NGLS ROUNDUP

UNITED NATIONS NON-GOVERNMENTAL LIAISON SERVICE

ECOSOC Holds High-Level Meeting with Bretton Woods Institutions

The second high-level meeting between the Economic and Social Council of the UN (ECOSOC), International Monetary Fund (IMF) and the World Bank took place on 29 April at UN headquarters in New York. The meeting was held immediately after the World Bank and IMF Interim Committee and Development Committee meetings, held in Washington from 27-28 April. Government delegates and Bretton Woods officials who had attended the World Bank/IMF meetings briefed UN delegates on the outcome in Washington.

The topic of the high-level meeting, chaired by ECOSOC President Paolo Fulci (Italian Ambassador to the UN), was The Functioning of International Financial Markets and Stability in Financing for Development. In preparation for the meeting the secretariat circulated a document on the theme (E/1999/42), which raised questions for the discussion in the following areas:

- how to promote recovery in the developing and transition economies;
- financial architecture and financial flows for development;
- international policy on external debt;
- economic crisis and social policy initiatives; and
- further cooperation between the UN and the Bretton Woods Institutions (BWIs).

The Executive Committee on Economic and Social Affairs of the UN had also issued a report in January entitled *Towards a New International Financial Architecture* (see *Go Between* 73), which served as a background document for the meeting. The report proposed increased liquidity to fight off global contagion, creation of regional reserve funds and tighter regulation of financial markets while defending the right of developing countries to set their own capital control and exchange rate policies. The meeting acknowledged the complementary work of the Ad Hoc Working Group of the General Assembly on Financing for Development, and the processes underway to review implementation of the global conferences of the 1990s, particularly the World Summit for Social Development.

Recovery from the World Financial Crisis

There were diverse views on the state of recovery from the world financial crisis. Ambassador Fulci said that the persistent economic crisis continued to underscore the need for a comprehensive view of reform of the international financial system and the problems of development. The council was the natural forum in which to promote dialogue and build confidence on world economic and social issues, he said, noting that financial architecture must stand on solid social foundations.

Carlo Azeglio Ciampi, Chairman of the IMF Interim Committee and Italian Minister of the Treasury, said that while the worst of the crisis seemed to have passed, the world economy was far from growing at its full potential. The main question now was how to mitigate the impact of crisis and how to prevent future ones. He also said that the committee had discussed the Kosovo crisis and had endorsed the need for a rapid, substantial and coordinated response by the international community to the economic consequences of the crisis in the region.

Tarrin Nimmanahaeminda, Chairman of the World Bank Development Committee and Minister of Finance of Thailand, said that sustainable economic recovery for countries in financial crisis depended on coherent and effective social policies as much as on economic reform measures. He said that it was safe to say that the risk of world recession was now gone and, thus, the risk of a deeper crisis was over.

IMF Managing Director Michel Camdessus said that if he were to say prematurely that the crisis was over, then governments might feel less urgency to support reforms. However, a large measure of stability was now returning, and it was true that the countries most affected were in a recovery process.

UN Deputy Secretary-General Louise Frechette said, "Now is not the time for complacency. The effects of the crisis are still with us, and it would be a grave mistake to return to business as usual." She noted that economic growth has slowed, unemployment remains high and the prices of primary commodities remain low. "In many developing countries the crisis has reversed in a matter of months the social gains of several decades, and its impact will continue to be felt for some time to come...A large part of the developing world remains on the margins of the global market and cannot enjoy the potential benefits of the liberalised world economy."

Global Financial Architecture

Carlo Azeglio Ciampi reviewed Interim Committee decisions to address problems that emerged in the recent financial crisis. Transforming the Interim Committee into a council would give the representatives of developing countries a forum where they could speak about their concerns. He said proposals for broader institutional change, to be addressed at the annual World Bank/IMF meetings in October, should include greater efficiency and coordination among all the institutions concerned, and more focus on preventing, rather than managing, crises. A Contingent Credit Line (CCL) had been established by the IMF to prevent and contain contagion, provided nations follow strong economic policies. To be eligible, countries must meet both macro-economic and monetary conditions, as well as banking and finance sector management standards. The IMF had developed international standards on reserves and transparency codes for fiscal, monetary and financial policies, which it planned to use in its surveillance activity. According to Mr Ciampi, the Fund was devising practical ways to involve the private sector in ensuring stable financial flows towards emerging and less developed countries. The IMF had collaborated with the World Bank and the Asian Development Bank to put in place social sector policies to broaden social safety nets.

Louise Frechette commented, "We must complete the work that has been started on establishing a new global financial architecture...It would be most unfortunate if—because the crisis has abated and the worst has for now been avoided—the political will to make tough decisions were allowed to fade." She emphasized the fact that the design or management of a strengthened system should not be the prerogative of only a few states.

In the discussion that followed, Bharrat Jagdeo, Minister of Finance of Guyana, speaking on behalf of the G-77 and China, said that G-77 countries often felt excluded and unable to participate in the design of policy and programmes. He asked what, apart from existing consultation mechanisms, could the IMF and World Bank do to ensure that developing countries could better participate in the processes and thereby gain ownership of the initiative? In response, Mr Wolfensohn noted that country directors for each country at the BWIs should ensure adequate access.

The global financial crisis is not over and its cost, including a rise in malnutrition and child labour, are painfully clear in the developing world, according to Carol Bellamy, Executive Director of the United Nations Children's Fund (UNICEF). Referring to recent statements by the IMF Managing Director, Ms Bellamy said, "Mr Camdessus has declared the financial crisis over. But the longer-term human implications of what we believe is a continuing financial crisis, will continue. Globalization—a term once synonymous with fast-spreading economic growth—now also refers to the spread of poverty around the globe," she said. "The poor are still really poor and are not necessarily benefitting from the economic growth." Ms Bellamy was speaking in Bogota (Colombia) at a biannual meeting of UNICEF representatives from the region in April.

Cuba asked about the prospects for regulating the activities of certain actors in the world financial system. Iran said that in order to address dysfunctional international financial markets and unbalanced financial flows to developing countries, legitimate and representative international structures with universal membership were needed. Denzil Douglas, Prime Minister of St. Kitts and Nevis, spoke of the difficulty small island developing states had in accessing markets, and the instability of primary commodity markets. He asked what mechanisms were in place to link the WTO process to the financial development process, in recognition of the strong linkage of trade, financial and development issues.

Financing for Development and Debt Reduction

Tarrin Nimmanahaeminda said that the Heavily Indebted Poor Countries (HIPC) debt initiative had made progress, but had fallen short of what was needed. It was noted that US$6 billion had been committed to the initiative, but only US$1.4 billion in debt reduction had already taken place, which Trevor Manuel, Finance Minister of South Africa, called "too little, too late." Mr Nimmanahaeminda said it was encouraging to hear that creditor nations might take additional steps to ease bilateral debt and to make the HIPC Initiative broader, deeper and faster. "There should be a close link between debt reduction and helping countries achieve sustainable development and poverty reduction," he said. He noted that debt relief, trade and official development assistance (ODA) were all needed to reduce poverty.

Mats Karlsson, Secretary of State for International Development Cooperation of the Swedish Ministry of Foreign Affairs and Chairman of the Group of 10, added that development assistance alone could not create sustainable development, and that domestic saving, investment and international trade needed to be strengthened. Stable financial markets were also needed for ensuring financing for development. "With better institutional cooperation between the UN, the multilateral development banks, the EU and bilateral donors, better partnerships with developing countries" could be forged, he said. He concurred that countries needed to be given options for viable exits from the debt trap, and encouraged creditor nations to cancel all ODA debt.

The IMF Interim Committee had endorsed the Fund's continued support under the HIPC initiative and asked the BWIs to provide deeper relief to a broader group of countries in a way that strengthened incentives for adopting strong reform programmes and fostering the respect of human rights, according to Mr Ciampi.

Michel Camdessus said the Fund wanted to establish a significantly stronger link between debt relief and the allocation of resources for social goals such as education and health. He said the HIPC initiative could not deliver what it promised without reform in the debtor countries and efforts by some creditor countries to open their markets to developing countries. The trends in ODA must also be reversed. It would be too bad to win the battle of debt if the war of strengthening ODA was lost, he said.

Louise Frechette commented that trade and private investment cannot replace the role of ODA in the development of poor nations. She also called for further steps to relieve the burden of external debt of highly indebted countries, welcoming proposals to expand the HIPC initiative and further reduce official bilateral debt, but not at the expense of ODA. She endorsed proposals to finance debt relief through the sale of some IMF gold holdings.

During the discussion, Ireland asked how to assess the social component in adjustment programmes, many of which had clearly had a damaging effect in many developing countries. Canada noted that debt initiatives should not be achieved at the expense of development. Pakistan said that external debt needed to be addressed in a more comprehensive and holistic manner, and asked whether it would be possible to consider a global plan of action for debt cancellation that focused primarily on heavily indebted poor countries but also aimed to reduce the debt of other developing countries. Mr Camdessus responded that he had seen no interest or readiness in the IMF membership to include middle-income countries in debt cancellation.

Germany, speaking for the European Union (EU), said that efforts to keep the volatility of financial flows in check was not a guarantee of more stability in financing for development. Safeguards needed to be established at a national institutional level to restore investor confidence and resumed flows of private capital. These flows were concentrated in a small group of countries and a limited number of sectors within those countries. Financing for development meant that the recipient countries must create fundamental safeguards to ensure that financing would enhance development. These safeguards included rules on competition, financial sector reform, transparency, rule of law, a public spending sector that provides for the poor, core labour standards, and democratic control of state action. The US delegate added that stability in the flow of capital to emerging markets meant ensuring stability for investors who wanted to make long-term commitments. He called on the international community to identify and implement policies to make those markets appealing to investors. The EU emphasized that creditor nations should not be providing public funds to cover the risks of private investors.

Economic Crisis and Social Policy

Ambassador Fulci said that the economic crisis had brought the social dimensions of economic policy into sharper focus. The World Bank, in consultation with UN agencies, had prepared a draft set of General Principles of Good Practice in Social Policy mandated by its Development Committee. The committee had agreed that further development of these basic social principles should be pursued within the framework of the UN as part of the international community's follow-up to the Copenhagen Declaration of the World Summit for Social Development.

Tarrin Nimmanahaeminda stressed the need for the Bank to concentrate on translating broad principles into practical country-specific results. In response to the crisis in Asia, policies were adopted to address unemployment and to involve civil society and local communities as full partners in social programmes. Mr Camdessus said minimal safety nets should be a key part of the social principles being developed by the World Bank. Ms Frechette welcomed the increased attention the BWIs are now giving to social issues. "The results of the major conferences held by the UN earlier this decade should serve as the common frame of reference. The achievement of the goals set out by these conferences, particularly those related to the eradication of poverty, should become an integral part of any development strategy," she noted. The UK concurred that global consensus on social policy was a key UN task. The Copenhagen Declaration principles should guide the Bretton Woods institutions in dealing with crises. Social policies should be integrated into the international architecture.

Further Cooperation between the UN and BWIs

According to the Deputy Secretary-General, a genuine commitment by the UN and the BWIs to work together had to be seen and translated into daily behaviour. The history of mistrust between them would not be overcome overnight. Ms Frechette called for a holistic approach to sustainable development that integrated economic, social, political and environmental goals. She called on complementarity between the World Bank's Comprehensive Development Framework (CDF) and the UN's Development Assistance Framework (UNDAF, see *Go Between* 75). Both are intended to facilitate the design and coordination of country-driven, collaborative and coherent development programmes. The UK echoed this view, stating that the emphasis must be to draw in all development agencies, the private sector and civil society to reduce poverty.

There was considerable discussion about the overlapping agendas of the UN and the World Bank in the development arena, and the need for cooperation. Canada noted that the UN must continue to play a leading role, along with other players, and that initiatives should be complementary and mutually reinforcing. The delegate from the Netherlands said that resources are being wasted due to turf battles. She added that countries also have to coordinate positions internally and present one position at international fora. Too often a country says one thing in Washington and another in New York.

Mr Wolfensohn said the Copenhagen Declaration states that countries are committed to ensuring the social and financial environment to achieve development. There was no significant distinction between the UN in establishing principles and the World Bank in trying to determine financial policies. The issue was not whether it was the responsibility of the UN or the World Bank; in fact, they were doing the same work. It was necessary to build on today's meeting to ensure that the two institutions work together. "Let us deal with the substance of the question, and not the form," he said. It seemed to be generally agreed that there was a link between the macro-economic, structural, social and human issues that needed to be taken together. The important thing is to bring the players together in a coordinated partnership. "There is still a crisis—a human crisis of poverty and inequity. We need a sense of urgency," he said. "We need to stop dealing with organizational issues and get on with the job."

The delegate from the Netherlands observed that there is now a great deal of consensus among the UN, BWIs and governments on what needs to be done. Now, that consensus must be implemented.

Ambassador Fulci summarized the discussion, saying that mutual suspicions between the institutions were dissipating. Development could not be pursued without addressing the financial fundamentals, and the focus should not be on technical solutions without taking the development aspirations of millions of poor people into account.

CONTACTS

For the UN Document (E/1999/42): *see website (www.un.org/esa/coordination/ifa). If you do not have Internet access, contact the NGLS office in New York.*

For the World Bank/IMF Development Committee communiqué of 28 April*: contact Development Committee, 1818 H Street NW, Washington DC 20433, United States, telephone +1-202/458 2980, fax +1-202/522 1618.*

For the IMF Interim Committee communiqué (Press Release No. 99/15, 27 April): *contact International Monetary Fund, 700 19th Street NW, Washington DC 20431, United States, website (www.imf.org/external/np/sec/pr/1999/pr9915.htm).*

For the Report of the IMF Managing Director to the Interim Committee on Strengthening the Architecture of the International Financial System*: see website (www.imf.org/external/np/omd/1999/042699.htm).*

This edition of NGLS Roundup *was prepared by the United Nations Non-Governmental Liaison Service (NGLS). The* NGLS Roundup *is produced for NGOs and others interested in the institutions, policies and activities of the UN system and is not an official record. For more information or additional copies write to: NGLS, Palais des Nations, CH-1211 Geneva 10, Switzerland, fax +41-22/917 0049, e-mail <ngls@unctad.org> or NGLS, United Nations, Room FF-346, New York NY 10017, United States, fax +1-212/963 8712, e-mail <ngls@undp.org>. The text of this* NGLS Roundup *and other NGLS publications are available online (website: ngls.tad.ch).*

Printed on recycled paper