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Held at Headquarters, New York, on Tuesday, 18 April 2000, at 9.30 a.m.

President: Mr. Wibisono . . . . (Indonesia)

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00-39545 (E)

The meeting was called to order at 9.45 a.m.

Special high-level meeting with the Bretton Woods institutions: towards a stable international financial system, responsive to the challenges of development, especially in developing countries (E/2000/8)

Statement by the President

1. **The President** said that the world economy at the beginning of the twenty-first century was dominated by globalization and interdependence, thus the need for international cooperation and partnership had rarely been greater. Yet more countries than ever were being excluded, and even those developing countries that had initially been able to integrate successfully had seen their advances swept away by the recent financial crisis. However, there was no turning back and the international community must ensure that globalization became a positive force for the world's poor.

2. Two broad policy concerns would be examined during the dialogue: modalities to strengthen and stabilize the international financial system to make it more responsive to the challenges of development, and the promotion of economic and social equity in the global economy. Progress must continue on a broad range of reforms intended to prevent and address financial crises and improve the governance of the international financial system. Efforts must also be made to ensure that the interests of developing countries, particularly the poorer and more vulnerable economies, were better reflected in discussions on financial reform.

3. Inclusion, participation and a greater share in the global decision-making process were among the challenges facing the international community. In that context, the question of why resources for official development cooperation had declined so drastically over several years must be addressed with renewed ingenuity and commitment. Many hopes were being placed on the forthcoming international high-level event on financing for development which was expected to address a broad range of issues.

4. Turning briefly to poverty eradication, he said that a conducive external environment to promote sustained economic growth and development was more critical than ever. A stable international financial system responsive to development was an important part of a global partnership to eradicate poverty. With the establishment of the Comprehensive Development Framework, the approaches of the World Bank and the United Nations were increasingly in unison, and it was encouraging that the World Bank had also embraced poverty eradication as an important goal. That partnership must be consolidated through action.

Address by the Secretary-General of the United Nations

5. **The Secretary-General** said that never had it been clearer that the peoples and nations of the world, and the institutions created to serve them, were engaged in a common mission. Yet, in an age when globalization and new technology were bringing unimaginable benefits to one part of humankind, it was shameful and unacceptable that another part — the larger part — remained excluded from those benefits, subjected to a life of grinding poverty often accompanied by malnutrition and disease. The international community recognized its duty to change that state of affairs, and its interest in doing so. What was still not sufficiently understood, however, was that change was within its grasp.

6. In his report entitled "We the peoples: the role of the United Nations in the twenty-first century" (A/54/2000), he had proposed a target of reducing by half, before the year 2015, the proportion of people in the world living on a dollar a day or less. Some thought that goal wildly unrealistic; others deplored its timidity, since even if it was achieved there would still be 600 million people living in abject poverty. In truth, the objective was an optimistic one. In sub-Saharan Africa, for example, it could be achieved only with an economic growth rate of between 7 and 10 per cent in each of the next 15 years, far above any the region had managed thus far. The policies needed were clear: they must lead to sustained growth, because all evidence showed a strong correlation between economic growth and the incomes of the poor. They must encourage private investment, which created job opportunities, especially for the young, harnessed the power of the new information technologies and improved the effectiveness and transparency of governments themselves.

7. There must be steps to end war. Nothing was more inimical to growth, nothing more calculated to perpetuate and aggravate poverty, than armed conflict. The vicious circle must be broken and replaced with a virtuous one. In addition, governments — especially, but not only in sub-Saharan Africa — must face up to

the devastation which HIV/AIDS was wreaking on their economies and societies.

8. Above all, there must be investment in education. He had urged Member States to endorse the target of universal primary school enrolment by 2015. The most difficult part of that task would be to close the gender gap; more than 110 million children worldwide were not in school, and two thirds of them were girls. Families must be persuaded that schooling for their daughters was every bit as valuable as schooling for their sons. At the forthcoming World Education Forum in Dakar, he would launch a new initiative, “Educate Girls Now”, which was an open partnership of more than a dozen entities in the United Nations system, including the World Bank.

9. While no country was likely to join the new global economy fully unless its government and people wholeheartedly applied themselves to the task, they could not do it alone. The essence of a market was that people must be free to sell as well as to buy. Only if they were given full and free market access for their products could developing countries attract the investment they needed to achieve high growth and trade their way out of poverty. Only if they were freed from the shackles of debt repayment and servicing could the poorest countries devote an appropriate share of their revenue to anti-poverty programmes. And only with generous financial assistance from the industrialized world could countries that had worked hard to reform their economies provide their poorer citizens with the basic social services they so desperately needed. Countries that were attacking poverty deserved help; those that were taking steps towards good governance merited support. They also needed an international economic and financial system that responded to their development needs.

10. Finance and development ministers had a crucial role to play in achieving the common global agenda, especially in the consultations on the high-level intergovernmental event on financing for development. They were no longer being asked simply to fund programmes, but to find solutions.

11. The recent annual meetings of the Bretton Woods institutions had given rise to vehement public debate on the merits and demerits of globalization. That ferment and confrontational energy must be turned into something constructive, that benefited all people and which all people could support.

Statements by panellists

12. **Mr. Nimmanahaeminda** (Chairman, Development Committee), reporting on the recent meeting of that Committee, said that poverty reduction had been the theme running through virtually its entire agenda and that wide-ranging discussions had been held on ways to achieve more effective support for vigorous action to reduce poverty. The HIV/AIDS epidemic had also been discussed, not just as a health problem but as a severe development problem which weakened economic growth, governance, human capital, labour productivity and the investment climate, thereby undermining the foundations of development and poverty reduction. Members had endorsed a comprehensive global strategy which placed substantial demands for action on all key actors, most particularly national authorities and the World Bank had made a commitment to fund any viable AIDS project that members might propose.

13. The next subject considered had been trade, development and poverty reduction, from the viewpoint of its development aspects. Accelerated and sustainable growth was a necessary condition for reducing poverty, and open economies tended to grow faster than closed economies. Evidence also suggested that substantial benefits could be gained from further liberalization of trade regimes in both developed and developing countries. Industrialized countries had been urged to open their markets wider for poor countries’ products, particularly agricultural commodities and textiles. An increasingly wide trade divide was developing between unequal partners. Among suggested reforms was to extend to the poorest countries comprehensive and predictable duty- and quota-free market access. A major reason for the failure of poor countries to integrate successfully into the international trading system was the absence of adequate domestic infrastructure, institutions and social programmes. Thus, their efforts to expand trade should be integrated into a comprehensive framework for development.

14. The Heavily Indebted Poor Countries (HIPC) Debt Initiative had been discussed as part of the poverty reduction focus. While a growing number of pledges and commitments were being made to the HIPC Trust Fund, the initiative remained underfunded. Meanwhile, work was proceeding, and up to an additional 15 countries could be considered for participation during 2000. Poverty reduction strategies

were closely related to HIPC, and a great deal of progress had been achieved in the six months since the inception of the poverty reduction strategy papers (PRSPs). Country ownership was the most critical feature of those strategies, however, and therefore advice from the World Bank or the International Monetary Fund must be provided with care and sensitivity. That feature had led to some tension between the dual objectives of moving more quickly on HIPC debt relief and developing a high-quality poverty reduction strategy, and as a result, interim measures had been introduced for use during a transition period. The Committee had concluded that bilateral and multilateral agencies should be encouraged to align their assistance programmes to those strategies as they were put into place, thereby strengthening donor coordination and reducing burdens on developing country governments.

15. In their final communiqué, the participants had emphasized the importance they attached to preserving and further strengthening the family of multilateral institutions as a powerful force for global progress, equity and stability.

16. **Mr. Fisher** (Acting Managing Director, International Monetary Fund (IMF)), reporting on the recent inaugural meeting of the International Monetary and Financial Committee, said that the meeting had begun with an overview of the global economic outlook. Global growth — at 4.2 per cent — was the highest it had been in a decade, yet there had been no increase in underlying inflation in the industrialized world and inflation had been declining in developing countries. That remarkable turnaround from a year earlier was a testimony to the resolute action by policy makers in both the industrialized and developing world.

17. Globalization and poverty had been discussed in the context of the HIPC initiative and the Fund's Poverty Reduction and Growth Facility. Completion of the funding for the initiative had been emphasized. Many regional development banks still did not have the financing in place to make their contributions.

18. Globalization was regarded as the best way known for countries to develop. No growth strategies had succeeded which did not involve increasing integration into the global economy, but integration must happen in a way that provided opportunities for the countries desiring to integrate to export to all countries. Therefore, further trade liberalization was needed in the industrialized countries, especially access for countries receiving assistance under the HIPC initiative. The inconsistency between providing debt relief, yet restricting market access, had also been pointed out.

19. The Committee had touched on many of the issues raised in paragraph 8 of the note by the Secretary-General on strengthening international financial arrangements and addressing poverty (E/2000/8). It had considered the progress made in reviewing the Fund's facilities and its surveillance activities, including in the financial sector (question (a)) and had noted with satisfaction the Fund's role, in cooperation with the World Bank and other agencies, in establishing standards and codes and ensuring their observance in all countries.

20. It had become clear during discussion of proposals to reorient IMF towards short-term lending and dealing with crisis situations (question (b)) that there was strong support for maintaining the Extended Fund Facility (EFF) and the Poverty Reduction and Growth Facility (PRGF), through which the Fund made concessional loans to its poorest members. At the same time concern had been expressed at the limited membership of such new international forums as the Group of 20 and the Financial Stability Forum (question (c)). Although the latter group regularly made proposals for discussion by the IMF Board of Governors, which gave all the Fund's members an opportunity to examine them, the Committee believed that there was a need for greater representation in those forums of smaller and poorer countries.

21. The Committee had welcomed the significant progress made in distributing the costs of recent financial crises between the public and private sectors (question (d)), but it had concluded that, while private sector involvement in resolving such crises was to be assumed, concerted private sector involvement was necessary only in large programmes in countries in which the early restoration of market access on terms consistent with medium-term external sustainability was judged unrealistic. Otherwise, it was preferable to rely on the Fund's catalytic role.

22. As to transparency (question (e)), there had been a sea change in recent years within the Fund, which now made public the vast majority of its documentation with the notable exception of reports on the

weaknesses of financial sectors, which must remain confidential. IMF was seeking to reach out to civil society, although it was clear that more remained to be done. The new poverty reduction strategy papers (PRSPs), which were to be developed with broad participation by civil society, would be a major tool for promoting dialogue with IMF.

23. **Mr. Gygi** (Chairman of the Group of 10) said that the financial crises of the late 1990s had revealed weaknesses in the international financial architecture, some of them stemming from problems in the domestic financial sectors of the crisis-stricken countries. A number of initiatives had recently been launched, most importantly by IMF, aimed at better identifying such vulnerabilities. In one such initiative, the Fund had set up pilot programmes to assess the financial sectors of member countries. It had also introduced standards and codes of good practice in monetary, financial and fiscal policy and data transparency. There was a need to ensure that as many countries as possible implemented those standards.

24. Another source of international financial instability was the distortion of market forces. The private sector must be able to evaluate correctly the risks involved in lending operations and it must participate in the prevention and resolution of financial crises. It was also important that individual countries should avoid building up huge short-term debt.

25. Recent crises had shown that by making its resources available to countries in distress in exchange for certain undertakings, IMF could help restore confidence and ensure that capital stayed in or flowed back to those countries. Participation of private creditors in IMF initiatives should be standard. Only in very specific cases, notably when huge amounts of official financing were involved, should the Fund request private sector involvement as a precondition for its own financial support.

26. Developing countries stood to gain most from strong and stable flows of finance from one part of the world to another. It was therefore important not to exclude them from forums in which reform of the international monetary system was discussed. The Bretton Woods institutions, with their universal membership, were clearly the right place for such discussion. The representatives of civil society had a valuable contribution to make to international financial policy-making and their voices, too, should be heard, although there remained the problem of their legitimacy, which must be resolved by each country at the national level.

27. If the poorest were to be protected from the impact of financial shocks, it was certainly important that developing countries and countries with emerging markets should pursue prudent policies, but responsibility also lay with the international community. Indeed, the international financial institutions had become much more aware of the need for social safety nets and of the impact on the poor of the adjustment programmes they prescribed. Accordingly, attempts were being made to involve civil society in the design of such programmes and a number of changes had been made to the framework for concessional lending by IMF and the World Bank. The changes were intended not only to give more initiative to countries in planning their long-term strategies for development and poverty eradication, but also to enhance coordination of aid from bilateral and other multilateral donors.

28. Finally, he said that good governance and the efficient use of aid were the key to overcoming donor fatigue and would be critical to increasing the flow of concessional finance to the developing world. IMF had a crucial role to play in promoting macroeconomic stability, and its new poverty reduction strategy papers would be important in that regard.

29. **Mr. Suárez** (Chairman of the Group of 24) said that the Group of 24 considered that, despite favourable prospects for the continuation of global economic recovery, significant risks remained. Moreover, recovery had been uneven and growth prospects in developing countries were below pre-crisis levels. Against that background, the industrial countries must take into account the impact of their macroeconomic policies on developing countries. In particular, they should avoid excessive reliance on interest rates to control inflationary pressures and should aim for more stable exchange rates. The Group of 24 also considered that progress in lowering trade restrictions on exports from developing countries was crucial for achieving continued growth in the global economy and a significant reduction in poverty in the developing world.

30. Considerable efforts had been made to strengthen the international financial system, but much remained to be done, particularly to reduce vulnerabilities in

emerging market economies caused by abrupt changes in international capital flows and terms of trade. In discussing the international monetary system, due regard must be given to the views of countries whose economies were more likely to be impacted by the proposals. There was a need to bear in mind the cooperative nature of the Bretton Woods institutions and the principle of equal treatment of their members. All IMF members must be subject to surveillance and special attention must be paid to the international implications of the domestic policies of the largest economies. Best practices should be followed by all countries, but, at the same time, observance of international codes and standards must remain a voluntary choice.

31. With regard to private sector involvement, the Group of 24 wished to emphasize the importance of developing a well defined operational framework for preventing and resolving financial crises. IMF should continue to facilitate the equitable negotiation of debt-restructuring agreements, but it should act strictly in an advisory capacity.

32. As to the review of Fund facilities, the Group of 24 agreed that some facilities needed to be eliminated or streamlined. However, it considered that the Extended Fund Facility (EFF) and the Contingent Credit Line (CCL) continued to have an important role to play. EFF was crucial for members that needed to address balance of payments disequilibriums of a structural character, for which a stand-by arrangement was not sufficient, while CCL should be a useful tool for crisis prevention.

33. The Group of 24 wished to reaffirm its support for the work of the Bretton Woods institutions, particularly their efforts to improve economic conditions and living standards in developing countries. The internal and external debate should focus on developing ways to further increase the effectiveness of those institutions in fostering sustainable economic growth and poverty reduction.

34. The Group of 24 strongly supported the HIPC Debt Initiative. It was concerned, however, that bilateral contributions from donor countries to the HIPC Trust Fund were insufficient and that a disproportionate burden of the cost of the initiative was falling on other developing countries that had lent to HIPC countries. The enhanced HIPC initiative was essential for meeting the economic and social needs of low-income countries. Debt relief should be additional to the resources available for development finance, the financial integrity of the multilateral institutions should be protected and burden sharing should be fair and equitable.

35. Although official aid flows in 1999 had experienced a small upturn, the Group of 24 was concerned that the level of ODA remained well below the agreed target and it urged the States members of the Organisation for Economic Cooperation and Development (OECD) to increase their contributions. It was unrealistic to expect regional development banks to carry out their debt relief operations without giving them adequate bilateral contributions.

36. **Mr. Martins-Kuye** (Observer for Nigeria), speaking on behalf of the Group of 77 and China, said that the issues of strengthening international financial arrangements and eradicating poverty were priorities for the members of the Group of 77 and China. It was to be hoped that the exchanges between the Council and the Bretton Woods institutions would help to identify ways of overcoming the difficulties faced by developing countries in taking advantage of the rapid advances in technology and communications that had laid the foundations for the globalization of trade and finance in the last decade.

37. The HIPC Debt Initiative, though welcome, largely excluded those — largely middle-income — countries that had suffered most from the debt crisis of the 1980s. Some had returned to borrow in private capital markets, but others had been less successful in that regard and now found that debt servicing was impinging on their ability to mobilize domestic resources for their continued development. The economic conditions that had prompted the HIPC Debt Initiative seemed to be present in an increasing number of middle-income countries. The lessons of the past suggested that it was better to deal with those difficulties before they became critical. Regrettably, attempts to raise those issues had not received adequate consideration. A further problem was that, while the HIPC Debt Initiative concerned official assistance, countries were increasingly becoming indebted through quasi-official assistance in the form of guaranteed credits used to finance commerce and trade and other forms of private sector credit extension.

38. It had been reported that the majority of World Bank lending was to countries that already enjoyed

access to private capital markets. One of the most frequent criticisms of globalization was that its benefits had bypassed the majority of developing countries, yet it appeared that the Bank's lending policies were reinforcing that tendency. His delegation wished to know, if the Bank accepted the proposal that it reduce its lending to countries with access to private capital markets, whether it would then increase lending to developing countries that did not enjoy such access, or if there would simply be a reduction in total funding available.

39. A recent report by the United Nations Conference on Trade and Development (UNCTAD) had suggested that reducing trade restrictions on products of greatest export interest to developing countries would increase fourfold the average level of private foreign capital flows to such countries in the 1990s. According to the press the Bank and the Fund had jointly considered a proposal to eliminate trade restrictions on the exports of the least developed countries. His delegation wished to know whether that proposal had been elaborated in collaboration with the World Trade Organization (WTO) and what the relationship was between that initiative and the mandate of WTO. It also wondered how effective the proposal would be, given the low capacity to export of many least developed countries. It might be that the proposal was merely intended to cover up the failure of donor countries to honour their commitment to substantially increase ODA to the least developed countries. Finally, his delegation wished to know what steps had been taken by IMF and the Bank to implement the integrated initiative on trade and development of the least developed countries.

40. **Mr. Moura** (Portugal), speaking on behalf of the European Union, said that despite its benefits, globalization entailed risks for developing and developed countries alike. The European Union shared the views of the International Monetary and Financial Committee regarding the direction in which IMF and the international system should evolve in response to a rapidly changing economic environment, and it was committed to the principle that IMF was a partner to all member States, including poor countries.

41. The Fund's function of preserving international monetary and financial stability should be pursued through surveillance and the provision of catalytic balance-of-payments support to countries in difficulty through appropriate mechanisms and within the framework of agreed adjustment programmes. As the central institution responsible for poverty reduction and macroeconomic stability, the World Bank also played a key role in poverty reduction.

42. Closer coordination between the Bretton Woods institutions was indispensable to prevent duplication of work and inefficient policies. The new Poverty Reduction Strategy Papers, which focused on a country-based approach and ensured implementation of an agenda geared to growth and poverty reduction while strengthening ownership within the developing countries concerned were therefore welcome.

43. Greater attention should be devoted to crisis prevention through reform of domestic financial systems, appropriate sequencing of capital account liberalization in policy-making and sound liability management. Increased involvement of the private sector in the prevention and resolution of financial crises was essential in order to avoid moral hazards and other distortions in the functioning of international financial markets and to facilitate more orderly adjustment. The European Union attached great importance to transparency and policy-making with a view to improving the functioning of world economies and the international financial system and ensuring the transparency of the international financial institutions, thereby promoting ownership, accountability and good governance, and attracting private capital flows.

44. The European Union welcomed the HIPC Debt Initiative and was committed to helping those countries follow sound economic policies in reducing their debt burden to sustainable levels so that they could pursue reforms and poverty alleviation. He urged the World Bank and the Fund to further expand that programme in order to ensure that three quarters of the eligible countries reached their decision point under the initiative by the end of 2000.

45. The European Union had decided to contribute to the financing of the HIPC initiative as a creditor, a donor and a major development stakeholder and urged all countries and institutions that had made commitments to deliver their agreed share of contributions to the HIPC trust funds and to bilateral debt relief as quickly as possible. It was also providing support to European transition economies through other programmes.

46. **Mr. Amato** (Italy) said that since the World Bank's primary function was to make it possible for all countries to benefit equally from financial markets,

emerging economies should progressively decrease their reliance on the international financial institutions. Eligible countries should be granted debt cancellation of up to 100 per cent under the HIPC initiative, but prolonged or repeated use of such facilities should be discouraged through financial disincentives.

47. Financial stability had an increasingly important place in the mandate of IMF. It had become clear that capital account imbalances, which resulted more from financial mismanagement by borrowers or lenders than from the state of the economies concerned, were as important as current account imbalances. The issue of codes of conduct and prudential rules was a sensitive one, not because of the quality of the proposed standards but because of the reduced legitimacy of the institutions responsible for them. Governments felt that they had not been involved in the development of those measures and therefore resented having them imposed. Moreover, standards that were not developed in a democratic manner tended to be overly rigid and unable to accommodate the specific situations of individual countries. He therefore welcomed the fact that many hitherto-unheard voices had been raised at the first meeting of the Group of 20; he hoped that that process would continue and that the matter would remain on the agenda of the United Nations and other institutions.

48. **Ms. Ferrero-Waldner** (Austria) said that she welcomed the Council's annual meetings with the Bretton Woods institutions as a means of facilitating policy coordination and creating synergies between Washington and New York. The need to establish links between the economic, financial and social sectors was a major challenge for contemporary diplomacy in the new millennium; recent Security Council meetings, particularly those devoted to Africa, were a reminder that the boundaries between institutions and geographic areas had become less rigid in the current era of globalization. The role of the international financial institutions was unquestionable, but there was considerable scope for system-wide cooperation and the effective use of existing resources.

49. Per capita income had been on the decline for the past 25 or 30 years in many countries, and one fifth of the world's population was living on less than $1 per day. The current meeting therefore provided a timely opportunity to compare and assess the results of the recent meeting of the International Monetary and Financial Committee in Washington and the South Summit of the Group of 77 in Havana.

50. Cooperation with the Bretton Woods institutions was no longer limited to the Council; development financing provided both a challenge and an opportunity for the establishment of coordinated working methods between those institutions and the entire United Nations system. However, that process should be approached with mutual trust and an open mind and heart.

51. **Mr. Mertlik** (Czech Republic) said that since the early 1990s, the Czech Republic and other members of the Central European Free Trade Area had been tackling major economic and social reforms and had received significant international assistance, particularly from the European Union. They were endeavouring to develop appropriate institutional frameworks in order to make the best use of the resources received from donor countries. He therefore welcomed the improved dialogue and efficient cooperation between international organizations such as the Bretton Woods institutions and the Organisation for Economic Cooperation and Development (OECD).

52. The primary responsibility for restructuring lay with Governments themselves, which must develop their own resources and competitive advantages, and the international community's main task was to assist them in their efforts to participate in the global development process.

53. **Mr. Pierre** (Saint Lucia), speaking on behalf of the Caribbean Community, stressed the importance of developing strategies to lessen the effects of capital movements on emerging and developing countries and strengthen domestic financial systems. That issue was particularly relevant in the context of the Regional Government Securities Market that would soon be launched by the Eastern Caribbean Central Bank (ECCB) and Caribbean Community (CARICOM) financial markets. The CARICOM countries needed sound, stable financial systems in order to take advantage of emerging development opportunities; recent financial sector turbulence had highlighted small States' vulnerability to capital movements and, as the World Bank had acknowledged, overly-rapid liberalization of the financial sector could harm the poor.

54. Globalization had led to an increase in cross-border transactions, and an unstable financial system

invariably lessened real output by hindering the payments mechanism. Small, open economies such as those of the CARICOM countries depended heavily on international trade, and relied on commercial banks for the smooth transfer of payments; improved regulation and supervision of those institutions was therefore a priority. Some financial institutions in those countries were addressing payment system issues with a view to reducing systemic risks and improving efficiency. Assistance in that task would benefit the entire region.

55. Since a stable international financial system benefited all participants in the global economy, all countries should work to promote stability, *inter alia,* by enforcing strict prudential standards, designing and implementing early warning systems, promoting transparency in the operations of financial institutions, especially conglomerates, and ensuring the integrity of reported data. The CARICOM countries would require assistance in those tasks. Consideration should also be given to improving the regulation and supervision of commercial banks; designing a regulatory programme for non-bank financial institutions, credit unions and insurance companies and other institutions that were part of the financial system; improving prudential guidelines and implementing disclosure requirements for financial institutions; reforming the payments system and possibly even discussing the establishment of an international system of deposit insurance to protect depositors and institutions during times of instability.

56. The United Nations had a central role to play in fostering dialogue and international cooperation on the global governance of international finance through internationally agreed standards and codes. Reform of the international financial system was critical to ensuring equity and development for all peoples by addressing concerns such as burden-sharing between creditors and debtors, participation of developing countries in standard-setting, coherence between international trade, financial and monetary systems and the need to make the international financial system accountable, transparent and responsive to the challenges of development.

57. **Mr. Aziz** (Pakistan) said that while he welcomed the HIPC Debt Initiative, there was a large group of middle-income countries which were not eligible under it, whose development efforts were hindered by heavy debt overhangs and which required reprofiling, rescheduling and similar measures.

58. Vigorous efforts must be made to measure, institutionalize and share poverty indicators through an increased focus on capacity-building, an area in which the Bretton Woods institutions and the United Nations played an important role.

59. Lastly, developing countries required duty-free market access in order to achieve self-reliance and participate in the international free trade system.

60. **Ms. Wieczorek-Zeul** (Germany) said that only the very strong could afford weak institutions. The great majority of peoples needed strong, representative international institutions to help to shape globalization with a human face, in a socially and ecologically sound manner. Any attempt to weaken the role of bodies such as the World Bank must therefore be resisted.

61. Since developing countries made up the bulk of the membership of the World Trade Organization, the latter should take into account the special needs of those countries. She welcomed recent positive developments in relation to poverty reduction and debt relief; her Government had decided, on a bilateral basis, to forgive 100 per cent of the debts of the heavily indebted poor countries, including commercial debts. It was very important that civil society in developing countries should be included in discussions for debt relief and poverty reduction, and that the International Monetary Fund should take into account the fight against poverty when providing macroeconomic advice. Germany hoped that the twenty-first century would see the eradication of poverty and that democracy, cooperation and peace would prevail.

62. **Mr. Restrepo** (Colombia), after expressing his Government's support for the efforts of the Bretton Woods institutions to strengthen international financial arrangements, said that Colombia had participated in the pilot programme set up by those institutions in the area of private sector surveillance and its experience in financial sector analysis had been very positive. The study had produced concrete recommendations regarding the increasing role of central banks as lenders of last resort. His Government attached great importance to the continuance of the Extended Fund Facility designed to provide external resources for countries which were carrying out structural reforms. The Fund's facilities should not be limited to the provision of short-term resources to help with balance-

of-payments problems or to compensate for the lack of market access.

63. The catalytic role of the Fund was particularly vital in relation to private-sector participation in the provision of external credit. A credible economic adjustment programme with the support of the Fund facilitated access to the capital market, as had been shown by the recent experience of Colombia and other countries in Latin America. The region was showing signs of recovery and should be supported with increased availability of external capital resources.

64. His Government had supported the strategy developed by the World Bank and the Fund in support of national efforts to fight poverty and help to improve the situation of highly indebted countries. In the context of the economic programme agreed with the Fund, Colombia had made plans to channel considerable resources into social safety net programmes and to invest in areas where armed conflicts were currently taking place, in order to promote the peace process. He hoped that those measures would receive support from the international community.

65. **Mr. Radev** (Bulgaria) said that the World Bank should base its activities on the macroeconomic framework set by the International Monetary Fund, and that framework should take into account the Bank's strategy and sectoral programmes. It would be interesting to know whether the acting Managing Director of the International Monetary Fund agreed and how he proposed to increase complementarity and cooperation between the two institutions.

66. **Mr. Caramuru** (Brazil) said that the international community was faced with a number of questions: how to strike the right balance between the need for generally accepted standards in policy formulation and the need to preserve the freedom of countries to follow policies adapted to their own realities; what kind of international institutions were needed to prevent and combat crises and to help countries to explore their full potential; how to deal with the issue of representation in international institutions and formulate an international agenda which responded to the concerns and aspirations of all; how to integrate smaller and poorer countries into the international economy; and lastly, how to deal with the issue of trade liberalization. The most important issue of all was the widening gap between the smaller economies and more developed countries.

67. **Mr. Manuel** (Observer for South Africa) said that the international community needed to evaluate its institutions, the policies they developed and the way those policies were implemented. Market access for the poorer developing countries must be given higher priority. As for the Bretton Woods institutions, the issues of representativeness, ownership and decision-making should be examined. Major political decisions would be required.

68. **Mr. Xiao** Gang (China) said that while most of the regions and economies which had suffered from the recent crisis were recovering, economic imbalances among countries and regions were increasing, posing a severe challenge to the global economy. The international economic and financial systems must be reformed and development aid mechanisms must be strengthened in order to promote sustainable growth in the developing countries; the latter had not been treated equally in the global economic development process.

69. The developed countries had hitherto practised a double standard when it came to opening up markets, thereby harming the interests of developing countries and endangering global development, peace and stability. They should adopt measures to increase capital and technological transfers to developing countries, especially the poorest countries, and open up markets to developing countries. The economic functions of the United Nations should be strengthened and its cooperation with the Bretton Woods institutions should be increased. Reform of those institutions had become an urgent task; they should not serve the parochial interests of any country or group of countries.

70. The world was entering a new economic era, and the developed countries must not continue to monopolize knowledge and information and dominate the process of establishing rules and standards. As a major developing country, China would actively participate in the reform of international economic and financial systems. Its sustained, steady growth constituted a substantial contribution to the prosperity and stability of the world economy.

71. **Ms. Sydnes** (Norway) noted a remarkable similarity in the goals of the Declaration and Programme of Action adopted at the South Summit, the meetings of the international financial institutions in

Washington, D.C. and the street protesters in Washington. Only national ownership and coordination among the multilateral institutions, donor countries, United Nations, the Bretton Woods institutions and the regional development banks would ensure the effectiveness of the various tools comprising the new development architecture — the United Nations Development Assistance Framework (UNDAFs), the common country assessments, the Comprehensive Development Framework and, in particular, the poverty reduction strategy papers (PSRPs). The high-level international intergovernmental consideration of financing for development, to be held in 2001, and the five-year review processes of the Fourth World Conference on Women and the World Summit for Social Development would provide excellent opportunities to enhance such coordination. The United Nations institutions should actively assist in formulating and implementing PRSPs at the request of the countries concerned.

72. She expressed concern at the underfunding of the Heavily Indebted Poor Countries Debt Initiative and called for a separate and transparent negotiating process to deal with that issue. Equally disturbing was the unacceptably low level of official development assistance. Norway, which was currently contributing 0.9 per cent of its gross national product, would be increasing that ratio to a full 1 per cent.

73. Lastly, UNDP should continue to act as the focal point for United Nations operational activities. In that connection, her delegation welcomed the UNDP Administrator’s business plan. The decline in financial support to UNDP was worrying.

74. **Mr. Martinez Aguilar** (Mexico) stressed the need for greater coordination between the United Nations and the Bretton Woods institutions; development with equity should be the focus of debates on globalization and the reform of the international financial system. His delegation welcomed the enhanced social dimension in the actions of the international financial institutions. Despite the many measures taken to improve coordination and oversight in the wake of recent international financial crises, much remained to be done. His delegation therefore strongly supported the decision to hold a high-level event on financing for development in 2001.

75. Anxious to provide regional input to the process of defining new international financial architecture with a social dimension, in September 1999, his Government, in collaboration with the Economic Commission for Latin America and the Caribbean, had organized a high-level regional meeting on the theme “Towards a stable and predictable international financial system and its relationship to social development”.

76. **Mr. Tidjani-Dourodjaye** (Observer for Togo) welcomed the heightened awareness of the situation of Africa demonstrated at the recent meetings held in Washington, D.C. In order to eradicate poverty, prevent the marginalization of Africa by globalization and increase the effectiveness of debt relief mechanisms, greater coherence among the United Nations, the Bretton Woods institutions and the World Trade Organization was essential.

77. **Mr. Metivier** (Canada) said that the poverty reduction strategy papers (PRSPs) introduced by the World Bank could well become the centrepiece of international cooperation to eradicate poverty. He cautioned that the full participation of all actors in the PRSP process must not be compromised in order to meet urgent HIPC deadlines. The PRSP process should be flexible in order not to prejudice countries with limited preparatory capacities; those countries should be given support from UNDP and other United Nations agencies and bilateral development agencies.

78. His delegation strongly supported the preparatory process for the high-level intergovernmental consideration of financing for development, to be held in 2001; all stakeholders should participate actively in the preparations in order to achieve the broadest possible consensus. The deliberations should be closely linked to the outcomes of the United Nations global summits and conferences of the past decade and should focus on international development goals.

79. **Mr. Cullen** (New Zealand), referring to the protests in Seattle and Washington, D.C., stressed the need for improved communication with the population at large. New Zealand had strong cultural, political and economic ties with small States in the South Pacific and welcomed the joint report issued by the Commonwealth Secretariat World Bank Joint Task Force on Small States.

80. His delegation supported the Heavily Indebted Poor Countries Debt Initiative. The new Government had recently agreed to contribute to the HIPC Trust Fund. As for the reform of international financial

architecture, he cautioned that improved disclosure and transparency alone were not sufficient to deal with the kinds of issues which had emerged in the Asian financial crisis. The risk that highly mobile opportunistic capital could undo years of gains in poverty reduction still loomed. With regard to Mr. Fischer’s remarks, he said that to redefine the role of IMF merely in terms of crisis management would be to lose sight of the broader issues of economic development and poverty reduction.

81. **Mr. E. A. S. Sharma** (India) said that his delegation had hoped that globalization and liberalization would yield more tangible benefits for the developing countries; thus far, the benefits derived under the WTO regime had fallen short of expectations. In particular, he called for fair and equitable terms of trade in agricultural commodities, textiles and leather goods in order to enable developing countries to finance their growth and development efforts.

82. India had been one of the first countries to adopt standards on the disclosure of financial data and was in the process of adopting international codes on transparency and good practice. It felt, however, that the adoption of standards and codes should be voluntary, since many countries were still in the process of developing appropriate institutions and legal frameworks.

83. In order to ensure the success of complex multisectoral poverty reduction programmes, the level of concessional aid to the developing world must be enhanced. Programmes must be community-owned and implemented through grass-roots democratic institutions that ensured the involvement of civil society. The role of the Bretton Woods institutions in the poverty alleviation process must be strengthened, not diminished.

84. **Mr. Drobnjak** (Croatia) said that multilateralism should be a key concern in shaping future international financial arrangements. The United Nations could play a vital role to that end and should use its comparative advantage and universal nature to promote policy coherence. Globalization and the liberalization of financial flows were related processes. Unlike trade flows, however, international financial flows were not sufficiently regulated.

85. Multilateralism and transparency were necessary in order to regulate financial flows at the international level. All States were stakeholders in that process; each country was responsible for implementing stable policies and economic and legal reforms.

86. The International Monetary Fund should play a greater role in crisis prevention and management, and the World Bank should stress social safety nets, institution-building, governance and environmental protection in helping countries to achieve a stable macroeconomic environment.

87. With regard to poverty eradication, he said that countries with economies in transition had not anticipated the importance of developing appropriate institutions. Swift liberalization and a lack of institutions and capacity had left many of those countries vulnerable to the impact of swift capital outflows. Based on lessons learned, macroeconomic policies and social and sectoral poverty reduction and governance policies would now be developed simultaneously.

88. The characterization of development as national or regional, and of financial integration as global, created an imbalance that must be addressed. His delegation hoped that the new financial architecture would give poverty reduction precedence over enriching the rich. In that connection, the IMF review of its non-concessional facilities, taking into account social conditions and individual country circumstances, was a step in the right direction. Noting the importance attached to open and competitive markets in the communiqué of the International Monetary and Financial Committee, he expressed the hope that Croatia would soon accede to the World Trade Organization.

89. **Ms. Herfkens** (Observer for the Netherlands), referring to question 8(c) of the note by the Secretary-General on strengthening international financial arrangements and addressing poverty (E/2000/8), cautioned against the formation of exclusionary mechanisms, such as the Group of 20 and the Financial Stability Forum (para. 5), and urged small and poor countries to air their views through more active participation in the deliberations and elections of the Bretton Woods constituency groups. Referring to question 9(b), she hailed the espousal of the international development targets agreed at the global United Nations conferences of the 1990s in the concessional programmes of the Bretton Woods institutions. The rapid implementation of the HIPC

initiative in five countries was extremely heartening. The United Nations and the Bretton Woods institutions should be supportive of home-grown, participatory poverty reduction strategies by countries themselves in order to enhance their effectiveness. She noted that the Netherlands and other donors had recently met in an effort to streamline procedures in that regard and that her country remained the largest contributor to the HIPC funding. She therefore appealed to other donors, particularly the Group of Seven, to increase their assistance; it was unacceptable that the initiative should be financed by other poor countries.

90. **Ms. Tuya** (Observer for Mongolia) said that effective poverty reduction required a political commitment at the national level and the formulation of a national poverty programme; partnerships between developing countries and the donor community; and perseverance. Mongolia had been implementing a national poverty alleviation programme for a number of years and had recently been one of the first countries in Asia to sign a Poverty Reduction Partnership Agreement with the Asian Development Bank.

91. Other key elements of poverty reduction included good governance and attention to the special needs of landlocked developing countries. With regard to the latter, she noted the proposal put forward at the recent South Summit to convene a ministerial meeting on transit transportation in the year 2003. In that context, she called for increased international cooperation and donor support for landlocked developing countries, which paid twice as much as other developing countries for transport and insurance. Equally vital to poverty reduction were public-private partnerships, particularly in the area of information technology, and putting a stop to the decline in official development assistance.

92. **Mr. Samad** (Observer for Bangladesh), supporting the remarks of the representative of Germany, called for a fair and equitable trade regime in order to ensure that equitable market access and fairer private flows replaced concessional aid to developing countries. It was to be hoped that the new poverty reduction strategy would also establish less demanding conditionalities.

93. For the past three years, his Government had carried out a growth-oriented poverty eradication strategy which included targeted programmes for the empowerment of the disadvantaged. Thus far, poverty in Bangladesh had been reduced from 48 per cent to 44 per cent. Stressing the direct linkage between finance and poverty reduction, he expressed support for the statement made by the representative of Saint Lucia on behalf of CARICOM, echoing, in particular, the call for greater access by the poor to institutional sources of credit, financial liberalization, greater transparency and better supervision of the financial system, particularly non-bank financial intermediaries. IMF should play a stronger role in crisis prevention. The protesters in Seattle and Washington should be heeded; it was imperative to ensure that the new financial system was more equitable and gave the poor and disadvantaged a genuine say.

94. **Mr. Kemp** (Observer for Australia) welcomed the comprehensive development framework and poverty reduction strategy papers as vital poverty reduction tools in the smaller and more vulnerable countries. The international community must also reduce barriers to market access for developing country exports. As the representative of Mongolia had indicated, domestic governance was crucial to poverty eradication. Indeed, Australia had weathered the Asian financial crisis through sound macroeconomic policies; a flexible and responsive economy characterized by the liberalization of trade, labour and financial markets and government reform; open and transparent domestic institutions; and sound governance. He expressed support for the comments of the representative of Saint Lucia on behalf of CARICOM and the representative of New Zealand concerning the need to focus on the problems of small States, particularly small island States. The vulnerabilities of those States were highlighted in the joint report of the Commonwealth Secretariat and the World Bank and should be taken into account by policy makers in international institutions, including those responsible for multilateral trade, finance and development.

95. **Monsignor Martin** (Observer for the Holy See) said that rarely had economic and social goals been so closely linked. In an information age, when people were seen as the chief resource, there were practical as well as moral motives for developing their potential to the utmost. Yet there were still inconsistencies in policy and an apparent incapacity to see what was in everyone’s best interest.

96. There were a few points the Holy See would like to stress. First, funding for the Heavily Indebted Poor Countries (HIPC)Debt Initiative must be found rapidly;

the initiative could not survive on promises. Second, the proposed opening of market access for the poorest countries should apply to all their exports; many of the exceptions contemplated would affect products in which they had the greatest comparative advantages. Moreover, access should be extended to middle-income developing countries as well. Lastly, there was need not only for greater involvement by civil society in the development of poverty reduction strategies but also for active investment in civil society to strengthen its capacity for involvement. The Holy See was launching a programme to help religious bodies participate more effectively.

97. Since war was the greatest obstacle to growth and development, he would like to ask the panellists whether it would be possible to raise the question of military expenditure when discussing poverty reduction strategies.

98. **Ms. King** (United States of America) said that she wished to endorse two of the points made by the representative of the Netherlands, regarding the need for appropriate representation at the international financial institutions and the assurance that the outcomes of United Nations global conferences were being implemented daily at those institutions.

99. The United States strongly supported the transformed approach being taken by the World Bank and IMF to make poverty reduction the overarching objective of their programmes for countries in greatest need. At the same time, the Bank should take primary responsibility for clearer and tighter linkages between operational programmes and performance indicators, while the Fund continued its role of macroeconomic evaluation in order to ensure a sustainable financing framework for development.

100. The balance should continue to shift in favour of support to countries where there were expectations that assistance would be well used and procedures should be streamlined. Performance targets should be clear, measurable and realistic, with more frequent formal reviews and disbursement should proceed in stages against performance indicators.

101. The international financial institutions should be more accountable to shareholders and to those affected by their actions. That would require greater public access to information, more consistent application of policies across regions and systematic use of readily monitored indicators.

102. **Sir Jeremy Greenstock** (United Kingdom) said that the task at hand was to bring together the monetary, financial, fiscal and social aspects of development into a coherent whole. Governments and institutions could no longer legislate on financial flows in a social policy vacuum. Such a fusion of policies provided a sound bedrock for development in normal times and helped countries weather crises. Sound social policy principles were essential and entailed four basic elements: universal access to basic social services, secure livelihoods and decent working conditions, social protection against shocks, and social integration. The United Nations had an important role to play in developing those guiding principles, not only because the World Bank had requested its help, but also because the Organization had a comparative advantage through its leadership in social policy and its experience in linking national diversity and local development models. A fusion of social and economic policies would benefit not only World Bank client countries, but all Member States, including the richer nations.

103. Insufficient attention had been paid to the link between security and development. There was a need for greater coordination between the Security Council, the Economic and Social Council and the Bretton Woods institutions on that issue.

104. **Mr. Bøjer** (Denmark), speaking as co-chairman of the preparatory committee for the high-level intergovernmental event on financing for development in 2001, said that the event would offer the first opportunity to address social and economic development in a coherent fashion, with the contribution of all the main actors. It would, of course, be meaningless without the active participation of the Bretton Woods institutions. The Executive Board of the World Bank had suggested some very constructive modalities for interaction with the preparatory committee, and he hoped that equally useful arrangements could be set up with IMF and WTO.

105. **Mr. Dausá Céspedes** (Cuba) said that never before had humanity’s scientific and technical opportunities for development been so great; yet inequality and injustice were worsening. The external debt of the developing countries was growing far more rapidly than it had during the 1970s, and the latter were now more vulnerable than ever to the devastating effects of currency speculation and sudden reversals of short-term capital flows. In the name of free trade, the countries of the South had unilaterally dismantled their

protective mechanisms, while the developed countries continued to practice selective protectionism. Events both within and outside the conference rooms at the WTO Ministerial Conference in Seattle and the Development Committee session in Washington, D.C., had shown that increasing sectors of public opinion were opposed to the present system; that judgement had been reaffirmed at the recent South Summit in Havana.

106. Bearing in mind the disturbing statistics regarding the millions of undernourished people and physically underdeveloped and uneducated children in the world, one would have to conclude that the present world economic order was working for only about 20 per cent of the world's population. That situation was not only unjust but unsustainable.

107. **Mr. Sandström** (Managing Director of the World Bank), referring to the HIPC initiative, said that the Bank was focusing on four aspects, the first being the development of poverty reduction strategy papers (PRSPs), in an effort to link debt relief to poverty reduction. There was a trade-off between speed and quality, since it necessarily took longer to involve countries deeply in planning their strategies, so that they had a sense of national ownership. It was at the strategy-development stage that the question of military expenditure could be raised with the countries. The second, funding for HIPC, posed a major challenge. So far $2.4 billion had been pledged, only a fraction of what would be needed over the next few years. Debt relief provided to date was $15 billion, including commitments still to be funded. Thirdly, the Bank was working to involve the regional development banks, including the African Development Bank and the Inter-American Development Bank, and, lastly, it was exploring ways to expand the circle of bilateral creditors by encouraging fuller participation by non-Paris Club creditors. A special challenge was to work out means of providing support for the involvement of creditors which were themselves heavily indebted poor countries.

108. Although many speakers had expressed the desire to see the initiative expanded to include lower-middle-income countries, he himself did not feel that was necessary. Such countries had recourse to other debt relief mechanisms, including the Paris Club.

109. On trade issues, the World Bank, IMF and WTO had achieved smooth collaboration and policy coherence. The Bank's concerns in that regard were to provide financial support for developing countries making the transition to a more open economy and trading system; to assist in capacity-building; to review the experience with the integrated framework for trade-related technical assistance to least developed countries to see what changes might need to be made; and to do further research on trade barriers and other problems experienced by countries in implementing the Uruguay Round agreements.

110. The poverty reduction strategy papers had significance far beyond debt relief. If they were well worked out and truly "home-grown", they could greatly improve coordination between the Bretton Woods institutions and United Nations agencies and he appealed to agencies and donors to support the process.

111. **Mr. Gygi** (Chairman of the Group of 10) noted that questions had been raised about the representativeness of the Bretton Woods institutions. As lending institutions, they were organized around the economic strength of the member countries. Voting power on the Board represented quotas. He was grateful to the observer for the Netherlands for defending the system of representation through constituencies within the system. He would not venture to say in what ways the system might be altered; the present institutional rules were at least very clear and well-defined, and that provided a measure of protection for small countries. If changes were to be made, it must be done within the institutions themselves.

112. **Mr. Fischer** (Acting Managing Director of the International Monetary Fund) said that the Fund considered its participation in the high-level intergovernmental event on financing for development a very important matter and would soon be considering the modalities for doing so.

113. Noting that one delegation had asked whether the emphasis on free trade was intended to compensate for the decline in aid, he said that the Fund considered trade and aid to be complementary approaches contributing to development. It was by no means neglecting aid and kept track of aid-giving percentages in its country surveillance reports. At the same time trade liberalization was one of the best ways for a developing country to take advantage of world economic growth.

114. The most effective and least expensive form of cooperation between the World Bank and the Fund was

through informal contacts between officials working on the same countries. In some areas, more formal mechanisms had been set up. The joint committee on financial sector cooperation was working very well, and a joint implementation committee had been set up for work on the HIPC initiative. The new approach agreed on would definitely be followed; IMF would constantly take into account the social implications of its actions, even as the World Bank considered the macroeconomic implications of its advice. As important as Bank and Fund strategies were, however, he would venture to say that the new country strategies were even more important.

115. The advice given to countries by the Fund on standards and codes was strictly voluntary. Countries often found it useful, when setting up or amending a system, to have information on what practices were followed in other parts of the world in that regard. The Fund had developed financial sector assessments, which were available to countries that requested them, as many had. Naturally, a country had to take into account its economic level and institutional capacity in deciding how complex a system was appropriate.

116. In response to the question about military expenditure, the Fund did indeed include the level of military expenditure in its surveillance. When the practice had first been introduced, there had been strong opposition in some quarters, but it had been found essential for assessment of the overall financial situation. It was hard to justify debt relief in the face of large military expenditures. The Fund did not, however, ask for a breakdown of military expenditures, but considered overall amounts and trends.

117. **Mr. Suárez** (Chairman of the Group of 24) said that the Group was wholly in agreement on the need to find funding promptly for the HIPC initiative, including funds to finance capacity-building for the countries in devising their poverty reduction strategies. With regard to trade liberalization, the Group would like to see the greater openness shown by emerging economies reciprocated by the industrialized countries, especially in the areas of agricultural products and textiles. The Group of 77 had asked the Group of 24 for its help in preparing for the event on financing for development to be held in 2001.

118. **The President** said that the state of the world economy offered grounds for both satisfaction and concern. Many parts of the world were experiencing sustainable expansion or recovering from recent crises. World trade was growing and commodity prices were rising. Yet many countries were not sharing in that growth, and poverty remained a formidable challenge. There was a consensus that globalization was an uneven process that warranted policy reforms.

119. It was clear from the day's discussion that reform of the global financial system was an ongoing process involving many actors. Clearly, too, there was agreement that, although the private sector could play a critical role in finance and entrepreneurship, government must perform functions that the private sector could not in such areas as reducing poverty, combating HIV/AIDS and achieving universal education.

120. He believed that the day's meeting had achieved its goal of enabling the respective institutions to do their work more effectively. It was important for the Council to remain abreast of the thinking of the international financial institutions and important, too, for the leaders of those institutions to hear the views of representatives of the Governments. The meeting had demonstrated the value of that dialogue.

The meeting rose at 1.55 p.m.