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Macroeconomic policy questions: international financial system and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 84 (e) (see A/57/529, para. 2). Action on sub-item (e) was taken at the 12th and 42nd meetings, on 17 October and 10 December 2002. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/57/SR.12 and 42).

II. Consideration of draft resolutions A/C.2/57/L.4 and A/C.2/57/L.72

2. At the 12th meeting, on 17 October, the representative of Venezuela, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "International financial system and development" (A/C.2/57/L.4), which read:

"*The General Assembly*,

"*Reaffirming* its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled 'Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and the promotion of economic and social equity',

* The report of the Committee on this item will be issued in seven parts, under the symbol A/57/529 and Add.1-6.

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“*Recalling* the United Nations Millennium Declaration, adopted by the Heads of State and Government on 8 September 2000,

“*Recalling also* General Assembly resolution 56/210 B of 9 July 2002, in which the Assembly endorsed the Monterrey Consensus of the International Conference on Financing for Development, which was adopted by the Conference on 22 March 2002,

“*Emphasizing* that the international financial system should support development and allow for the mobilization, in a coherent manner, of all sources of international financing for development, including private capital flows, market access for goods and services from developing countries, official development assistance and external debt relief,

“*Expressing concern* at the fact that developing countries have made net outward transfers of financial resources over the last five years and underlining the need for measures at the national and international levels to reverse this trend,

“*Taking note* of the report of the Secretary-General entitled ‘International financial system and development’,

“1. *Expresses deep concern* over the difficulties of the present world economic situation and stresses the importance of confronting it through strong cooperative efforts by all countries and institutions, improving global economic governance and strengthening the United Nations leadership role;

“2. *Invites* developed countries, in particular those that have significant influence in the world economy, to take into account, in the formulation of their macroeconomic policies, their impact on global economic growth and development;

“3. *Underlines* the importance of promoting financial stability and emphasizes the need for policies and rules that mitigate the impact of financial volatility and improve transparency and information about financial flows;

“4. *Emphasizes* the need to strengthen ongoing efforts to reform existing international financial architecture, to foster a transparent, equitable and inclusive system that is able to provide for the effective participation of developing countries in the international economic decision-making processes and institutions, as well as for their effective and equitable participation in the formulation of financial standards and codes;

“5. *Takes note* of the decisions taken by the Development Committee (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries, as contained in the attachment (on the International Conference on Financing for Development) to the communiqué of the Committee issued at its sixty-fourth meeting, held on 18 November 2001, in particular the decision contained in paragraph 9 of the attachment to identify pragmatic and innovative ways to further enhance participation of developing countries in international decision-making and norm-setting, and encourages all relevant international financial institutions to take concrete measures towards this end;

“6. *Invites* the International Monetary Fund to continue its work on the allocation of quotas and the establishment of a total amount of quotas that reflect the present economic realities and emphasizes that the review of the formulas used to calculate members’ quotas should eliminate the existing bias that results in an underestimation of the size of developing-country economies;

“7. *Calls* for the creation of an enabling international economic environment and the adoption of effective measures, including new financial mechanisms, in order to support developing countries’ efforts to achieve sustained economic growth, sustainable development and the strengthening of their democratic systems, while reaffirming the leading role of national Governments in the developing process of each country;

“8. *Emphasizes* that the international financial institutions, in supporting national programmes, should be sensitive to social circumstances and implementing capacities, concentrate on macroeconomic policies critical to the objectives of the programme, take into account the need for economic growth and development, and strengthen national ownership of the programme;

“9. *Calls upon* the multilateral, regional and subregional development institutions to reinforce financial and technical support to developing countries in order to mitigate the lack of access to private capital and the sharp reduction of international financial flows, as well as to contribute to their efforts of increasing economic growth and reducing poverty;

“10. *Stresses* the need for actions to strengthen corporate governance, accounting and auditing, in particular when inadequate policies can have systemic consequences, and, in this regard, takes note of paragraph 3 of the communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, issued on 28 September 2002;

“11. *Recognizes* the important role of international financial institutions in supporting all countries affected by financial crises and emphasizes that these institutions should be provided with adequate resources so that they can supply timely emergency financing;

“12. *Stresses*, in the consideration of new debt resolution mechanisms, the importance of a broad discussion with the participation of all interested actors, invites the international financial institutions to take into account social aspects and the borrowing costs for developing countries, and reiterates that the adoption of such mechanisms should not preclude emergency financing in times of crises;

“13. *Underlines* the need to explore ways of generating new public and private innovative sources of finance for development purposes, provided that those sources do not unduly burden developing countries, and takes note of the proposal of using special drawing rights allocations for development purposes, set forth in paragraph 44 of the Monterrey Consensus of the International Conference on Financing for Development;

"14. *Requests* the Secretary-General to report to the General Assembly at its fifty-eighth session on the implementation of the present resolution under the sub-item entitled 'International financial system and development'."

3. At the 42nd meeting, on 10 December, the Vice-Chairman of the Committee, Abdellah Benmellouk (Morocco), introduced a draft resolution entitled "International financial system and development" (A/C.2/57/L.72), which he submitted on the basis of informal consultations held on draft resolution A/C.2/57/L.4.

4. At the same meeting, the Committee adopted draft resolution A/C.2/57/L.72 (see para. 7).

5. After the adoption of the draft resolution, the representative of the United States of America made a statement (see A/C.2/57/SR.42).

6. In the light of the adoption of draft resolution A/C.2/57/L.72, draft resolution A/C.2/57/L.4 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

7. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

International financial system and development

The General Assembly,

Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled "Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity",

Recalling also the United Nations Millennium Declaration,[1] adopted by the heads of State and Government on 8 September 2000,

Recalling further its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development,[2] which was adopted by the Conference on 22 March 2002, as well as the Johannesburg Plan of Implementation,[3] adopted at the World Summit on Sustainable Development on 4 September 2002,

Reiterating that success in meeting the objectives of development and poverty eradication depends on good governance within each country and at the international level, and stressing that sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for

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[1] See resolution 55/2.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[3] *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1), chap. I, resolution 2, annex.

sustained economic growth, poverty eradication and employment creation, and that transparency in the financial, monetary and trading systems and the commitment to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system are equally essential,

Emphasizing that the international financial system should support sustainable development, sustained economic growth and poverty reduction and allow for the mobilization, in a coherent manner, of all sources of financing for development, including the mobilization of domestic resources, international flows, trade, official development assistance and external debt relief,

Expressing concern about the fact that developing countries have made net outward transfers of financial resources over the last five years, and underlining the need for measures at the national and international levels to reverse this trend, while taking note of efforts to this end that have been made thus far,

Taking note of the report of the Secretary-General,[4]

1. *Expresses concern* about the difficulties of the present world economic situation, stresses the importance of confronting it through strong cooperative efforts by all countries and institutions, and underlines the importance of continued efforts to improve global economic governance and strengthen the United Nations leadership role in promoting development;

2. *Stresses* the importance of strong domestic institutions to promote business activities and financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors;

3. *Stresses* the special importance of creating an enabling international economic environment through strong cooperative efforts by all countries and institutions to promote equitable economic development in a world economy that benefits all people, and in this context invites developed countries, in particular major industrialized countries, which have significant weight in influencing world economic growth, when formulating their macroeconomic policies, to take into account their effects in terms of an external economic environment favourable to growth and development;

4. *Underlines* the importance of promoting financial stability, and reiterates that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

5. *Notes* that important international efforts are under way to reform the international financial architecture, emphasizes that those efforts need to be sustained with greater transparency and with the effective participation of developing countries and countries with economies in transition, and that one major objective of the reform is to enhance financing for development and poverty eradication, and underscores furthermore the commitment, set forth in paragraph 53 of the Monterrey Consensus,[2] to sound domestic financial sectors, which make a

[4] A/57/151.

vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development;

6. *Takes note* of the communiqué of the Development Committee of 28 September 2002, in particular its paragraph 10, on the need to identify pragmatic and innovative ways to enhance further the participation of developing countries and countries with economies in transition in international decision-making and norm-setting, and encourages all relevant international financial institutions to take concrete measures to this end;

7. *Invites* the International Monetary Fund to continue its work on quotas, and welcomes the continuing consideration by the Fund of its quota review and the reiteration by the International Monetary and Financial Committee that the Fund should have adequate resources to fulfil its financial responsibilities and that quotas should reflect developments in the international economy;

8. *Underlines* the importance of adopting effective measures, including new financial mechanisms, as appropriate, to support the efforts of developing countries to achieve sustained economic growth, sustainable development, poverty reduction and the strengthening of their democratic systems, while reaffirming that each country has primary responsibility for its own economic and social development, and that national policies have the leading role in the development process;

9. *Stresses* the need for multilateral financial institutions, in providing policy advice and financial support, to work on the basis of sound, nationally owned paths of reform that take into account the needs of the poor and efforts to reduce poverty, and to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition, aiming at economic growth and sustainable development, and that the advice should take into account social costs of adjustment programmes, which should be designed to minimize negative impacts on the vulnerable segments of society, and underscores the importance in this regard of gender-sensitive employment and poverty eradication policies and strategies;

10. *Invites* the multilateral, regional and subregional development institutions to complement national efforts to strengthen domestic financial and regulatory systems with a view to creating a transparent, stable and predictable investment climate and thus attracting and enhancing inflows of productive capital, thereby contributing to increasing economic growth and eradicating poverty;

11. *Also invites* the multilateral and regional development banks to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, to contribute to providing an adequate supply of finance to countries that are challenged by poverty, follow sound economic policies and may lack adequate access to capital markets, and to mitigate the impact of excessive volatility of financial markets, and underlines that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency, and that they serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries;

12. *Stresses* the need for structural reforms to strengthen corporate governance, accounting and auditing, in particular when inadequate policies can have systemic consequences;

13. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, and in this regard underscores that it is also essential to ensure implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion, and stresses the need for the International Monetary Fund to strengthen further its surveillance of all economies, with particular attention to short-term capital flows and their impact;

14. *Notes* the impact of financial crisis or risk of contagion in developing countries and countries with economies in transition, regardless of their size, and in this regard underlines the need to ensure that the international financial institutions, including the International Monetary Fund, have a suitable array of financial facilities and resources to respond in a timely and appropriate way in accordance with their policies;

15. *Stresses*, in the consideration of any new debt resolution mechanism, the importance of a broad discussion in the appropriate forums, with the participation of all interested actors, welcomes the steps taken by the international financial institutions to take into account social aspects and the borrowing costs for developing countries, encourages them to continue their efforts in that regard, and reiterates that the adoption of such a mechanism should not preclude emergency financing in times of crisis;

16. *Encourages* the exploration of ways of generating new public and private innovative sources of finance for development purposes, provided that those sources do not unduly burden developing countries, and takes note of the proposal of using special drawing rights allocations for development purposes, set forth in paragraph 44 of the Monterrey Consensus;

17. *Requests* the Secretary-General to report to the General Assembly at its fifty-eighth session on the implementation of the present resolution;

18. *Decides* to include in the provisional agenda of its fifty-eighth session, under the item entitled “Macroeconomic policy questions”, the sub-item entitled “International financial system and development”.