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Special high-level meeting with the Bretton Woods institutions
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Strengthening international financial arrangements and addressing poverty

Note by the Secretary-General

I. Introduction

1. In its resolution 54/197, the General Assembly recommended that this meeting give priority to the consideration of the modalities to achieve a strengthened and more stable international financial system, responsive to the challenges of development, especially in the developing countries, and to the promotion of economic and social equity in the global economy. That recommendation was made within a broader development context whose overarching objective — underlined by the major United Nations conferences and related events held in the 1990s and shared by the Bretton Woods institutions — is the eradication of poverty. The present note identifies some issues within these two broad policy concerns that might be the focus of discussions at the special high-level meeting. It has been prepared by the Secretariat of the United Nations.

II. Reform of the global financial system

2. The effectiveness of the current international economic and financial system in responding to development needs and the promotion of economic and social equity is being challenged. The economic and financial liberalization and globalization of the 1990s outpaced the capacity of the institutional framework in and among nations to manage it. In particular, the financial crises of 1997-1999 underlined the need for stronger global governance of international finance and for better national financial management. However, since there is no single institution to carry out this function, the solution has been to seek a higher level of international cooperation through innovative institutional arrangements, enhanced surveillance, internationally agreed standards and codes and a strengthened commitment to multilateralism. Some issues are being addressed at the global level, others at the regional or subregional levels and others at the national level.

3. The strategy for reform of the international financial "architecture" has been to design a set of financial policy interventions that would work with market forces, that would foster competition on an increasingly level "playing field", that would be amenable to harmonization across countries, that could be applied flexibly, that would promote financial sector deepening and that would spread access to finance to more countries and potential users of funds. Within this broad framework, it has come to be recognized that countries are at different stages of financial and economic development, that policies have to be tailor-made to the prevailing conditions in a country and that

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the financial sector has inherent features that call for official oversight and intervention.

4. Policy reforms that are part of this approach have been agreed or are in an advanced stage of consideration, in particular by the Bretton Woods institutions (e.g., codes regarding transparency in macroeconomic policy-making and standards for the publication of economic and financial data), the Basle Committee on Banking Supervision (e.g., reform of standards of prudential regulation of banks), and other official forums, such as the Organisation for Economic Cooperation and Development (OECD) (e.g., the anti-bribery convention and the efforts to combat money-laundering).

5. In addition to these forums, new mechanisms for international discussion and consensus-building on international financial reform have been created. In particular, the Governments and central banks of certain countries have formed various committees and working groups, such as the Group of 20 and the Financial Stability Forum. These bodies draw their mandate and membership from a wider but nevertheless limited group of developed and emerging market countries. They represent a concrete effort to develop and broaden international consensus on policy reforms in major areas of finance, but they do not form part of existing multilateral arrangements and how well they fill the perceived gaps and respond to the challenges of stability and reform remains to be seen.

6. In September 1999, the International Monetary Fund (IMF) Interim Committee was transformed into the International Monetary and Financial Committee. The reform of IMF, its surveillance role, the focus and streamlining of fund facilities and the involvement of the private sector are issues that will have been considered at the first meeting of the International Monetary and Finance Committee.

7. At its spring 2000 session at Washington, D.C., apart from addressing the issues of human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) and trade and development, the Development Committee will have reviewed progress in the implementation of poverty reduction strategy papers and the heavily indebted poor countries (HIPC) initiative.

Questions

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

(a) What progress has been made at the first meeting of the new International Monetary and Financial Committee in the reform and governance of the international monetary and financial system? In particular, what measures are being contemplated with regard to the reform of IMF and the strengthening of its surveillance in the financial sector?

(b) In the current debate on the reform of IMF, suggestions have been made to reorient it towards short-term lending and dealing with crisis situations. What are the implications of such an approach for the stability of financial system and for the Fund's capacity to forestall crises? How would this affect the prospects of the poorer developing countries in seeking access to financial markets?

(c) The Governments participating in the new international forums have been limited to those whose economies and international financial involvement make them of systemic importance at the present time. However, smaller and poorer economies also have a stake in these discussions because, in relation to their size, they are affected greatly by the outcomes even if they do not have much impact on the system. In addition, the systemic importance of countries changes over time. How can international forums on financial issues more effectively and efficiently take into account not only the interests of smaller economies but also shifts in the relative importance of countries?

(d) One of the challenges of the recent financial crises was to seek an equitable distribution of the financial costs between the public and private sectors. What progress has been made in this area, especially by involving the private sector not only in crisis situations but drawing it in to work with the public sector to promote stability and prevent crises?

(e) Financial regulatory authorities are usually well informed about the concerns of relevant business sectors, but interactions of official circles with civil society have generally been less intense in the area of international financial policy. Increasing transparency and improved relations are seen as essential in strengthening dialogue with civil society. What measures are being taken in this regard and can they be considered sufficient in involving civil society in a meaningful way?

III. Fighting poverty in developing countries

9. Poverty eradication has always been a primary stated goal of international cooperation for development. The fact remains, however, that poverty is not declining in most regions. The setback caused in Asian countries by the recent financial crisis highlighted the interlinkages between the financial architecture and the goal of poverty eradication. The forthcoming United Nations event on financing for development offers an opportunity to address some of these interlinkages and focus attention on the overarching objective of overcoming poverty.

10. Today, renewed attention is being given to poverty eradication, as reflected in all the major United Nations conferences of the 1990s, particularly the Copenhagen Declaration adopted at the World Summit for Social Development in 1995, in donor commitments, such as the report adopted by the Development Assistance Committee (DAC) of OECD entitled "Shaping the twenty-first century: the contribution of development cooperation", and multiple resolutions and statements of intergovernmental bodies of the United Nations, including the Economic and Social Council itself (see Council resolution 1999/5). One of the outcomes of these United Nations processes is that some 80 developing and transition countries have prepared national poverty reduction programmes, as called for by the Copenhagen Declaration on Social Development.[1]

11. Reducing poverty has also been a primary goal of the World Bank and poverty is also increasingly becoming a focus of attention by IMF. In September 1999, IMF and the World Bank agreed to focus jointly on poverty reduction in their policy dialogues with low-income countries. This new joint approach calls for poverty reduction strategy papers (PRSPs) as a basis for all International Development Association (IDA) and IMF lending to low-income countries. PRSPs are to be county-driven and to embody a high degree of national ownership by being developed transparently with broad participation of elected institutions, civil society and key donors, including the regional development banks and with assistance from the World Bank and IMF. The targets contained in PRSPs are being set within the broad framework of internationally agreed goals and targets. PRSPs, endorsed by the Executive Boards of both the World Bank and IMF, are required to set the basis for concessional lending by these institutions. The long experience of the United Nations system in addressing poverty in the field and intergovernmental levels could be of value to both Governments and the Bank and IMF in preparing PRSPs.

12. In addition to its poverty orientation in a framework of stronger country ownership, the new approach continues to emphasize a foundation of sound macroeconomic and structural policies. Macroeconomic policies are now expected to be developed side by side with social and sectoral programmes aimed at poverty reduction; it is also emphasized that good governance, particularly within the Government itself, has to be an integral part of a country's poverty reduction strategy. The new approach is being applied, in the first instance, to the heavily indebted poor countries as a prerequisite for enhanced debt relief.

13. In order to counter "aid fatigue" and cutbacks in budgetary resources for official development assistance (ODA), donors wish to ensure that aid is well planned, well used and achieves the desired result of reducing poverty. However, in spite of extensive measures for economic reforms by many developing countries and the reorientation of the multilateral development institutions, bilateral and multilateral official development assistance levels remain unsatisfactory. PRSPs, the enhanced HIPC initiative and the current five-year review of the follow-up to the World Summit for Social Development provide opportunities for the poor countries themselves, the industrial countries and the multilateral development institutions to work together to mobilize the necessary level of resources and to ensure their better and more effective use to achieve poverty reduction goals.

Questions

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

(a) The financial crises of 1997-1998 highlighted both the need for more adequate social protection systems — so-called "social safety nets" — to ameliorate the poverty associated with economic fluctuations and the need for safety nets to be in place before a problem strikes. However, safety nets are only a second best. How can the ongoing reforms of the international financial architecture take into account the need to reduce the vulnerability of the poor to financial shocks?

(b) Great attention is being paid to improving coordination of ODA programmes. How can the Comprehensive Development Framework, PRSPs and the United Nations Development Assistance Framework for United Nations operational activities be used to increase the overall level and impact of resources for poverty reduction? Can a collaborative approach be developed with regard to the national poverty strategy papers prepared by Governments in response to the Copenhagen Declaration on Social Development and the PRSPs being developed with the World Bank and IMF?

(c) In September 1999, the international community agreed to accelerate the HIPC initiative through enhanced debt-relief measures as an important step towards releasing resources for poverty reduction. Several donor countries have since announced commitments of resources for the reduction of multilateral and bilateral debt and progress has been made to secure IMF funding for the programmes. What is the current situation regarding the enhanced HIPC programme, including its overall financing? How might any remaining financial shortfalls be removed?

Notes

[1] A number of developed countries have also already done so and others have indicated their intention to do so.