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March 6, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Financing for Development—Preparatory Committee Meetings February 12–23, 2001**

Attached for the information of Executive Directors is the press release issued by the United Nations Department of Economic and Social Affairs at the conclusion of the Preparatory Committee meetings on Financing for Development, held in New York February 12–23, 2001. Also attached are the introductory statements made on behalf of the Group of 77 and the European Union.

Questions may be referred to Mr. Chatah (ext. 39624) and Mr. Brauning (ext. 36643) after March 18, 2001.

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PRESS RELEASE

Preparatory Committee for the
High Level Intergovernmental Event on
Financing for Development
5th Meeting (PM)

DEV/2291

26 February 2001

The high level intergovernmental event on financing for development, scheduled for early next year, will take the form of an international conference under United Nations auspices by a decision of the General Assembly, according to a draft resolution adopted by the Preparatory Committee on the event as it concluded its second session on the evening of Friday, 23 February.

By terms of the text, the conference will be at the highest political level, including at the summit level. The General Assembly would accept with gratitude the generous offer of Mexico to host the conference -- to be known as the International Conference on Financing for Development -- on the understanding that its specific timing and location would be announced by Mexico during the third session of the Preparatory Committee.

The Assembly would also decide that the third session be in two parts: 2 to 8 May; and a full week in October/November 2001 (a firm date will be decided later).

In another action this evening, the Preparatory Committee for the High-Level International Intergovernmental Event, as the Committee is formally called, approved a draft provisional agenda for its third session, as well as the report of its second session introduced by Hazem Fahmy (Egypt), the Rapporteur.

By the draft resolution, the General Assembly would invite governments to submit to the coordinating secretariat of the conference, not later than 15 April, possible initiatives or themes to be made available to the third session of the Preparatory Committee.

The Assembly would decide that the third session, in its first week, would consider in greater depth the issues contained in a working paper prepared by its facilitator, taking into account all inputs submitted at its second session. At

the second week of the third session, it would consider a concise first draft prepared by the facilitator, reflecting the progress made at the first week of the Committee, taking into account all other inputs received by the Committee thereafter.

The Bureau would be requested to explore ways and means for deepening the efforts of all relevant stakeholders, including at the regional level, as well as by civil society and the private sector in support of the preparatory process. It was to submit proposals on that for consideration by the Preparatory Committee. The Preparatory Committee decided to hold an intersessional meeting to decide on the mode of participation of the business sector in its third session.

Mauricio Escanero (Mexico), the facilitator of the Committee's informal consultations, said that his country was very happy to serve as host of the upcoming Conference. He hoped the offer would raise political awareness to the development financing issue and draw the participation at the highest level of ministers of finance, commerce and trade.

In a concluding statement, Committee Co-Chairman Jorgen Bojer (Denmark) said the Preparatory Committee had achieved the goals that had been set out at the beginning of the session. Active participation by delegations spoke to the broad commitment to accelerate the development financing process. It was easy to see that delegations were seeking to find a common ground on international development financing issues that were ripening for collective action.

Bagher Asadi (Iran), on behalf of the "Group of 77" developing countries and China, said every effort should be made by all in a constructive spirit to ensure a successful outcome of the process. The adoption of the draft resolution was a great achievement, and the statements of the co-chairs were a valuable input to the process.

Ruth Jacoby (Sweden), on behalf of the European Union , associated herself with the remarks of the representative of Iran.

Committee Co-Chairman Jorgen Bojer, along with Co-Chairman Asda Jayanama (Thailand), gave brief summaries of the Committee's review of the inputs to the substantive preparatory process and the upcoming High-level Event.

Action on Texts

MAURICIO ESCANERO (Mexico), the facilitator of the Committee's informal consultations, said those consultations had been successfully

completed and members had reached consensus on a draft text which the Committee would recommend for adoption to the General Assembly. He read out several technical changes to the text. He was pleased with the overall result and hoped that Committee members would continue to work together to reach consensus during the run-up to the Conference.

The Committee adopted the draft text.

After the text was adopted, RUTH JACOBY (Sweden), speaking on behalf of the European Union, thanked Committee members and looked forward to continued success as the preparatory process moved forward.

JOHN DAVISON (United States) said his delegation disassociated itself from the consensus on the draft. It had hoped that the High-level Event would be held as a United Nations General Assembly special session in New York. He said current United States legislation did not provide funding or payment of fees for United Nations conferences held in other locations. That was not a reflection of disapproval of either Kenya or Mexico. [Earlier in the session, Kenya reiterated its offer to host the Conference.] He reiterated his Government's strong support for the development financing process and assured the Committee that the United States would continue its participation.

Mr. ESCANERO (Mexico) said that his country was very happy to serve as host of the upcoming High-level Event. He hoped that offer would raise political awareness to the conference and draw the participation of high ministers of finance, commerce and trade worldwide. He looked forward to constructive and enriching debates that would lead to positive results for the common good.

BAGHER ASADI (Iran), speaking on behalf of the Group of 77, also thanked the facilitator and Committee members for their flexibility.

The Committee next considered an informal paper containing the draft provisional agenda for the third session of the Preparatory Committee, which it adopted.

Mr. ASADI (Iran) suggested that the title for the Conference should be included in the agenda for the third session now that it had been agreed.

The Committee Rapporteur, HAZEM FAHMY (Egypt), then introduced the draft report of the Committee (document A/AC.257/L.5). That document contained the procedural chapter of the report and would be further updated to include today's proceedings following the closure of the session.

The Committee then adopted the draft report.

Concluding Statements

Co-Chairman JORGEN BOJER (Denmark) believed that the Preparatory Committee had achieved the goals that had been set out at the beginning of its second session. The active participation by delegations spoke to their broad commitment to accelerating development. He hoped such commitment would continue at the third preparatory session. He noted with pleasure that Mexico would be hosting the Conference. He noted that the report of the Secretary-General on development financing had anchored the Committees discussions. The report had broken new ground and proved to be an invaluable tool, as it included unprecedented cooperation between United Nations agencies and high-level intergovernmental institutions dedicated to the financing for development process.

He was also pleased to note that the Committee's general debate had revealed broad agreement with the general thrust of the report. The five regional consultations and hearings with civil society had been particularly enriching exercises. The high quality of those inputs, as well as the discussions with the Bretton Woods institutions and the World Trade Organization (WTO), had helped to raise confidence in the development process, as well as the notion that working together to attain international goals on development financing was critical.

He said it was easy to see that delegations were seeking to find a common ground on international development financing issues that were ripening for collective action. That suited the goals set for the process. It was important to note that all the Committees discussions should be seen as complementary to those being held on development financing in other forums. Indeed, they were not an infringement on the mandates of other institutions. All this had given him great optimism for the outcome of the third preparatory session.

He said that the Committee's interaction with the International Monetary Fund (IMF), World Bank and the WTO and other intergovernmental organizations and civil society representatives had also been enriching. Those fruitful discussions were a fitting response to the challenges put forward by the Secretary-General, the General Assembly President, and the President of the Economic and Social Council, among others, at the opening of the session.

He said issues relating to official development assistance (ODA) were discussed by delegations. Better coordination of ODA was called for. It was observed that ODA could be used to enhance national capacities, and to close gaps between the North and South in many areas, such as information

technology. Sound economic policies were seen as key requirements in the effective use of ODA. Greater predictability of ODA flows was suggested, as was South-South cooperation, triangular cooperation and flexibility of aid delivery. Speakers urged that the needs of landlocked and small island States should be taken care of and support was urged for countries suffering from balance-of-payments problems triggered by volatile situations.

Co-Chairman ASDA JAYANAMA (Thailand) gave a brief summary of the Committee's consideration of domestic resource mobilization, international private flows, trade and debt. He noted the very rich and interactive nature of the discussions, and was particularly encouraged by the participation the Bretton Woods institutions and other intergovernmental organizations. Many delegations stressed that each country had primary responsibility for its development. They also stressed sound macroeconomic policies, good governance, and increased participation by developing countries in the design of international financial standards and codes. Overall, the mobilization of development resources was recognized as the main pillar of the process.

He went on to say that many delegations felt that emphasis should be placed on strengthening domestic development policies and how to incorporate international efforts into regional and subregional initiatives. Delegations also focused much attention on debt reduction, trade liberalization and access to markets by developed countries. There was further agreement that enhancing national capacity was key. Most delegations stressed that public finance should constitute a key theme of the final event, as that was an area where action by governments could lead to early results.

Highlighting the dialogue on international private flows, he noted that most delegations felt that such flows should not be seen as a substitute for ODA. On the other hand, it was also felt that some forms of foreign direct assistance could help fill the domestic investment gaps in some countries. Under the right conditions, foreign investment could spark economic growth and development. It was clear that technical assistance for institutional capacity building was paramount to make financial flows more development friendly. It was also felt that while fiscal incentives could be used to spur foreign investment, they should not jeopardize domestic development goals.

He added that debt problems were touched upon and speakers had urged an international strategy to deal with the question in a more comprehensive manner. Transparency in the operation of the Paris Club of official creditors was also urged. Governments that were not members of the Paris Club were also urged to contribute to debt rescheduling. On the Highly Indebted Poor Countries (HIPC) Initiative, appreciation was expressed for debt relief granted by some individual countries. It was emphasized that resources for

underwriting debt relief should not be at the expense of other resources. Debt cancellation was urged. Some speakers called for a club of debtors to bargain collectively. The United Nations was seen by many speakers as facilitator in international development questions.

Highlights of Session

During this session, the Committee focused most of its attention on reviewing the inputs, at all levels, to the substantive preparatory process and the High-level Event thus far. It also began initial preparation of the outcome of the Event. The Committee's goal was to lay the groundwork for the historic conference by undertaking a thorough assessment of how the world's financial development needs could be met.

Opening the session, Secretary-General Kofi Annan said the Committee's work would inaugurate the final stage in a process of vital importance to billions of people. He urged members to address the broad concerns expressed by world leaders during the Millennium Summit, particularly the obstacles developing countries faced in mobilizing resources needed to finance their sustained development. The task now was to ensure the commitments made at the Summit were not forgotten and that the means to achieve the Committee's priority goals received high-level support.

To facilitate its deliberations and meet the Secretary-General's challenge, the Committee set a programme of work that mirrored the six themes identified in the Secretary-General's comprehensive report on development financing: mobilizing domestic financial resources for development; mobilizing international resources for development, including foreign direct investment and other private flows; enhancing trade for financing development; increasing international cooperation for development; confronting external debt challenges; and addressing systemic issues -- including financial architecture reform.

As the session's general debate began, the President of the General Assembly, HARRI HOLKERI (Finland), called the Committee's in-depth examination of each of the report's themes "unprecedented"; indeed, such an examination would highlight the important link between the domestic international levels of decision-making. The Committee Chairman, also encouraging a holistic and integrated approach, urged stakeholders to harmonize their activities at national and State levels for the benefit of all the world's people.

The theme of broad cooperation in financing for development was echoed by several intergovernmental agencies. The representative of the World Bank said the notion of a high-level event had emerged at the time when there was a

general confluence of international recognition on some of the most critical development issues, including the need for enhancing global poverty reduction strategies and focusing new emphasis on concerted action. The Committee should, therefore, build on that momentum by identifying key action areas to solve problems that begged for international cooperation.

The representative of the IMF said his agency would work to build the consensus needed to underpin a new and more effective approach to development. He urged the Committee to structure its deliberations around two crucial pillars of development: sound domestic economic policies; and external financing. The representative of the WTO said there was a need for donors, developing countries and all international institutions to address development through operational objectives informed by economic good sense and supported by the highest level of political commitment.

The Committee also heard summaries of intersessional consultations held by the five regional commissions: Economic Commission for Latin America and the Caribbean (ECLAC); Economic Commission for Africa (ECA); Economic Commission for Europe (ECE); Economic and Social Commission for Asia and the Pacific (ESCAP); and Economic and Social Commission for Western Asia (ESCWA). Those meetings and their subsequent summaries had been essential to the preparation of the Secretary-General's report.

The Coordinator for the United Nations regional commissions, who also serves as the Executive-Secretary of ECLAC, said while the consultations had been designed to emphasize local and regional inputs, they had also featured contributions by other relevant stakeholders at the regional and subregional levels such as non-governmental organizations, businesses and research institutions. Representatives of each group identified specific regional needs and presented relevant recommendations to the Committee.

The balance of the Committee's general debate saw consensus emerge on a number of issues, especially on how developing countries could be helped to improve their economies and share in the benefits of globalization. There was general agreement on the need for institution-building, including good governance, pro-growth policies and the creation of liberalized investment regimes, as well as the opening of markets for the exports of developing countries.

There was also a general understanding that while building sound national frameworks and domestic policies could certainly spark development, it was essential that those measures be complemented by similar efforts at the global level. Further, while the need for maintaining macroeconomic policies was agreed, some developing countries called for a more realistic consideration of

the issue that addressed deepening poverty, falling commodity prices and low savings.

Noting that ODA was declining, developing countries urged the industrialized nations to match national efforts by reaching the United Nations target of 0.7 per cent of gross national product (GNP) for their ODA contributions. There was also agreement on the need for more equitable foreign direct investment to the developing countries.

Some Committee members, particularly the representatives of countries in the Asian and African regions, called for the development of a new international financial system that could meet the unique needs of developing countries. Many felt that the "one-size-fits-all" approach of the present system was especially ill-equipped to deal effectively with the complex problems and challenges of globalization. Indeed, the East Asian financial crisis had exposed major flaws in macroeconomic policies and had proved that even countries with sound economic fundamentals were vulnerable to shocks in the international financial markets.

While not challenging the legitimacy or relevance of the Bretton Woods institutions, some believed the issue now was how to enhance the transparency and accountability of those agencies. There was also a call to increase the representation of developing countries within those agencies, as well as in their decision-making processes. There was equal concern expressed, however, that the mandates of international financial institutions be respected. One representative from the developed world cautioned against using the development financing process as a vehicle for the United Nations to interfere in their governance and decision-making mechanisms.

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Statement

by

Ambassador Bagher Asadi
(Islamic Republic of Iran)
Chairman of the Group of 77

at the

Second Session of the Preparatory Committee

for the

High-level International Intergovernmental Event on Financing for development

Monday, 12 February 2001

Mr. Chairman,

At the very outset, let me express, on behalf of the Group of 77 and China, our sincere and profound appreciation to the Secretary-General for a very comprehensive, interesting, thought-provoking and most certainly, challenging, report. The report's preparation, as we all know, has been quite unique and innovative, involving the participation and cooperation of representatives of the Bretton Woods Institutions and World Trade Organization. We are very pleased, indeed, to have with us today high officials of the World Bank, The IMF and WTO. This is certainly a very welcome development, and it should augur well for the current preparatory meeting as well as for the whole process. We welcome this presence, and look forward, with anticipation and openness, to their constructive partnership along the way, bumpy and winding as it might appear. The meetings held just last week in Washington between the Members of the Financing for Development Bureau and the Bank and the Fund, respectively, proved to be a very useful step forward in a continually unfolding relationship. The current session is an excellent opportunity to further consolidate this growing relationship and help elucidate the modalities of participation in the process henceforth. In fact, the same applies to all other stakeholders in the process, including private sector and civil society organizations, NGOs in particular. We remain confident that with a spirit of constructive partnership and cooperation on the part of all the stakeholders and parties concerned we all can have a very smooth preparatory process and a very successful final event.

Mr. Chairman,

All of us, both developed and developing, whether in this conference hall or out there around the globe, are acutely aware of the historical standing and importance of what has come to be referred to as the Financing for Development event. And all of us know how much has gone into its preparation up to this very point. In short, the expectations for the event are high, if not too high. Its impact on the major developmental issues has also been acknowledged by the Millennium Declaration. That is exactly why the entire international community should strive to utilize the tremendous potential inherent in the high-level event. It simply cannot and certainly should not be considered a once-and-for-all event, rather, it should be perceived as a historical turning point for a bold, innovative and yet a continuing process for setting the stage for basic parameters and a conducive environment leading to a new consensus in which the international community strives to define collective objectives and goals and take the necessary measures to achieve them. The overall objective of the event is the strengthening of international cooperation for development, in particular through financing perspective .

In the course of intergovernmental deliberations thus far it has become clear that any new or innovative approach to the question of financing for development should be seen in the context of globalization and the complexities, challenges and benefits associated with it. We should be cognizant that the globalization process is paving the way for a multi –actor world in which various levels of decision- and policy-making and various actors engage in ever more sophisticated types and levels of interaction. Many parameters have changed and old assumptions and paradigms seem to be either waning or

are already out of the picture. This still on-going and yet unfolding process has tremendous implications for development, including for its financing aspects, and has transformed and re-oriented the very concept of development. Undoubtedly, it has tremendous potential for promoting the shared objectives of the global community and strengthening the sustained economic growth and sustainable development of developing countries. Nevertheless, its very financial features that have facilitated the process of global financial integration, have in their wake brought with them increasing risks and created instability. Given all this as well as the imperative of preventing risks and instability, and also taking into account the requirements for the long-term development of the developing world, achieving a higher understanding at the global level of the overall parameters of change in paradigms, concepts and institutional arrangements and relations seem to have become inevitable. Fact of the matter is that the global environment in which we all live, work and interact has changed, and quite substantially at that. Which calls for a different approach and accordingly, a different set of policies. Moreover, it is generally - if not roundly – agreed that the benefits of globalization need to be equitably distributed for the long-term health of the global system. This is as true in a general sense as it is in the field of financing of development. The high level event on financing for development has tremendous potentials and capabilities to serve such objectives.

The central challenge before us all in approaching the High-level Event lies in setting the goals and putting in place the measures and mechanisms required to achieve them. First and foremost, is the question of political will on the part of all stakeholders and participants in the process to make the commitment and undertake to do what is necessary, inter alia, to address impediments and obstacles, whether of an institutional or regulatory nature, at national, regional, inter-governmental and international levels to ensure the success of the event and its follow-up. With the requisite political will, the process, difficult as it inevitable may be, will stand a chance of success. And to this, we are fully committed and willing to trek along with all the fellow travelers towards a good and satisfactory final outcome.

Mr. Chairman,

Having laid out in very general terms our approach to and expectations from the High-level Event, let me now turn to the substantive issues and agenda of the Event. The respective outcome of various regional consultative meetings, particularly those in the developing regions, reveal a number of important features. Despite the fact that various developing regions have different levels of development and their integration into the world economy varies according to region and sub-region, nevertheless, the challenges they face in the area of financing for development are quite similar. Hence, to address these challenges, the Group of 77 and China is pleased with the following themes identified for the substantive agenda of the Financing for Development process.

(1) Mobilizing domestic financial resources for development;
(2) Mobilizing international resources for development: foreign direct investment and other private flows;

(3) Trade;
(4) Increasing international financial cooperation for development through, inter alia, Official Development Assistance (ODA);
(5) Debt;
(6) Addressing systemic issues : enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

Let me hasten to add that we are fully conscious and cognizant of the inter-linkages involved between and among the issues on the themes of the process and the Event, and we believe that these inter-linkages should also be addressed in the course of our discussions and deliberations in the weeks and months ahead.

Mr. Chairman,

Although each of these themes will be fully discussed in detail in the course of the coming days, allow me to address them at this stage in our general statement. This should serve as a chapeau for more technical interventions.

Domestic resources are the primary means of financing of development in almost all countries, including developing ones. Economic growth is essential for enhancing the mobilization of domestic resources, however, many developing countries are far from reaching the necessary growth rate and investment ratios that could lead to sustainable development. The situation in LDCs, African countries, Small Island Developing States (SIDS), land-locked and transit developing countries, and other small and vulnerable economies is more difficult due to inherent economic problems of poor resource base, low productivity, lack of proper financial institutions and high transport cost. We in the developing countries are cognizant of the fact that we should improve our financial capacities and structure and strengthen our regulatory framework. Notwithstanding, mobilization of domestic resources cannot be viewed in isolation from the international environment. Due to the globalization process, which has further sharpened and escalated the impact of international environment on the national economy, both horizontally and vertically, the critical impact of external factors on the internal capacity for mobilization of domestic resources has increased. Therefore, in addition to domestic policies and actions, the imperative of a conducive international environment will be an important issue for our discussions in this agenda item.

Trade is the most important mechanism for almost all developing countries to mobilize and expand the needed resources for financing of development. Even in those countries, which have not been able to attract international financial flows, trade is the only source of absorbing external finance as a vital source of economic growth and poverty eradication. Market access continues to be a major obstacle to the exports of developing countries. Moreover, issues such as avoiding discretionary and unilateral trade measures; transparent, open and predictable markets; trade financing; trade-related technical assistance; special and differential treatment for developing countries; forbidding use of various standards for protectionist purposes; tariff peaks; denial of

GSP; commodities and supply side constraints, to mention only a few among a rather long catalogue, are major topics for our discussions.

Another major source of financing for developing countries is foreign direct investment and other private flows. In the examination of ways and means to increase and optimize the international private flows for development, the sources and direction of these flows are important. These flows are often concentrated in a small number of countries and regions. Most developing countries have found it difficult to benefit from these flows. On the other hand, managing speculative short term flows is also a serious challenge for those able to attract such flows. Convergence of these flows with the priorities of developing host countries is also an important issue and a serious challenge.

Official Development Assistance (ODA) continues to be a crucial issue for a large majority of developing countries, particularly LDCs, African countries, and those with low income and limited export earnings. These countries continue to need concessional flows to supplement their domestic capital accumulation in order to make their development efforts sustainable. Increase in the private capital flows should not be considered as a substitute for ODA. Although the fiscal situation in many developed countries has generally improved and quite significantly in some, the Official Development Assistance (ODA), as is common knowledge, has experienced a steady decline during the past decade. It is rather ironic that this unfortunate declining trend seems to have coincided with a parallel trend by the UN major conferences in the 90s in setting a clear programmatic basis for development cooperation in many areas. How to reach the agreed commitment of directing 0.7% of GNP of developed countries to ODA and within that target, to earmark 0.15% to 0.20% for the LDCs, is a daunting task for the international community. The question of ODA, and in a more general sense, the bigger question of international cooperation for development, is among the most challenging issues before us in this agenda item.

The debilitating burden of the external debt on the indebted developing countries, poor countries in particular, and its adverse impact on their development has been on our agenda for decades. Almost all developing countries in various stages of development face this challenge, one way or another and to varying degrees. The needed overall approach and solution is rather simple; debt relief measures should be followed vigorously and expeditiously. Within this framework, a wide range of issues such as prevention; funding for debt relief initiatives; debt management; further measures for HIPC, low income and middle income indebted countries; flexibility in debt measures; ensuring participation of private creditors in resolution of debt in crisis situations; and conditionalities in debt relief measures will be raised in the course of our discussions and deliberations in this item.

Addressing systemic issues including enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development should find a paramount place in our agenda. The Group of 77 and China believes that the existing institutional arrangements and international cooperation in this field are lagging far behind the process of economic and financial integration at the global level. A

broader and effective participation of developing countries in the international decision-making and norm setting processes is imperative. The catalogue of issues in this agenda item, as important an item as the others, includes, inter alia, reform of the international financial architecture; improving its governance and increasing the transparency and accountability; setting international standards, codes and guidelines by universal bodies; regional and sub-regional arrangements to deal with financial crises; stability of international financial system; mobilization of adequate resources for emergency financing; early warning and symmetric surveillance; coherence and consistency of the international monetary, financial and trading systems; and the role of the United Nations. I should add, however, that from our point of view the crux of the substance of this agenda item is that the international financial architecture, whether to be considered new or otherwise, should be made responsive to the priorities of growth and development on a global level, especially in developing countries, and to the promotion of economic and social equity. We simply cannot shrink our responsibility to such noble objectives and towards their achievement.

Mr. Chairman,

To conclude, let me reiterate once again, on behalf of the community of 133 developing countries, that we are committed to a very open, honest and objective exchange of views with all our partners here. We believe that our discussions and deliberations on various topics of the substantive agenda of the High-level Event should contribute substantively to the outcome of the current session of the Preparatory Committee. And this outcome should provide a fair and solid base for our next round of rendez-vous in May. Let me also add that the Group of 77 and China believes that the final event should be a self-standing United Nations Conference at the highest political level. It is our earnest hope that we would be able to decide on the host country for this important conference as early as possible, preferably during the current session of the preparatory Committee.

Thank you very much, Mr. Chairman.

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Preparatory Committee for the International Intergovernmental High-level Event on Financing for Development

Statement

by

Ambassador Ruth Jacoby

Head of Delegation of Sweden on behalf of the European Union

12 February 2001

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Mr Chairman,

We have the honour to speak on behalf of the European Union. The Central and Eastern European countries associated with the European Union Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, the Czech Republic, Romania, Slovakia and Slovenia, the other associated countries Cyprus, Malta, Turkey, as well as the EFTA member of the EEA Iceland, align themselves with this statement.

Mr Chairman,

At the Millennium Summit the Heads of State and Government expressed their individual and collective responsibility to uphold the principles of human dignity, equality and equity. To ensure that globalisation becomes a positive force for all the world's people was identified as a central challenge. No effort should be spared to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty. For this reason, the European Union is firmly committed to the attainment of the international development targets. Poverty eradication through sustainable growth and economic and social development of benefit to all must be the overarching goal in all development efforts. The landmark UN conferences of the past decade have provided the normative framework. The Millennium Summit has demonstrated political will and commitment. Now financial resources - both private and public - must be mobilised and channelled towards this purpose, and used effectively.

The EU believes that the Financing for Development (FfD) process offers a unique opportunity to this end. We must seek agreement on a better mobilisation and effective use of resources and find ways for more efficient co-operation between all development actors, national and international, private or as part of civil society, in order to implement the measures necessary to reach the internationally agreed development targets. The FfD process is also an opportunity to discuss how the impact of various sources of financing can be maximised by strengthening complementarity. The special needs of Africa and of the poorest countries must be given particular attention. In this context the EU would like to stress the importance of making fullest use of the synergies between the FfD process and the upcoming third Conference on LDCs, as well as other related processes such as the Rio+10.

The EU is a major and committed development partner and has an important stake in the FfD process. The EU provides more than half of all official development assistance to developing countries as well as to the economies in transition, we are major contributors to HIPC, the main trading partners for many regions and a large part of international private flows and investments emanate from our countries.

The EU welcomes the Report of the Secretary General to the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development, and commends the work of all the institutions that have contributed to its preparation. Together with the reports from the five regional preparatory meetings, the consultations with civil society and the private sector, the Report provides a most useful and challenging basis for our deliberations. The EU hopes that the intergovernmental discussions in due course will lead to agreements on

recommendations that will have a real impact, and we look forward to the continued participation and the constructive input of all actors concerned throughout the process.

Mr Chairman,

Turning now to each of the agenda points which we shall be discussing in greater depth during this Prep Com, the EU, as a first comment, would like to emphasise the importance we attach to keeping a balance between the different agenda items and to recall the many inter-linkages between them.

First and foremost, the importance of a favourable and constructive ***domestic*** environment cannot be overemphasised. Domestic resources are and will always remain the primary source for financing development. When discussing the characteristics of a favourable enabling environment, let us be very clear – and this is an example of one of the important linkages just mentioned - it is the same favourable environment that is needed to effectively mobilise domestic resources as is needed to attract international private flows, foreign direct investment as well as to ensure the most effective possible use of ODA. This enabling environment is based, in particular, on:

- *a sound macroeconomic* framework including incentives for increased savings, the development of open trade policies, strengthening and reform of the financial sector including regulation, supervision and increased access for the poor, in particular women, to financial services, e.g., microcredits; and

- *good governance* which according to art 9 of the Cotonou agreement signed by all the 77 ACP countries and the EU implies a political and institutional environment that upholds human rights, democratic principles, the rule of law, and the transparent and accountable management of human, natural, economic and financial resources. This also implies the strengthening of civil society.

Domestic resource mobilisation is fundamental for economic growth. Countries should strive for pro-poor growth, which involves policies and programmes to create opportunities for the poorest, especially women, develop fair and sound labour standards, and ensure a more equitable distribution of income and social equity and an environmentally sustainable development which safeguards scarce natural resources to the benefit of future generations. It is also of utmost importance that the small and medium-sized enterprises can have access to financial resources to be able to increase growth at the local level. In addition, the EU considers that broader thinking on financial instruments for poor people is necessary, especially in order to improve access to these for women. Expanded and improved microfinance facilities are only one of many solutions.

Conflict is of course the greatest threat to a positive enabling environment, since, in addition to causing suffering and jeopardising human security, it actually implies the destruction of resources available for growth and development. Conflict prevention and resolution must therefore always be a top priority. The burden of the spread of communicable diseases, particularly HIV/AIDS, must also be tackled with urgency. Another main task for any government must be to effectively combat corruption, since corruption undermines the necessary financial and political confidence and has so many detrimental effects for growth and development.

International private flows including FDI, have a critical role to play. In addition to bringing capital to a country, FDI is normally beneficial for development by promoting transfer of knowledge and technology, increasing competition and creating employment opportunities. The FfD process should focus on how more developing countries as well as transition economies can attract and stimulate FDI and mobilise other private resources. In relation to their economies, substantial flows already reach some of the least developed countries. The FfD process should analyse the factors triggering these flows as well as obstacles preventing them from reaching other developing countries, especially conflict.

The EU is ready to take measures to stimulate the flow of FDI to developing countries. More innovative forms of multilateral and bilateral investment (and export credit) guarantees could be developed, better information to the private sector and in particular to transnational companies on investment opportunities in poorer countries should be provided. Further analysis should also be made on how the development impact of investments can be enhanced and be discussed with the private sector. There is a need to ensure that investments and lending contribute specifically to pro-poor development and social progress, including rights in the workplace.

Trade is a dynamic engine for sustainable growth and development at the national, regional and international level and is thus key to poverty reduction. The international community must recognise that an open, transparent and stable multilateral trading system and increased trade liberalisation, including enhanced market access opportunities for developing countries, by both developed and developing countries, are crucial for the integration of developing countries into the global economy, as is regional and sub-regional co-operation and integration. All these elements also contribute to increased global trade and economic growth. The elimination of trade barriers between developing countries is essential not least for achieving increased regional integration. Other factors than improved market access also need to be considered: supply and competitive constraints, the ability of the developing countries to benefit from the opening up of the market, enhanced cooperation in trade-linked areas, technology transfers, access to information and to world networks, investment promotion strategies and private sector development.

Efforts must be reinforced towards making trade more conducive to poverty reduction. To this end, trade issues must become an integral part of developing partners' national development strategies such as the poverty reduction strategies. Expanding trade also requires enhancing productive capacity, i.a., through the creation of adequate domestic policy frameworks and supported by effective technical assistance. Evidently, the adjustment costs of trade reform, liberalisation and its implications on government revenue must be recognised and addressed. The need for a coherent approach to enhance developing countries' capacity to formulate and implement trade policy, and to participate in international trade fora must be addressed.

The EU remains committed to ***ODA*** and its pivotal, catalytic role for poverty reduction. The EU will continue to strive toward the fulfilment of the internationally agreed target for ODA, 0,7 per cent of GNP, as soon as possible. There is a continuing need for ODA flows especially to the poorest countries in support of their own development efforts, for capacity building and for the removal of obstacles to development. The catalytic effect that ODA can have in mobilising other resources for

development in particular in attracting and maximising the benefits of FDI should also be emphasised.

The international community must recognise the importance of increasing the stability and long-term predictability of financing for social and economic development as well as of improving the aid effectiveness and development impact of funds provided by the UN Funds and Programmes, the Multilateral Development Banks and bilateral donors.

Recipient governments must hold full ownership of their national development policy and poverty reduction strategy. The emphasis on partnership and ownership in development co-operation in recent years – UNDAF/CCA, CDF/PRS – is the most promising avenue for securing greater aid effectiveness. It encourages an effective co-ordination between all development actors and contributes to minimising the transaction cost of aid. Whilst respecting the needs of specific vulnerable groups, ODA should be geared towards the poorest countries, in particular in Africa, that have fallen behind in the development process but are pursuing sound economic policies and effective strategies for poverty reduction.

Another global challenge that the FfD process must address is how the international community shall meet the growing demands for the production and protection of ***global and regional public goods,*** and their financing. All countries, both their public and private sectors, should take responsibility for addressing this issue adequately and build capacity to meet these needs. It will be important to identify resources for their financing, including in co-operation with the private sector. This whole issue merits further discussion.

Debt relief initiatives are being dealt with comprehensively in other fora, but the FfD process can add value by focusing on the role that debt relief can play in the mobilisation of financing for development and poverty reduction.

The enhanced HIPC debt relief initiative is now well underway, with 22 HIPC countries qualifying by December 2000, and efforts being made within this framework should secure the qualifying countries a sustainable exit from their debt problems. It needs to be recognised that the HIPC initiative should be a one-time effort. Agreements reached with official creditors through the Paris Club on Naples, Lyon and Cologne terms have freed up valuable additional resources. It is important that this work be continued and that non-Paris Club bilateral creditors actively participate in the HIPC Initiative. In order to make debt reduction successful in the longer perspective, it is imperative that domestic policies promote the constructive use of freed resources towards poverty reduction and that debt relief is recognised as an important instrument for mobilising domestic financial resources. Debt relief should not come at the expense of development financing.

As regards the indebted middle-income countries, the EU does not consider debt reduction or cancellation a solution, or even as being in the best interest of these countries as it would negatively affect their credit worthiness. For middle-income countries the EU supports using available mechanisms of traditional debt restructuring within the Paris and London clubs.

Systemic issues in their broadest sense are essential for the FfD process. One of our major goals is to ensure that the international system as a whole works at its best to ensure the mobilisation of both domestic and international resources for financing development and achieving the international development targets. Greater policy coherence at both the national and international level is key. This requires closer co-operation between international organisations in trade, finance, and development, in order to enhance complementarity and synergy of policies. And these are in turn dependent upon improved co-ordination at the national level between relevant ministries/central banks.

The EU supports the goals of strengthened co-operation and enhanced coherence between the United Nations, the WTO and the Bretton Woods institutions. Enhanced regional and sub-regional co-operation on finance, development and trade, should complement this effort. The EU welcomes the ongoing reform efforts by the governing bodies of the international financial institutions to help make these institutions more responsive to the challenges of globalisation and development, more accountable and transparent. Equally welcome are the important steps taken by the World Bank and the Regional Development Banks to strengthen co-operation among themselves and with other international institutions. The EU believes that the UN, in collaboration with other international institutions, provides a useful forum for a dialogue on monetary, financial, and trade issues from a development perspective. It promotes mutual understanding between international organisations of their respective policies and mandates, without interfering in their respective decision-making processes, and can ultimately lead to greater complementarity in the development effort. The EU also believes that key to progress lies not in setting up new mechanisms or fora, but rather in ensuring the improved functioning and coherence of existing mechanisms.

The EU believes that the risk for global financial panic is best addressed through preventive action. The IMF cannot act as an international lender of last resort, providing unlimited and unconditional financial support. IMF lending should remain a catalyst for financing from other sources, in particular the private sector. Since official reserves are limited, there is a need for a clearer framework for private sector involvement in the resolution of financial crises. There is also a need for improved dialogue between the IFIs and the private sector on these issues.

A strong endorsement of the international financial codes and standards agenda should be welcomed. While the timing of implementation of agreed codes and standards can to a certain extent depend on a country's stage in development, standards should neither be weakened when securing wider endorsement and implementation, nor applied selectively.

Increased transparency by all actors including the private sector is crucial to enable the international institutions to make more comprehensive assessments of the financial situation in individual countries through multilateral surveillance, and thus to contribute to the prevention of future financial crises.

Mr Chairman,

We look forward to discussing all these matters in greater depth. The task ahead of us is nothing less than to design a comprehensive approach for all development partners

towards development-oriented policies. We need to develop a common strategy on how to mobilise financial resources, both private and public, and channel and use them effectively towards poverty eradication and development as our over-riding objectives. The European Union is delighted to see so many development partners here and we expect fruitful discussions with all of you during the coming two weeks.