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Report of the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region Bogotá, 9 and 10 November 2000

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I. Introduction

1. The meeting was opened by Clemencia Forero Ucros, Minister for Foreign Affairs (a.i.) of Colombia, and Juan Manuel Santos, Minister of Finance and Public Credit of Colombia. In their statements, the Ministers focused on the role of the Regional Consultation as a forum for discussion and for the adoption of proposals regarding the establishment of a new international financial architecture. They emphasized the high cost of instability and the need for world cooperation on a grand scale in order to convert the financial environment into an engine of development.

2. The Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), José Antonio Ocampo, and the President of the Inter-American Development Bank (IDB), Enrique V. Iglesias, also addressed the participants at the opening session. The Executive Secretary of ECLAC noted that the challenges arising from the findings presented in the Secretariat's document entitled "Growth with stability: financing for development in the new international context" (see sect. II below) are to raise investment and savings rates, enhance financial development and export growth, and combine those efforts with initiatives at the national level to reduce the excessive vulnerability of the economies in the region to cyclical fluctuations in external financial flows. The external framework should provide access to markets for exports from the region, a new financial architecture capable of substantially reducing capital volatility, and mechanisms to ensure that all developing countries have access to a sufficient volume of external resources under appropriate terms and conditions. He concluded by stressing that the essential components of the new international financial architecture are the appropriate participation of developing countries in the relevant institutions, the maintenance of countries' autonomy over their own development policies, and the decisive role of regional and subregional institutions. The President of the Inter-American Development Bank (IDB) noted that financing for development has been a fundamental element in Latin America during the 1990s, a time when the region continued to rely heavily on external financing and when its access to that financing was very limited and unstable. The financial system must attain reliability, and doing so represents a systemic issue that calls for a systemic solution. He invited participants in the Consultation to discuss the principles of the new international financial architecture: the creation of mechanisms to provide access to liquidity as a means of combating contagion, the avoidance of pro-cyclical forms of regulation on the part of countries providing funding, the reconciliation of the roles of the private sector and of Governments, the rethinking of the new role of international organizations and the democratization of decision-making.

3. The meeting was attended by representatives of 31 States members of ECLAC, three States that are Members of the United Nations but not of ECLAC, 12 United Nations bodies and specialized agencies, six intergovernmental organizations and 10 non-governmental organizations.

4. The representative of Colombia, Jairo Montoya Pedroza, Vice-Minister of Foreign Affairs, served as Chairman; Andrés Valencia, Ambassador of Mexico to Colombia, Juan Gabriel Valdés, Permanent Representative of Chile to the United Nations, and Julian R. Hunte, Permanent Representative of Saint Lucia to the United Nations, served as Deputy Chairpersons; Gert Rosenthal, Permanent Representative of Guatemala to the United Nations, served as Rapporteur.

Organization of work

5. The work was conducted in plenary sessions structured around five thematic panels (the list of panellists is contained in the annex). A group open to all delegations from the Latin American and Caribbean countries was also formed on the first day of the Consultation. This group worked concurrently to prepare the perspective of those countries.

6. A summary of the proposals presented by ECLAC at the meeting is set out in section II below. Section III provides an overview of each of the five thematic panel discussions, covering both the presentations given by the panellists and the observations made by the attending countries. The statement approved by the open-ended drafting group, entitled "Towards the International Intergovernmental High-level Event on Financing for Development: the perspective of Latin America and the Caribbean", is reproduced in section IV. As agreed at the meeting, member States have until 20 January 2001 to submit any comments to the report.

7. The delegations of the United States and of Saint Lucia, the latter acting on behalf of the Caribbean Community, submitted statements, which are contained in section V.

II. Summary of the proposals of the Economic Commission for Latin America and the Caribbean*

8. Throughout the 1990s, our region experienced renewed access to external financing. This paved the way for progress in macroeconomic management, reducing inflation and resuming economic growth. With few exceptions, however, the Latin American and Caribbean countries have failed to achieve the savings and investment rates required to fuel high rates of growth in production. Not only is the average annual growth rate of 3.3 per cent for 1990-2000 lower than the 5.5 per cent figure recorded for the 30 years prior to the debt crisis but it has also fallen short of the 6 per cent rate identified by ECLAC as being necessary in order to meet ambitious goals for economic and social development, particularly with regard to poverty reduction.

9. At the same time, international capital flows have given rise to concern in two areas. First, with the sole exception of foreign direct investment, these flows have been very unstable. This, along with national policies that often accentuate rather than attenuate the cycles of external finance, has been reflected in a strong correlation between capital flows and economic cycles in our countries. Second, a significant group of countries, especially the relatively less developed ones, have been excluded from the more dynamic types of resource flows.

10. These developments pose important challenges which must be faced by all the countries of the region; nevertheless, a positive international context is also needed in order to ensure the success of the countries' efforts. If they are to grow at a rate of about 6 per cent per year, countries must achieve investment rates between four and six points higher than the average levels of the 1990s. In order to avoid exacerbating the existing level of external vulnerability, additional investment financing must come, basically, from a parallel expansion of national savings, and must be accompanied by an adequate level of national financial development in order to ensure that such savings are transferred to productive investment in the most efficient way possible.

11. The ECLAC document stresses the importance of the reinvestment of private enterprises' profits and of public saving in this effort to raise national saving levels. It also underscores the contribution that households and individuals can make to this objective, especially by saving for specific purposes, such as pension funds, housing or education.

12. The dynamic development of the financial system and the capital market demand reliable ground rules and strong regulatory frameworks in order to guarantee the stability of the relevant systems and the adequate protection of savers. In particular, although the region has already taken up the challenge of adopting international standards for financial regulation and supervision, much remains to be done in this area. An essential aspect of this undertaking is the promotion of new agents and instruments to help complete non-existent or underdeveloped segments of the capital and financial markets, including sound secondary markets, investment and risk-capital funds and guarantee funds, credit insurance and other hedging instruments. In developing these new mechanisms, it is essential that appropriate regulations for financial governance be in place so as to guarantee the rights of savers by enforcing rules on transparency and the timely provision of full, accurate information.

13. Public development banks have an important role to play because they can channel resources into areas in which the volume or terms of the resources offered by the private market are suboptimal, as in the case of financing for both rural and urban micro- and small enterprises, low-cost housing, sustainable development, productive restructuring and technological innovation. In order for this effort to bear fruit, however, there must be maximum transparency regarding the fiscal cost of the subsidies provided through development banks, and every effort must be made to ensure that obligations are met on time, preferably through the use of private institutions as first-tier agents for the channelling of resources.

14. Boosting export capacity is essential in order to achieve an adequate level of external resources and to

* Based on a document entitled "Growth with stability: financing for development in the new international context" (LC/G.2117(CONF.89/3)), presented by the Executive Secretary of ECLAC.

reduce external vulnerability. It is important, therefore, to generate a pro-export environment based on competitive exchange rates, active export promotion policies and the creation of conditions of systemic competitiveness through the development of quality infrastructure and dynamic chains of production. In order for such an effort to be successful it is essential to improve conditions for access to external markets for goods and services.

15. Higher investment and savings rates, financial development and the expansion of exports must be combined, at the national level, with efforts to reduce the extreme vulnerability of the region's economies to external financing cycles. This means, in particular, that booms in financing must be managed on the basis of clearly defined prudential criteria since the seed of economic crisis are sown during periods of excessive capital inflows that gradually undermine the macroeconomic fundamentals of the receiving countries.

16. ECLAC suggests that such situations be dealt with through a combination of general public-revenue stabilization funds; tight monetary and credit policies during booms; prudential regulation of the capital account, preferably through price-based instruments; strong prudential regulation and supervision of financial systems and their active management during booms to forestall the accumulation of excessive risk; and a "liability policy" designed to improve the maturity profiles of public and private debt, both internal and external. In addition, although there is no such thing as a perfect exchange rate regime for every country in every circumstance, the ECLAC document discusses the advantages of a managed flexibility that is designed to reconcile the conflicting demands for stability and flexibility that must be met by today's exchange rate regimes.

17. The external context should provide three essential elements: first, access to markets for our exports; second, a new international financial architecture which, with improved governance, will ensure greater stability for capital flows; and third, mechanisms to ensure that the relatively less developed countries also have access to adequate amounts of external resources on satisfactory terms.

18. The effort to boost exports must go hand in hand with access to external markets. The industrialized countries are still applying highly protective policies to agricultural products and "sensitive" manufactured goods from developing countries, and they often display a protectionist bias in applying contingency rules and erecting technical barriers against our exports. In addition, the island countries that have seen a significant erosion of their trade preferences need to receive adequate resources and technical support so that they can modernize and diversify their export base.

19. The tremendous instability of the international financial system is associated with the sharp asymmetry that exists between the world's burgeoning financial markets and the absence of suitable macroeconomic and financial governance at the international level. Better governance can only be achieved through an improved coordination of macroeconomic policies on the part of the major developed countries so as to guarantee greater global macroeconomic stability and the acceptance, on the part of all countries, of mechanisms for ensuring prudential surveillance of macroeconomic policies. International financial stability also depends on the existence of an appropriate global institutional framework that includes minimum standards for prudential regulation and supervision of the financial and information systems that are essential to the proper operation of financial markets. Finally, appropriate institutions are needed to deal with crises.

20. These institutions may be of two types. First, it is important to improve the countries' capacity to offer emergency financing in times of crisis and to develop suitable mechanisms for providing liquidity to countries with strong macroeconomic fundamentals when they are faced with problems of contagion. In both cases, the objective can only be achieved if the International Monetary Fund (IMF) has been supplied with resources of its own through temporary issues of special drawing rights (SDRs). It should be noted, of course, that an increased use of SDRs within the international financial system is an end in itself which has long been advocated by developing countries. In order to avoid problems of moral hazard, however, such special financing mechanisms must be tied to the creation of instruments for permitting private agents to become involved in the solution of crises. Without detriment to the principle of voluntary negotiations between creditors and debtors, international rules must be designed to guarantee the participation of all parties in such negotiations and to prevent them from

continuing indefinitely; this can be done by developing suitable multilateral arbitration mechanisms.

21. Ensuring access to resources entails the development of mechanisms for enabling all the countries to benefit from foreign direct investment and private credit flows. Foreign direct investment is fairly well distributed in the region, although priority attention still needs to be devoted to its linkage with the local economies involved. Private credit flows are much more concentrated, and mechanisms must therefore be developed to provide for guarantees or co-financing by multilateral development banks as a means of facilitating access to the market for countries that have not benefited from these flows. Such efforts are already being undertaken in some new areas of private investment, especially infrastructure.

22. The multilateral banks have made a significant contribution to financing for the region, and they will continue to play a decisive role in the future. First and foremost, they play an essential role in the mobilization of resources for the relatively less developed countries. Their loan portfolios for all the countries of the region are diversified, and reflect the priority these institutions give to social development, sustainable development, state reform and the channelling of resources to micro- and small enterprises, among other activities of high social priority. They also offer better terms, as regards both costs and maturities, than private financial institutions, even in the case of countries in the region that have higher relative incomes; this circumstance indicates that private markets may sometimes overestimate risk, especially — but not only — in times of crisis. Finally, multilateral banks provide financing on a counter-cyclical basis, thereby helping to mitigate external shocks. In particular, they provide the only source of long-term financing that is available during a crisis. This support has been essential even for countries that have higher relative incomes, and it has been decisive in renewing trust in the countries affected.

23. Official development assistance (ODA), for its part, continues to play a key role in providing financing for less developed countries and in providing global public goods or goods with strong externalities, such as peace, sustainable development and the struggle against the worldwide problem of drugs. The main priorities for the future should include the effort to meet the goal, agreed upon within the framework of the United Nations, of supplying 0.7 per cent of the gross domestic product (GDP) of the industrialized countries and the need to ensure that the use of those resources is more transparent and efficient. For its part, the heavily indebted poor countries (HIPC) debt initiative, for which four countries in the region may be eligible, should be made more flexible, and adequate resources should be provided for its financing. This must be done in order to ensure that other developing countries are not required to shoulder a disproportionate share of that financing, either directly or through wider interest-rate spreads and reduced availability of resources for technical cooperation from multilateral banks.

24. In the construction of this global edifice, three requirements must be borne in mind. The first is to ensure the adequate participation of the developing countries in the relevant institutions. The second is to uphold the countries' autonomy in adopting whatever policies they deem appropriate for their development. The third is to ensure that international standards take into account the absorption capacity of the individual countries, given their different levels of institutional development.

25. The decisive role that the region's institutions play in the positive interaction between national efforts and an adequate international context should be stressed. These institutions address a wide range of concerns, including trade integration agreements, which are crucial to the diversification of the export base of our countries; the large network of development banks formed by the Inter-American Development Bank and the subregional development banks, which are the main source of multilateral financing in our region; the Latin American Reserve Fund, a nearly unique institution in the developing world, which has performed so well in the Andean Community over the last few decades and has begun to expand its membership; and recent efforts to coordinate macroeconomic policies. The region must strive to consolidate all these processes and institutions and to deepen regional cooperation as a whole. The development of sound regional institutions does not work against globalization. On the contrary, it contributes to the construction of a much stronger global edifice.

III. Thematic panels

Panel 1. External crisis prevention and management: systemic aspects and national policy

26. The panel members noted that financial globalization affords significant efficiency gains in financing for development, but that it is taking place within an international financial system that has been rendered unstable by the sharp asymmetry existing between the dynamic development of financial markets and the absence of satisfactory macroeconomic and financial governance at the world level. Consequently, it is urgent that major reforms be made in the design of the international financial architecture and in the macroeconomic policies of the countries of the region. In order to attain international financial stability, an appropriate institutional framework is required that includes standards of prudential regulation and supervision. The participating countries emphasized that in order to work towards improving the international financial system, it is important for the developing countries to play a suitable role in the relevant institutions, for there to be an appropriate level of autonomy in national policy-making, and for international rules and standards to take countries' levels of institutional development and absorption capacity into account.

27. From an international perspective, it is important to make certain that the major economies' macroeconomic policies are consistent, to have financial regulations in place that will prevent the build-up of excessive risk, and to see to it that regional, subregional and multilateral agencies, as well as private agents, have a rapid-response capacity in countering threats to stability. The design of that new international financial architecture should ensure the adequate participation of the less developed countries.

28. It is also important to strengthen the International Monetary Fund's capacity to provide exceptional financing during crises, and to develop suitable mechanisms for supplying liquidity to countries with solid macroeconomic fundamentals that are experiencing problems of contagion. The valuable contribution that subregional organizations, such as the Latin American Reserve Fund (LARF), can make in preventing and coping with external liquidity constraints and crisis situations has also been recognized.

29. From a national perspective, progress needs to be made in strengthening financial regulatory and supervisory systems, ensuring a counter-cyclical form of macroeconomic policy management, diversifying exports as a means of reducing external vulnerability, and enhancing governance, which encompasses political, institutional, judicial and social factors as well as economic variables. In addition, financial booms need to be managed prudentially since economic crises incubate during periods marked by excessive capital inflows.

30. There are three courses of action countries can take to protect themselves from external fluctuations: first, the adoption of sound fiscal policies with a structurally balanced focus and an inter-temporal horizon; second, the adoption of sound monetary policies founded upon the existence of an autonomous central bank, whose main task is to keep inflation under control; and third, the adoption of measures to control the open positions taken by banks and their main debtors while avoiding currency and maturity mismatches.

31. The participants in the general discussion noted the importance of the private sector's involvement in solving crises, especially in connection with debt restructuring. Emphasis was also placed on the proposal that IMF create special drawing rights on a temporary basis as a means of building confidence during times of crisis.

Panel 2. Access to external resources for financing development

32. The panellists stressed the importance of having access to external resources on a permanent basis, and noted that the volume, timing and terms and conditions of such financing are often incompatible with countries' needs. All countries should benefit from foreign direct investment (FDI) and private credit flows. FDI is fairly well distributed in the region, but private credit flows are much more concentrated, and systems of guarantees or co-financing mechanisms should be developed by multilateral, regional and subregional banks in order to provide countries that have not benefited from those flows with greater market access. In that connection, they discussed the

idea of a globalization "ethic" oriented towards supporting development efforts to overcome poverty and underemployment and to do away with their migration-related manifestations.

33. They underscored the role of multilateral, regional and subregional institutions in attracting capital to the region, and thereby helping to make up for private investors' lack of interest in projects having a high social rate of return. The panellists also called for steps to ensure a more permanent form of access to financing from multilateral institutions and to strengthen regional and subregional development banks. Regional institutions, for their part, were assisting with the intermediation of financial resources directed towards the region, and their efforts in that respect were oriented by their Latin American identity and their autonomy. They had enhanced their capacity to play a catalytic and counter-cyclical role as financial intermediaries helping to strengthen national financial systems, backstopping macroeconomic management and providing long-term financing for a broad project portfolio aligned with the needs of the countries.

34. In examining countries' renewed access to private financing in the form both of FDI and of equity investment and debt flows, the stability of the former was contrasted with the high degree of variability exhibited by the latter. The panellists recognized the value of FDI flows but also drew attention to their possible effects on external equilibria when profits are repatriated, their concentration in certain sectors and their impact in terms of the creation of enclaves within the region's economies. In view of the foregoing, the panellists called for the consolidation of proactive policies to encourage FDI flows and promote productive development, along with steps to strengthen the production linkages that enhance their economic impact. They also felt that it is necessary to make a greater effort to channel most official development assistance to the countries that are relatively less developed and are the most vulnerable to external shocks.

35. In order to gain access to other private debt and equity investment flows, the practices used in generating financial and accounting information will have to meet international standards. In order to deal with vulnerability and volatility, it was recommended that increases in domestic saving and investment be set as a medium-term goal. With regard to the latter, the importance was underlined of trade liberalization and broad market access since those conditions would make it possible to obtain the foreign exchange needed to fulfil payment obligations.

36. The panellists spoke of the need to establish mechanisms for the regulation and supervision of national financial systems with a view to prudential liability management and to provide support for regional institutions' contingency mechanisms so that they can act swiftly when emergencies arise during crisis situations.

37. In considering new sources of financing for development, the panellists referred to the increasingly important role of the remittances sent back by migrant workers living abroad, noting that such flows occur not only between the region and the more developed economies but also within the region, and that steps could be taken to strengthen mechanisms for channelling those remittances into productive uses.

Panel 3. The decisive role of trade as a factor in financing

38. The panellists stated that exports are extremely important as a source of financing for imports, and that trade in general is a key growth factor. Export capacity must be strengthened in order to secure an adequate level of external resources and reduce countries' external vulnerability. Trade also plays a decisive role in the smaller countries and island States. However, persistently low levels of export diversification continue to act as a source of external vulnerability, with negative implications for stability, investment and growth; a climate conducive to export promotion must be created through moderately high and stable real exchange rates, which would help to avoid an anti-export bias and enhance systemic competitiveness.

39. In terms of active export promotion policies, panellists advocated promoting technological diffusion, given the shift in trade patterns towards intra-industry trade. To that end, trade liberalization should be accompanied by unhindered access to technology in order to avoid asymmetries in market access. At the same time, production and export capacity must be strengthened through the provision of appropriate financing, which is vital for small economies that have seen an erosion of their preferential access arrangements.

40. The panellists and participants in the debate pointed out that the small economies require temporary support to improve their access to external markets and clearly defined rules to protect them. They underlined how necessary it was for those countries to participate alongside the other developing nations in economic decision-making. Due consideration must be accorded to the specific problems and vulnerability of their economies and to the absence of the preferential treatment that should be a founding principle of the multilateral trading system. Under those circumstances, barriers continue to be erected that block those countries from actually sharing in the benefits of globalization. Attention was drawn to the World Trade Organization (WTO) programmes aimed, inter alia, at keeping markets open even during crises. Nevertheless, it was noted that some small countries are at a disadvantage in terms of access to external markets. Consequently, island States are in need of sufficient resources and technical assistance to modernize and diversify their export base.

41. In closing, it was noted that integration processes play a key role since they are conducive to export diversification and would make it possible to increase exports involving a higher degree of processing.

Panel 4. External constraints and the debt overhang

42. The panellists noted that debt, which is one of the most serious problems and greatest obstacles to growth and development, can have enormous political implications that could affect all the countries of the region, regardless of their relative income level. While there are debt relief initiatives for poor countries, there should also be such initiatives for the other countries of the region. In any event, such initiatives should not be regarded as a substitute for other sources of financing, especially in the case of official development assistance. Such assistance should be re-established on the basis of internationally agreed goals and should be channelled to the relatively less developed countries, small island States and countries troubled by armed conflicts or the scourge of illicit drugs.

43. By the same token, moratoriums should not be regarded as a substitute for emergency financing when problems are being experienced in relation to liquidity or solvency. In general, it was recommended that debt reschedulings be undertaken on the basis of universal principles having to do with voluntary agreements among the interested parties, multilateral arbitration mechanisms and IMF financial support.

44. The role of the HIPC debt relief initiative was highlighted, and it was noted that 20 countries have benefited from it in the year 2000. The steps involved in qualifying for that initiative need to be streamlined in a way that will not raise the cost of multilateral credits or undermine international agencies' ability to continue with their lending programmes.

45. With a view to ensuring the success of the HIPC initiative, a number of other observations were made, including the following: it could be coupled with trade agreements; although that initiative was an extremely important form of assistance, it should be viewed as simply one more component in the broader process of obtaining additional resources; the more developed countries should take on more responsibility for its financing; and regional and subregional banks should increase their participation in the initiative, and should modify the eligibility requirements to include relatively higher-income countries.

Panel 5. National aspects of financing for development

46. During the debate, it was noted that both domestic saving and investment have remained low in the countries of the region. The main challenges to be met in order to mobilize national resources are therefore to promote saving and improve financial intermediation. In order to promote saving, a number of political and economic complexities must be taken into consideration, including the need to build confidence in order to pave the way for saving and investment, which requires predictability; and the short-term costs of such an undertaking. A distinction must be drawn between incentives for saving and incentives for ownership. It is also important to encourage self-financing, chiefly through the reinvestment of corporate profits, personal and household saving for specific purposes, and public-sector saving.

47. In order to channel saving into investment financing more efficiently, it is necessary to improve financial supervision and regulation by implementing supervisory mechanisms more effectively and passing more effectual legislation on prudential regulation; to

develop capital markets as a means of achieving greater transparency together with accurate, timely information; and to attain greater governance. Development banks should play an important role in channelling saving into investment.

48. In discussing the necessary conditions for taking fuller advantage of the opportunities offered by globalization, special mention was made of the need to backstop financial development in certain areas that offer high social rates of return but are subject to market failures. Such areas include exports, technological diffusion, the activities of economic agents that were conducive to complementarities, cooperative economies of scale, micro- and small enterprises, and other activities that contribute to social sustainability. Along those same lines, a new domestic financial design was proposed that would include investment funds, risk capital funds and guarantee funds.

49. The panellists analysed the inputs that the region could provide for the High-level Event. They considered the importance of non-financial aspects, one of which is legislation, in attracting capital at a time when saving and investment were declining. Attention was drawn to the progress made by the region in such areas as public finances, banking supervision and regulation, and the development of social insurance systems. In discussing the challenges that remain to be met, mention was made of the fact that little is known about how different types of businesses in the region behaved, how to deepen its capital markets and how to improve financial governance.

50. The development of the financial system is one of the determinants of saving and investment behaviour that were directly and indirectly affected by economic policy. To promote the development of that system, it is important to have macroeconomic stability; clearly defined and staunchly defended property rights; sound accounting procedures; transparency and an absence of corruption; as few barriers as possible to non-traditional banking activities; and an effective safety net.

51. The panellists commented upon the difficulties involved in developing the financial sectors of small economies, and noted that they engage in less intermediation of real saving than of financial saving (which although it influences the level of investment, does not actually determine it). Consequently, such economies must continue to rely on support from multilateral agencies while they gradually upgrade their financial systems as their economic development process progress.

52. The fuller an economy’s integration into the international financial system, the more its country-risk premium influences domestic interest rates. Since those premiums stay high even after a crisis has passed, investment remains low. To reduce those risk premiums, it is vital to have support funds, such as the contingent credit lines that have already gained acceptance as a mechanism to be used in crises brought on by contagion. It is also essential to increase the coverage of those lines by broadening the definitions of volatility and contagion. In many countries, borrowing requirements are determined by stock-related difficulties that are reflected in debt service and remittances from FDI, and in some cases a reduction in the public deficit has no influence on borrowing requirements or risk premiums.

IV. Towards the High-level Event: the perspective of Latin America and the Caribbean

53. As part of the work of the Regional Consultation, a group open to all delegations from the Latin American and Caribbean countries was formed which worked concurrently to consider the views of these member countries of the Commission. The group approved a statement entitled, “Towards the High-level International Intergovernmental Event on Financing for Development”, which is set out below.

“Towards the High-level International Intergovernmental Event on Financing for Development

“We, the representatives of the Latin America and Caribbean countries, meeting in the city of Bogotá on 9 and 10 November 2000 for the Regional Consultation on Financing for Development for the Latin America and the Caribbean Region, have adopted the following contribution to the High-level International Intergovernmental Event on Financing for Development, as well as to the substantive preparatory process, as provided for by the

General Assembly in its resolution 54/196 of 22 December 1999.

“Political considerations

“1. In the Millennium Declaration (General Assembly resolution 55/2), our heads of State and Government voiced our concern about the obstacles facing developing countries in mobilizing the resources needed to finance their sustained development, and made the commitment to make every effort to ensure the success of the High-level International Intergovernmental Event on Financing for Development.

“2. A clear consensus emerged: the benefits of globalization must be equitably distributed so as to contribute to eradicating poverty and promote economic and social equity within and between countries. We need to confront the challenges of globalization from a human perspective: international finance for development plays an essential role in the promotion of sustained economic growth and comprehensive social development, and in the prevention of social instability and exclusion of countries.

“3. In the best tradition of the major conferences and summits of the United Nations, it is high time to face the challenges of development at the global scale from the perspective of finance. It is high time to join forces to build a new global consensus with the objective of ensuring that the international economic system functions in a more just and equitable manner, and guaranteeing the security of all peoples and the opportunity to raise their living standards.

“4. The United Nations, in fulfilling its role in the promotion of development, plays an important role in international efforts to build up the necessary consensus for the reforms needed for a more equitable, participatory, solid and stable international financial and trade system, within a convergence of efforts with the Bretton Woods institutions, the World Trade Organization, the regional institutions and a large number of other relevant actors at all levels and sectors.

“5. To this end, it is essential that the process of reform for a strengthened and stable international financial architecture should be based on broadened and strengthened participation of developing countries in the international economic decision-making and norm-setting processes in order to promote more efficient international financial institutions and arrangements in which all relevant interests can be effectively represented.

“6. An important challenge is to renew national, regional and international efforts to promote international financial stability, and to this end to improve early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner, taking a comprehensive and long-term perspective while remaining responsive to the challenges of development within a framework that upholds national development policies and priorities.

“7. Of critical importance is a fair, equitable and rules-based multilateral trading system, operating in a non-discriminatory, inclusive and transparent manner that provides benefits for all countries, especially developing countries. This must involve, inter alia, effective participation of the latter in decision-making, improved market access for goods and services of particular interest to developing countries, and effective and full implementation of special and differential treatment.

“8. The High-level Event should further consolidate a broad agenda in order to address national, international and systemic issues relating to financing for development in a holistic manner in the context of globalization and interdependence. This global agenda should be action-oriented, raising international cooperation for development to a higher political platform.

“9. Bearing in mind the concerns included in paragraph 12, it should address, on a comprehensive basis, the interrelated issues involved in mobilizing financial resources for development in order to, inter alia: (a) make foreign direct investment and other private flows for development more participatory, especially for those countries that are currently marginalized from their benefits; (b) enhance the role of trade in financing for development, guaranteeing the full participation of all developing countries in international trade and access to international markets for their exports without discrimination of any sort whatsoever; (c) increase international financial cooperation for development through the reactivation of the levels of official development assistance and the fulfilment of the commitment to provide 0.7 per cent of gross domestic product; and (d) meet the challenge of finding an enduring solution for the external debt problem. It should also address systemic issues and seek to increase the coherence and consistency of international financial and trading systems in order to support development.

“10. The High-level Event will give the international community an historic opportunity to jointly create a new world partnership for development, with emphasis on the promotion of economic and social equity on a global scale, while responding to the specific needs of vulnerable countries and social groups.

“Concerns regarding financing for development

“11. Despite the many difficulties faced by our countries, during the past decade they have worked to achieve economic growth with equity. These efforts have been reflected, inter alia, in advances in the areas of macroeconomic management, consolidation of the fiscal situation, economic and trade liberalization, price stabilization, the reactivation and intensification of regional economic integration, and the expansion of South-South cooperation.

“12. Nonetheless, we have major concerns regarding financing for development in Latin America and the Caribbean which should be taken into consideration in the creation of a supportive international environment that will complement our domestic efforts. Some of those concerns are the following:

(a) The vulnerability of our economies to the instability of sources of external financing;

(b) Unequal foreign direct investment and unequal access to private capital markets;

(c) The difficulty of gaining access to resources for conducting many activities with a high rate of return in terms of social investment and sustainable development;

(d) The terms and conditionality imposed on such access, as well as on international funding sources;

(e) The need to strengthen the financing provided by multilateral banks for development;

(f) The limited capacity of the International Monetary Fund and development banks to provide liquidity for purposes of crisis prevention and resolution;

(g) The obstacles to the allocation of resources for development created by the existence of internal conflicts;

(h) The limitations on development imposed by the high level of indebtedness of some medium- and low-income countries of the region;

(i) The difficulties involved in implementing the heavily indebted poor countries debt relief initiative, within a framework of differentiated co-responsibility, while taking into consideration equitable burden-sharing;

(j) The insufficient levels of official development assistance available to countries in need of it;

(k) Current limitations in access to regional and international markets for exports of goods and services of interest to the region;

(l) The need to strengthen the United Nations in fulfilling its mandate in development and to address its marginalization in economic decision-making;

(m) The needs to address asymmetries among countries in trade matters through, inter alia, the effective implementation of special and differential treatment and the fulfilment of commitments; eliminate trade barriers limiting developing countries’ access to industrialized countries’ markets; and incorporate developing countries’ priorities in multilateral trade negotiations and assuring their full participation in the decision-making process;

(n) The lack of progress in the completion of a vulnerability index;

(o) The problems posed by the erosion of trade preferences, supply-side constraints and diversification efforts of small economies and small island developing States.

“Final points

“13. We welcome the document prepared by the Economic Commission for Latin America and the Caribbean (LC/G.2117(CONF.89/3)) entitled, ‘Growth with stability: financing for development in the new international context’, and we take note of its recommendations.

“14. We express our deep appreciation and gratitude to the Economic Commission for Latin America and the Caribbean, the Inter-American Development Bank and the United Nations Conference on Trade and Development for their contribution to this Regional Consultation.

“15. We also commend the Government of Colombia for its contribution and for hosting this meeting, and we undertake to ensure that this contribution shall be taken into due consideration as an input of Latin America and the Caribbean to the High-level Event, and its substantive preparatory process.”

V. Other contributions to the debate

54. Two delegations requested that their statements be included in the report. Their statements are accordingly reproduced below.

Statement by the representative of Saint Lucia on behalf of the countries of the Caribbean Community

“The Caribbean States would like to thank the Government of Colombia for graciously hosting the Regional Consultation on Financing for Development for the Latin America and the Caribbean Region.

“We are extremely pleased to be participating in this process, which we believe is long overdue. We believe too that financing for development should have been the first international conference to be convened since it is the foundation upon which a development agenda is both built and financed. This is the critical missing link in the development agenda, without which implementation of a development agenda cannot proceed.

“We are happy, therefore, that although it is being done in reverse order, financing for development is being discussed at the global level at the turn of the century.

“Financing development is an issue of significant importance to small States, in particular the small economies and the small island developing States of the Caribbean, which face enormous challenges in financing their development given their inherent weaknesses and vulnerabilities and the hostile globalizing economy.

“While we recognize that there are six agenda items, we will address mainly trade, systemic issues and an international enabling environment.

“In relative magnitude, global financial flows are much greater than trade flows; however, for most developing countries, the loss of revenues due to trade restrictions is much larger than their external financial sources, so that in terms of relative importance, opening developed country markets to import more goods produced by developing countries generates more inflow than external financing.

“Opening markets, however, is not all. Export capacity and access to technology are preconditions to benefiting from increased market access, which is important since the resources generated by trade must be converted into foreign imports. The evolution of technology has been such that the manufactured goods that are produced by developing countries who have diversified their exports baskets tend to behave exactly as primary products, with falling prices and thus declining terms of trade relative to developed country manufactured goods.

“The global economy is supported by three major pillars — financial, monetary and trade — and three main institutions — the World Bank, IMF and WTO — exercise special responsibilities in these areas.

“The thrust of the General Agreement on Tariffs and Trade (GATT) and WTO remains trade liberalization to achieve economic growth, yet the records show that liberalization has occurred mainly in developing markets, and those areas of interest to developing countries where they have a competitive advantage remain protected in developed markets. In fact, it is estimated that $100 billion will be gained by developing countries to finance their development if developed countries cut their trade barriers by 50 per cent.

"1997 figures reveal that the Organisation for Economic Cooperation and Development (OECD) countries with 9 per cent of the world's population or about one billion of the six billion of us on earth, have 86 per cent of the shares of world gross domestic product (GDP), 82 per cent of world export markets, 68 per cent of FDI and 91 per cent of all Internet users, with 80 per cent of web sites operating in English.

"Over 60 per cent of the world's population, or about five billion of us in the developing world in about 160 countries, share only 13 per cent of the world's GDP, 17 per cent of world trade and 6.5 per cent of Internet use and income and poverty gaps continue to widen between developed and developing countries.

"When the architects of the global economy formulated policies and institutions after World War II to globalize the economy, it was with the hope of attaining full employment, financial stability, more equitable distribution of income and benefits of free trade, but by playing by the rules of the international financial and trading systems. This system of rules set by developed countries is still being applied by developed countries, ignoring the different strengths and stages of development of developing countries and varying natural endowments. It has continued to ignore, for 50 years now, the glaring disparities and inequities of the current trading system.

"It must be noted that developed countries have only partially liberalized their markets and did so only after they had developed the necessary infrastructure and stages of development to liberalize. Even then, special provision was made for the disadvantaged and weak economies — a Marshall Plan to assist them in developing and integrating into the global economy.

"Yet, special and differential treatment to assist developing countries in bridging the disparity gaps and addressing differences remains largely unimplemented and has no legally binding status. There is still no recognition of the limitations, inherent vulnerabilities and structural weaknesses of the small and vulnerable, who are seriously marginalized in the rapidly globalizing economy.

"Trade is still one of the major contributors of finance for development to many developing countries, including small States in the Caribbean. In fact, a structural disadvantage for us is our narrow economic base, with heavy dependence in trade in one commodity, which provides over 50 per cent of current export earnings in the case of Saint Lucia. The incomes of small developing States are 25 per cent more volatile than those of our larger counterparts, and the citizens of small countries have less capacity to insure domestically against adverse shocks to income. A current case is the liberalization of the one agricultural commodity through the erosion of trade preferences given as development assistance to disadvantaged economies. The low diversification in production and trade and susceptibility to natural disasters explain much of small States' income volatility. In fact, Saint Lucia has lost about 50 per cent of its revenues in export earnings to liberalization in the agricultural sector. The same holds true for other Caribbean countries.

"Vulnerability to natural disasters and external shocks, our small markets and narrow economic basis are but part of the challenges faced by small economies. Others include high energy and transportation costs, and weak human and institutional capacities in both the public and private sectors, complicated by scattered populations. The sum of all which is a high development cost for small economies.

"The Caribbean States are attempting to diversify but are in need of reasonable periods of transition and adequate financing. Already, diversification efforts are seriously challenged by OECD in the financial services sector.

“We are therefore asking that the special and serious concerns of the smaller members of the Latin America and Caribbean region be adequately addressed in the action section of the outcome document of the Regional Consultation, in particular special effort to offset terms of trade losses.

“In the wider context of the financing for development process, there are other important elements that CARICOM wishes to see reflected in the action section report of the consultation.

“Earlier reference was made to the glaring inequities of the global economy, which to a large extent are due to systemic and structural imbalances in the global economic system, in particular the undemocratic decision-making processes of the monetary, financial and trading institutions. Hence our call for reform and effective participation of developing countries. We would also like to see promoted a central role for the United Nations — the only legitimate international institution mandated to ensure equity in the distribution of benefits of the global economy. In this regard, the role of the United Nations in policy coherence and coordination must be strengthened.

“Another important contributor to financing development in developing countries is ODA. The United Nations has an agreed target of 0.7 per cent of GDP in assistance to developing countries. The difference between the agreed 0.7 per cent and the delivered 0.24 per cent is over $100 billion that are denied developing countries annually in their development efforts.

“Yet developed economies are the strongest they have ever been and the decline in ODA continues. This denial of development assistance must be strongly reflected in the outcome of the Regional Consultation.

“The crippling debt of developing countries is another major obstacle diverting urgently needed finance for development from developing countries to developed countries. The cancellation of debt would make available $2,554 billion in financing for the development of developing countries. A strong call needs to be made for the cancellation of the debt of poor to give them a chance to develop and benefit from the global economy.

“The financing for development process is a very critical one for developing countries. It is our last opportunity in this millennium to claim the promise of free trade for our poor people and underdeveloped economies. It will be the only chance in the beginning of the new millennium to ensure equity in the sharing of the benefits of the global economy and peace security and development for our people.”

Statement by the representative of the United States of America

“The United States expresses its appreciation to the Government of Colombia for hosting this consultation, and would like to thank the Economic Commission for Latin America and the Caribbean for organizing the meeting.

“We find this regional meeting timely and necessary at this juncture of the preparatory work on financing for development. We welcome the participation of the Finance Ministers of many Latin American countries, and encourage their continued participation in the preparatory process and in the final event.

“We welcome the emphasis made during the conference by many Latin American countries’ Finance Ministers on the importance of sound economic and social policies, trade liberalization, good governance, the rule of law and democratization.

“Experience demonstrates that there are no alternatives to sound policies if there is to be sustainable progress on economic and social development.

“In addition, we appreciate the work done by the Government of Colombia on the ‘Bogotá Declaration’, and recommend for ECLAC consideration, in particular, the following national policy recommendations from the ‘Declaration’ as important actions to address some of the key development financing questions facing the region:

- Maintenance of stable and transparent ground rules that will uphold the rights of owners of financial and production assets in the face of the discretionary powers or actions of public and private third-party interests;

- Consolidation and/or intensification of fiscal adjustment policies through, inter alia, increased productivity of public expenditure, stronger tax systems, the introduction of public revenue stabilization funds, greater transparency in fiscal accounts, and suitable means of estimating and financing the explicit and implicit guarantees granted by the State;
- Establishment or consolidation of proactive policies that favour foreign direct investment and other long-term capital flows;
- Securing the solvency of the banking system, the prevention of systemic risks, and the sound management of credit risk, terms and currency;
- Upgrading the practices employed for the compilation of financial and accounting information according to international standards.

"We believe these recommendations are a valuable contribution to the financing for development exercise. We urge the Preparatory Committee for the High-level Event to take them into account in its preparatory work to shape the agenda for the final event.

"The United States believes that the 'preliminary agenda' for the final event should be further distilled to reflect international consensus. We urge the Preparatory Committee to focus the final event on the following issues, on which wide agreement exists among member States:

- Mobilizing domestic financial resources for development — macroeconomic policy formulation and implementation and private financial sector development;
- The importance of transparency, governance and the rule of law for mobilizing international resources for development — private capital flows, foreign direct investment, ODA and debt relief;
- The importance of using development resources effectively, with particular attention to promoting private enterprise and basic social services;
- Trade — global, regional and country-level trade liberalization and cooperation, and trade-related capacity building for trade-led growth.

"The Preparatory Committee should strive to avoid highly controversial issues that could potentially derail the final event. For example, we are concerned over the insistence on a substantive role for the United Nations in the work of the international financial institutions (IFIs). Attempts to impose United Nations prescriptions on the IFIs is interference in their organizational and decision-making autonomy; it is also counterproductive, especially at a time when the IFIs' input is most needed to ensure the success of the financing for development exercise.

"In this regard, we want to emphasize the importance of the United Nations consulting fully with the World Bank, IMF, and, if appropriate, WTO, in shaping the financing for development agenda, to ensure that these institutions feel comfortable with it and can provide useful substantive input."

Annex

List of panellists

Panel 1
External crisis prevention and management: systemic aspects and national policy

Presenter:

José Antonio Ocampo, Executive Secretary of ECLAC

Panellists:

Juan Manuel Santos, Minister of Finance and Public Credit of Colombia

Nicolás Eyzaguirre, Minister of Finance of Chile

Antonio Gustavo Rodrígues, Deputy Secretary for International Affairs of the Ministry of Finance of Brazil

Roberto Guarnieri, Executive President of the Latin American Reserve Fund

Reinhard Munzberg, Special Representative of the International Monetary Fund to the United Nations

Federico Rengifo, Deputy Minister of Finance and Public Credit of Colombia

Panel 2
Access to external resources for financing development

Presenter:

Andras Uthoff, Coordinator of the Special Studies Unit of the Office of the Executive Secretary of ECLAC

Panellists:

Leonel Baruch Goldberg, Minister of Finance of Costa Rica

Manuel Fragoso Díez, Assistant Director for Finance for South America, Ministry of Finance and Public Credit of Mexico

Luis Enrique Berrizbeitía, Vice President of the Andean Development Corporation

Jan Kregel, Senior Advisor of the United Nations Conference on Trade and Development

Eduardo Fernández Arias, Lead Research Economist, Inter-American Development Bank

Jairo Montoya, Deputy Minister for Foreign Affairs of Colombia

Panel 3
The decisive role of trade as a factor in financing

Presenter:

Reinaldo Bajraj, Deputy Executive Secretary of ECLAC

Panellists:

Alister McIntyre, Chief Technical Adviser of the Caribbean Regional Negotiation Machinery of the Caribbean Community

Clemens Boonekamp, Director, Trade Policies Review, World Trade Organization (WTO)

Jan Kregel, Senior Adviser of the United Nations Conference on Trade and Development

Panel 4
External constraints and the debt overhang

Presenter:

José Antonio Ocampo, Executive Secretary of ECLAC

Panellists:

Marcos Carías, Adviser on external debt, Ministry of Finance of Honduras

Ewart Williams, Senior Adviser, Western Hemisphere, International Monetary Fund

Alister McIntyre, Chief Technical Adviser of the Caribbean Regional Negotiation Machinery of the Caribbean Community

Panel 5
National aspects of financing for development

Presenter:

Manuel Marfán, Expert on economic development, Office of the Executive Secretary of ECLAC

Panellists:

María Cecilia Otoya, President, Industrial Development Institute of Colombia

Gert Rosenthal, Permanent Representative of Guatemala to the United Nations

Guillermo Perry, Chief Economist for Latin America and the Caribbean of the World Bank

Courtney Blackman, Expert on Central Banking Systems in Developing Countries and former President of the Central Bank of Barbados

Roberto Frenkel, Director, Banco de la Provincia de Buenos Aires, Argentina