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ECONOMIC AND SOCIAL COUNCIL

Substantive session of 2003

PROVISIONAL SUMMARY RECORD OF THE 13th MEETING

Held at the Palais des Nations, Geneva,
on Monday, 30 June 2003, at 9.30 a.m.

President: Mr. ROSENTHAL (Guatemala)

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

OPENING OF THE SESSION

The PRESIDENT declared open the substantive session of 2003.

ADOPTION OF THE AGENDA AND OTHER ORGANIZATIONAL MATTERS (provisional agenda item 1) (E/2003/65 and 100; E/2003/L.5 and L.6)

The provisional agenda was adopted.

The PRESIDENT said he took it that the Council wished to approve the proposed programme of work (E/2003/1).

It was so decided.

STATEMENT BY THE PRESIDENT

The PRESIDENT said that the high-level policy dialogue marked one of the rare opportunities in which the Members of the United Nations came together with their main multilateral partners in the economic and social sectors to reflect jointly on the state of the global economy and to renew their commitment to supporting each other in their respective mandates. The current dialogue came midway between the last meeting of the Economic and Social Council with the Bretton Woods institutions and the World Trade Organization (WTO), held on 14 April 2003, and the next meeting, scheduled to take place in October 2003, under the aegis of the General Assembly.

The dialogue took place against the backdrop of a disappointing global economic environment. Despite supportive macroeconomic policies in the major economies, the rebound, while appearing to be under way, remained anaemic. According to current forecasts, few developing countries were expected to return to their desirable long-term growth rates before the end of 2004. The first few years of the new millennium had thus seen unsatisfactory performance in most developing countries, with some notable exceptions, and a significant setback for many of them. The Millennium Development Goals (MDGs) were beginning to look unattainable within the time frame originally proposed.

Consequently, renewed, concerted and sustained efforts were required from all actors, in order to rise to the multiple challenges ahead. It was important to meet the broad commitments made in the Millennium Declaration and the more detailed proposals agreed to in Doha, Monterrey and Johannesburg. He hoped that the forthcoming discussion would make a strong contribution to those efforts.

STATEMENT BY THE SECRETARY-GENERAL OF THE UNITED NATIONS

The SECRETARY-GENERAL said that, while it might not be true that “a rising tide lifts all boats”, it was certainly true that, in bad weather, the weakest boats were the most vulnerable. It was bad news for developing countries, therefore, that, contrary to expectations, the world economy had yet to recover from its slowdown in 2001, which had been its largest setback in a decade. More than 30 developing countries had actually experienced a drop in per capita income in each of the previous two years, and few could expect to enjoy adequate growth again before the end of 2004. Moreover, the risk of deflation, the spread of disease, rising unemployment in some countries, overcapacity in several sectors, and lingering geopolitical concerns were combining to undermine confidence, hinder investment and, as ever, make the lives of the poor much bleaker.

In the face of those threats, the immediate and overriding task was to stimulate economic growth. Over the long term, however, combating poverty and achieving the Millennium Development Goals (MDGs) would require more than that. It was imperative not to lose sight of the agenda, universally agreed upon at Doha, Monterrey and Johannesburg, to tackle more fundamental development challenges. Those conferences had defined a new global partnership for development. They had provided clear strategies for bringing real vigour to the development process and for deploying resources - domestic and foreign, human and financial, existing and new - where they could have the greatest impact. The challenge remaining was no longer to decide what to do but, simply, to do it.

However, while major strides had been made towards linking financing and development, much remained to be done to make it easier for poor countries to improve their situation through trade. The programme agreed to in Doha was more than just another round of trade negotiations.

It aimed at eliminating the unfair competition faced by farmers and producers in poor countries, and at opening developed-country markets to developing-country goods - especially agricultural products. It sought to give poor people better access to life-saving medicines, while preserving the incentives for medical research. In the broadest sense, it could provide a powerful engine of growth, thereby facilitating the attainment of the MDGs.

That was a reasonable, achievable set of goals. Yet success was by no means assured. There were only 10 weeks left before the ministerial meeting in Cancún, and key deadlines had been missed. The time had come for all parties to show more flexibility, and to give priority to the global interest. It was not too late to avoid a setback for economic development.

Clearly, even a successful outcome on trade would not mean that the developing countries could manage without aid and debt relief. That was especially true of the least developed countries. Galvanizing development and seizing new trading opportunities depended on technologies, transport, capital and many other factors. Developed countries and aid agencies could make an important contribution, not by doing the heavy lifting, which was the responsibility of the developing countries themselves, but by helping to build the infrastructure, develop the human resource base and adopt sound policies. For poor countries to achieve "take-off", two doors needed to open: the door to markets in the developed world, and the door in developing countries that internal barriers too often kept closed, stifling the entrepreneurial energies of their people.

Fortunately, the long and troubling decline in aid appeared to have been halted, but aid flows were still at the mercy of recession and spending cuts in some key countries belonging to the Organisation for Economic Cooperation and Development (OECD). Moreover, even if the commitments made in Monterrey were fulfilled, the total would still fall far short of the US$ 100 billion per year necessary to achieve the MDGs. Some very promising proposals, such as the International Finance Facility, put forward by the Chancellor of the Exchequer of the United Kingdom, Mr. Gordon Brown, had emerged for increasing aid still further, and improving its quality. He urged donors to keep an open mind and to act on the basis of everyone's shared interests.

The world's rural areas were where all of those concerns came together, where the needs were greatest and the suffering most acute, and could be called the locus of global poverty. Rural development had rightly been chosen as the theme for the high-level segment at the Council's current session. Approximately three quarters of the world's poorest people, defined as those living on $1 or less per day, lived in rural areas. Some 900 million such people drew their meagre livelihoods from agriculture and other rural activities. They were on the front lines of drought, desertification and environmental degradation. They were the farmers - women above all - whose hard labour was undermined by protectionism, meagre infrastructure and, increasingly, the spread of acquired immunodeficiency syndrome (AIDS). They were the indigenous peoples, herders, artisans, fisherfolk and others, whose struggles in isolated areas all too rarely captured the world's attention.

Addressing the needs of those men, women and children would provide real hope of achieving the MDGs. Empowering those resourceful and resilient individuals would enable them to demonstrate how to fight poverty and hunger.

Rural development entailed more investment in agricultural research and in developing higher yield crops adapted to local conditions, as well as efficient water management, resulting in "more crop per drop". It involved increasing non-farm income and employment, so that the rural poor were less vulnerable to crop failures or other calamities. It meant secure land tenure and, in some places, land reform. It meant a new green revolution: more productive and sustainable farming. It meant focusing on the least developed countries, in accordance with the Brussels plan of action, whose progress the Council would be reviewing for the first time. It would require developed countries to allow agricultural products from developing countries to reach their markets, unimpeded by direct or disguised barriers such as subsidies.

All that could happen only with a real commitment to bringing rural development back to the centre of the development agenda. After a sharp decline in support for agriculture and rural development over the past decade, it was beginning to be realized, once again, that they were central to the entire development agenda. Nowhere would the commitment of all actors be put to the test more than in Africa, where food insecurity and AIDS were working in vicious tandem to thwart the continent's rural development. As a central United Nations body for development policy and policy coherence, the Economic and Social Council must ensure that the United Nations system brought all its capacities to bear on those challenges - in integrated fashion, and working in concert with the full range of partners.

He wished the Council every possible success in its deliberations.

PROMOTING AN INTEGRATED APPROACH TO RURAL DEVELOPMENT IN DEVELOPING COUNTRIES FOR POVERTY ERADICATION AND SUSTAINABLE DEVELOPMENT

High-level policy dialogue and discussion on important developments in the world economy and international economic cooperation with the executive heads of international trade and finance institutions of the United Nations system

Mr. RICUPERO (Secretary-General of the United Nations Conference on Trade and Development (UNCTAD)) said that, rather than focusing on the misery in the rural areas of the poorest countries, he proposed to concentrate on the plight of poor farmers in the richest agricultural economies of the developed world. While that might seem a nonsensical approach at a time when wealthy economies were spending nearly US$ 1 billion per day - six times more than the amount they provided in foreign aid - supposedly to help small producers, the fact remained that, over the past 15 years, small farmers in the richest countries had become poorer and poorer. If the most forceful moral and political justification for subsidies was that they were needed to save the peasants, then the facts demonstrated that they were not achieving their purpose. Therefore they should either be abandoned altogether or replaced by something more effective.

Not only did farm subsidies cruelly fail to help the poor in the North, they also seriously harmed poor peasants in the South. As a result, the promotion of an integrated approach to rural development in developing countries could be achieved only by the prompt elimination of the external constraints that currently made it impossible.

In a New York Times article of 15 December 2002, entitled “Drugs, Poverty and Crime Plague Rural US”, Timothy Egan asserted that rural ghettos were emerging in the United States in the same way that the inner cities had unravelled in the 1960s and 1970s. Decades of economic decline had produced a culture of dependency on farm subsidies, accompanied by a frightening rise in crime and drug abuse. Drug-related murders had tripled over the last decade in rural areas, leaving some sparsely populated counties with higher murder rates than New York City. At the same time, there had been a continuing exodus from the rural areas, with several states losing 9 per cent or more of their population during the 1990s. Specific reference was made to the correlation between rural poverty and agricultural subsidies.

The situation was hardly more encouraging in the French countryside, where the number of suicides had been increasing rapidly, particularly among young, highly-indebted farmers. An Oxfam study had pointed to the highly skewed pattern of French subsidy distribution, which left many small farms with nothing at all, while 15 per cent of farms enjoyed 60 per cent of the total payments. Over the past 12 years, the peasant population of France had declined by one third, owing to the increasing refusal of young people to follow in their parents' footsteps.

The overall amount of subsidies in France and the United States had continued to rise, even after the Uruguay Round commitments undertaken by those countries to reduce subsidies. At the same time, the peasant population had been vanishing, and the average farm doubling in size. The simple reason for that contradiction was that, far from benefiting small farmers, agricultural support went overwhelmingly to large-scale, capital-intensive agriculture, owing to the fact that subsidies were closely linked to production levels and land ownership. Consequently, existing inequalities were significantly deepened by agricultural subsidies.

Farmers in poor countries paid the price for the social welfare doled out to rich-country farmers. Subsidies were necessarily linked to high market access barriers, even if, as the European Commission proposed, they were decoupled from production or prices. Consequently, they limited markets for exports from developing countries. Furthermore, whenever subsidized products entered the world market, they drove prices down, having a damaging impact on exporters from the developing countries. Agricultural support in OECD economies insulated producers from world price changes, shifting the burden of adjustment to the poor. Such instability led to fiscal and balance-of-payments problems. Lastly, as subsidized foodstuffs entered the markets of poor countries, they competed unfairly with local producers, who were often driven out of business altogether. They therefore created an artificial dependency on foreign suppliers, aggravating the problem of food security whenever food aid disappeared and prices went up.

Preliminary reports were unable to confirm whether the latest changes proposed by the European Commission would substantially change the current pattern of concentration of payments in the hands of large farmers, or whether the result would be a less trade-distorting system. There were still a number of points to be clarified: (a) whether there would be a quantitative cap in payments to large farms and what the final percentage of reduction in subsidies to that privileged category would be; (b) whether decoupling was supposed to remain partial and when it would be extended to products such as sugar and cotton; and (c) how the criterion of aligning payments to past performance would be reconciled with the aim of decoupling them from production and prices. In spite of those uncertainties, the recent decision by the European Union represented a step in the right direction, and it was to be hoped that the United States administration would follow suit.

The farm support systems of the OECD nations had a serious and direct impact on the prospects for poverty reduction to which the MDGs aspired. Nowhere was that linkage more dramatic and morally indefensible than in the case of the cotton crisis currently affecting West African countries, which had been brought on by the subsidy policies of the European Union, China and, above all, the United States. When world cotton prices declined in May 2002, Africa as a whole lost about US$ 300 million, while the United States, despite considerably higher production costs, was able sharply to increase its share of the world market. The resulting losses for Burkina Faso were greater than the amount it received in debt relief under the heavily indebted poor countries (HIPC) initiative, and those for Mali and Benin exceeded what they received in United States aid. Aside from its importance for agricultural production and exports in West African countries, cotton was frequently the only engine of local industrialization. Every additional dollar generated in the rural economy could raise income by as much as three dollars. That was in stark contrast to the situation in the United States, where cotton producers received more subsidies than any other group of farmers.

A decision should be taken at Cancún to introduce an accelerated phase-out of production subsidies and immediate transitional compensation to be provided by Northern cotton producers. Anything short of that would be seen as an additional blow to countries struggling to escape the poverty trap created by unfair external constraints, such as subsidies for the rich, and would continue to restrict any serious attempt to address the issue of rural development.

Ms. RAMPHELE (Managing Director, World Bank) said that the debate concerning the rural sector was of unique relevance to the broader discussion relating to trade, poverty, empowerment, health, education and other issues. There were two main obstacles currently restricting development and progress on poverty reduction: on the one hand, there was the slow pace of global growth and, on the other, the influence of geopolitics on economics in general and on the risks taken in terms of investment. The poverty agenda was the most urgent priority, because combating poverty, giving opportunity to citizens, and providing development programmes were the keys to achieving peace and security.

Recent United Nations conferences and summits, and the process of embedding their results into the work of the Development Committee and implementation commitments guided by the Bank, had created a common platform for multilateral development efforts.

Development was all about fundamental changes in economic structures, for example migration from rural areas to the cities, transformations in technology and trade, increasing productivity in agriculture, services and industry, and changes in social life. The challenge to policy makers was to help release and control those forces of change. The objective of development was to enable people to shape their own lives. A two-pillar strategy for development had been adopted, of which the first pillar was the creation of a supportive investment climate, one that encouraged the informal sector, small and large firms, in rural and urban areas alike, to invest, create jobs, and increase productivity. Global growth, long-term debt sustainability, lower trade barriers and subsidies in agriculture, coupled with a wider distribution of foreign direct investment (FDI), were all required. The second pillar focused on the empowerment of and investment in poor people by giving them access to education, health, and social protection, and enhancing mechanisms to enable them to participate in the decisions that shaped their lives. Country ownership of the reforms, domestic mobilization of resources, social inclusion, effectiveness of development initiatives and the compact between developed and developing countries as articulated in the MDGs were all essential for a major scaling-up effect.

The two-pillar approach was a practical way for the Bank to implement the agreed development compact of the United Nations conferences; it was also an attempt to move beyond the “Washington consensus” and a first step toward implementing follow-up actions to the

Monterrey, Doha and Johannesburg consensus in an integrated manner. Fiscal discipline, market-determined exchange and interest rates, protection of property rights, liberalization, openness to trade, and so forth were universally accepted tenets; more controversial was the role of other factors and considerations such as governance, empowerment, country ownership, social costs and the pace of transformation.

It was imperative to monitor achievement of the MDGs and related outcomes and to draw appropriate lessons. At the meetings of the Bretton Woods institutions in April 2003, the Development Committee had asked managers to devise a framework for monitoring policies and actions intended to achieve the MDGs and related outcomes. In such a framework, developed countries needed to increase market access for developing-country exports and to focus their aid efforts. Development assistance should be harmonized in accordance with best practice. Developing countries needed to strengthen the rule of law and improve the climate for private sector activity. They should improve the quality of governance, enhance public sector capacity, and increase the effectiveness of the delivery of human development and related services to poor people. The Bank's own effectiveness and transparency in supporting country development was also highlighted, and the need for prioritized, time-bound and costed action plans for international support for statistical capacity had been emphasized, especially for those countries most at risk of not achieving their MDGs.

Poverty had many ingredients in addition to low income, for example illiteracy, ill health, gender inequality and environmental degradation. Economic growth was essential for achieving the millennium goals, but it was not the only criterion. Healthy growth in per capita GDP up to 2015 would probably enable the developing regions of East Asia, Europe and Central Asia, Latin America and the Caribbean, the Middle East and North Africa, but not sub-Saharan Africa, to achieve the goal of reducing income poverty, but would enable only East Asia and Europe and Central Asia to achieve the primary school enrolment goal, while none of the developing regions would be able to achieve the child mortality goal.

The two-pillar approach addressed some of the systemic and global issues that were high intergovernmental priorities. However, implementation of the normative framework of the various United Nations conferences and summits was hampered by a number of country-based obstacles, first among which was unequal access. While Governments devoted about one third of their budgets to health and education, they spent very little on poor people specifically, especially in rural areas. Secondly, resources did not actually reach poor people. Even when public spending was redirected to primary clinics or schools, for example, in rural areas, funds rarely reached the front-line providers of services. Thirdly, quality of service was low and there were no incentives for providers. Fourthly, demand was lacking. The voice of potential users, i.e. the poor, was very weak. While national, regional and local authorities had a significant role to play in enhancing the accountability relationship between policy makers, providers and consumers, the donor community had a huge responsibility also. Improving service outcomes for poor people meant strengthening the relationship between client and provider and between citizen and policy maker. In their zeal to deliver services to poor people, donors often bypassed such relationships. Each fund was earmarked for a specific purpose with different fiduciary rules, and local and national capacity-building was thereby undermined. Harmonization of procedures, fiduciary practices, procurement processes, untying of aid and similar efforts were thus central tasks for the donor community at the bilateral and multilateral levels.

As for rural development and poverty reduction, it was essential to deal with rural areas as an integrated unit through a multidisciplinary approach that addressed poverty, social and gender equity, local economic development, natural resources management, good governance, and effective delivery of services to poor people.

The agreement and achievement of coherent development goals should begin with policy makers in national government. Agreement should be reached on a comprehensive development strategy, with priorities clearly defined among various ministries and input from society. Development goals could then be adequately reflected in multilateral institutions. Just as there should be greater coherence among key actors, including a voice for society at large, there should also be effective machinery for enhancing coherence and coordination at the international level. The current dialogue under the auspices of the Council was an excellent example of such a mechanism. At all times, however, cooperation should be preferred to overly complex coordination structures. In that spirit, the Bank was fully prepared to engage in the forthcoming dialogue on Financing for Development with the General Assembly. Global agreements must be addressed coherently, using the common yardstick of the MDGs in the areas of education, water and sanitation and communicable diseases. Once implementation was under way in a particular country, the distinction between the normative pronouncements of international conferences could get blurred when dealing with comprehensive issues such as girls' education, which could benefit, for example, from a comprehensive package of roads, water and sanitation, female teachers, domestic financing, debt relief to channel resources to education and official development assistance (ODA).

Five core elements were required for effective implementation, namely, comprehensive national strategies, realistic implementation plans, harmonization, monitoring of development results, and effective partnerships. The MDGs campaign, spearheaded by the United Nations, and the monitoring by the Bank and other partners of the relationship between policies and outcomes were complementary, self-reinforcing and necessary to advance results-based multilateralism and promote efficient implementation. It was imperative to set deadlines forthwith if the 2015 goals were to stand a realistic chance of being met, and targets and development outcomes should be kept under constant review.

Mr. THOMPSON-FLÔRES (Deputy Director-General of the World Trade Organization (WTO)) said that the principal contribution of the WTO to global economic development was the Doha Development Agenda. The Doha negotiations had been extensive, covering implementation, agriculture, services, market access for non-agricultural products, intellectual property, the WTO rules, dispute settlement, and trade and environment. New issues were also being explored. The Agenda had placed development issues and the concerns of developing countries at the heart of the negotiations. The negotiations were ambitious, since they sought to lock in what had already been achieved in past rounds while aiming for new gains. They sought to improve trade conditions and market access opportunities, especially for poor countries; to ensure the predictability that was so vital for the global business community; and to refine, clarify and strengthen the rules governing trade relations between States.

Trade was merely one element of the complex developmental equation, of course, and just one part of the international consensus towards achieving the MDGs. But the successful and timely outcome of the Doha negotiations could play a significant part in helping to bring about a more prosperous, equitable and stable world. All regions of the world were currently experiencing economic uncertainty and slow economic growth. After an average rate of growth in the 1990s of 6.7 per cent, global trade had experience a 1 per cent decline in 2001 and had grown by just 2.5 per cent in 2002. Early indications suggested that the growth in trade volume for 2003 would be hardly better than 2002. The weak global economy urgently needed the stimulus that significant further liberalization of world trade could bring. The successful conclusion of the Doha Round was thus a key component in reviving the world economy.

Moreover, the world was experiencing a period of growing uncertainty and profound challenges to multilateralism. The Doha negotiations offered Governments an opportunity to demonstrate renewed commitment to multilateral cooperation and shared responsibility for addressing problems such as poverty and unemployment, which were so closely bound up with international security and stability. Failure of the Doha Development Agenda was not an option. It would send out a very damaging signal about the prospects for economic recovery and multilateralism generally.

Ministers would shortly gather in Cancún to conduct a midterm review of the Doha Round. On the positive side, negotiations were under way in all areas of the Doha Agenda and progress was being made across the board. In some areas, such as services, the mood was positive and the level of engagement very high. In more controversial areas, members were continuing their constructive discussions and were making determined efforts to find solutions. Other encouraging signs included full engagement in the negotiations on the part of almost all members; the tabling of ambitious proposals; increasing engagement on the part of senior officials and capitals coupled with growing support for initiatives; and growing activism and involvement of trade ministers.

However, fundamental concerns remained which could not be glossed over, such as the fact that deadlines on some vital issues had been missed. To date, members had been unable to agree on a system to facilitate access to essential medicines for poor countries lacking the capacity to manufacture such drugs themselves. There had been no agreement on special and differential treatment for developing countries, nor had there been agreement on how to respond to outstanding concerns of developing countries regarding the implementation of the Uruguay Round. If understandings were not reached on at least some of those issues, the ministers could be faced with an unmanageable task at Cancún. As things stood, more than a dozen issues were still outstanding.

Development issues were embedded in the Doha process. Thus, the fact that so many deadlines had been missed was a matter of primary concern to developing countries. On agriculture, the vast majority of delegations had made it clear that, without progress on market access, export subsidies and domestic support, overall progress in the negotiations would be impossible. Agriculture was an especially important area for developing and least developed countries. No single change would make a greater contribution to development and poverty alleviation than fully opening the markets of prosperous countries to goods produced by poor ones. Overcoming the current impasse required political direction at the highest level to trigger two developments, namely, prompt engagement of the major players in result-oriented, meaningful negotiations, and simultaneous progress in other areas of the negotiations, particularly with respect to issues of special interest for countries on the defensive side in agriculture.

With regard to non-agricultural market access, the negotiations aimed at reducing or eliminating tariffs, particularly those on products of export interest to developing countries. It was disappointing that members had been unable to meet the recent deadline for agreeing modalities in that area, but good progress had nevertheless been made, some very ambitious proposals had been tabled, and there was every indication that further progress would be achieved.

Despite the problems indicated, the prospects for the Cancún conference and for the Round generally remained very good. First of all, despite setbacks and continuing differences in positions, members were still at the negotiating table and were still deeply committed to the process. Secondly, there had been a remarkable rallying of support for the Round from all over the world. The challenge was of course to turn rhetoric into real negotiating flexibility. However, the value and urgency of the Round, for economic growth, development and multilateralism, had become increasingly evident to leaders throughout the world. To ensure a positive outcome of the Cancún conference, ministers would have to make politically difficult choices and seek compromises. The Doha Round was a single undertaking, not a collection of separate negotiations. The challenge was to use the framework of the single undertaking to find solutions to seemingly intractable issues.

Lastly, the topic of rural development was a timely and important one. The Secretary-General had mentioned that three quarters of the world's poor lived in rural areas of developing countries and depended on agriculture and related activities for their livelihood. It would be impossible for the international community to achieve the MDG of halving poverty and hunger by 2015 unless policies and actions were made to address rural poverty. Nor would it be possible to attain the other MDGs in education, health, gender equality, and sustainable development without significant increases in rural incomes, opportunities and social services.

To achieve the MDGs, it was incumbent upon developing countries and communities to take ownership of their own development; good development outcomes required sound policies and institutions that were country-owned and driven. Secondly, the international community must rally itself, and urgently; the plain fact was that many of the poorest countries would not reach the MDGs unless all development partners took decisive and coordinated action to support national efforts. Thirdly, everyone must work together to ensure a global economic environment conducive to growth and based on the principles of openness and fairness.

Mr. MUNZBERG (Special Representative to the United Nations of the International Monetary Fund (IMF)) said that the international economic outlook remained uncertain. In the United States of America, economic policies had been appropriately supportive; there had been recent signs of a firming in activity and a broadening of recovery in the second half of 2003 was expected. In Europe and Japan, although a pick-up was still expected, there were still few signs of an imminent recovery and policies needed to remain supportive. Overall, the balance of risks had improved somewhat, and a return of global growth to about 4 per cent in 2004 remained the most likely development. But the current slow pace of growth in the advanced economies presented a particular problem for emerging market and developing countries, whose prospects depended critically on growing international trade and a healthy world economy. Emerging Asia continued to be the bright spot in the global economy, but depended heavily on economic growth in the advanced economies, especially in the United States. And while severe acute respiratory syndrome (SARS) appeared to be receding, its economic impact could not yet be fully assessed. Latin America was emerging from its deepest recession in two decades. And while growth in low-income countries, including Africa, had been relatively robust, it remained well below the levels needed to advance significantly toward the MDGs.

Restoring confidence and growth in the world economy required vigorous efforts by all countries to address their own weaknesses. At the Evian Summit, the leaders of the Group of Eight had voiced the political will to work together with emerging market and developing countries to address the world's problems. That declaration of intent was encouraging, but words needed to be translated into action. In the advanced economies, the primary task was to raise medium-term growth potential. In Europe, the Fund welcomed the strong efforts in several countries, including Germany, to introduce much-needed structural reforms. In Japan, a process of bank and corporate restructuring was under way, but needed to be accelerated. And in the United States, the priority must be to re-establish a sound medium-term fiscal framework. Meanwhile, emerging market and developing countries must stay the course by strengthening economic policies and institutions to take full advantage of the opportunities of the global market place. And in a world of growing economic and political interdependence, restoring confidence also required a credible demonstration of international cooperation. Implementing the Monterrey Consensus and making decisive progress in the Doha Trade Round should lie at the heart of such cooperation.

The two-pillar development partnership launched in Monterrey in 2002 was a historic step in the fight against poverty. There was currently widespread agreement that successful poverty alleviation required sound national policies and good governance as well as more effective assistance by the international community. In Africa, the New Partnership for Africa's Development (NEPAD), formulated by the African leaders themselves, rested on the same foundation. That seemed to be the right approach, and IMF was fully engaged and supportive.

Sustained implementation of sound policies in low-income countries was bearing fruit. In Africa, strong performers such as Benin, the Gambia, Mozambique, the United Republic of Tanzania, Senegal and Uganda had seen real growth averaging 5 per cent or more over the past five years, compared to less than 1 per cent for sub-Saharan Africa as a whole and negative growth in the preceding decade. At the same time, inflation had fallen well into the single digits and external imbalances had diminished. Better economic performance had also been reflected in stronger public finances. And while progress under the HIPC initiative had been slower than many would have liked, it was proving helpful in a growing number of countries. In the 26 countries that had reached the decision point, external debt had been cut by two thirds. At the same time, debt relief had freed up resources for social spending. On average, debt service had fallen from about 30 per cent of government revenue in 1998 to 15 per cent in 2002, while social spending was four times as large as debt service outlays. Nevertheless, more needed to be done to make decisive progress in poverty alleviation. The sober reality was that maintaining even the current relatively good performance would not be enough to halve poverty by 2015, as envisaged in the Millennium Declaration.

The private sector had a key role to play. In order to create an environment attractive to private investment, macroeconomic stabilization must be complemented by policies to strengthen governance and build institutions. The importance of establishing a culture of credibility could not be overemphasized. There had been encouraging progress in some countries such as the United Republic of Tanzania and Uganda. The legal and regulatory frameworks had been reformed, and the financial sectors strengthened and diversified to ensure better access to credit for small and medium-sized enterprises. But in many other countries, particularly those ravaged by persistent wars and unrest, sustained growth and poverty alleviation were still remote prospects.

Sound domestic policies in developing countries needed to be matched by better support from the international community. Advanced economies must live up to their pledges, and the long-standing target of 0.7 per cent of GDP remained a concrete test of their credibility. It was also important to look for innovative ways to provide the required resources. A recent proposal to accelerate financing for development through an International Financing Facility would be a creative way to leverage scarce public resources and to tap the vast potential of international capital markets for development.

A strengthening of international trade by improving market access for developing country exports and reducing trade-distorting subsidies in the advanced economies would make a valuable contribution to alleviating poverty. That was why a successful conclusion of the Doha Trade Round was so important. The Fund welcomed the recent agreement among European Union ministers to reform the Union’s Common Agricultural Policy (CAP), and hoped that such a reform would kick-start the delayed agricultural trade discussions. The details of the proposed reform had yet to be fully assessed, but the decision to begin decoupling financial support from production levels in some areas was a step in the right direction. There was no doubt that a genuine development round must also have at its core broad-based improvements in market access conditions for agricultural products and a significant reduction in trade-distorting subsidies. Progress on access to all advanced economy markets needed to be a key priority. Delays had also affected the public health provisions in the intellectual property agreement. In that area of key importance to global public health, all parties, and especially the United States, needed to display a commitment to move the discussions forward, based on the sensible proposals currently on the table.

The IMF was fully committed to helping implement the Monterrey Consensus and assisting its members to alleviate poverty. The key operational vehicle in that process was the Poverty Reduction Strategy Paper (PRSP). The PRSP process emphasized participation and ownership, involving the country itself, bilateral and multilateral donors, non-governmental organizations (NGOs) and civil society, in a transparent dialogue. In that effort the Fund would continue to concentrate on its areas of competence, namely, establishing a framework for sound macroeconomic policies and institutions. It had accordingly reduced its conditionality by focusing it on those areas that were central to achieving the macroeconomic objectives of the programme. And it was working hard to ensure a better alignment between the PRSP, the national budget framework, and its own low-income landing facility.

Capacity-building through technical assistance and training was a critical ingredient of sustainable development and growth. IMF was providing ongoing assistance and training to member countries seeking to strengthen their institutions and human resources with a view to managing their economic and financial policies. And in recent years, it had reinforced its efforts by expanding its regional technical assistance centres, the purpose of which was to help strengthen the capacity of low-income countries to design and implement their own development strategies.

In the medium term, the Fund would further tailor its assistance to the evolving challenges facing low-income countries. Increasingly, as macroeconomic stabilization took hold, the priority would be to boost growth. IMF would work with other institutions, particularly the World Bank, to assist its members to develop and strengthen sources of growth, domestically and through increased regional and international economic integration. In that process, a critical role must fall to private sector development, for example in promoting domestic and foreign investment and building strong and diversified domestic financial sectors. More immediately, many low-income countries remained vulnerable to exogenous shocks, and the Fund was examining its financial and non-financial instruments with a view to improving its ability to help its members deal more effectively with such shocks as and when they occurred. But the real prerequisite for macroeconomic stability and growth was political stability. Where countries continued to be dogged by civil strife, solutions lay in the realm of politics, not economics. Only if the political will existed would IMF provide and reinforce financial and technical assistance to countries emerging from conflict so that they could establish the economic and financial foundations for growth.

The Monterrey Consensus was the Fund's framework for development partnership, and the PRSP process the operational vehicle. The new watchword was implementation.

Exchange of views

Mr. SARDENBERG (Brazil) said that the first few years of the new millennium had been a disappointment for the majority of developing countries and the outlook for many of them was bleak. If Governments continued the policies that had led to the current deplorable situation, it would be difficult, if not impossible, to reach the MDGs. Given the uncertain outlook for the global economy, there was a need for a combination of sound national policies and strengthened international cooperation. As agreed at the International Conference on Financing for Development held in Monterrey, development must be the result of a common effort. However, despite the many reforms they had undertaken, developing countries still faced external obstacles to their development.

His Government had followed macroeconomic policies designed to attract investment and promote growth but continued to give high priority to reducing poverty through its "Zero Hunger Programme", which covered areas such as education, health, infrastructure and employment. However, in an era of globalization, no country could solve all its problems on its own. International cooperation was crucial in two areas in particular: in democracy at the international level, where developing countries all too often had little or no say in decisions, and in trade, where the hopes raised by the Fourth Ministerial Conference of the WTO in Doha had given way to the introduction of even more protectionist practices. There was no doubt that a successful Doha Round would boost trade and economic growth, but it was time for all concerned to live up to the commitments they had entered into at the conference.

Mr. UMER (Pakistan) said that there appeared to be a contradiction between the declared purpose and the actual impact of the European Union's agricultural subsidies. As pointed out by the Secretary-General of UNCTAD, it was frequently argued that such subsidies were necessary to preserve a way of life in rural areas, and yet that way of life was disappearing. He would welcome some clarification on the three points raised by Mr. Ricupero in connection with the move announced recently by the European Commissioner for Agriculture to cut the link between subsidies and production, namely, caps on payments to large farms, the static or evolutionary nature of the coupling and the alignment of payments.

He agreed with the Managing Director of the World Bank on the extreme importance of implementing international agreements. There had been a plethora of summits on economic and social issues in the previous decade but little in the way of implementation. With regard to the need to set deadlines for action, deadlines had already been set in Doha, but all had been missed; it seemed that the political will necessary to meet them was lacking.

Mr. RICHARDSON (Observer for the European Community) said that the European Union was often accused of being the main obstacle to progress in the Doha round of trade talks because of the trade-distorting effects of its agricultural subsidies, but it had listened to and acted upon international criticism, and had cut the link between subsidies and agricultural production, despite fierce opposition from agricultural interests. However, there were clearly some good social reasons for continuing to make payments to rural areas, which the Union had no intention of neglecting. With regard to the way in which those payments would be distributed between rich and poor farmers, he considered that to be an internal question for the Union's member States.

Insofar as agricultural subsidies had had a negative impact in the past, the most seriously affected countries had been the most vulnerable ones. That was why the European Union had introduced its "Everything but Arms" initiative shortly before the Third United Nations Conference on the Least Developed Countries. As a result, exports of cotton from Burkina Faso and other African countries had enjoyed unimpeded entry to the European market since 2001. In the light of that initiative, and given the fact that the European Union did not export cotton, its policies could not be held responsible for events in the cotton market in 2002.

Mr. LAOROU (Benin) said that the countries most affected by discriminatory treatment in multilateral trade were the least developed countries. Consensual solutions must be found to the problems facing them, so that their populations could enjoy the fruits of their own labour. The comments by the Secretary-General of UNCTAD provided a lucid analysis that the members of the Council should bear in mind in their efforts to deal with the problems of developing countries. The fact that some least developed countries in West Africa were importing cotton spoke volumes about the need to end trade-distorting practices. The situation in those countries was dramatic and an urgent solution must be found.

Mr. KONDAKOV (Russian Federation) said that the traditional solutions proposed by the international financial institutions for developing countries had high social costs and did not always produce the desired macroeconomic effects. The international financial architecture needed to be overhauled and the United Nations specialized agencies could make a major contribution to that process, taking into account the views of all their members. He would be interested to hear what the Bretton Woods institutions thought that contribution should be. In the meantime, cooperation and assistance should continue to be provided, especially in the banking and financial sectors.

Ms. BAKOKO BAKORU (Uganda) said that the majority of the world's poor people lived in rural areas and were dependent on agriculture for their livelihood. Her Government was therefore tackling poverty by trying to strengthen the rural economy and increase agricultural production. As social development was also a key element in rural development, it was also trying to increase access to health care, education and social security. It had so far managed to triple access to primary education and to reduce the incidence of human immunodeficiency virus and acquired immunodeficiency syndrome (HIV/AIDS) from 30 per cent to 6 per cent. It had also adopted a PRSP, which had produced economic growth, but it still had a major problem with youth unemployment, which gave rise in turn to other problems such as drug-trafficking. More attention needed to be paid to finding ways to create jobs.

Her Government was following policies to achieve the sustainable use of natural resources, make the most of technology and empower the poor in rural areas, and had developed a new plan for investment and social development which it was discussing with potential donors. With regard to agricultural subsidies in developed countries, she asked how a country like Uganda could possibly have access to the markets in those countries while such subsidies were in place. However, access was not the only problem; Uganda's farmers also had to find a way to produce goods for which there was a demand in the developed countries. Lastly, she highlighted the shortage of antiretroviral drugs for HIV/AIDS patients in developing countries and the growing importance of social security and protection as an essential component of development.

Mr. MORAN (Peru) said that much of the discussion had merely identified problems of which everyone was already aware. It was time for the Governments of developing and developed countries and the international organizations to take action. However, to do so required resources, and resources were becoming scarcer by the day. For example, the budget of the Food and Agriculture Organization of the United Nations (FAO) had not been increased for 10 years and international aid levels were falling. In addition, external debt was a heavy burden for many developing countries. At the most recent meeting of the Rio Group, the President of Peru had therefore proposed that 20 per cent of a country's annual debt-servicing payments should be made available to that country for development programmes, similar to those already funded by its development partners.

Mr. FEYDER (Luxembourg) said that it was extremely important to make a comprehensive analysis of the fall in agricultural prices and incomes in developing countries. The majority of the population in those countries depended on farming for a livelihood, and falling prices further impoverished people whose living conditions were already precarious. The phenomenon was undoubtedly linked to agricultural policies and subsidies in the developed countries, although changes in the European Union's agricultural policy and the forthcoming WTO talks should begin to address the problem.

Nevertheless, agricultural policy in the developed countries and farming practice in the developing countries were only part of the story: another extremely important phenomenon was the productivity gap between those groups of countries. Productivity in the developed countries had far outstripped productivity in the developing countries, to the extent that for every ton produced by a farmer in the South, a farmer in the North produced 500 to 1,000 tons. Such a gap could not be overcome overnight.

Given that the productivity gap was so wide, and that farm prices worldwide were too low to cover farmers' costs, it was not just the problem of access to developed countries' markets that needed to be addressed, but also the problem of access to markets in other developing countries. In several African countries he had visited, farmers were complaining that local rice was more expensive than imported Asian rice. Situations of that sort raised the question of whether developing countries, and the least developed countries in particular, were actually in a position to adopt the liberalization measures recommended by international organizations.

The aim of the international community should be to help ensure that farmers in developing countries received fair prices for their produce and to promote the establishment of regional markets within which productivity levels were similar and which provided a minimum amount of protection against external competition. The WTO negotiations should thus safeguard the right of developing countries to adopt policies similar to those followed by the European Economic Community in the early 1960s.

Mr. SHARMA (Nepal) drew attention to the serious credibility gap resulting from the prescriptions of the international organizations with regard to development and their failure to deliver on their promises to developing countries when policy in the rich countries changed. The reforms called for by the international organizations came at a high political, economic and social cost to developing countries as they attempted to open up their markets only to find that the promised results did not materialize. As a result, developing countries were becoming increasingly disillusioned with a process that was not reducing poverty or increasing economic development.

Mutual recriminations about who was to blame for the failure of the policies led nowhere, however. International organizations could play a crucial role by ensuring that both development partners and developing countries delivered on their commitments. The panellists' analysis was fine as far as it went, but the focus in the discussion must be shifted to the actual implementation of the various initiatives. For example, the “Everything but Arms” initiative mentioned earlier had indeed given duty-free access for most goods from the least developed countries, but to precious little effect.

Mr. RICUPERO (Secretary-General of the United Nations Conference on Trade and Development (UNCTAD)) said that the high levels of agricultural subsidies had prevented neither the shrinkage of the rural population nor the increase in the average farm size in the developed world. He respected the view that the problem was one of distribution at the national level but, since the most potent argument in favour of the subsidies had always been the need to protect small farmers in the developed countries, it was essential to determine whether or not that argument was a valid one and to judge the extent to which subsidies were actually helping small farmers. If subsidies were not achieving their goals, it was necessary to consider other ways of protecting those farmers.

Most of the facts provided in his statement had been drawn from unimpeachable sources. OECD had highlighted the regressive nature of most subsidies and had demonstrated that 80 per cent of subsidy payments were channelled to 20 per cent of farmers. While he had no objection to the idea of providing reasonable conditions for rural life in the developed countries, he thought that the question should be addressed in the context of welfare policy rather than in that of agricultural economy.

If agricultural subsidies were being channelled primarily to large farms rather than to small farmers, the only rationale behind such subsidies could be that they helped countries to retain their share of world markets. It was not coincidental that the largest agricultural exporters had highly developed economies. The very concept of trade-related subsidies conflicted with the basic philosophy of the multilateral trading system, under which countries should compete on the basis of their comparative advantage. If agriculture was to be excluded from the multilateral trading system, there was surely no justification for insisting that the developing countries should open their markets to industrial products and services. The most blatant imbalance in the trading system was the fact that virtually all subsidies for industrial production were outlawed while most agricultural subsidies were still legal. It was difficult to see why that imbalance was still in existence, in view of the fact that all countries were being urged to move towards a free market economy.

While he had acknowledged the courage of the member of the European Commission responsible for Agriculture, Rural Development and Fisheries in his efforts to move away from production and prices, he had also stressed that many details needed to be clarified before the impact of such a step could be evaluated in full. Nevertheless, the European Union had certainly taken a step in the right direction; its decision would pave the way for future progress in the negotiations.

Most of the comments made by the representative of Luxembourg in relation to the productivity gap had been accurate ones. It should be noted, however, that high productivity in developed countries was sometimes linked to subsidies. For instance, a significant number of subsidies went to the providers of input products, such as fertilizers and agricultural machinery.

It was natural to be concerned about “productivism”, or the notion of increasing productivity at any cost. Many of the recent food scares, including mad cow disease, had been a result of that phenomenon. Furthermore, one of the reasons behind the recent collapse of coffee prices was the enormous increase in productivity. The majority of profits generated by the coffee industry went to the traders rather than the producers, because of a lack of transparency and real operating markets.

Not all countries were ready for total agricultural liberalization. It was essential to proceed with caution, particularly in countries where agriculture was not a commercial activity. Nevertheless, the problem of agriculture had to be addressed. It was important to determine whether or not subsidies were really trade distorting. It would be interesting to find out in practice whether it was possible to provide payments decoupled from production and prices without having very high market barriers. The main question was not only how to remove subsidies but also how to lower market access barriers in industrial countries where those barriers were very high.

Ms. RAMPHELE (Managing Director, World Bank) said that much had been learned over the previous decade in terms of securing the political will to implement the complementary commitments made between the developed and the developing worlds. At the conferences in Monterrey, Doha and Johannesburg, for example, the agreements reached had been open to public scrutiny. Programmes were being introduced between summits to ensure that the commitments made were being honoured. The United Nations should continue to play its advocacy role.

It had become clear that civil society played an important role in implementing those commitments. It was crucial to adopt policy reforms that were owned by the nations concerned. Policy reform prescriptions were not sustainable, because of the enormous political damage they caused. Policy reforms that emerged from a dialogue between stakeholders, parliamentarians, NGOs and academics were much more likely to succeed.

Furthermore, the international community now had a much clearer idea about what worked and what did not work in terms of development. The World Development Report 2004, which would be launched in the autumn of 2003, would focus on how to make services really work for poor people. It would raise a number of important issues drawn from lessons learned in the past and would highlight the need to look at what could be done to generate growth in the domestic environment. The most important market was the national market, followed by the regional one. It was essential for small, medium-sized and microenterprises to be able to invest in their own economies.

With regard to youth and unemployment issues, the Bank recognized that there was a gap in its own strategies. It was therefore in the process of finalizing a Children and Youth Strategy, the aim of which was to consider how to create an environment where young people could enjoy a brighter future than that of their parents. A key part of that strategy was education for employment.

The development community as a whole had hitherto failed to help the developing countries to identify sources of growth. Although rural development was an important source of growth, and although three out of every four poor people lived in rural areas, efforts continued to focus largely on capital cities. Only 10 per cent of ODA went to rural development, illustrating the extent to which the international community was failing the majority of poor people. The Bank had recently adopted a Rural Development Strategy to improve the situation of the rural poor. It was essential to take stock of the situation and to consider how to boost sustainable rural development not only through agriculture, but also through rural entrepreneurship and promotion of the rural habitat.

Mr. THOMPSON-FLÔRES (Deputy Director-General of the World Trade Organization (WTO)) said that the global economic situation was currently very fragile. It was therefore crucial that the negotiation process under the Doha Development Agenda should succeed and a new multilateral trade agreement covering all aspects of trade should be reached. While that might not be enough to restore a healthy global economic situation, economic growth without such an agreement was inconceivable.

Agriculture was crucial to economic growth. He therefore applauded the recent decision of the European Commission to reform the CAP. The decision represented the beginning of an agriculture negotiation within the WTO that could lead for the first time to a global agricultural agreement. Without such a decision by the European Commission, it would have been impossible to make progress, not only in agriculture, but also in all other fields. All the interested parties were currently examining the repercussions of that decision, which would help discussions in Cancún and beyond.

Development was a key component of the negotiating process. Some 80 per cent of WTO members were developing countries. There were high hopes, therefore, that the process would culminate in a successful agreement that would incorporate, for the first time, not only fair rules in agriculture, but also other elements that were important for the developing world, such as the relationship between the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) and public health, which had not yet been addressed satisfactorily.

With regard to the issue of coherence, it was hoped that close cooperation among all the institutions dealing with finance, trade and development at both the national and international levels would benefit all countries, particularly the developing countries that suffered most from the unjust economic situation.

Mr. MUNZBERG (Special Representative to the United Nations of the International Monetary Fund (IMF)) said that the question of the international financial architecture was a very broad issue. All architecture needed a solid foundation, which, in the case in question, was created by country policies and coordination at the national level. The international community was responsible for establishing the architecture at the international level, in the form of policies. Many developments had occurred in recent years, particularly in response to the Asian financial crisis. Although a significant amount of progress had been made, the architecture required constant adaptation.

Cooperation should be considered in the context of the activities being undertaken. The international financial institutions recognized that there was a need for cooperation and complementarity, particularly when assisting member States to implement appropriate policies. The main tool used by those institutions in coordinating policies was to recognize the leadership of the countries themselves through the PRSP process. There was a strong will on the part of both the financial institutions and the United Nations development agencies to cooperate in their respective areas of expertise. Cooperation also took place in the area of global policy development through mechanisms established to facilitate dialogue at the intergovernmental level. Since the establishment of the High Level Committee on Programmes (HLCP) by the United Nations System Chief Executives Board for Coordination (CEB), the Fund had been cooperating more and more intensively with the United Nations.

Mr. KHOR (Third World Network) said that the NGO community welcomed the decision to address the important issue of rural development and the need to eradicate rural poverty. The agriculture negotiations taking place within the WTO were crucial to the livelihoods of billions of farmers in the developing countries. It had become clear that the current WTO Agriculture Agreement had many shortcomings, largely because it allowed a set of double standards to be applied to the detriment of the developing countries.

The fact that the developed countries were able to use special safeguard mechanisms and were able to retain and even increase their subsidies had led to three major problems: first, the developing countries did not have access to developed country markets; secondly, they could not compete in third markets on an equal footing; and thirdly, artificially cheap and inefficient subsidized products from the developed countries were flooding developing country markets and threatening the livelihoods of millions of small farmers.

The WTO Agriculture Agreement was flawed in that it allowed subsidies to continue indefinitely through the system of three categories of boxes - amber, blue and green. In the United States of America, for example, most subsidies had been moved to the green “permitted” box. However, that caused problems, particularly in the case of cotton. He had many doubts about the success of the recent decision of the European Commission. Instead of leading to a decrease in subsidies, it would merely bring about a change in category, from the amber “reduced” box to the green box. Green box subsidies could be even more distorting than amber box subsidies because they were less visible.

As long as high subsidies and high tariffs continued to be applied in the North, the developing countries should be entitled to special and differential treatment and mechanisms to defend themselves, such as special safeguard mechanisms without conditions for food and agricultural products and the ability to use quantitative restrictions.

Because of the conditionality attached to the loan programmes of the World Bank and the International Monetary Fund (IMF), developing countries had been pressurized to apply very low rates to their food products and were not allowed to increase their applied rates up to the level of their bound rates. It was often the problem of loan conditionality rather than the WTO bound rates that had led to import surges in many developing countries. The financial institutions involved should therefore reconsider their trade policies.

The meeting rose at 1.05 p.m.