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Report on the thirty-second session (4-8 May 1998)

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A. Asia's financial crises: lessons for policy

Opportunities and challenges of globalization

1. In its report on its thirty-first session, the Committee for Development Planning noted the opportunities that globalization presents for trade and development, as well as the challenges that it presents to financial stability. The financial turmoil in East and South-East Asia since that report has become a major concern, as stock markets and currencies have plunged throughout the region and growing financial volatility has adversely affected levels of output, employment and inflation in many countries. The pace and depth of the crises, including their impacts on the lives of growing numbers of people in the affected countries, have raised questions about the stability of the international financial system, and about how best to sequence capital-market liberalization and to control for vulnerability, in particular concerning short-term capital flows.

Vulnerability to short-term capital movements

2. The inherent dangers of globalization have been vividly revealed in several Asian countries. In almost all cases, foreign portfolio investment rose rapidly in the first half of the 1990s, attracted by favourable investment opportunities. At the same time, assets of international banks accumulated, attracted by large interest-rate differentials. Banks in the region made short-term loans in international markets to finance the investment needs of domestic firms, thereby increasing their exposure to foreign-exchange and maturity risks. The issuance of bonds by Asian entities, which were intermediated by offshore investment funds, also rose sharply. Given high liquidity and high expected returns, financial institutions in those countries rapidly increased their lending to domestic firms and to non-tradable activities, such as real estate, financial services and infrastructure investment, some of which had low productivity. As a result, financial and corporate institutions in those countries became extremely vulnerable to a slowdown in short-term capital inflows, let alone a reversal of the flows, and currency depreciation.

Domestic policy responses to financial turmoil

3. The financial turmoil produced a severe liquidity shortage, which was exacerbated by policy responses, including domestic policy responses. Interest rates were raised and government budgets tightened to restore confidence in the currency and release resources for repayment of foreign obligations. In the process, domestic firms faced not only a decline in overall demand but also higher debt burdens and short-term financing costs, which rendered many of them insolvent. Output fell, unemployment rose, inflation increased and downward pressure on government budgets led to cut-backs in social expenditures that worsened the economic condition of large segments of the population. In the absence of an immediate international rescue package, the financial crisis led to massive sales of assets and declining stock prices and exchange rates expressed in foreign currency.

International policy responses to financial turmoil

4. International policy responses also contributed to the speed and depth of the crises: inadequate warnings of impending problems by some international financial institutions, continued lending by commercial banks despite cautionary warnings, a focus on public-sector adjustments to what was essentially a private-sector problem, and considerable delay in the mobilization of liquidity to restore confidence. Avoiding a recurrence of such a financial debacle requires at a minimum that both multilateral institutions and private financial entities closely monitor developments and respond quickly to emerging developments.

The international financial system and the global economy

5. The increasingly integrated nature of world capital markets and the mobility inherent in short-term capital flows have strengthened the transmission of economic and financial disturbances from abroad. They may threaten the solvency of national financial institutions and firms, and may destabilize the global economy and international financial system. Various contagion effects spread financial instabilities in one country to others and limit the possibilities for mutual cooperation. Their impact on export markets and on the pace of growth in the world economy is likely to complicate the adjustment process. That impact may be further exacerbated as crisis countries resort to competitive devaluations, experience price declines of key export products, and face a withdrawal of short-term capital and a slowdown in inflows of foreign direct investment. The Asian financial crises will undoubtedly force the international community to re-examine whether existing international arrangements are adequate. It may now be opportune to establish an economic and social security

council within the United Nations system to promote systematic consultations on and coordination of global economic action.

Domestic policy and international capital flows

6. International resource mobilization presents opportunities to developing countries. But it may also negatively affect export performance and output growth, particularly when large inflows of capital cause a real appreciation of the currency, and may be disruptive in countries with weak and under regulated financial systems. To reap the full benefits from capital-account liberalization without being exposed to unmanageable volatility and financial fragility, an effective regulatory framework must be in place; liberalization must be pursued at a manageable pace and with appropriate sequencing, while promoting foreign direct investment; and domestic financial reforms need to be well developed prior to opening the capital account. Bank supervision practices should be strengthened and supervision extended to non-bank financial institutions. Where capital flows are large, exchange rates need to be watched carefully and exchange-rate policies adjusted, where warranted. Finally, sound macroeconomic policies remain a necessary complement to sound financial policies, even though the inherent potential for volatility in capital flows may at times overwhelm traditional policy instruments. When formulating policy to minimize the fall-out of potential financial crises, adequate safety nets for the population need to be constructed.

Need for a world financial organization

7. Moreover, there is also a need for an institution to provide overall guidance in the development and monitoring of international standards and codes of conduct for private financial management and capital flows, and to identify new needs for supervision of private capital markets in particular as they arise. For that purpose, a world financial organization could be established to promote sound financial principles and practices and curb destructive competition and inconsistency in national regulatory frameworks. The organization would review, establish and monitor sound international principles and practices in such areas as accounting, payments and settlements, and financial supervision, and could devise acceptable guidelines, regulation and supervision in the sphere of private international finance. It could also set standards for the functioning of credit-rating agencies, and rules for the establishment and operation of international bankruptcy regimes. Furthermore, it should devise, in cooperation with other public and private institutions, acceptable formats for regulating short-term capital movements to complement national measures and to monitor the application of international guidelines for short-term lending and borrowing by private creditors and borrowers.

Expansion and improvement of existing arrangements

8. Although some initiatives have been taken to limit the volatility of capital flows, such as strengthening financial systems, providing more comprehensive and timely information, and encouraging greater involvement by the private sector, it is also necessary for multilateral financial institutions to improve their work and provide more effective warning mechanisms that would help to prevent future financial crises. The reports of article IV consultations by the International Monetary Fund (IMF) should be published as soon as they are approved by the IMF Board to promote transparency and enhance the quality of its surveillance. Regional institutional arrangements may also have an important role to play in the assessment and evaluation of relevant information. Under the existing arrangements, there is a need for access to liquidity of a sufficient magnitude early on in a crisis. Resources for a fund could be further augmented by expeditious implementation of the agreement already reached for the upward revision of quotas of member countries. Also, further issuances of special drawing rights (SDRs) should be explored on the basis of the global need for short-term liquidity, which is urgently required more than ever in view of the spectacular increase in short-term capital flows and the need to deal with the impact of sudden outflows.

Automatic access to a permanent contingency fund

9. In addition to providing timely loans through existing facilities, IMF should examine the possibility of establishing a permanent contingency fund that would provide automatic access – but at full cost – to up front drawings prior to the conclusions of negotiations for Fund assistance for pre-certified countries, that is, for countries that are deemed to have pursued prudent policies but are unexpectedly caught up in a crisis.

Sharing the burden of financial disruptions

10. When financial crises erupt, foreign private lenders and investors should be intimately involved in their resolution and in sharing the costs through debt write-off, debt rescheduling or delaying claims on repayments. A world financial organization could play an important institutional role in devising ways to bring creditors and

debtors together to negotiate timely responses to a crisis. As a rule, Governments should refrain from guaranteeing the foreign-exchange risk or repayment obligations of the private sector.

Periodic review of international financial actors

11. From time to time, a review and evaluation should be undertaken by an independent group of experts of the ways in which various international actors, such as the multilateral financial institutions, respond to and manage financial crises. Such reviews could form the basis for a discussion in the relevant governing bodies of the multilateral institutions, and could provide guidelines for concerted action in the event of future crises. The independent experts should be appointed by the Secretary-General of the United Nations, the President of the World Bank, the Managing Director of IMF and, when established, the head of the proposed world financial organization.

B. Old-age security in a changing global context

Demographic trends deserve international attention

12. The economic and social implications of long-term demographic trends are relevant to ensuring the equitable development of developing countries in particular. Especially relevant are the changing ratio between the working-age population and the other layers of society; the intergenerational distribution of incomes; the costs associated with child-rearing, education and retirement; and the role of the family, communities, and state and private institutions in intergenerational transfers. Because of the importance of the trend towards ageing populations, as underscored by the designation of 1999 as the International Year of Older Persons, the present report focuses on old-age security systems.

Populations of most countries are ageing rapidly

13. Most countries, except in Africa, have ageing populations and rising old-age dependency ratios, a trend that is far more acute in developed countries than in most developing countries. But because developing countries have a significantly younger age structure, they can utilize the years ahead to design and gradually introduce appropriate and financeable old-age security systems, while fully recognizing the role played by traditional old-age security systems in many developing countries. As the latter's role wanes with urbanization and other modernization trends in developing countries, setting up more formal old-age security systems will become increasingly more important if growing poverty among the elderly is to be avoided.

Rising demand for publicly supported pension systems

14. As populations of developing countries age and support from traditional sources diminishes, formal old-age security systems will become increasingly important, and will have to encompass three functions: insurance to pool resources and risks, redistribution of income from high to low lifetime earnings, and savings to shift income from economically active years to retirement years. The relative importance of those functions will vary in different countries. As a result, the design of old-age financial-security systems will differ among countries and over time.

Principles for national old-age security systems

15. Because most people make inadequate provisions for their old age relative to their standard of living during their working years, voluntary pension schemes must be supplemented by state-supported pension schemes. Ideally, such provisions should encompass three components: a guaranteed minimum basic pension funded from general taxation available on a universal basis, a mandatory contribution-related pension for those in the formal sector and voluntary savings. Because Governments are constrained in their ability to mobilize taxes and demands on government expenditures are intense, that three-tiered set-up for old-age security should be accepted as a principle to be introduced as public-sector capacities strengthen in conjunction with the development process.

Portability of contribution-related pension accounts is essential

16. Portability not only applies between employers within a country but should increasingly be pursued on a transnational basis to encourage workers to seek employment where their skills are most needed and their incomes are optimized. Rules and procedures for such portability need to be developed, including with the assistance of regional and international agencies.

Pension schemes should encourage people to continue to work

17. Both basic and contribution-related pension schemes should be designed with a flexible retirement age, and

benefits should be tailored to encourage people to continue to work beyond the minimum retirement age. Moreover, pension and other formal support systems should be designed to complement traditional family and community-supported systems, including through government-sponsored incentives.

Pension systems should be equitable and sustainable

18. To promote equity, public contribution-related schemes should have a ceiling on pensionable income. Although the maximum pension should reflect the situation in each country, it might be limited to two or three times average wages in the formal sector. Contributions to pension schemes should be excluded from taxable income, while pensionable benefits should be included to ensure progressive redistribution and minimize the net cost to the average taxpayer. Retirement age, pension-benefit formulas and contribution rates in contribution-related schemes should be equal for men and women, but contribution-related pensions should be the same when adjusted for equal contributions.

C. Criteria and methodology for identifying the least developed countries

Need for further work on methodology

19. The Committee underlined the importance of preparing further sensitivity tests for the criteria by which it decided on the inclusion on and graduation from the list of least developed countries. A number of suggestions for improvements to current methodologies were made, including the introduction of indicators for natural vulnerability, which should preferably be considered by another working group, if possible before the end of 1998.

Vulnerability and identification of least developed countries

20. In response to a request by the General Assembly, the Committee examined the report on the development of a vulnerability index and its possible use in identifying least developed countries. An expert group convened to consider the feasibility of constructing a vulnerability index had concluded that the development of a comprehensive composite index of economic vulnerability and ecological fragility was not feasible at that time; accordingly, the Committee could not consider the relevance of a vulnerability index. It recommended that further work be carried out on a vulnerability index, for possible use, among other purposes, in the identification of least developed countries.

Vulnerability and the graduation of countries from the list

21. The Committee emphasized that structural vulnerability was already reflected to some extent in one of the composite indicators currently used, namely the economic diversification index (EDI). Moreover, even if vulnerability were to be given greater weight than hitherto in decisions about inclusion in or graduation from the list of least developed countries, Vanuatu would have been due for graduation in 1997 unless the criteria were changed. Therefore, the Committee reconfirmed that on the basis of the criteria accepted in 1991 and applied in subsequent years, the indicators for Vanuatu in 1994 and again in 1997 showed that Vanuatu was due for graduation with effect from 1997.

Benefits derived from inclusion on the list

22. The Committee reiterated the need to examine in greater detail the benefits accruing to countries included on the list of least developed countries. It reiterated its request that the secretariat of the United Nations Conference on Trade and Development (UNCTAD) prepare such a review.

Chapter II
Asia's financial crises: lessons for policy

23. Because of the rapidly changing situation in several East and South-East Asian economies, the potential repercussions on the global economy and the implications for the international financial system, the Committee for Development Planning decided to evaluate the causes and impacts of Asia's financial crises and to draw recommendations for policy in the light of its May 1997 discussions of globalization in the 1990s and development policy challenges, as summarized in its report on its thirty-first session.[1]

24. The conclusions and recommendations set out below are intended to serve as further considerations that may be helpful to the international community in securing the advantages of capital flows without unduly exposing economies with weak financial markets to the volatility that international financial flows (short-term capital flows in particular) may engender and to the stagflationary effects induced by the decline in asset prices.

25. In its previous report, the Committee focused on the rapid move towards globalization, and the new opportunities offered by global integration but warned that there was also a potential for massive financial disaster.

26. In particular, the Committee noted that globalization in the 1990s has been associated with a shift in the management of global resources to global market actors who are not politically accountable to or subject to the control of national Governments. Private net resource flows to developing countries as a whole, including foreign direct investment (FDI), portfolio flows and commercial bank lending, have increased rapidly in the 1990s. By 1996, 38 per cent of those flows represented portfolio flows, and an additional 14 per cent consisted of commercial bank lending.

27. In the light of those developments, nearly all countries have been giving markets more scope, and have proceeded to reshape domestic institutions, including their banking and financial sectors, to take advantage of the flow of international capital.

28. The trend to policy convergence towards the open economy model has derived in part from the demonstrated or perceived successes of that model; it has also been driven by global market actors, in particular developed country Governments and multilateral financial and trade institutions that have made outward oriented policies a condition for access to resources.

29. Although those changes have contributed to growth in the world economy, especially among the developed countries and the more advanced developing countries, they have also demonstrated severe weaknesses, some of which have found dramatic expression in the East and South-East Asian crises of the last nine months.

30. In its previous report, the Committee noted that countries that rely excessively on capital inflows – especially portfolio investment and/or bank lending – to finance domestic demand are likely to run into serious problems in the event that inflows cannot be sustained. If capital inflow slows down or its direction is reversed, even countries with prudent policies can experience severe balance-of-payments crises.

31. Furthermore, large capital inflows may have negative effects on export performance and output growth, particularly when large inflows cause real appreciation of the currency. Large capital inflows may also result in speculative bubbles in certain economic sectors or in the stock market, or encourage an overexpansion of domestic credit if prudential regulation is inadequate or not enforced. Speculative bubbles are usually followed by a crash, and overexpansion of domestic credit may lead to a banking crisis; both may affect the performance of other sectors or even of the entire economy.

32. For those reasons, the Committee stressed the need for policy to ensure that such capital inflows are channelled to productive investment rather than consumption or low-productivity investment, noting that that was critical for ensuring output growth and the long-term sustainability of debt servicing.

33. The Committee also emphasized the need for effective sequencing of the liberalization process. It noted that liberalization of the capital account had generally been most successful when regulatory frameworks were put in place prior to liberalization, in particular when financial institutions had developed procedures and provisions for non-performing assets prior to financial liberalization. Trade liberalization should be undertaken gradually, allowing enterprises that are potentially viable to adapt, while facilitating social protection measures to cushion the impact of shutting down enterprises that are no longer viable. Long-term capital movements should be liberalized first. Liberalization of short-term capital movements should generally be the last step in the process. The speed of reform should be determined by the capacity of each country's political and economic system to adjust in a way that preserves social cohesion.

34. Finally, the Committee warned that given the increasingly integrated nature of world capital markets, the inherent volatility of flows of capital, notably of short-term capital, may also destabilize the international financial system as a whole and have negative impacts on the global economy. For that reason, the Committee proceeded to make specific policy recommendations for national economies that are partially or totally integrated into global markets and for the international community as a whole with a view to fostering a global environment that would be more secure, more equitable and more conducive to development. It also called for improved supervision of capital flows by national authorities, which would moreover require international coordination. It therefore proposed the creation of a world financial organization.

A. The unfolding of the crisis: causes and impacts

35. The year that has elapsed since the previous report of the Committee has been dominated by the financial turmoil in East and South-East Asia. In early July 1997, Thailand had to give up defence of its currency, and in October 1997

stock markets in Hong Kong and in the Republic of Korea plunged. Both currencies and stock markets tumbled in Indonesia, Malaysia and the Philippines, and financial markets in several other countries in the region were threatened. The Asian miracle appeared to have come to an end for the "tiger economies" and the reactions to the crises have raised serious questions about the further relevance of the so-called "Washington consensus".

36. In reviewing the crises as they have unfolded, the Committee has found that the inherent dangers and problems of globalization have found expression with unexpected strength and fury, imposing very real hardship on growing numbers of people in the affected countries. There has been some overreaction, not only in financial markets but also in the mood of pessimism that replaced the earlier optimism about the Asian miracle. The setback is indeed a serious one, but it need not delay progress in the region for long. Actions needed, nationally and internationally, are under way, even though they are at times inappropriate or have been delayed for too long.

37. In almost all cases but most notably in Indonesia, the Republic of Korea and Thailand, foreign portfolio investment liabilities rose rapidly in the first half of the 1990s and peaked in 1993. In Indonesia, the Republic of Korea and Thailand, at the same time, bank assets accumulated as banks proceeded to borrow short in international markets and to lend long in domestic markets, thus increasing considerably their foreign-exchange exposure and their role as intermediaries. The issuance of bonds by Asian entities rose sharply, while those bonds were intermediated by off-shore investment funds. Given excess liquidity in hand and high expected returns in the recently deregulated domestic markets, banks and financial institutions proceeded to expand rapidly domestic lending to domestic firms and to non-tradable activities, such as real estate, financial services and infrastructural investment.

38. That rapid domestic credit expansion, coupled with slowing import demand in industrialized countries and substantial effective nominal depreciations of both the Chinese yuan renminbi in the early 1990s until a unified exchange rate was set in 1994 and the Japanese yen between 1995 and 1997, led to real currency appreciation, slowing exports and rapidly increasing imports in East and South-East Asian countries. Current account deficits deteriorated to over 8 per cent of gross domestic product (GDP) in Malaysia and Thailand in 1995 and to nearly 5 per cent of GDP in the Republic of Korea in 1996. Attempts by domestic central banks to maintain overvalued exchange rate pegs to the dollar failed. The Thai baht, Philippine peso, Indonesian rupiah, Malaysian ringgit and Korean won all depreciated against the dollar, one after another, beginning in mid-1997. Those depreciations were exacerbated when domestic firms and banks rushed to buy dollars to cover their substantial unhedged foreign borrowing exposure.

39. The currency crises produced a severe liquidity shortage that was exacerbated by policy responses. Interest rates were raised in an attempt to restore confidence in the currency, and government budgets were tightened. In the process, firms faced not only a decline in overall demand and a higher debt burden but also rising short-term financing costs and limited access to financial resources. In the absence of an immediate international rescue package, the financial crisis led to massive sales of assets, further driving down prices in both stock markets and foreign exchange markets.

40. The financial crises and subsequent policy adjustments have led to falling output, a sharp rise in unemployment, rising prices, the removal of consumer subsidies and downward pressure on government social expenditures. Recent forecasts point to a significant contraction in GDP or a marked slowdown in output growth and large reductions in employment in the modern sector, indeed as much as 10 per cent in Indonesia and Thailand. The effects of all those developments in terms of human costs are not yet clear but are likely to be severe.

41. The crises in those countries have thus resulted from both market and government failures. International capital markets have failed to produce an optimal allocation of capital, while domestic private sector banking systems have not channelled resources effectively. Governments, on the other hand, have been slow in making the necessary exchange rate adjustments against the rising current account deficits and in strengthening financial systems by expediting prudential supervision. They have also failed to mitigate the effects of the crises through appropriate policy responses.

42. The policy responses of international actors have also contributed to the unfolding crisis and its costs. In the first place, many international financial institutions gave inadequate warning of the impending problems. Second, others did so but their warnings were not heeded. Private banks and other creditors, in particular, continued to lend in the face of those warnings, such as those given in published documents by the Bank for International Settlements (BIS) and UNCTAD, about the dangerous levels of short-term foreign liabilities of private banks and the corporate sector in the affected countries. As a result, preventive and corrective action failed to be taken. Third, the crisis was initially treated as essentially a public sector problem, requiring a severe tightening in the government

accounts and sharply rising interest rates, with insufficient attention being given to the need for private sector restructuring. Fourth, there was considerable delay before the multilateral financial institutions provided the large amounts of financial support needed to restore confidence. As a result, there were delays in restoring confidence and short-term costs in terms of output losses, and the number of bankruptcies was higher than it might have been.

B. The impact of the crises outside the affected region

43. Given the increasingly integrated nature of world capital markets, volatile financial flows not only pose threats to the solvency of national financial institutions and firms but also have the potential to destabilize the international economy and the international financial system.

44. Various contagion effects worsened the initial depreciations of the affected currencies and spread them to other economies, even those without current account problems and with sizeable foreign reserves, such as Hong Kong, China, Singapore and Taiwan Province of China. Investors and traders attempted to cover their foreign exchange exposure in the face of possible depreciations. Those expectations were fuelled by “herd instinct” and by a general loss of confidence in emerging markets caused by ignorance on the part of international market actors of and/or lack of information about the actual situation in different countries. Foreign and domestic capital flight resulted from fears of declining export competitiveness and from attempts by investors to cover losses in crisis-hit countries, both through the sale of assets in other countries and through the geographical rebalancing of their portfolios.

45. The financial crises in East and South-East Asia will probably slow down world economic growth since those countries constitute important export markets for both developed and developing countries.

46. Collapsing production and incomes in conjunction with the devaluation of the respective currencies will also give rise to terms-of-trade effects for other countries outside the affected Asian countries. For example, some countries may benefit from lower import prices for a range of manufactured products from East and South-East Asia, while many commodity-exporting countries could be adversely affected.

47. In the presence of increasing trade/investment interlinkages and the growing interdependence of markets, the East and South-East Asian financial crises have also highlighted the growing threat of competitive devaluations that can easily spread over an entire region and beyond. In the presence of deepening cooperative business networks that promote regional integration of firms, such threats become more serious in the absence of effective financial cooperation among central banks or regional cooperative arrangements that would help to mitigate exchange rate movements and resolve financial crises once they occur.

48. The financial crises in Asia are also likely to affect long-term FDI flows to other developing countries. Asian countries themselves have been in the past important investors abroad. The crisis is likely to reduce their outward investment activities in the short to medium term. Moreover, once the situation stabilizes, long-term capital inflows to the region are likely to increase as foreign investors take advantage of depressed asset prices, thus drawing resources away from other developing countries.

49. Net contributions of the affected countries to long-term development finance of multilateral financial institutions are also likely to decline. At the same time, a sizeable proportion of the resources of those public institutions has been pledged to support the countries in crisis, thus reducing the amount of resources available to other countries.

50. The financial crises in Asia and the concomitant withdrawal of private capital from those economies are also likely to have ripple effects in world financial markets. The net effect is likely to be ambiguous since, on the one hand, the increased exposure to emerging-market risk tends to foster more conservative attitudes among private market participants, thus leading them to channel resources to more secure developed capital markets: some Latin American markets have already experienced a reduction in net capital inflows as a result of Asia’s financial crises. On the other hand, the available excess net supply of savings, coupled with favourable macroeconomic conditions in many developed countries, is likely to favour emerging markets that are perceived to be less risky.

51. The most important impact of the East and South-East Asian financial crises is to highlight the inherent perils of capital market liberalization in the absence of appropriate, enforceable national and international regulatory practices and prudential standards, and in the absence of an effective global mechanism that would ensure the speedy mobilization of liquidity when crises threaten to occur.

C. Lessons learned and domestic policy recommendations

52. The creation of a global capital market and the move from national to global financial markets create new policy-making challenges for both national Governments and the international community.

53. As the crises in East and South-East Asia have revealed, capital flows may indeed be disruptive when they occur in countries with weak and under regulated financial systems, whose corporations have high debt-to-equity ratios and whose banks are engaged in extensive intermediation without strict adherence to prudential standards and regulations. That makes private sector institutions particularly vulnerable to rapid currency depreciation and increases in interest rates.

54. On the domestic front, the major challenge for policy is to reap the full benefits from capital account liberalization without unmanageable volatility and financial fragility. To mitigate the incidence of market failure, efforts should be made to ensure that an effective regulatory framework is in place, to concentrate on designing the appropriate pace and sequencing of liberalization, and to foster financial reform prior to opening the capital account; this applies in particular to developing countries that have thin equity markets, where traded financial instruments are overwhelmingly dominated by government paper. Across-the-board liberalization of the capital account in such cases would lead to heavy investment in government paper that could encourage non-sustainable government deficits.

55. To make financial flows more productive and avoid the incidence of market failure, bank supervision practices should be strengthened and supervision extended to non-bank financial institutions. In that light, credit risk indicators should be refined and better guidelines for asset management developed. Experience also demonstrates the need to monitor closely trends in asset prices and in the growth of bank assets, as well as the extent to which they are being fed by capital inflows.

56. Where there are large capital flows, pressures on the exchange rate need to be watched carefully and modifications in exchange rate policy may be warranted. The maintenance of fixed exchange rates requires substantial levels of international reserves, but these have high opportunity costs. It is, therefore, advisable to maintain some flexibility of the exchange rate regime to avoid exchange rate misalignments, while still providing guidance to the market and keeping volatility under control. In the presence of diversified trade, simple basket regimes tend to be preferable to a single currency peg.

57. Such prudential regulations and exchange rate regimes can be helpful only if it is kept in mind that economic stability is very much a result of sound macroeconomic policies. Yet, even in a situation of relatively strong macroeconomic fundamentals, as was shown in the Asian crises, external shocks and the dynamics of international capital movements can lead to crises.

58. Even with improved bank supervision and better information, capital flows may be very volatile. Increased flows may feed on each other, and decreases may also overshoot what one would predict in terms of economic fundamentals. These changes in flows can be generated not only by exogenous shocks (such as dollar appreciation or a decrease in world trade) and by contagion effects, but also by domestic shocks, such as speculative bubbles in stock markets or in real estate markets. For those reasons, policy instruments, such as interest rates and/or tax penalties or regulation, could be used to lengthen the effective maturity of portfolio investment and make immediate liquidation more costly; encourage the deepening of financial markets; diversify investment across sectors; and discourage a mismatch in the currency composition of external debt and assets of banks and corporations.

59. Although the policy debate on how best to handle the Asian financial crises has generally focused, as in the present report, on the macroeconomy and its main sectors, it is the impact on the human condition that is the basic real life concern. The crises with which the Committee is here concerned and the policy adjustments that these entail have inflicted very heavy human costs. It is essential, therefore, that adjustment policies incorporate safety net measures from the outset. Although such measures need to be country specific, they are likely to include extensive public work programmes at low wages, feeding schemes for vulnerable groups and areas, and the reorientation of national budgets to insulate expenditures on human priorities from the effects of cuts in aggregate government expenditure. Such measures will help to soften the human impact of the economic crisis.

D. Recommendations for international policy

60. The East and South-East Asian financial crises have increased awareness of the need to promote a more effective management of international money and finance so as to prevent the recurrence of similar crises. Indeed, the international community will undoubtedly be forced to think about whether existing arrangements regarding capital movements and global finance are compatible with stability and growth. In that light, it may be opportune to establish an economic and social security council within the United Nations system. Such a council could help to bring about systematic consideration of global economic action,

promote economic coordination, and initiate the preventive measures and regulatory policies that are increasingly needed in the global economy.

61. Recent financial crises have already generated new thinking at the international level for dealing with the consequences of capital flow volatility. The Committee for Development Planning welcomes some of those initiatives to reinforce the architecture of the international monetary system, including strengthening international and domestic financial systems; ensuring greater availability and transparency of information; and adoption of more effective procedures to involve the private sector, as reflected in the communiqués of the Interim and Development Committees of 16 and 17 April 1998. The Committee for Development Planning emphasizes the need for additional reforms in the multilateral system.

62. Multilateral financial institutions, including BIS, IMF and the World Bank, and other institutions, including private sector actors, should improve their analytical competence and their information systems to provide more effective warning mechanisms that would help to prevent a future occurrence of financial crises of this magnitude. Better warning mechanisms, once in place, should become more effective in spurring appropriate private market responses. In that light, the Committee suggests that article 4 consultation reports conducted by IMF should be published as soon as approved by its Board. Such disclosure will not only serve the purpose of transparency but also improve the quality of IMF surveillance. Regional institutions or arrangements also have an important role to play in the proper assessment and evaluation of relevant information.

63. The creation of a global financial market has not seen a parallel development in global regulatory practices or international safety nets. This constitutes a major gap in the international system. Specifically, an institution is needed to provide overall guidance in the development and monitoring of international standards and codes of conduct for financial management and capital flows, and to identify new needs for supervision as they arise. Such an institution could be patterned after the World Trade Organization (WTO) for finance, that is, it would be a world financial organization.

64. The proposed world financial organization could review, establish and monitor sound international principles and practices for such items, which are currently undertaken by ad hoc public and private groups with limited membership, as in:

(a) Accounting: International Accounting Standards Committee and United Nations Expert Group on International Standards of Accounting and Reporting;

(b) Payments and settlements: Committee on Payments and Settlement Systems of the Central Bank Governors;

(c) Banking supervision: Basel Committee on Banking Supervision;

(d) Securities-market supervision: the International Organization of Securities Commissions;

(e) Insurance supervision: International Association of Insurance Supervisors;

(f) Financial conglomerates: three supervisory groupings for banking, securities and insurance.

65. An important activity of the proposed world financial organization should be to devise, in cooperation with other public and private financial institutions, acceptable forms of regulation for short-term capital movements to complement national measures and to monitor the application of international guidelines for short-term lending and borrowing by private creditors and borrowers. The competence of the proposed organization might also include the development of rules for ensuring transparency and full disclosure of information relating to both financial and non-financial corporate sectors, setting standards for the functioning of credit rating agencies, and formulating rules for the smooth functioning of international bankruptcy regimes.

66. Under existing international arrangements, there is a need for access early on in a crisis to liquidity of a sufficient magnitude to calm financial markets, which would help to reduce instability in financial markets and thereby lessen outflows. Currently, resources are relatively limited and access to them subject to negotiations that can be lengthy. For example, the establishment of supplemental reserve facilities, such as the one administered by IMF during the aftermath of the crisis and applied to the Republic of Korea in December 1997, was too small in size to cover liquidity needs and came too late to alleviate an unfolding financial crisis.

67. Concerning the need for adequate liquidity, loans could be provided through IMF from prior commitments by developed countries already in existence under the general arrangements to borrow. The Committee welcomes the agreement reached in 1996 among a group of 25 countries to double the resources available to IMF under GAB so as to respond to financial emergencies, and urges the expeditious ratification of the new arrangements to borrow

by the required majorities of potential participants. The agreement already reached by the IMF Board of Governors on a special one-time allocation of SDR 21.4 billion will double the amount of SDRs already allocated, along with a newly agreed principle for the allocation among member countries on the basis of "equity". Moreover, IMF should explore the possibility of future increases in SDRs on the basis of a reassessment of the global needs for short-term liquidity. IMF resources could be further augmented by the upward revision of the quotas of member countries, which have been agreed by the IMF governing body, but implementation of the agreement has been stalled by the reluctance of the major IMF shareholders. Increasing IMF resources is more than ever urgently required in view of the spectacular increase in international short-term capital flows and the need of national economies to deal with the impact of sudden outflows.

68. IMF should also examine the possibility of establishing a permanent contingency fund, in addition to existing facilities, that would automatically provide up front payments to precertified countries prior to conclusion of negotiations for IMF assistance. To avoid moral hazard problems, appropriate rules and incentives for access should be devised, such as borrowing at market rates, increasing costs of borrowing depending on frequency and amount of use, or prequalification agreements between IMF and potential user countries.

69. Regional development banks, regional funds and cooperative arrangements can assist countries in monitoring the economic situation and raising capital to supplement resources. Furthermore, regional arrangements have an important role to play in exercising "peer pressure" among the member countries to pursue prudent financial policies, in providing early warning and in managing effectively a financial crisis once it has occurred.

70. When financial crises do erupt, foreign private lenders and investors should be intimately involved in their resolution and in sharing the costs through debt write-off, debt rescheduling or delaying claims on repayments. International arrangements should be devised to bring creditors and debtors together to negotiate timely solutions to the crisis. The proposed world financial organization could play an important institutional role in that respect. Also, arrangements could be made with private funds through pre-established financial safety net mechanisms. Governments should as a rule refrain from guaranteeing the foreign exchange risk or repayment obligations of national private debtors to external private creditors.

71. The Committee recommends that from time to time there should be a review and evaluation by an independent group of experts of the ways in which the various international actors, such as the multilateral financial institutions, including BIS, IMF and the World Bank, respond to and manage financial crises in a timely manner. Such independent experts should be appointed by the Secretary-General of the United Nations, the President of the World Bank, the Managing Director of IMF and, when established, the head of the proposed world financial organization. The report of such a group could form the basis for discussion in the relevant governing bodies of the multilateral institutions involved, and could provide the guidelines for concerted action to improve practices and to develop more efficient response mechanisms to incipient crises.

Chapter III
Old-age security in a changing global context

72. At its thirty-first session, the Committee for Development Planning decided to convene a working group to examine the following issues:

(a) Economic and social implications of demographic trends, including the changing ratio between populations of working age and the young and the old;

(b) Distribution of income among generations, with respect to the costs of child-raising, education and retirement;

(c) Role of the family, communities, state and private institutions in intergenerational transfers;

(d) Impact of globalization and economic reforms on intergenerational income distribution;

(e) Recommendations for developing countries and for policies of international organizations.

73. In preparing the present report, given the complexity of dealing with intergenerational transfers, it was decided to divide this agenda up and to focus first on old-age provision. It was felt that the vital topic of how societies treat their children, which raises different issues, should form the central topic of a future report of the Committee. The present focus on the elderly should not be interpreted as reflecting any priority for the old as against the young but was chosen in preparation for 1999, which has been named the International Year of Older Persons.

74. The Committee recognized that the financing of public health-care systems also involves intergenerational transfers since older people tend to require substantially more

medical services than younger people. The Committee decided, however, that health care is a rather different and complex issue that should be addressed separately.

75. The Committee examined the question of the design and management of old-age security systems, with a focus on the needs of developing countries, taking into account the experience of developed countries. The Committee paid special attention to the implications of globalization for old-age security systems.

76. The conclusions and recommendations below are not intended to prescribe a particular old-age security system as suitable for all countries but to serve as considerations that may be helpful to developing countries in designing old-age security systems to meet their particular needs and capabilities. Many of these conclusions and recommendations are drawn from the negative experiences of developed and developing countries, and are intended to assist other countries in avoiding the same problems.

A. The changing context

77. Most countries have ageing populations and rising old-age dependency ratios, except Africa, which is expected to have a relatively young population structure for decades to come. Although developing countries in Asia and Latin America need to take into account population ageing in planning their pension systems, old-age dependency ratios in most of them will remain below those currently found in the developed countries for many decades.

78. In most developing countries, modernization is undermining traditional systems for old-age security and the sanctions and incentives that sustained those systems. With urbanization, for example, housing space becomes smaller and more expensive, and adult children are more likely to live separately from the parents. With the growth of formal employment, older people are less able to continue earning income and are less likely to own land on which their children work. With the increasing importance of formal education, the role of traditional knowledge diminishes, respect for the knowledge of older people declines, and children have less time or are too far away to care for older people. Moreover, economic pressures are leading to the disintegration of some families. Those factors leave an increasing number of older people without adequate support from traditional sources. The Committee noted that there is considerable cultural variation in these respects: in some cultures, family support for the old has been much more resilient to the above-noted changes.

79. Declining fertility and increasing longevity increase the costs to children of supporting their parents throughout their old age, and lead to a larger proportion of older people without children to support them. Declining fertility has also contributed to increasing formal employment of women, who have traditionally provided most of the family care of older people.

80. The global dissemination of information concerning pension systems in richer countries is likely to generalize the demand for publicly supported pension coverage, even in countries without the capacity for raising the required revenue. At the same time, globalization of trade and financial flows imposes stricter constraints on taxation and public debt, and consequently increases the economic cost (and possibly the political visibility) of higher public spending, including tax-financed spending on pensions. On the other hand, the dissemination of financial management practices is likely to have a favourable effect by enabling pension schemes to benefit from international experience, improving their financial management and preventing them from repeating the errors of other systems. Private pension funds, especially in Canada and the United States, are also gaining global significance as a consequence of investing a significant proportion of their funds in international markets.

81. In developed countries, old age has become a major source of poverty. Little information is available on the incidence of poverty among the old for developing countries. But as the age structure changes and traditional support systems diminish, the old are likely to form an increasing source of poverty unless good support systems are put in place.

B. Rationale and objectives for State action

82. Old-age financial-security schemes serve three main functions: insurance, redistribution and savings. As insurance schemes, they pool savings and risks, protecting those of particular longevity who would otherwise outlive their savings. As redistributional schemes, they transfer income from those with high lifetime earnings to those with low lifetime earnings, thus alleviating poverty among older people. And as savings schemes, they encourage or require people to save in order to shift income from economically active years to retirement years. The relative importance of these functions, and hence the design of old-age financial-security systems, varies among countries and over time.

83. One major reason for state support for pension schemes is to alleviate poverty among older people. In

addition, for a variety of reasons many people would make inadequate provision for their old age relative to their standard of living during their working years, if pension arrangements were entirely voluntary, partly because of a tendency for people to be myopic about their long-term future.

84. In addition, individuals' voluntary savings are often inadequate for supporting them in their old age for a number of reasons:

(a) Uncertainty about how long an individual will live makes it difficult to determine the savings required for retirement;

(b) Many people's earnings are inadequate, even in their prime working years, to permit them to save enough for retirement;

(c) Many developing countries offer limited opportunities for investing savings so as to ensure a reliable income in the future;

(d) People may not have sufficient confidence in the financial stability of their economies to justify long-term savings and investment.

As a result, in the absence of government intervention of one form or another most people could not or would not save in such a way so as to guarantee an adequate retirement income for as long as they live.

85. Although these factors justify state action, there are also strong arguments for encouraging greater private voluntary savings to provide for old age.

C. Constraints

86. Many developing countries have limited capabilities to design, implement, manage, regulate and supervise pension systems.

87. Governments of most developing countries, especially low-income countries with large subsistence and informal sectors, are constrained in their ability to collect taxes, while there are many high-priority claims on general tax revenue, especially measures for the support of the education of children. Broad-based taxes, such as income taxes and value-added taxes, are a preferable means of revenue generation with respect to both equity and efficiency but are difficult to administer. Specific taxes, such as payroll taxes intended to finance state-sponsored pension schemes, are more limited in their revenue-generating potential and may have negative impacts on production and trade.

88. The need for competitiveness in a global environment imposes further constraints on tax raising, particularly the advisability of levying high payroll taxes.

89. Countries invariably already have some system of old-age support, but it is often inequitable and financially unsustainable. Reforming such systems provokes political opposition from those who currently benefit from the unsustainability or inequity. A rapid reduction in the benefits of those who have been privileged by existing systems may not be politically feasible. The transition towards a more equitable and sustainable system will have to be carefully designed, and may take many years to phase in.

D. Specific conditions

90. Developed countries generally have near-universal income support for their elderly population through public pension systems, supplemented by a variety of occupational and private schemes. A major concern in those countries is rising old-age dependency ratios due to population ageing, which threatens possible bankruptcy of pension funds or very large claims on government expenditure in some cases. Ensuring sustainability of their pension systems requires some combination of increased actual retirement age, increased contributions and some reduction in the real value of expected pension benefits. However, each of these changes is likely to be strongly opposed by established interests, especially those layers of society with acquired rights.

91. The economies in transition have inherited comprehensive pension systems with early retirement ages in a situation of economic decline, high inflation and loss of tax-collecting capacity. In addition to the measures required in developed countries, effective pension reform will require macroeconomic stabilization, renewed economic growth, and development of legal and administrative systems adapted to a market economy based on private enterprise.

92. Middle-income developing countries generally have substantial pension coverage for the minority of workers in the formal sector, often with high and non-generalizable benefits, including low retirement ages, particularly for workers in the military and civil service. The challenge before these countries is to improve the management of existing pension systems by reducing unsustainable privileges and improving equity in benefits, and extending some type of coverage to the informal sector. It is also

necessary to sustain the autonomy of the system, protecting it from being “raided” by the state.

93. Low-income countries generally have pension coverage limited to the formal sector, which accounts for only a small proportion of the workforce, and in some cases those pensions are poorly managed because of weak administrative capacity with arbitrariness in the operations of the schemes, so that many people do not receive their expected entitlements. Moreover, some pensions in the formal sector are grossly inadequate. Workers outside the formal sector are almost entirely dependent on traditional or voluntary arrangements, or continue to work throughout their old age. These may include some of the poorest members of society. The primary challenge for these countries is to make some provision for the poorest elderly members of society, to expand coverage gradually so that eventually the whole population gains some coverage and to develop the financial and administrative capacity to manage old-age support systems efficiently.

E. Principles

94. A pension system should be adapted to the social system, the financial and administrative capacities, the political possibilities and the culture of the country. Countries should not necessarily aim to duplicate the systems of other countries but should learn from their abundant experience, negative as well as positive.

95. The Committee agreed that the introduction and reform of old-age income support systems should in general be based on the tenets set out below.

96. A national old-age income-support system should ideally consist of:

(a) A minimum guaranteed income for older persons (this will be referred to below as a *basic pension* when everyone in society is entitled to it and a *basic stipend* when referring to a means-tested entitlement);

(b) A mandatory contribution-related component designed for employees and the self-employed in the formal sector, where benefits are actuarially related to contributions, to enable people to maintain a reasonable standard of living in retirement that bears some relation to their income when working (*contribution-related pension*);

(c) A voluntary savings element to allow individuals to satisfy their individual retirement goals (*voluntary pension*).

97. The retirement age for pension purposes should be flexible upwards, with incentives for continuing work as the population ages and the health of the elderly improves.

98. In order to promote transparency and efficiency in the operation of pension systems, the rules used to determine benefits should be as simple as possible, and participants should have information on options and acquired pension rights clearly presented to them at regular intervals.

99. Both the basic pension and the mandatory contribution-related pension schemes should be designed on the basis of sustainable budgetary provisions. The contribution-related scheme should be self-financed on a long-term basis, with realistic risk assessment and sustainable contingent liabilities on the general government budget.

100. A mandatory contribution-related pension scheme will have limited coverage in countries in which large proportions of the labour force work in the informal sector or in small enterprises. Moreover, many countries now also lack the administrative capacity to manage such a system. Such a scheme should be regarded as an objective to be developed over time in countries where it does not yet exist.

101. The autonomy of pension funds should be protected so that their financing, operations and expenditures are determined by their managers in the interests of the contributors and not by government short-term financing requirements.

102. As in the case of the basic and mandatory schemes, privately managed pension schemes should be publicly regulated to ensure that they are actuarially sound over the longer term, and are efficiently managed and financially sustainable in the short and medium terms.

103. The introduction or reform of a pension system should be based on a detailed actuarial analysis of the long-term financial and distributional implications of any proposed system. International organizations should assist developing countries in such efforts.

104. Although the administration of old-age pension systems may be combined with that of disability pension systems and other schemes for social assistance, it is essential that they be separated financially and actuarially and the different accounts presented clearly in order to promote transparency and – in the case of contribution-related pensions – to tie benefits more closely to contributions.

105. Demographic projections should be taken into account in the design, reform and periodic reassessment of pension systems. The Committee agreed that current demographic

trends do not constitute a major crisis for old-age support systems in developing countries; anticipated trends may be accommodated with modest reforms to existing systems, such as increasing the retirement age.

F. Recommendations

Coverage and portability of pension systems

106. In principle, a basic pension should be recognized as a universal entitlement covering all members of society, including workers in the formal and informal sectors and those who have not been economically active. But for economies in which most of the working population is outside the formal sector, this would present a huge financial and administrative burden if introduced immediately. Therefore, the Committee recommends that:

(a) Universality of basic pensions be accepted as a goal;

(b) Where universality is not possible, a targeted means-tested benefit be made available for those below the poverty line and above the minimum retirement age, in both the formal and informal sectors.

However, the Committee recognized the severe problems involved in administering targeted schemes in the informal sector, acknowledging that targeting would unavoidably be rather loose. Particular attention should be given to meeting the needs of older people who are especially vulnerable to poverty, including widows living alone, old people in very poor families and the homeless.

107. The optimal design of pension systems is linked to underlying macroeconomic fundamentals. During periods of low growth and rising unemployment, the burden on the working population increases and the percentage of the contribution-related component is apt to shrink. Slow growth is also likely to contribute to shrinking tax receipts and growing unemployment compensation, giving rise to government deficits. A greater burden is thus likely to fall on Governments to safeguard the minimum guaranteed incomes for older people at levels that cover basic needs in a satisfactory way.

108. Innovative approaches are needed to administer a targeted basic stipend in the informal sector because of the severe problems involved in correctly identifying the old and the needy. Countries need to design the appropriate mechanisms in the light of local conditions. One possibility is to give local authorities responsibility for administering the schemes, granting them revenue-raising powers to finance them. Local authorities are likely to have more knowledge about who is genuinely old and in need. Where there are public work schemes in existence, financial support of half (or less) of the wage offered in such schemes may be made available to those unable to work. In most situations, a broad-based approach may be required since accurate targeting will not be possible.

109. Compliance with participation in contribution-related pension schemes should be encouraged by tying benefits closely to actual contributions and promoting awareness of those links, as well as by ensuring efficient administration.

110. Portability (that is, transferability) of contribution-related pension accounts between employers within a country is an essential element of old-age security systems because it encourages workers to seek employment where their skills are most needed and their incomes are optimized.

111. International portability of contribution-related pension accounts is becoming increasingly important in the context of globalization. Rules and procedures for such portability need to be elaborated, preferably on a multilateral basis. As a start, regional and subregional portability might be undertaken with the support of regional economic organizations, while international organizations should initiate the study of schemes for international portability of pensions.

112. Survivors' benefits for elderly widow(er)s of retired workers or their minor children are desirable features of contribution-related pensions, with the benefits to both primary beneficiaries and their survivors determined in such a way that they are actuarially viable.

Financing pension systems

113. The basic pension or basic stipend represents the redistributive component of the pension system. It should, therefore, normally be funded from general taxation rather than payroll taxes since the basis for general taxation is normally broader and more progressive than payroll taxes, and it would be unfair to place the burden for such redistribution solely on the wage-earning and salary-earning segments of the population. But in some contexts, putting this into effect would reduce the claims on payroll taxes for pensions and would therefore permit a reduction in the rate of payroll taxes, which would need to be compensated for by a rise in other forms of taxation.

114. Payroll taxes, while relatively easy to collect, tend to be regressive; may have negative impacts on competitiveness; and may exert some upward effect on prices. Moreover, they have limited coverage where there is a large informal sector.

115. The level of the basic pension should be determined by the financial capacity of the Government, taking into account the long-term obligations of the system. For low-income countries, the initial means-tested support might be very small (perhaps even below the poverty line) and the retirement age high, but the principle of a universal entitlement to public support in old age should be established.

116. A basic pension scheme may allow some savings in the government budget by replacing other pension or social-assistance schemes for particular groups of older people and by reducing administrative costs through the integration of a number of presently existing separate systems.

117. Both the basic pension and contribution-related pensions in the formal sector should be designed with a flexible retirement age (and should be tailored accordingly) that encourages people to continue working beyond the minimum retirement age. For example, systems can provide partial benefits to those who choose to continue working or higher benefits to those who retire later. Benefits should be lower for those who retire early and higher for those who delay retirement, which is intended to reduce costs and encourage labour-force participation. It should be noted that that recommendation is the opposite of current practice in a number of countries.

118. In extending basic pension coverage to workers in the informal sector, it would be desirable to find ways to generate revenues from workers in that sector to help cover the costs of the system. To be feasible, a tax on the informal sector would need to be very simple to administer, such as a registration fee. But some support for the basic stipend will need to come from general taxation as well, including value-added taxes, to which members of the informal sector do make some contribution. Where the schemes are administered by local governments, local revenue-raising may make a contribution.

119. Many traditional support systems for older people are valuable for cultural, economic and social reasons. To maximize pension-system coverage and promote the well-being of older people, pension systems and other formal support systems for older people should be designed to complement traditional family and community-support systems, and informal support for older people through families or communities should be encouraged by government-provided incentives. Where possible, formal support systems should strengthen traditional systems, but more realistically they should be designed to minimize the replacement or crowding-out of traditional systems. Examples include public financial support for families living with elderly parents and public services to support older persons even if they are living with their families in order to lessen the burden on families.

120. Clearly, any extension of pensions to those not yet covered has to be kept within financeable limits, which may be achieved by selective coverage and low benefits. For example, in an economy with 50 per cent of the population in the informal sector, of which approximately one eighth are over a reasonable retirement age, there may be about 2 to 4 per cent of the population with grossly inadequate incomes who are old and living without much support from their families (that is, one third of the old working in the informal sector). If benefits of one third of average income were extended to these people, then the total cost would amount to between 0.67 per cent and 1.25 per cent of national income, or about 2.5 to 5 per cent of tax revenue. A lower cost could be attained with smaller benefits or more selective coverage.

121. The Committee felt that questions of the relative economic merits of pay-as-you-go versus funded pension systems and of the impact of pension systems on labour and capital markets had been extensively addressed in a large body of literature, and the Committee decided not to enter into those technical debates. It has been argued that pay-as-you-go schemes involve more political risk and are more exposed to demographic fluctuations, while funded schemes, although seriously exposed to market risks, are more apt to cope with demographic factors. It has also been suggested that macroeconomically the two types of schemes would respond identically to particular demographic changes: in benign periods when the ratio of beneficiaries to contributors is relatively low, both will generate surpluses, while in demographically difficult periods both will suffer deficits in their current cash-flow balance. In view of the relatively even-handed arguments in favour of each type of scheme, the Committee decided not to take a view about which should be generally adopted. But transition from one type of scheme to another may involve heavy economic and social costs, which should be taken into account before deciding to change systems.

Equity and sustainability

122. Contribution-related pension schemes should be analysed in detail and over the long term to ensure that they do not have regressive distributive effects or create macroeconomic imbalances.

123. Public contribution-related pension schemes should have a ceiling on pensionable income. In other words, the income that is subject to mandatory contribution and serves as a basis for the determination of benefits, particularly where the system does not have universal coverage, should

have an upper limit. The maximum pensionable income should be calculated to reflect the situation in each country, but might be two to three times average wages in the formal sector. Where such a reform of an existing pension system would reduce pension spending, the savings should be used to expand coverage. High-income employees should supplement their pensions by contributing to voluntary schemes, which may be organized by their employers.

124. Government-financed or government-sponsored contribution-related pension schemes should have a minimum retirement age and require that benefits be based on the number of years of contributory participation, as well as on the actual amount of life-time contribution.

125. Pension benefits, whether from basic or contribution-related pensions, should be included in taxable income to ensure progressive redistribution and to minimize the net cost to the average taxpayer. Double taxation should be avoided by exempting contributions from taxable income.

126. Retirement ages, pension-benefit formulas and contribution rates in contribution-related schemes should be equal for men and women, that is, the basic pension and retirement age should be the same for women and men. However, the contribution-related pension should be the same for women and men when adjusted for equal contributions. This is justified by the fact that women on average earn lower wages than men and contribute for fewer years so their pensions would on average in any case be lower than those of men.

127. Pension benefits should be indexed to maintain an acceptable balance between the standard of living of pensioners and that of other generations. Ideally, that may mean indexing pensions to average wages, but in most developing countries there is no adequate measure of average wages, particularly where there is a large informal sector. Indexing to GDP per capita is more feasible and probably preferable to the usual practice of indexing to prices. In some countries, legal provision for indexation has proved inadequate to protect real pension benefits in situations of high and rising inflation, so macroeconomic stability may be an essential precondition for effective protection of pension benefits.

Governance

128. In introducing and developing pension systems, developing countries should give priority to the development of management capabilities, including mechanisms for compliance by eligible participants in the systems.

129. For contribution-related pension schemes, it may be appropriate to offer workers a choice between publicly and privately managed systems, considering that each has actual and perceived advantages and disadvantages. It is important, however, that the regulatory system treat both types equally. There can also be advantages of dividing up publicly administered schemes into competitive units so as to promote efficiency.

130. There are arguments both for and against government guarantees of privately managed schemes. On the one hand, the collapse of a privately managed scheme imposes severe costs on those formerly covered by the scheme, which seems particularly unfair in contexts where they have been forced to shift from a public to a private scheme. Moreover, anyone covered by a public scheme receives an implicit guarantee of entitlements. On the other hand, public guarantees allow (and may even encourage) mismanagement of private schemes and potentially involve large drains on the public purse. Where government guarantees of private contribution-related pension entitlements are deemed desirable, they should be limited in their potential cost to the general budget and designed to avoid regressive redistribution, which would create incentives to evade the payment of contributions or to limit individuals' own saving for retirement.

131. Countries with limited capabilities for managing or regulating pension systems may consider pension-fund management by foreign enterprises that have experience with similar systems.

132. Pension systems, whether publicly or privately managed, should be designed and managed so as to be transparent with respect to income redistribution, both within and between generationally. Information should be provided regularly on the balance and disposition of accumulated funds and the projected evolution of contributions and benefits. In general, it would appear desirable to have separate administration of the basic and contribution-related pensions since the basic pension is financed out of general taxation and not based on actuarial principles. Moreover, putting the two funds together could encourage the Government to use the resources of the contribution-related element to fund the basic pension. But in some contexts, efficiency considerations may lead to a decision that basic and contribution-related pensions should be managed by a single public institution. Even in such a situation, the accounting system should provide separate information on the two components.

133. Public pension funds should be autonomous. The managers should be publicly accountable, and pension funds should be independent of the annual government-budget

process. In particular, government use of the funds for other purposes should be strictly prohibited. The pension fund should publish its own annual budget showing expected revenues, pension distributions and operating costs.

134. Regulation of pension schemes should pay special attention to the costs of marketing the schemes promoted by private pension-management firms and possibly by competing public institutions.

135. Even financially and actuarially sound pension schemes will have periods of cash-flow surplus and periods of deficits, a phenomenon that is likely to occur frequently due to demographic changes and business-cycle fluctuations of earned income and transfers. Managers of funds should invest any surplus in financial assets to provide the funds needed to finance pensions when they are due. Such investments should increasingly be used to incorporate funding elements in pension schemes.

136. The Government is responsible for seeing to proper macroeconomic management so that the real resources needed are available to meet pension needs. In general, this requires that savings generated by pension schemes add to real net capital formation, and are not used in such a way as to reduce other sources of savings.

137. Countries may wish to encourage voluntary retirement savings through tax incentives, but management of such systems generally should be left to the private sector subject to standard financial-sector regulation.

Economic impacts of pension systems

138. If badly managed, pension systems can destabilize government finances and have extreme negative effects on the economy. In contrast, a well managed system may contribute to savings and financial development, as well as economic growth, although the Committee felt that the latter benefits can be exaggerated.

139. Although old-age support systems should be developed as far as possible to ensure they have positive effects on economic growth and labour and capital markets, they should be designed primarily as tools to ensure adequate provision for the elderly, and not primarily as tools for promoting macroeconomic objectives, such as aggregate economic growth, employment and the development of capital markets.

140. The impact on competitiveness of pension systems financed by payroll taxes is probably real, but may be offset by devaluation and other measures. Given the impact of pension schemes on competitiveness, regional cooperation to harmonize pension systems may be desirable, particularly among countries with regional agreements on trade and investment, in order to avoid distortions to trade and investment among cooperating countries.

Chapter IV
Criteria and methodology for identifying the least developed countries

A. Improvements to the criteria and methodology for the designation of least developed countries

141. At its thirty-first session, the Committee for Development Planning decided to establish a working group as part of its 1997-1998 work programme to consider possible improvements to the criteria and methodology for identifying the least developed countries.

142. The Committee gave further consideration to the two new indicators examined by the Committee at its thirty-first session:

(a) Gross national product per capita, converted into dollars by the World Bank Atlas method, to replace the three-year average of GDP per capita, expressed at current exchange rates;

(b) Commercial energy consumption per capita (in kg oil equivalent), to replace per capita electricity consumption (in kWh per year) in the calculation of the economic diversification index (EDI).

The Committee also considered the following possible changes:

(c) Concerning the "augmented physical quality of life index" (APQLI), use of the following indicators: mean years of schooling in place of primary and secondary school enrolment and literacy; calorie supply as a percentage of daily requirements or as a percentage of the average minimum energy requirements in place of absolute calorie supply; under-5 child mortality in place of life expectancy; and the UNDP human development index (HDI) without the income component in place of APQLI;

(d) Concerning EDI, use of the following indicators: paved road density and a measure of the modern service sector;

(e) Concerning population, use of population as a criterion for inclusion or graduation;

(f) Concerning methodology, replacing the current method of transformation of component indicators into indices through scaling between maximum and minimum values to a method of scaling between the lowest value of the top decile and the highest value of the bottom decile.

The indicator for income

143. The Committee considered the relative advantages and disadvantages of using GDP or GNP as an indicator of income, the possibility of using estimations of GDP based on purchasing power parity (PPP), and the best method for averaging income to reduce the effect of exchange-rate fluctuations.

144. The Committee concluded that GDP represented the most widely accepted measure of national income, had some advantages for measuring domestic production capacity and had the advantage of continuity with the previous work of the Committee. Although GNP includes some elements relating to development capacity not included in GDP, the Committee decided this was not sufficient to outweigh the advantages of GDP. The Committee, therefore, recommended that the Committee continue using GDP as the primary measure of economic development.

145. The Committee noted that estimations of GDP based on PPP were not available for all countries, and that some of the available data were based on theoretical models and extrapolations from existing data. It therefore recommended that official exchange rates continue to be used for determining the primary GDP data and that GDP be compiled at PPP exchange rates, where available, for supplementary use.

146. Concerning income averaging, the Committee noted the advantages of the World Bank Atlas method, which uses the latest GDP data, averages the exchange rate over three years and accounts for relative inflation differentials.

APQLI indicators

147. Concerning use of the indicator "mean years of schooling" in place of primary and secondary school enrolment and literacy, the Committee noted some advantages of the indicator as a measure of educational resources in the population. It also noted, however, that such data were not available for many countries, and that existing data for the indicator were not considered accurate. It also noted that UNESCO, while calling for the collection of data on mean years of schooling as an improved indicator of education, considered current data inadequate for the general use of such an indicator. The Committee, therefore, recommended against the use of an indicator of mean years of schooling at this time.

148. The Committee considered modifying the indicator for school enrolment to include tertiary education, as well as primary and secondary, as now used in the Human Development Report. The Committee felt, however, that for the purposes of identifying the least developed countries, adding tertiary education would add little information and could reduce the accuracy of the measure of basic education as a result of the variety of tertiary education systems in different countries, compared with the more standardized indicators of primary and secondary education.

149. The Committee considered the possibility of adjusting the indicator for calorie supply to take into account country-specific measures of average minimum energy requirement, based on the age and sex structure of the population. It also noted the advantages and disadvantages of taking distribution into account in order to estimate the extent of malnutrition, as done by FAO. While recognizing the problems inherent in the data on average calorie supply, the Committee felt that such an indicator should be retained in the APQLI and that further consideration should be given to ways of improving it.

150. The Committee considered the use of an indicator for under-5 child mortality in place of the indicator for life expectancy at birth. It noted that for almost all least developed countries, data only existed for under-5 child mortality and that life expectancy was generally derived from child-mortality data through the use of mortality models. The Committee was of the view that child mortality was the best available indicator of the general health status of people in the least developed countries, considering that infant mortality was a good measure of maternal health and that child mortality (1-5 years) was a good measure of the availability of general health care. The Committee, therefore, recommended that under-5 child mortality be used in place of life expectancy in calculating the APQLI.

151. The Committee also considered the replacement of the APQLI by an index combining life expectancy, adult literacy and combined primary, secondary and tertiary school enrolment, as weighted and scaled in the human development index prepared by UNDP, excluding the latter's income component. However, considering the advantages of indicators for child mortality and combined primary and secondary school enrolment for assessing human resources in the least developed countries, as well as the desirability of including a calorie-supply indicator, the Committee recommended that the revised APQLI be retained, with its equal weighting of two indicators for education and two indicators for health and nutrition.

EDI indicators

152. The Committee considered measures for paved roads as an indicator of transport infrastructure, including paved-road density (km/km2), paved roads (km) per capita, the World Bank's "normalized road index" and paved roads as a percentage of all roads. The Committee concluded, however, that none of those indicators had a very clear relationship to development, due in part to their dependence on population density and the nature of a country's terrain, as well as on the level of development.

153. The Committee reviewed the question of replacing the indicator for electricity consumption by an indicator of commercial-energy consumption, and concluded that commercial energy offered a broader and better proxy of infrastructure for development. The Committee, therefore, recommended that commercial energy consumption (kg oil equivalent per capita) replace electricity consumption as a component of EDI.

154. The Committee considered various possible indicators of the service sector, combining various elements of indicators for transport and communication services; finance, insurance and real estate activities; and general government services. It noted that a broad indicator of the private service sector, including all of the above except general government services, combined with manufacturing, as a percentage of GDP, might be a better measure of development capacity than either manufacturing or services alone since it reflected the possibility of a development path based on development of a modern service sector as an alternative to industrialization, particularly for small countries.

155. The Committee was of the view that following the modification of the indicator for manufacturing to incorporate the modern service sector as a share of GDP, the indicator for the share of the labour force in industry might be considered for deletion on the basis of simplicity.

156. The Committee also examined other possible modifications of EDI, in particular (as explained in para. 160 below):

(a) An improvement of the export concentration index or its replacement by an index of export instability;

(b) The inclusion of an indicator of exposure to natural disasters.

Population

157. The Committee examined the usefulness of the population criterion for inclusion (less than 75 million) but not for graduation. It recognized the arbitrariness of the threshold and the problems with the implication that population size offsets some structural constraints on development. Nonetheless, the Committee recommended that the criterion remain unchanged for reasons of continuity in order to avoid a major dilution of the benefits of the status of least developed country resulting from the inclusion of one or more large economies, and because of the belief that small size did pose some constraints on development capacity. It was also agreed that there was no need for symmetry in the criteria for graduation and inclusion.

Other issues

158. The Committee noted the suggestion to take into account poverty levels in the criteria, but considered that data for comparing poverty levels in all developing countries are currently inadequate. The Committee also noted that the purpose of the criteria was to reflect the development capacity of a country rather than the outcome of development.

Methodology

159. Concerning methodology, the Committee considered the possibility of transforming component indicators into indices through scaling between the lowest value of the top decile (index = 100) and the highest value of the bottom decile (index = 0), instead of the current practice of scaling between maximum and minimum values. The Committee agreed that that would be a desirable change in order to eliminate the sometimes large effect of extremely high or low values due to special circumstances in particular countries. The Committee agreed that that change in scaling should be accompanied by a change in thresholds to avoid or minimize changes in the list as a result.

Future work

160. The working group requested the Secretariat to prepare an analysis of the impact of various changes in the APQLI and EDI, alone and in combination:

(a) For GDP per capita: comparing the impact of the existing method with the suggested use of the World Bank Atlas method;

(b) For the APQLI:

(i) Replacing life expectancy at birth with under-5 child mortality;

(ii) Replacing per capita calorie supply with calorie supply as a percentage of minimum daily requirements, or if possible by the percentage of the population undernourished;

(c) For the EDI:

(i) Replacing the indicator for manufacturing as a share of GDP with a combined indicator of manufacturing and modern services (transportation, communications, finance, insurance, business services and real estate) as a share of GDP;

(ii) Deleting the indicator for labour force in industry;

(iii) Replacing the indicator of the concentration of goods exports with an indicator of the concentration of goods and services exports, or with an indicator of the instability of goods and services exports (as explained in para. 169 below);

(iv) Including an indicator of exposure to natural disasters (see para. 169 below).

161. The Committee noted that it was not possible for the working group to meet prior to its thirty-second session to review the results of the above-mentioned analyses, and recommended that the working group be reconvened once the results of the requested analyses become available and present its findings and recommendations to the Committee at its next session.

B. Review of the report of the Secretary-General on the development of a vulnerability index for small island developing States

162. The Committee, in response to a request of the General Assembly in its resolution 51/183, considered the report of the Secretary-General on the development of a vulnerability index for small island developing States (A/53/65-E/1998/5). The Committee agreed with the recommendations made by the Ad Hoc Expert Group Meeting on Vulnerability Indices for Small Island Developing States (see A/53/65-E/1998/5, annex), and considered that the development of a comprehensive composite index of economic vulnerability and ecological fragility was not currently feasible; it recommended that further work by the Secretariat be carried out on the development of such indices.

163. Regarding vulnerability, the Committee agreed to consider two indicators reflecting the main sources of vulnerability:

(a) An indicator of economic vulnerability could include some measure of export concentration, possibly weighted by trade as a share of GDP. A revised indicator of export concentration of goods and services could be calculated using the sum of the top three exports of goods and services as a share of total exports of goods and services, possibly multiplied by total exports as a share of GDP; or, if feasible, a comprehensive export concentration index, as calculated by UNCTAD and extended to goods and services, could be used. Indices for goods and services export instability could be considered instead of the previous export-concentration indices;

(b) An indicator of exposure to natural disasters could also be used, consisting of an index of the frequency of natural disasters, including hurricanes, floods, droughts, tidal waves, tsunamis, earthquakes, volcanic eruptions, locust invasion and perhaps other major natural disasters, weighted by the proportion of the population affected, averaged over a period of at least 10 years. A comparative measure of economic losses due to natural disasters was not currently feasible; however, the significance of economic losses and the importance of their calculation should be stressed.

164. The economic vulnerability index should be calculated for small island developing States and other developing countries as well. It should be able to distinguish among different classes of vulnerability, such as extremely vulnerable, moderately vulnerable and least vulnerable categories.

165. The Committee discussed whether the frequency of civil wars could be integrated in the index of economic vulnerability; a number of different views were put forward by members.

C. Consideration of the usefulness of a vulnerability index as a criterion for the designation of least developed countries

166. The Committee agreed at its thirty-first session to consider the usefulness of a vulnerability index as an element of the criteria for the designation of the least developed countries.

167. Since a vulnerability index has not yet been developed (see para. 162 above), the Committee could not undertake such an assessment.

168. However, the Committee recalled that in the rules for inclusion adopted by the Committee in 1991, vulnerability (in a qualitative sense) is already being considered on a

case-by-case basis for countries that fall below the threshold for inclusion for one of the two criteria other than the level of GDP per capita (APQLI and EDI): if any of those countries falls below the cut-off point on either index and is landlocked or an island, has a population of one million or less or suffers from frequent cyclones, droughts or floods, it may be included in the list.[2]

169. The Committee also noted that the EDI already reflected economic vulnerability through the indicators for manufacturing and export concentration, and that some improvements in the EDI should be considered, as indicated before, notably by retaining an index of export concentration (or export instability) extended to services and by including a measure of exposure to natural disasters as a component of the EDI. EDI could then be considered as an indicator of structural weakness whose components would mainly reflect economic vulnerability.

170. The Committee took note of General Assembly resolution 52/210 to postpone its consideration of Council decision 1997/223 endorsing the Committee's recommendation to graduate Vanuatu from the list of least developed countries immediately, pending the Committee's assessment of the usefulness of a vulnerability index as a criterion for the designation of least developed countries. However, for the information of the Council, the Committee recalled that structural vulnerability to some extent is already reflected in one of the composite indicators currently used, namely EDI. Moreover, even if vulnerability were to be given greater weight than hitherto in decisions about inclusion in or graduation from the list of least developed countries, Vanuatu would have been due for graduation in 1997 unless the criteria were changed. Therefore, the Committee reconfirmed that on the basis of the criteria accepted in 1991 and applied in subsequent years, the indicators for Vanuatu in 1994 and again in 1997 showed that Vanuatu was due for graduation with effect from 1997.

D. Review of the benefits derived by the least developed countries, specifically on the basis of their inclusion on the list

171. The Committee took note of the specific provisions for least developed countries in some international agreements and programmes, including the targets for official development assistance (ODA) to least developed countries, UNDP funding allocations, and special provisions in the Uruguay Round agreements.

172. The Committee also noted that many international conferences and multilateral and bilateral development assistance agencies emphasize the importance of increasing the levels of ODA provided to least developed countries.

173. The Committee noted, however, that ODA to the least developed countries as a percentage of donor GDP had declined in recent years, and that only four countries (Denmark, the Netherlands, Norway and Sweden) met the 0.15 per cent of GDP target set by the first United Nations Conference on the Least Developed Countries in 1981. The Committee also noted that the annual meetings of UNCTAD included an agenda item on monitoring implementation of that target and related elements of the Paris Declaration and Programme of Action for the Least Developed Countries for the 1990s. The annual *Least Developed Countries Report*, prepared by UNCTAD, provides a detailed analysis of trends in those countries.

174. The Committee noted the trade preferences given to least developed countries both through the provisions of the Uruguay Round agreements and bilaterally through the Generalized System of Preferences and other means.

175. UNCTAD had been requested to prepare a report for the thirty-second session of the Committee on the practical impact of the measures in favour of least developed countries in the various international agreements and programmes, but the report was not available. It was noted that as part of the preparations for the Third United Nations Conference on Least Developed Countries, such a review will be undertaken and made available to the Committee.

Chapter V
Suggestions for future work

176. In view of ongoing negotiations about restructuring Economic and Social Council subsidiary bodies, as well as the fact that the mandate of current Committee members ends on 31 December 1998, the Committee decided not to propose a work programme for future deliberations. Instead, it discussed a number of issues that might usefully be tabled for future sessions and specified some priorities that it felt could be passed on to the Council, bearing in mind the desirability of ensuring continuity between past and future work of the Committee or any successor body.

177. The issues over which future sessions of the Committee or its successor might deliberate range over a wide arena of economic, environmental and social problems affecting the international community in general and the developing countries in particular. Some items discussed

by the current Committee that in its view deserve attention by the Committee or its successor are:

(a) Seeking further improvements in the criteria and methodology for identifying the list of least developed countries, which involves finalizing the technical work that Working Group III had begun but was unable to complete in time for the Committee's thirty-second session. The Committee expressed the desirability of convening another Working Group, if possible prior to December 1998, to examine the sensitivity of current selection criteria to the inclusion of alternative variables, possibly including indicators reflecting the degree to which countries are exposed to natural vulnerability;

(b) As a follow-up to the work performed in Working Group IV on the systemic implications of the Asian financial crises, the Committee deemed it important to continue deliberations on the structure, mandate and organizational details of the proposed world financial organization as an international regulatory, standards and supervisory agency that would complement and further complete the architecture of current international economic, financial and trading regimes. The role of the existing multilateral financial organizations, including IMF, should also be re-examined in this context with a view to exploring how best to institute a lender of last resort;

(c) Continuation of work on migration and employment, including deliberations on the report prepared by Working Group I for the thirty-second session. The Working Group's draft report is to be finalized by the end of August 1998 and then transmitted to the next session of the Committee or its successor;

(d) The impact of globalization on the family, with a focus on intergenerational responsibilities in raising children, given the changing global context, as well as how best to construct safety nets for youth, including their education and training so as to strengthen their human capital and ensure their productive employment. This would build further upon the work done in Working Group II on old-age security, in particular pension schemes, thus extending the remit of the debate, among other areas, to health care and unemployment insurance, as well as the requirements of constructing comprehensive old-age security and pension systems, with a focus on the special problems faced by low-income and least developed countries;

(e) The impact of advanced technology and the information revolution on developing countries in general and least developed countries in particular. Included here would be an examination of the social impact of technological instruments, such as the Internet, and a possible need for its content regulation;

(f) Building up skills to cope with the competitive pressures of globalization, focusing on the role of formal and informal education in accumulating the human capital required to benefit from and enhance the virtuous growth circle that globalization may offer. Among the topics to be dealt with under this heading are the need for strategic investments in people and building up the right human-capital capabilities, especially in developing countries. This requires identifying the appropriate "knowledge production function" for each country's circumstances and future development in order to avoid brain drain and preserve its cultural heritage;

(g) Urbanization and development could be treated with a view to examining the demands that urbanization imposes upon investment allocation and human congestion. Urbanization has led to many problems that have aggravated the already difficult process of development, and many developing countries do not seem to be coming to terms with problems of urbanization in a timely and effective manner;

(h) Globalization and a supportive international economic environment to promote a pace and pattern of world economic growth that is strong, stable, sustainable and balanced among countries. In this context, it is especially important to integrate the lagging developing countries and ensure their "catch-up" as rapidly as feasible. Ongoing technological innovations may in fact help these developing countries to leapfrog the development process, provided that they can participate more effectively in international trade, attract the necessary foreign investment flows, and gain the benefits accruing from specialization and rapid technological advances;

(i) Re-examine issues that the Committee has dealt with in the past with a view to identifying the relevance of past recommendations to the new global context.

178. The Committee recognized that its future work must be selective and that it is important to dovetail its work with the ongoing discussions in the Council, as well as with broader international policy discussions. It therefore accorded great priority to limiting topics for discussion at the next session of the Committee to three items that are directly linked to the preparations under way for important United Nations conferences:

(a) Continuing work on the criteria and methodology for identifying least developed countries, evaluating the benefits derived from being designated as least developed country, and facilitating the effective integration of these countries into the international trading and financial networks so as to accelerate their development. This would contribute directly to the preparations for the Third United Nations Conference on Least Developed Countries, to be held in 2001;

(b) Continuing the deliberations on the structure, functions, mandate and organizational details of the proposed world financial organization as an international financial regulatory, standards and supervisory agency. Those deliberations would support directly the ongoing preparations for an international conference on finance for development;

(c) Exploring the linkage between migration, employment and development, which would provide a building block for preparations for an international conference on migration and economic development.

179. The Committee also reviewed various ways in which it could enhance dissemination of its findings and recommendations. Possibilities examined included convening a press conference at the end of each session, disseminating the executive summary of its report to all United Nations missions, posting its report on the United Nations Internet site, broadcasting a programme on the Committee's deliberations and findings on United Nations radio programmes, revamping the report's layout, and improving the report's dissemination and availability.

Chapter VI
Organization of the session

180. The thirty-second session of the Committee for Development Planning was held at United Nations Headquarters from 4 to 8 May 1998. Nineteen members of the Committee attended: Mária Augusztinovics, Dionisio Dias Carneiro-Netto, Makhtar Diouf, Essam El-Hinnawi, Just Faaland, Gao Shangquan, Patrick Guillaumont, Ryokichi Hirono, Nurul Islam, Taher Kanaan, Louka T. Katseli, Linda Lim, Nguyuru H. I. Lipumba, Nora Lustig, Solita C. Monsod, Bishnodat Persaud, Akilagpa Sawyerr, Arjun Sengupta and Frances Stewart. Five members were unable to attend: Klaus Schwab, Alexandre Shokhin, Lance Taylor, Alvaro Umaña and Miguel Urrutia-Montoya.

181. The officers elected at the thirtieth session for a term ending on 31 December 1997 and renewed for the term ending on 31 December 1998 were:

Chairman:
Nurul Islam

Vice-Chairman:
Klaus Schwab

Rapporteur:
Louka T. Katseli

Although Mr. Schwab could not attend, no substitute Vice-Chairman was elected.

182. The session was opened by the Chairman.

183. Preparations for the session had been carried out by the three working groups of the Committee established at its thirty-first session, as well as a fourth one convened by the Chairman, upon consultation with the members of the Committee, in view of the gravity and ramifications of the financial crises in several East and South-East Asian countries. The Working Group on International Migration and Employment (New York, 29-31 October 1997) consisted of Makhtar Diouf, Gao Shangquan, Solita Monsod (Rapporteur), Linda Lim, Akilagpa Sawyerr and Arjun Sengupta (Chairman); Mr. Nurul Islam, Chairman of the Committee, also attended. The Working Group on Old-Age Security in a Changing Global Context (New York, 12-14 January 1998) was composed of Mária Augusztinovics (Chair), Dionisio Carneiro-Netto, Ryokichi Hirono, Frances Stewart (Co-Chair/Rapporteur) and Miguel Urrutia-Montoya. The Working Group on the Criteria and Methodology for Identifying the Least Developed Countries (New York, 17-19 December 1997) consisted of Patrick Guillaumont (Chairman), Essam El-Hinnawi (Vice-Chairman/Rapporteur), Just Faaland, Nguyuru Lipumba and Bisnodat Persaud; Mr. Nurul Islam, Chairman of the Committee, also attended. Finally, the Working Group on Systemic Implications of the Asian Financial Crises (20-21 April 1998) consisted of Just Faaland (Rapporteur), Gao Shangquan, Ryokichi Hirono, Nurul Islam, Nguyuru Lipumba, Solita C. Monsod, Arjun Sengupta and Miguel Urrutia-Montoya (Chairman).

184. Because of the urgency of considering the report of Working Group IV, it was decided to defer discussion of the report on international migration and employment prepared by Working Group I until a later session of the Committee or its successor.

185. The Under-Secretary-General for Economic and Social Affairs of the United Nations Secretariat made a statement in which he summarized his views on the reasons for the crises in East and South-East Asia. He also clarified the state of affairs on the future of the Committee, thus reflecting ongoing discussions among member States in the Economic and Social Council; underlined the relevance of the Committee's work for ongoing and future work of his Department and the United Nations system as a whole; and

suggested some possible themes for the future work of the Committee or its successor, emphasizing the importance of long-term economic, environmental and social aspects of development.

186. Substantive services for the session were provided by the Department of Economic and Social Affairs. The following agencies, programmes and funds were represented at the session: United Nations Conference on Trade and Development, Economic and Social Commission for Asia and the Pacific, Economic Commission for Europe, United Nations Educational, Scientific and Cultural Organization, Food and Agriculture Organization of the United Nations, International Monetary Fund, United Nations Industrial Development Organization and World Food Programme.

Notes

[1] *Official Records of the Economic and Social Council, 1997, Supplement No. 15* (E/1997/35), chap. II.

[2] See "Identification of the least developed among the developing countries: criteria for designating countries as least developed", paper prepared by the Committee for Development Planning, Working Group III, January 1997.

Annex

Agenda

1. Adoption of the agenda and organization of work, including selection of rapporteur and drafting modalities.
2. Opening statements.
3. Report of Working Group IV: “Asia’s financial crises: systemic implications”.
4. Report of Working Group II: “Intergenerational transfers and social security”.
5. Report of Working Group III: “Review of the criteria and methodology for determining the list of the least developed countries and examination of a possible vulnerability index”.
6. Suggestions for follow-up to the report of Working Group I: “Migration and employment”.
7. Recommendations.
8. Discussion and adoption of the report of the thirty-second session.