United Nations E/2001/45

Economic and Social Council

Distr.: General
18 April 2001

Original: English

Special high-level meeting with the Bretton Woods institutions
1 May 2001

Selected aspects of international cooperation in strengthening financing for development

Note by the Secretary-General

Introduction

1. The special high-level meeting between the Economic and Social Council and the Bretton Woods institutions has provided a useful forum for intergovernmental and inter-institutional dialogue over the past few years. The present note provides some background material and raises some questions for consideration at the 2001 special high-level meeting.

2. The dialogue to take place at the 2001 meeting is especially opportune because the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development will reconvene the following day. The International Monetary Fund (IMF) and the World Bank have already been actively engaged in the preparatory process for the Event and the discussions at the Economic and Social Council high-level meeting, involving senior officials from ministries of finance, economic and foreign affairs, can help the Preparatory Committee as it seeks to further focus its substantive preparatory discussions.

3. The General Assembly recommended that, at their high-level meeting, the Economic and Social Council and the Bretton Woods institutions consider the modalities needed to consolidate further a broader global agenda for a strengthened and stable international financial system that was responsive to the priorities of growth and development, in particular of developing countries, and to the promotion of economic and social equity in the global economy (Assembly resolution 55/186, para. 24). The two foci of the meeting seek to respond to that request.

I. Poverty eradication, official development assistance and debt

4. The United Nations Millennium Declaration was adopted by the General Assembly on 8 September 2000 (see resolution 55/2) at the Millennium Summit of the United Nations, which was attended by 147 heads of State and Government and 187 Member States. In the Millennium Declaration, heads of State and Government pledged, inter alia, to achieve a set of development goals by 2015, including to halve the proportion of the world's people whose income is less than one dollar a day (para. 19). For this goal to be achieved, developing economies, particularly the poorest and least developed among them, will need to grow at a significantly higher rate than in the past and to spread the benefits of growth much more widely among their people. To this end, Governments committed themselves to creating an enabling environment at both the national and global levels to attain these goals. Appropriate economic, social and financial policies and institutions at the national and international levels are essential in this respect.

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Reaching the goals also requires that all countries have adequate human and financial resources. The quality of human resources depends on national capacities to provide health, education and other basic services. This is itself, in part, a matter of adequate financial resources. Thus, while there is much more to successful development than finance, adequate supplies of financial resources are essential if all countries are to reach the United Nations Millennium Declaration development goals.

5. Domestic resources finance most of the development and anti-poverty expenditures of developing countries, but they generally need to be supplemented by external public and private financing. For lower-income developing countries, in particular the least developed among them, official development assistance (ODA) is the major source of external funding, notably for basic education and health expenditures, financing of a social safety net and infrastructure investment. Achieving the millennium goals will require a substantially increased ODA effort, especially after the decline in ODA flows in the 1990s, notably from the largest donors. Only Denmark, the Netherlands, Norway and Sweden have met the ODA target of net disbursements of 0.7 per cent of the gross national product (GNP) of the donor country. For developed countries as a group, the ratio in 1999, the last year for which data are available, was only 0.24 per cent.

6. For the heavily indebted poor countries (HIPC) and a number of other countries with difficult debt situations, external debt is primarily owed by the Government and its servicing is frequently a major drain on the government budget, as well as on the balance of payments. This diverts scarce resources from public expenditure on social needs and infrastructure and thus hinders efforts to attain development and reduce poverty.

7. Further progress in the implementation of the enhanced HIPC initiative is therefore critical to meeting the millennium goals. In some cases, even deeper relief than that under the HIPC initiative is warranted, as acknowledged by the decision by the Group of Seven (G-7) countries to go beyond the HIPC targets and to cancel all bilateral ODA and eligible commercial credits of countries qualifying for the HIPC initiative.[1]

8. Other heavily indebted countries have also expressed concerns about the social burden of their debt situation, suggesting that further efforts may be required to ensure that the external debt burden does not impede attainment of the millennium goals in such countries. The need, more broadly, is for a significant increase in the net transfer of financial resources to many developing countries to support development and poverty eradication. This also requires that official debt reduction not be at the expense of ODA flows.

9. However, legislatures and the public in donor countries have raised questions about the effectiveness of ODA programmes and multilateral development cooperation. Part of the answer is now thought to lie in broadening participation of all relevant stakeholders in the design of development so as to improve policies and raise the degree of "ownership" of programmes and projects. At the same time, there continues to be a pressing need for greater administrative efficiency and coordination on the part of donors and stronger partnerships with recipient countries. These concerns have motivated such innovations as the Poverty Reduction Strategy Papers and Comprehensive Development Frameworks, under the leadership of the Bretton Woods institutions, and the United Nations Development Assistance Frameworks and Common Country Assessments for the operational activities of the United Nations agencies, funds and programmes.

10. Many developing countries have sought international assistance in strengthening their capacity to formulate and implement policy reforms in a more participatory and transparent manner. The United Nations Development Programme (UNDP), the World Bank, IMF and bilateral donors have been working with recipient countries to assist them in formulating development strategies in this context.

Questions

11. The meeting may wish to consider the following questions:

(a) These multilateral efforts to help developing countries enhance coherence, transparency and participation in their policy formulation are expected to result in programmes that guide the partnerships of donors with aid recipients. How do Governments assess the experience with the new mechanisms? How have policies in developing countries changed as a result? How have donor Governments and institutions responded to the new approaches? What further measures or actions are required?

(b) Restructuring external debt obligations, both for low- and for middle-income countries, requires action by a number of independent bodies or groups concerned with different types of loans, typically including the Paris Club for the bulk of bilateral official credits and "advisory committees" (or London Clubs) for most of the debt owed to commercial banks. In addition, bonds of middle-income countries and debts of low-income countries to multilateral institutions sometimes have to be restructured. There are three concerns about this process. First, it can take several years and it imposes a heavy burden on all concerned, particularly debtor-country officials. Second, the overall amount of relief accorded to a country in difficulty might not be adequate for the country to reach its development goals. Third, the sharing of the cost of debt relief among creditors might not be appropriate. How might these concerns be addressed? How might the process of debt restructuring be improved? Are there adequate means for all relevant stakeholders to build consensus around burden-sharing principles?

(c) As the millennium goals will be achieved only with additional efforts on the part of both ODA donor and recipient countries, the Secretary-General has proposed that an international "campaign for the millennium development goals" be established.[2] It would track countries' progress towards the goals, assess the cost implications at each stage, and identify resource requirements. As the goals have a 15-year horizon and resource needs over such a period cannot be reliably estimated, a 5-year lifespan has been proposed for the campaign. What would be required for donor and recipient Governments to fully embrace such a campaign? Would Governments accept that such a campaign would perforce spotlight both differences in performance and the additional efforts needed to rise to the challenge of meeting the millennium goals?

II. Public and private responsibility in the prevention of financial crises

12. The prevention of financial crises requires policy reforms at the national and also at the global level. Over the past several years, significant steps have been taken to address this issue, but more needs to be done. This includes further strengthening national policies, as well as enhancing cooperation among Governments, particularly in multilateral contexts. At the same time, private sector actors have to do their part.

13. The responsibility for achieving a more stable and development-friendly international financial system lies, first and foremost, with individual countries. Developing countries and countries with economies in transition are making considerable efforts to pursue sound macroeconomic policies, strengthen their financial sectors and carry out other structural reforms. These efforts should be further encouraged. At the same time, views sometimes differ on what constitutes "sound policies", especially in such areas as management of the capital account and choice of exchange-rate regime. Moreover, in addition to being technically sound, policies have to be politically sustainable within the country concerned.

14. Developed countries have a major responsibility for bolstering international financial stability, and domestic, as well as international, imperatives require them to continue to strengthen their oversight of the financial sector. Global objectives should also permeate other policy areas, particularly international trade, where increasing access by developing and transition economies to the protected sectors of developed-country markets will benefit both importing and exporting countries. The recent announcement by the European Union of a specific timetable for opening its market to duty-free access to exports of "all but arms" from the least developed countries is a valuable step in this direction. This is still, however, only a partial implementation by these countries, as well as by developed countries in general, of the case they make to the world about the benefits to countries that liberalize their trade.

15. As world economic integration increases, areas of national policy that once were purely domestic concerns have attracted international attention, particularly in the financial realm. One focus of attention has been in the preparation of international standards and codes for the financial sector, including defining the expectations for cooperation of "offshore" financial centres with foreign authorities. In a number of areas, the principles are decided in limited membership bodies; in some instances, enforcement is also undertaken by such bodies. In other areas, enforcement is voluntary, but internationally

encouraged — for example, it is expected of countries seeking access to such facilities as the Contingent Credit Line at IMF.

16. At the previous Economic and Social Council special high-level meeting with the Bretton Woods institutions, a number of participants stressed that it was important to take into account the concerns of all countries, large and small, including developing countries, in formulating international rules and standards. Codes and standards of prudential conduct — essential for financial stability — needed to be prepared in a more democratic way, according to participants, to ensure that they were adapted to different countries' situation and that countries considered them to be legitimate.[3]

17. As the private sector accounts for the overwhelming share of international financial flows, there is a consensus among Governments that it should play a more direct role in the prevention as well as the resolution of financial crises. More generally, private sector confidence is a major determinant of private flows. On their part, private investors and creditors seek greater access to information and dialogue with government policy makers. International attention is thus drawn to considering modalities for more regular public-private discussion and information-sharing in order to foster and stabilize private sector financial flows.

18. In addition, civil society organizations have been making their concerns felt about international financial relations. While it is for member Governments to make decisions in official multilateral forums, civil society concerns and proposals can be valuable inputs. Account is increasingly being taken of these inputs. It has also become clear that acceptance by the public at large — often described as broad "ownership" of policy — is of great importance for the success of international actions.

19. Moreover, it is increasingly recognized today that finance cannot be treated independently of the other major categories of international economic interaction. The Co-Chairmen of the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development observed in their summation of the Preparatory Committee's second session that there was a convergence of views that "emphasis should be placed on enhancing cooperation and coherence among different international bodies dealing with financial, trade and developmental issues. Some arrangements for improving such coordination already exist. Nevertheless, much more is needed to further extend and strengthen coherence and consistency among international financial institutions, the World Trade Organization and the United Nations."[4]

Questions

20. The meeting may wish to consider the following questions:

(a) What further steps are needed to improve the policy dialogues and enhance transparency in international financial matters? How might global collaboration be strengthened in identifying emerging issues, nascent crises, global policy gaps and the means to address them? How might more effective confidence-building dialogues be fostered at the national level, for example, to shorten the lag between the implementation of policy reforms and improved perceptions by international investors and lenders?

(b) Are the present arrangements for participation by all stakeholders in the formulation of financial standards and codes adequate? How should the need for flexibility in international standards and codes be addressed? Should flexibility be limited to the timing of their implementation? How might such questions be addressed most fruitfully and kept under review by the international community?

(c) Some countries are increasing their economic and financial cooperation at the regional and subregional levels, inter alia, in macroeconomic consultation and coordination, monitoring financial vulnerabilities and administering schemes for mutual assistance. Regional groups might also play a role in representing the interests of member countries in broader institutions and forums. By this means, institutions with limited membership but global responsibilities might develop structures and processes that are more broadly inclusive, without themselves becoming unwieldy and ineffective. What role should regional and subregional cooperation play in the global financial architecture? How should it relate to institutions of global governance?

Notes

[1] Statement of G-7 Finance Ministers and Central Bank Governors, Palermo, Italy, 17 February 2001.

[2] See the report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development (A/AC.257/12), paras. 90-91.

[3] See note by the Secretary-General (E/2000/79) on the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, held on 18 April 2000, annex, para. 47.

[4] Jørgen Bøjer (Denmark) and Asda Jayanama (Thailand), "Joint Statement of the Co-Chairmen at the conclusion of the second substantive session of the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development", 23 February 2001, p. 13 (see www.un.org/esa/ffd). See also *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 28 A* (A/55/28/Add.1), annex I, para. 22.