crises and international institutional arrangements.

2. It was recognized that the first line of any country's defence against a financial crisis was a robust domestic financial sector. That called for effective financial regulation and supervision partly based on the best practices of other countries and partly through the application of the resulting international financial standards, with some adjustments. While international standards were important, adoption of them should not be made mandatory, but voluntary. They should also reflect the requirements of countries at all stages of economic and financial development, which meant that countries at all levels of development and countries in transition should participate in designing them. Finally, countries should receive assistance, including assistance from the international standard-setting bodies, in building up the capacity necessary to implement the new improved standards.

3. Another way of avoiding financial crises in a globalized world was for each country to have an international payments system able to withstand external economic shocks. Once again, there was no single exchange-rate regime or model for managing the capital account which would be optimal for all countries at all times since, in order to be effective, account must be taken of such factors as the objectives of economic policy, the country's level of development and its position in the world economy. Because of their differences in those respects, countries should not be pressed to adopt standard solutions for their exchange rates and capital accounts, but should be helped to establish arrangements enabling them to withstand external shocks. An important role for the international community would be to provide objective analyses of the full spectrum of possible exchange-rate and capital-account arrangements so that individual countries could make their own informed decisions.

4. Notwithstanding the primary role of domestic policies and measures, multilateral surveillance was an essential component of crisis prevention, provided that it was carefully attuned to individual countries' circumstances and was limited to core macroeconomic and financial issues. At the same time, it should be kept truly universal by being applied equally to the major industrial countries to ensure that their policies were consistent with global objectives and priorities. One of those objectives should be to avoid undue volatility in the exchange rates of the major currencies which could have major consequences for the economies of other countries.

5. Even with the adoption of a full range of preventive measures, the possibility of a financial crisis could not be ruled out. Consequently, in the event of a crisis, all those involved (creditors, debtors, private investors, Governments and multilateral institutions) must know in advance their roles and responsibilities. There needed to be more predictability and more equitable cost-sharing in crisis management, as the probability of a crisis would itself diminish if each party took measures to avoid having to incur its share of the costs of a crisis. At the same time, some degree of flexibility and balance between rules and good judgement should be maintained in responding to crises. As yet, there was no real consensus within the international community on the issues dealt with in Addendum 2 to the Secretary-General's report.

6. Even with agreement on those points, halting any crisis would require large amounts of short-term funds which, to be fully effective, should be available more promptly and be subject to fewer restrictions than was currently the case. Consideration should be given to the creation of a "lender of last resort" facility for the temporary provision of unconditional liquidity in the event of an international financial crisis. The international community should consider how such a

facility would operate and the rules for activating it. One possibility would be to create emergency liquidity through the temporary creation of special drawing rights.

7. The final item on the proposed agenda related to the institutional arrangements for managing the international economic and financial system. As had been repeatedly pointed out, it was widely felt that developing countries should have a greater say in global economic governance. In addition to the existing institutions, there had recently been a tendency to create ad hoc forums and committees to consider matters relating to global financial stability, but they represented only the "systemically important" countries. However, experience had shown that those countries were neither the only potential sources of financial crises, nor the only countries affected. More generally, the current governance structure of the international financial system was not consistent with the increasingly universally accepted principles of democracy, partnership and ownership.

8. In addition to more equitable representation at global level, multilateral financial cooperation could be further enhanced by applying the principle of subsidiarity. Regional and subregional bodies should be strengthened so that they could play a more significant role in maintaining global financial stability. Regional cooperation could supplement the global framework, for example by strengthening surveillance and monitoring financial vulnerabilities at regional level. It could also provide a better focus on individual countries and would involve a higher degree of "ownership" and peer pressure. Finally, regional forums would allow wider participation in the discussion of global issues.

9. The consensus seemed to be that the world economy was generally in good health. At the same time, there were a number of potential risks hanging over that generally favourable outlook, most of which arose out of the continued vulnerabilities of the global financial system. In order to reduce those dangers, strengthening the international financial architecture must remain a priority, and indeed the health of the world economy and the relative calm in financial markets afforded a conducive environment for the introduction of change.

10. The United Nations was not responsible for introducing such changes. Nevertheless, it could make known the views of all Member States on a number of issues that, in the context of globalization, were central to the progress and well-being of billions of people.

11. **Ms. Al-Bassam** (Chief, Regional Commissions New York Office), introducing Addendum 1 to the Secretary-General's report (A/55/187/Add.1) on regional perspectives and developments, said in the view of the Executive Secretaries of the regional commissions, the Asian financial crisis and its contagion effect had demonstrated the need for a stronger role for regional institutions in the reform of the financial system. There were at least three arguments in support of that position. Firstly, globalization entailed greater regional linkages in a framework of "open regionalism". The growth of trade and direct investment flows increased macroeconomic linkages and therefore the demand for certain services provided by the international financial system. For neighbouring countries, those services were often best provided by regional institutions. Secondly, some of those services did not justify single international institutions in specific areas. For example, macroeconomic policy consultations and surveillance at global level might be necessary to guarantee policy coherence among the industrialized countries, but it might not be as suitable with regard to managing the externalities of macroeconomic policies on neighbouring developing countries. Thirdly, in the case of small countries having to manage a crisis or finance development, it was more important to have alternatives to the "global public goods" provided by international institutions, as such countries had very limited influence over global institutions and their most important defence was therefore competition in the provision of financial services by those institutions. A fourth possible political economy-related argument was that countries were likely to take a quite different attitude to analysis and policy recommendations made by international and regional organizations. They would have a stronger voice in regional organizations and therefore a stronger feeling of ownership.

12. Consequently, IMF should be seen not as a single global institution, but rather as the head of a network of regional and subregional reserve funds. That model could be extended and adjusted to provide services required on a complementary or, in some cases, competitive basis. The network of competing organizations could cooperate in some cases and complement, rather than substitute, for IMF action.

13. The heightened awareness of the regional dimension of crises following the Asian crisis had generated discussions at the intergovernmental level in various regional and subregional forums, including the regional commissions. Those deliberations had underlined the need to strengthen national policies and technical and analytical capabilities for crisis prevention and resolution. Subregional, regional and global efforts in early warning could help to signal potential problems. There were several ongoing initiatives at regional and subregional levels, particularly in the Asia/Pacific region, together with recognition of the need to build on those initiatives and to widen coverage to include more countries. The discussions had further indicated that there was a role for the regional commissions as a source of technical assistance, advice and analysis, and as a forum for the exchange of knowledge and experience on the issues concerned, including the reform of the international financial system.

14. In that connection, as requested by the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development, the regional commissions had begun to hold consultative meetings, the results of which would be an input into the Preparatory Committee's deliberations. The topics before those meetings derived from the agenda of the High-Level Event and included the reform of the international financial architecture, together with its regional and subregional support arrangements.

15. **Mr. Kregel** (High-level Expert on Financing, UNCTAD) said Addendum 2 to the Secretary-General's report (A/55/187/Add.2) was a brief note on the research activities of the Macroeconomic and Development Policies Branch of UNCTAD on the subject of greater private sector involvement in the prevention and resolution of financial crises and a more equitable distribution of the cost of adjustments between the public and private sectors, as well as among debtors and creditors. The issue had been a major focus of the work first published in the *Trade and Development Report 1986* in connection with proposals for a resolution of the Latin American debt crisis.

16. UNCTAD's work had revealed that an effective framework for greater private sector involvement would need to contain three elements: provisions for an automatic standstill on debt servicing; maintaining the debtor's access to the working capital required for the continuation of its operations; and an arrangement for the reorganization of the debtor's assets and liabilities aimed at sharing the adjustment burden between debtor and creditors, as well as at distributing the costs equitably among creditors. The latter arrangement might involve debt rollover, extension of existing loans and a debt write-off or conversion. It might also be necessary for an institution to act as a neutral umpire with the authority to impose a binding settlement on the competing claims of creditors and debtors.

17. While UNCTAD's original proposals had been made in the context of sovereign indebtedness, the external financial obligations of developing countries had become increasingly private in character. Thus, the applicability of insolvency principles to protect debtors and to ensure equal treatment of creditors had gained even more relevance. The *Trade and Development Report 1998* had stated that bankruptcy procedures were especially relevant to international debt crises resulting from liquidity problems because they were designed to address financial restructuring rather than liquidation, and UNCTAD continued to emphasize the need for measures for the restructuring of enterprises rather than the liquidation of means of production. That same report also reiterated that, in the absence of adequate liquidity to counter attacks on a currency, the most effective way to prevent defaults and bankruptcies would be through extension and application of insolvency procedures that allowed for a standstill on debt servicing. It had been proposed that article VIII (2) (b) of the International Monetary Fund Articles of Agreement might provide a statutory basis for the application of debt standstills as a central element of insolvency procedures, through the imposition of exchange controls when a currency came under attack. The temporary introduction of such controls could be combined with existing practices for restructuring debt through negotiations. Under certain conditions, such a standstill could be decided unilaterally by a debtor country facing an attack on its currency and then be submitted to a standstill authority. Such a procedure would be similar to World Trade Organization safeguard provisions for emergency trade measures. It had also been felt that, in order to avoid a conflict of interest on the part of IMF, which in many cases was itself a creditor of countries affected by a currency attack, it might be desirable to entrust standstill authority to an independent panel.

18. **Mr. Mbanefo** (Nigeria), speaking on behalf of the Group of 77 and China, commended the quality of the Secretary-General's report on the item before the Committee (A/55/187) which pointed out that flows of resources to developing countries had fluctuated. Overall, public financing had declined appreciably and private flows had risen very little since the fall noted at the beginning of the Asian crisis. Moreover, official development assistance (ODA) had risen very slowly and remained limited. In general, the great bulk of financial flows and investments had been between developed countries.

19. There was therefore reason for concern about the lack of enthusiasm shown by development partners and international financial institutions for increasing financing to relieve the debt of heavily or moderately indebted developing countries. It was widely acknowledged that the debt burden was the main obstacle to economic and social development, added to which was the fact that the debt/export ratio had increased in developing countries in general, and in sub-Saharan Africa and the least developed countries in particular. The Group of 77 therefore welcomed current initiatives aimed at heavily indebted poor countries, while noting with regret that they had not brought the expected relief. Given the unprecedented growth currently enjoyed by most developed countries, the time was most opportune for action on all categories of debt. The developed countries should cancel all debts of developing countries, so as to release substantial financial resources for their development.

20. In the view of the Group of 77, the major causes of the imbalance in financial flows and investment were the policies of developed countries and decisions of international financial and economic institutions. Some of those policies, such as those relating to key exchange rates, were a direct cause of the monetary and fiscal problems of developing countries.

21. The international financial system as currently constituted could not adequately address the obvious imbalance in the flows of financial resources and investment facing developing countries. The international institutions operated on a basis drawn up to address problems of a different era. The participation of developing countries in their decision-making process was therefore limited, not to say non-existent. It was therefore essential to establish a new international financial architecture, the basis of which would be improved access for the exports of all countries, particularly developing countries, to the markets of developed countries and the creation of a framework to protect the economies of developing countries from financial crises.

22. The regional financial institutions must play an active role in ensuring the financial stability and economic growth of developing countries. Some of them, such as the African Development Bank and the Asian Development Bank, had helped a number of developing countries to get back on the road to growth.

23. There could be no underestimating the role of some actors, particularly the private sector, in increasing financial resources to developing countries. Many of them had observed that their actions had created an enabling environment for their investments.

24. The Second Committee had an invaluable opportunity to agree on a platform of action to address all the issues of development financing. Financial flows must be made continuous and predictable. In that regard, the collaboration between the agencies of the United Nations system was commendable. The forthcoming intergovernmental high-level event on financing for development, scheduled for 2001, should provide an opportunity to lay the necessary foundations.

25. In conclusion, he drew attention to the observation made by the President of the World Bank at the recent meetings in Prague, to the effect that more and more developing countries were fulfilling their commitments, while only a few developed countries were doing so. With a view to reversing that trend, the Group of 77 supported the Bank's call for an increase in aid; additional resources for deeper, faster and broader debt relief; the dismantling of trade barriers against poor countries; and the use of new instruments, including grants, to enable the international community to address major issues of development.

26. **Ms. Gras** (France), speaking on behalf of the European Union, said the central and eastern European countries associated with the European Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) and the other associated countries (Cyprus, Malta and Turkey) associated themselves with her statement.

27. The European Union attached great importance to the transfer of resources from developed to developing countries. It was an issue which immediately raised the

question of official development assistance and the better utilization of limited financial resources. While reaffirming its commitment to achieving the official development assistance target of 0.7 per cent of GNP as soon as possible, the European Union felt that such assistance should be accompanied by the mobilization of national resources and act as a catalyst for the mobilization of private flows and direct international funding. It was crucial, for example, for the international community to effectively and energetically mobilize available financial resources for strengthening health systems and combating the scourge of HIV/AIDS.

28. The European Union recognized the fundamental role of the World Bank and the regional development banks in reducing poverty and called for funding on favourable terms to be concentrated on the poorest countries, so that they could develop the necessary basic infrastructures. Policies to combat poverty and inequality must be at the centre of economic reforms and should not be limited to alleviating the shock of adjustment policies.

29. The European Union saw the Heavily Indebted Poor Countries (HIPC) Debt Initiative as essential to poverty eradication and the achievement of sustainable development objectives in the developing countries. Accelerated implementation of that Initiative would enable the recipient countries to mobilize resources for poverty reduction, in particular by allocating them to the social sector, and also to promote the rule of law and human development. Implementation of the Initiative should also be supported by an appropriate allocation of funds by the Governments of beneficiary countries and by close dialogue with civil society.

30. The European Union called on countries meeting the requirements for assistance under the Initiative to take the necessary political and economic measures to benefit from it and on creditor countries which had not yet done so to participate in the funding of the Initiative in the interest of equitable burden-sharing. The Union would ensure that the funding provided in that connection was not at the expense of other lines of official development assistance.

31. At a time of globalization and increasing integration of financial markets, strengthening the stability of the international financial system, while it could not provide a guarantee of global financial stability without national measures to help developing countries gain access to international financial markets, was crucial to the creation of an external environment conducive to development.

32. While questions relating to the internal operation of international financial institutions were exclusively a matter for the governing bodies of those organizations, special importance should be accorded to strengthening those institutions through a clear distribution of tasks and improved coordination; enhancing the transparency of markets and the operation of those institutions and promoting codes of transparency and internationally accepted sound practices; strengthening financial regulation in industrialized countries and combating money laundering, corruption and tax evasion; strengthening the macroeconomic policies and financial systems of emerging markets, in particular through concerted action by IMF and the World Bank in providing advice and assistance to emerging economies; improving crisis prevention and management and involving the private sector in crisis management; and protecting the most vulnerable populations against the effects of crisis.

33. Developing countries' access to the markets of developed countries was an important aspect of the transfer of resources between the two categories of countries. In that regard, the European Union saw the integration of Africa, which accounted for less than 1 per cent of world trade, and the least developed countries into the world economy as of special importance. The European Union supported the promotion of regional integration as a means of coordinating and harmonizing a wide range of sectoral policies. As the leading trading partner of the least developed countries, it had opened up its markets widely to their products and intended to go even further in that direction. Thirty-nine of those countries out of 48 benefited from the Cotonou partnership agreement, which was designed to breathe new life into the Lomé Conventions. In response to the special needs of other developing countries, the European Union had introduced a multi-year generalized system of preferences (GSP) with a view to facilitating access for the products of those countries to the European market. It called on other industrialized countries to follow its example in opening their markets to manufactures from developing countries.

34. **Mr. Valdivieso** (Colombia), speaking on behalf of the members of the Rio Group, said consideration of development financing was very important at a time of

economic globalization and the consequent integration of financial markets, which presented the international community with new challenges for the promotion of development and social well-being. The efforts of the Rio Group countries to eliminate poverty had been thwarted by periodic financial crises which had given rise to negative transfers of financial resources in the case of many Latin American countries. Accordingly, those countries supported the creation of a stable international financial system that could respond to the challenges of development, in accordance with the objectives of General Assembly resolution 54/197.

35. In the recently adopted Cartagena Declaration, the Heads of State and Government of the Rio Group had paid special attention to the reform of the international financial system. In that context, external crises must be prevented, given the volatility of short-term capital flows. That meant promoting responsible macroeconomic policies based on sound public financing. That was the guarantee of stable long-term growth. Also essential was the reform of institutions responsible for regulating the international financial system. Those institutions should endeavour to promote the universal application of internationally recognized standards such as those governing the supervision and regulation of activities in the banking and financial sectors. Moreover, one of the main purposes of strengthening the international financial architecture should be to put in place a framework guaranteeing the stability of financial markets and, in extreme cases, allowing for the provision of sufficient financial aid to countries exposed to difficulties which were often of external origin.

36. The international financial institutions should improve their financing mechanisms by introducing transparent and non-discriminatory procedures, so as to help countries in difficulty to return to solvency and regain access to international financial markets. In that respect, the private financial sector could play an active role.

37. Alongside the strengthening of the international financial system, regional and sub-regional financial institutions should be developed by improving coordination of their activities. Another objective of system reform should be the creation of a framework facilitating access to long-term resources and technical assistance, as well as providing financing for social and infrastructure projects. That was necessary in order to reduce poverty and raise the level of well-being of Latin American countries.

38. **Mr. Kolby** (Norway) said the Millennium Summit had done much to strengthen the international community's awareness of the problems resulting from the deficiencies in financial flows to developing countries. Poverty reduction and debt relief were among the priority objectives most often referred to. In his report on those questions, the Secretary-General noted that official development assistance and funds for debt relief lagged far behind needs. At the same time, private financial flows remained substantially below the levels obtaining prior to the Asian crisis. The Secretary-General also pointed out that the adjustments made by the industrial countries had potentially devastating ramifications for the developing countries in such areas as trade, interest rates and currency stability. If potential crises were to be avoided, the existing international economic system must be improved through cooperative measures.

39. The IMF and World Bank had made considerable progress in addressing the problem of poverty. The Comprehensive Development Framework and the Poverty Reduction Strategy Papers were intended to strengthen the developing countries' own control of their development process. All countries who were Members of the United Nations and of the international financial institutions should work to improve the coordination, coherence and performance of international development institutions and impose more uniform and transparent accounting and banking standards.

40. In any event, reducing poverty and strengthening economic and social development in the developing countries meant increasing the volume of financial flows to them. For almost two decades, Norway had exceeded the target of 0.7 per cent of GNP to be allocated to ODA. In its budget for 2001, the Government had proposed increasing official development assistance by US$ 170 million, or 14 per cent in nominal terms, making Norway the largest per capita donor. It would also substantially increase its allocations to UNDP and UNICEF. With regard to debt relief, Norway had been one of the first countries to propose full cancellation of bilateral debt under the Heavily Indebted Poor Countries (HIPC) Debt Initiative and would intensify its efforts with regard to multilateral debt.

41. Yet, official development assistance alone was not enough. Private investment from domestic and

foreign sources was indispensable. It was therefore necessary to build private-public partnerships to boost growth in the developing countries. In preparation for the forthcoming Third United Nations Conference on the Least Developed Countries, Norway would invite representatives of all those countries to a conference in Oslo to discuss the role of the private sector in combating poverty and other related issues which would be taken up at the high-level event on financing for development.

42. **Mr. Wibisono** (Indonesia) said many of the issues analysed in the three reports before the Committee had been discussed thoroughly at the High-Level Regional Consultative Meeting on Financing for Development held recently in Jakarta. The Meeting had yielded some clear regional perspectives and action-oriented proposals. In the wake of the Asian crisis, regional mechanisms had been set up for the exchange of information, together with an early warning system and cooperative financing arrangements that could help to supplement IMF resources in times of need. At the regional and sub-regional levels, a number of development banks and reserve funds had indicated that they could play an important role in both crisis management and financing for development. In that context, strong regional reserve funds could at least partially deter would-be speculators from attacking the currencies of countries and thus deflect threats away from regional trade and financial relations. Regional institutions and peer review could also play a central role in surveillance, in the areas of macroeconomic policies and domestic financial regulation. Such mechanisms might prove more acceptable to developing countries than a single international institution. However, although most regional financial institutions were small and had limited effectiveness, in the long run, investment in their development could pay off. A new financial architecture should therefore be designed to provide incentives for the development of such institutions. The International Monetary Fund could be visualized as part of a network of regional reserve funds, thus allowing it to concentrate its operations on relations with the reserve funds, rather than on specific countries in difficulty.

43. For many years, the international financial and monetary system had functioned relatively well in facilitating and promoting the world economy. However, with globalization and unprecedented financial flows, the Bretton Woods institutions had found it increasingly difficult to effectively manage the world economy. In spite of the Mexican crisis more than 10 years earlier, the global financial institutions had not anticipated taking steps to prevent the Asian financial crisis. It was essential to learn from past weaknesses and review the capabilities of those institutions to respond in an effective and timely manner to potential financial crises. That would call for strengthening their preventive capacities and exploring innovative approaches.

44. The decision-making structures of the Bretton Woods institutions also required review to make them more democratic. In that context, the increased participation of the developing countries in the decision-making process could help foster the stability of the system. Moreover, in the absence of a conducive external financial environment, the developing countries must make painful adjustments and continue to be weighed down by inordinate debt. A solution to those imbalances must be found and other deficiencies which had plagued the system should also be rectified. For example, IMF could provide a cushion for the social costs of adjustments.

45. As was widely recognized, private capital flows were not currently available to the majority of developing countries. Those countries must therefore continue to rely on official development assistance, which had declined sharply. Reform of the international financial architecture would increase IMF's capacity to provide balance-of-payment supports and new liquidity for development.

46. **Mr. Osei-Danquah** (Ghana) said while the good health of the global economy depended to a large extent on the stability of financial flows, the creation of conditions for increasing prosperity depended also on a more even spread of those flows. In an integrated world economy, the state of financial flows affected all countries. The developed countries' maintenance of non-inflationary growth was therefore just as important to the developing countries as the consequences of the operation of the global financial system were for their stability and growth. In that connection, urgent consideration was needed of the fact that the major industrial economies sought to control the adjustment of monetary imbalances among themselves without taking into account the effect of the exchange-rate fluctuations on other countries. It was therefore essential that multilateral surveillance of the monetary and financial systems of the major industrialized

countries should be intensified. The current system of surveillance needed to be reviewed, taking into account its impact on the capacities of national governments. The Bretton Woods institutions should support institution-building in developing countries to ensure institutional convergence between developed and developing countries. His delegation welcomed the efforts made in that regard by various bodies responsible for strengthening financial regulation and supervision. Those processes should be strengthened with the participation of all countries. Regional institutions and mechanisms should play a more active role in that respect. The General Assembly should support the principles guiding the restructuring of the international financial system in order to ensure greater equilibrium and promote equity and development.

47. **Mr. Isakov** (Russian Federation) said the Secretary General's report on the item (A/55/187) showed that, in 1999, the after-effects of the recent financial crisis had continued to have a negative impact on transfers of financial resources for development. At the same time, in spite of the contraction of the overall volume of flows of resources, some growth in foreign direct investment in developing countries and countries in transition had been noted and the general situation in that sphere was expected to improve in 2000.

48. In his delegation's opinion, expectations of improvement were directly linked to progress made during the previous year in strengthening global financial mechanisms. Their effective functioning played a large part in ensuring favourable conditions for development. That progress had been encouraged by the growing attention it had received in various United Nations forums, including the Economic and Social Council, the World Bank, IMF and the World Trade Organization. Many ideas expressed in those forums had later been reflected in the approaches adopted to the reform of the international financial system.

49. In the light of the lessons learned from the financial crisis, measures had been taken to improve the exchange of information and its transparency, standards and rules of the banking sector were being reviewed, additional contingency credit facilities had been introduced and new mechanisms were being tested for the formation of an international consensus for the reform of the international financial system, such as the Group of 20 and the Financial Stability Forum. All those measures represented substantial progress and, according to the estimates of competent experts, the reforms were going in the right direction. Important tasks remained to be addressed, however, at both the international and national levels, as had become apparent at the recent G-8 summits in Cologne and Okinawa. Among the key tasks were the improvement of early warning mechanisms and financial crisis prevention, areas in which the United Nations could be extremely useful.

50. One question which called for special attention on the part of the United Nations and the international financial institutions was the strengthening of the developing and transition economies' potential in monitoring and regulating the activities of financial markets and the banking sector, the restructuring of which was of particular importance. United Nations assistance in that regard was essential, since the pace of liberalization of financial markets should correspond to the specific economic and institutional conditions of individual countries.

51. One of the key factors capable of ensuring successful reform of the international financial system was the strengthening of fruitful cooperation between the United Nations system, the Bretton Woods institutions and WTO. The high-level intergovernmental meeting on financing for development scheduled for 2001 should mark a turning point in the solution of that complex set of issues.

52. **Mr. Moura** (Brazil) said that, according to projections, the world economy was expected to grow by 4.7 per cent in the year 2000, the highest growth rate for more than a decade. Much of that dynamism was owed to globalization, technological innovation, the rise of the new economy and the information society and the increased pace of trade and financial transactions, including through e-commerce. However, those gains had been largely concentrated in developed countries. Over the last decade, developing countries had endeavoured to introduce structural reforms, often at heavy social and political cost. Unfortunately, the promise of an open system of international trade, integrated capital markets, debt relief and increased aid and investment had yet to be fulfilled.

53. While recognizing the crucial importance of financial markets, the international community had not progressed sufficiently in reducing vulnerabilities, preventing crises, assisting countries facing shocks or mobilizing the private sector, which, by general

consensus, should play a more active role in forestalling and resolving financial crises. While there was no question about the need for sound macroeconomic management at home, a higher degree of international cooperation remained essential. Policy coordination among major economies was equally important, since domestic policies in those countries had repercussions on the rest of the world.

54. The gravity of the debt problem, particularly for the poorest countries, called for the urgent adoption of deeper and faster debt relief measures. To be effective, debt relief measures and poverty alleviation programmes must be carefully designed and nationally owned.

55. Agricultural was a crucial source of income in developing countries, most of which also had to rely on exports of commodities whose prices often tended to fluctuate. There was a marked inconsistency between the free trade rhetoric of the industrialized countries and their continued use of protectionist policies. Those distortions of trade which harmed the weakest must be eliminated.

56. Ensuring broadly shared economic growth and prosperity required strong collective commitment at both national and international levels. The developed countries must open their markets to the exports of developing countries. Economic growth and employment generation were crucial to poverty eradication in developing countries. Efforts should be directed at promoting the integration of those countries into the world economy through access to markets, transfer of technology and appropriate levels of development financing.

57. **Mr. Valdés** (Chile) said that, if the benefits of globalization were to be enjoyed by all, the problems of the global financial system should be approached from a political rather than a technical standpoint. General Assembly consideration of the question of financing for development was essential if the United Nations priority objective for the twenty-first century, namely, development on a basis of equality and social justice, was to be achieved. The pattern of net transfers of resources from developed to developing countries had a direct influence on world economic development. Yet, in recent years, net transfers had been from the poor to the industrialized countries, a situation which must clearly be rectified, for reasons of effectiveness as well as of justice.

58. The Second Committee's discussion on the establishment of a new international financial architecture was extremely important and should lead to improved coordination with the Bretton Woods and regional institutions incorporating the development and equity perspective. Strengthening the international financial system called for a collective effort on the part of industrialized and developing countries to arrive at the necessary political consensus on the reform of institutions and international financial arrangements in the light of the new reality of financial globalization. To that end, the structure and operation of international financial institutions should be strengthened by providing for the representation of all stakeholders. There was also a clear link between an effective international financial system and development financing, with its goals of full employment and poverty eradication, areas in which the World Bank and IMF had made commendable progress. It was also important to consider the means for ensuring stability of the system by putting in place mechanisms for the prevention and resolution of financial crises, with due regard for the objective of worldwide social justice.

59. **Ms. Forde** (Barbados), speaking on behalf of the members of the Caribbean Community (CARICOM) that were Members of the United Nations, welcomed the Secretary-General's report on the item under consideration (A/55/187 and Add.1 and 2).

60. Even with the signs of revival in the world economy and the calming of financial markets, the CARICOM countries continued to face a myriad of challenges as they forged ahead with efforts to integrate into the new world economic order. Official development assistance to the Caribbean Community had declined from around US$ 690 millions in 1991 to its current level of US$ 200 million, and private investment had not generally been sufficient to fill the void created by that loss.

61. In response to global economic developments, the CARICOM member States had initiated domestic reforms to stabilize the macroeconomic environment, strengthen the regulatory framework, restructure institutional arrangements and provide the appropriate incentives for domestic and foreign investment. Those efforts had met with varying levels of success.

62. While the CARICOM member States had endeavoured to stabilize their economies and bolster their financial system, they were concerned about the

actions taken by OECD and the Financial Stability Forum to stem international tax evasion and money laundering. Those measures threatened the increasingly important financial services sector and could have adverse effects on financial flows to the region. The CARICOM countries viewed their financial services sectors as well-regulated and reputable and as encouraging only licit activities.

63. Although the measures taken by the CARICOM States had in some cases resulted in strong GDP performance, improvements in fiscal and external accounts, reduced unemployment and relatively low levels of inflation, their development goals continued to be threatened by persistent poverty, weak export performance, debt management difficulties and the ever-present threat of natural disasters.

64. Despite the difficulties faced, CARICOM member States were making strenuous efforts to create the new capacity needed to deal with the challenges of development in the current global economic environment. In that context, they were seeking to advance the process of economic integration with a view to establishing a single Caribbean market. At the same time, they were preparing for the possible creation of a free trade area of the Americas.

65. The multilateral lending agencies must give special consideration to the case of small States which had particular concerns. Experience had shown that those countries could not cope with the vagaries of international capital markets without an international regime which accorded them differential treatment. Any proposal for the reform of the international financial system must take account of the problems created by financial crises for many vulnerable developing countries.

66. **Mr. Robertson** (New Zealand) said one of the main problems referred to in the Secretary-General's report (A/55/187) was the continued contraction of net financial flows to developing and transition economies since the Asian crisis. If that trend was to be reversed, the role of official development assistance (ODA) must not be diminished. In an era in which private flows dwarfed ODA, the international community must make a renewed commitment to meeting the challenges of development. ODA must be used in innovative and effective ways. New Zealand was committed to increasing its ODA at both multilateral and bilateral levels. In 2001, it would be increasing its contributions to a range of United Nations agencies by an average of 40 per cent.

67. The international community must, as a matter of priority, address the challenge of African development. Special measures needed to be taken in that regard, such as debt cancellation, improved market access, enhanced ODA, increased foreign direct investment and technology transfer. The precarious situation of small island developing States also called for particular attention. While the implementation of sound economic policies by those countries was crucial, there was much that the international community could do to assist in their development, and there was room for improved coordination between the World Bank, the Commonwealth Secretariat and the United Nations in that regard.

68. The Heavily Indebted Poor Countries Debt Initiative was a good example of wealthier countries working together to help other countries whose debt burden had made them vulnerable in the face of globalization. New Zealand was not a creditor nation and gave all its ODA in the form of grants rather than loans. In the year 2000, it had contributed 6.4 million New Zealand dollars to support that Initiative.

69. In addition to ODA, it was essential to create an international and domestic environment that facilitated growth and development and helped to establish a balance between a vibrant economy and a fair and just society. As noted in the Millennium Declaration, success in fostering development and eliminating poverty depended on, among other things, good governance at national and international levels. There was also a need for broader participation and improved coordination within the international financial system. Policy coherence, partnership and participatory processes were fundamental to that endeavour and closer engagement between multilateral and bilateral donors, other agencies and recipients was also vital.

70. The international community must concentrate on stabilizing financial markets by addressing such concerns as capital flows and offshore financial centres. There was also a need for the introduction of international standards and codes. Establishing greater coherence and stability in the international financial system would be a key focus of the forthcoming high-level event on financing for development. New Zealand attached great importance to that event, which would

provide the United Nations with an opportunity to play a catalytic role.

71. **Mr. Murat** (Haiti) said financial difficulties and the lack of natural and human resources were the main obstacles confronting developing countries in their development efforts. The narrowness of those countries' markets and their limited production capacity made it impossible for them to mobilize sufficient savings to finance the major infrastructure projects necessary for growth. They were therefore highly dependent on elusive foreign capital flows and on official development assistance, which had fallen by 15 per cent in six years.

72. It was deplorable that, 40 years after the launching of the development crusade, the problems then faced by the poor countries were still as acute. Seldom had the expected results been achieved, and the number of least developed countries had actually risen instead of declining. Many developing countries were experiencing serious difficulties in providing their people with basic housing, education, health care and nutrition. Major sacrifices would therefore have to be made in terms of investment in social and economic infrastructures in order to promote development.

73. Haiti welcomed the United Nations initiative to provide systematic support to efforts to achieve worldwide equitable and sustainable economic and social development, an objective which would call for genuine involvement of the international financial institutions.

74. The recent devastating financial crisis in East Asia had highlighted the operational deficiencies of the international financial system and thus the need for in-depth reform. It had revealed the system's lack of predictability and inability to monitor and regulate international financial flows, particularly of speculative capital, and had underlined the difficulty of achieving successful economic and financial integration. Financial markets were dominated by a small number of major countries, but all countries suffered the consequences of fluctuations in the world economy. In addition, the procedures and strategies of international financial institutions penalized countries with limited resources and serious economic and social development problems. National authorities must therefore strengthen their defences against fluctuations in the world economy and, at the same time, international action was needed to ensure financial management and prevent occurrences of financial instability.

75. He welcomed the fact that decision-makers were prepared to consider far-reaching changes in international financial structures. His delegation supported the idea of a reform of the international financial architecture based on strengthening and democratizing financial institutions, so that they could follow up the efforts of developing countries to achieve equitable and sustainable economic and social development. Those institutions should also be more flexible in their approaches and more attentive to the concerns of national leaders and populations. They must be more transparent and more accountable. It was also crucial for the Bretton Woods institutions in particular to cease being the preserve of the major industrialized countries.

76. **Mr. Davidson** (United States of America) said his delegation was ready to consult with developing and developed countries, as well as with the Secretariat, on the drafting of a resolution on the item under consideration, taking account of the concerns of all Member States. Development finance, a more effective use of such resources and financial stability were high priority issues for the United States. At the recent meetings of the World Bank and IMF in Prague, the international community had undertaken measures to strengthen the international financial architecture, so as to ensure a strong and stable flow of global capital.

77. While the United Nations could make a positive contribution to the international discussion on development finance and stability of financial flows through constructive dialogue, it was nevertheless for the World Bank, IMF and other bodies with the necessary mandates and expertise to formulate and implement specific policies to address the reform of the international financial architecture.

78. In 1999, his delegation had voted against General Assembly resolution 54/197 because it had gone beyond the expression of views and concerns and advocated certain actions which, in the view of his delegation, had constituted interference in the decision-making structures of the international financial institutions. He expressed the hope that, at the current session, the negotiation process would lead to the rapid resolution of any contentious questions and the adoption of a consensus document.

79. **Mr. Liu Jintao** (China) said it was encouraging to see that the world economy had moved out of the shadow of the recent financial crises and that the overall situation was improving. However, the development gap between North and South continued to widen. A large number of developing countries were beset by worsening poverty and were being increasingly marginalized in the process of globalization. Determining how to integrate those countries into the world economy to enable them to achieve development and eradicate poverty would be a serious challenge for the world community in the twenty-first century.

80. As pointed out by the Secretary-General in his report (A/55/187), the development financing situation was far from satisfactory. In 1999, net financial flows to developing countries had continued to decline. In South-east Asia, which had been severely affected by the financial crises, capital outflows had increased substantially in 1998. In Africa, the situation was basically stable, but the overall level was much too low to meet needs, at a time when the world economy as a whole was thriving.

81. In order to achieve progress in the field of development financing, urgent reform and strengthening of the international financial system was necessary. Globalization had led to rapid changes in the international economic environment. In order to adapt to the new situation, the financial system must be responsive to the challenges confronting developing countries and to the objectives set by major United Nations conferences in the 1990s. In reforming the financial system, it was important to increase transparency and information flows, to enhance financial regulation and supervision, to adopt appropriate exchange rates and capital account regimes, and to promote private sector participation in the resolution of crises. However, the participation of developing countries in the decision-making process of financial institutions on a basis of equality was also of critical importance in establishing an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system. The United Nations had an important role to play in that process, in view of its comparative advantages. At the same time, it should improve its cooperation with the Bretton Woods institutions and WTO, with a view to promoting policy coordination.

82. Official development assistance remained the main source of external financing for many low-income countries and also played an important role in helping developing countries to improve their peoples' living standards. Although some countries, such as Norway, were making commendable efforts in that regard, the overall level of ODA had been declining for many years. The developed countries must show the necessary political will and adopt effective measures to attain the goal of 0.7 per cent of GNP as they had promised.

83. With the development of globalization, private capital was playing an increasingly important role for developing countries. However, being profit-driven, private capital by-passed many countries and sectors. The speculative character and uncertainty of private capital often brought disastrous consequences for the countries concerned and the world economy as a whole. It was necessary to establish appropriate mechanisms at international level to encourage and to direct private capital towards areas of development, while minimizing its negative impact.

84. The debt burden was a serious constraint for developing countries, especially the least developed countries. The international community had recently formulated measures designed to tackle the problem and had achieved some results, although the implementation of the Heavily Indebted Poor Countries Debt Initiative had been disappointing. In the course of the Second Committee's recent general debate, many developing countries had justifiably called on the international community to adopt more decisive measures and to cancel all unsustainable external debts.

85. To help developing countries mobilize the financial resources for development, it was necessary to enhance their ability to raise funds through their own efforts, including through trade. However, some developed countries, while urging developing countries to open up their markets, had erected obstacles such as anti-dumping measures, labour standards and quotas to prevent those countries' products from entering their own markets. Developing countries' losses as a result of the implementation of protectionist measures were estimated at about US$ 20 billion annually. To resolve that problem, the developed countries must genuinely open their markets to goods and services from developing countries and accord them preferential treatment so as to facilitate those countries' access to their markets.

86. **Ms. Garrity** (Special Representative of the World Bank to the United Nations) said participants at the Millennium Summit had underscored their resolve to face the challenge of globalization and ensure that it became a positive force for all mankind. In the Millennium Declaration, they had reaffirmed the key United Nations targets of reducing poverty, ensuring universal primary education, improving mother and child health, taking action against HIV/AIDS and improving the lives of slum-dwellers. The Declaration also addressed a wide range of problems, such as the debt of developing countries, sustainable development, good governance, social protection, the special needs of Africa and the critical importance of ensuring that the benefits of information and communication technologies were available to all.

87. One of the means to that end identified in the Millennium Declaration was better policy coherence and better cooperation between the United Nations, its agencies and other multilateral institutions, including the World Bank, with a view to achieving a coordinated approach to development problems. The World Bank was fully committed to that approach. However, the difficulty faced by developing countries in that context was in mobilizing the resources needed to finance their sustained and equitable development. Accordingly, the Heads of State and Government had pledged to ensure the success of the high-level international event on financing for development scheduled for 2001.

88. At the recent Annual Meetings of the World Bank and IMF in Prague, it had been recognized that poverty eradication was the number one global priority. There had also been unanimity on the principles to be applied in that effort, namely, long-term vision, country ownership and leadership, participation, partnerships, balance of the economic and financial sectors with the social, institutional and structural sectors and the use of information and communications technologies for development.

89. The World Bank was participating in the financing for development initiative at the invitation of the United Nations and had put together a team to support the United Nations coordinating secretariat and provide technical support to the special inter-agency working groups set up to prepare the report containing the Secretary-General's recommendations for the intergovernmental discussions. The Bank was committed to cooperating with its partners in the United Nations system so that the process would help to achieve sustainable and equitable growth and promote opportunity, empowerment and security for all people.

90. The Bank also provided assistance to countries in the areas of debt and capacity-building to help them strengthen their domestic financial systems. In the area of debt, following wide-ranging consultations and negotiations, the Bank and IMF had implemented a new approach, in the shape of the enhanced Heavily Indebted Poor Countries Debt Initiative. Thus far, ten countries were eligible for debt relief under the enhanced Initiative and ten more were expected to become eligible by the end of 2000. Those packages were projected to result in combined debt service relief of more than US$ 30 billion, or more than 60 per cent of the entire programme. In his recent statement to the Annual Meeting of the Board of Governors, the President of the World Bank had noted that more and more developing countries were keeping their side of the bargain and had called upon the developed countries to intensify their efforts by meeting recognized targets for aid to developing countries, providing the resources for faster and broader debt relief, dismantling trade barriers affecting poor countries, and exploring innovative instruments for such pressing issues as AIDS, the environment, basic education and health.

91. The Bank was also helping countries to strengthen their domestic financial systems, in particular under the Financial Sector Assessment Programme, in which IMF was also involved. It was also preparing detailed methodologies for the assessment of corporate governance and accounting, as well as guidelines for public debt management. It was collaborating with regional organizations in strengthening countries' capacity to manage the social dimension of crises and mitigate the social costs of economic shocks. For example, it was contributing to economic cooperation initiatives in the Asia-Pacific region.

92. The Millennium Summit and the recent Annual Meetings of the Bank had focused on how to better manage the global economy, particularly with regard to the most vulnerable countries. As the Bank's President had pointed out, the international community had an obligation to make the benefits of globalization available to all, so as to leave future generations a world of equity, peace and security.

93. **Mr. Gamaleldin** (Egypt) said a partnership must be formed between developed and developing countries and the management of the international economy improved by making the decision-making process more transparent and democratic, so that the developing countries could have a voice in all matters relating to the world economic order. In addition, international economic policies must be coordinated, including those of the Bretton Woods institutions, WTO and the United Nations. In that context, he called on the United Nations to do everything possible to find a permanent solution to the debt problem, not just of the most heavily indebted countries, but of the developing countries as a whole.

94. Official development assistance was inadequate. Consequently, the developed countries must, in particular, open their markets to the products of developing countries to enable them to increase their export earnings and thus reduce poverty and import the goods they needed from the developed countries.

95. Recent years had been marked by instability on international financial markets. That situation was attributable in part to the fact that many investors took risks by making poor investments, knowing that they would be covered even if they suffered losses. To deal with that phenomenon, the international community had coordinated its efforts to update codes and standards of conduct for the various actors in international financial markets — corporations or surveillance bodies — to achieve greater transparency.

96. In the event of financial difficulties, hedge funds tended to release large sums at short notice, thereby suddenly stabilizing small financial markets in developed and developing countries alike. As those funds were not currently subject to any regulation, many countries, including the United States of America, were working to remedy that deficiency, and the international community should do the same as quickly as possible. The debt question should be looked at internationally, as the recent financial crises had been caused largely by the accumulation of short-term loans, thus provoking a liquidity shortage in the countries concerned.

97. The Bank for International Settlements had established about 60 codes and standards of conduct. It was now necessary to identify those standards to be given priority and to create incentives for countries to comply with them, on the understanding that they would be adjusted to the specific situation in each country.

98. It was essential for developing countries to take part in all meetings aimed at improving the international financial system, such as the Financial Stability Forum. In addition, mechanisms should be established not only for predicting financial crises, but also for dealing with them as soon as they arose.

99. In the event of a financial crisis, investors who had made poor decisions should bear the consequences. It was unacceptable for the developing countries in which the investments had been made to bear the losses at the expense of their people and their development efforts. It was to be hoped that the high-level intergovernmental event on financing for development would find solutions to those problems.

100. **The Chairman** said the Committee had concluded the general debate on item 92 (e).

The meeting rose at 1.10 p.m.