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Agenda item 50 (b)

Macroeconomic policy questions: international financial system and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 50 (b) (see A/60/486, para. 2). Action on sub-item (b) was taken at the 11th and 37th meetings, on 13 October and 15 December 2005. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/60/SR.8 and 9).

II. Consideration of draft resolutions A/C.2/60/L.2 and A/C.2/60/L.67

2. At the 11th meeting, on 13 October, the representative of Jamaica, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced and orally corrected a draft resolution entitled "International financial system and development" (A/C.2/60/L.2) which read:

"The General Assembly,

"Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled 'Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity', as well as its resolutions 57/241 of 20 December 2002, 58/202 of 23 December 2003 and 59/222 of 22 December 2004,

"Recalling also the United Nations Millennium Declaration and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey

* The report of this Committee will be issued in four parts, under the symbol A/60/486 and Add.1-3.



Consensus of the International Conference on Financing for Development, and the Plan of Implementation of the World Summit on Sustainable Development ('Johannesburg Plan of Implementation'),

"Recalling further section II on development of the United Nations 2005 World Summit Outcome,

"Emphasizing that the international financial system should further sustain economic growth and support sustainable development and hunger and poverty eradication, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance and external debt relief and cancellation, and an open, equitable, rule-based, predictable and non-discriminatory global trading system,

"Reiterating that good governance at the international level is fundamental for achieving sustainable development and meeting the objectives of hunger and poverty eradication and that in order to ensure a dynamic and enabling international economic environment, it is important to promote global economic governance through addressing the international finance, trade, technology and investment patterns that have an impact on the development prospects of developing countries and reiterating also, to this effect, the need for the international community to take all necessary and appropriate measures, including ensuring support for structural and macroeconomic reform, a comprehensive solution to the external debt problem and increasing market access for developing countries,

"Stressing that enhancing the voice and participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting processes, including those in the Bretton Woods institutions and other economic and financial institutions and ad hoc groupings, is of vital importance and expressing concern over the lack of progress towards reforming the international financial architecture,

"Recognizing the urgent need to enhance the governance, coherence and consistency of the international monetary, financial and trading systems, and the importance of ensuring their transparency, fairness and inclusiveness,

"Emphasizing the need for additional stable and predictable financing to help developing countries undertake investment plans to achieve internationally agreed development goals, including the Millennium Development Goals,

"Reaffirming that every country has the right to development,

"Reiterating the need to strengthen the leadership role of the United Nations in promoting development,

"1. Takes note of the report of the Secretary-General;

"2. Notes with concern that the growth of the global economy is likely to decelerate in 2006, impacting the ability of developing countries to achieve internationally agreed development goals, including the Millennium Development Goals, and notes also that economic growth should be further strengthened and sustained, and stresses the importance of cooperative efforts

by all countries and institutions to cope with the risks of financial instability and imbalances;

“3. *Urges* multilateral financial institutions to place development at the centre of their strategies and policies;

“4. *Expresses* concern that developing countries as a whole experienced a net outflow of financial resources towards developed countries in 2004 for the eighth consecutive year and underscores the need for measures, as appropriate, at the international, regional and national levels to address this issue, including increasing the stability of the international financial system and providing more attractive means to access liquidity in periods of turbulence;

“5. *Underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the International Monetary Fund and the Financial Stability Forum, as well as the consideration by the International Monetary and Financial Committee of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, inter alia, through an even-handed implementation of surveillance, including at the regional level, and a sharpening of surveillance of capital markets and systemically and regionally important countries, with a view, inter alia, to the early identification of problems and risks, integrating debt sustainability analysis, the fostering of appropriate policy responses, the possible provision of financing and other instruments designed to prevent the emergence or spread of financial crises, and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

“6. *Stresses* the need for multilateral surveillance to remain at the centre of crisis prevention efforts and that surveillance should focus not only on crisis-prone countries but increasingly on the stability of the system as a whole, with special emphasis on the policy consistency of the economies of developed countries and, in particular, the implications of those policies for developing countries and the international economic environment;

“7. *Reiterates* that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

“8. *Notes* the impact of financial crises and risks of contagion on developing countries and underlines the need to ensure that the international financial institutions, including the International Monetary Fund, have a suitable array of financial facilities and resources including technical assistance with which to respond in a timely and appropriate manner to such crises;

“9. *Encourages* the International Monetary Fund and the World Bank to incorporate increased policy flexibility into structural adjustment programmes so as to accommodate appropriate counter-cyclical policies;

“10. *Calls upon* the international financial and banking institutions to consider streamlining and enhancing the transparency of risk-rating mechanisms with a view to making them more development-oriented and

invites the United Nations Conference on Trade and Development to prepare a report on the issue and to present it at the 2006 special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development;

“11. *Stresses* that international cooperation initiatives to promote business activities and financial stability and to strengthen the regulatory systems of the corporate, financial and banking sectors should encourage flows of capital to developing countries;

“12. *Reaffirms* the commitment to broaden and strengthen the voice and participation of developing countries in international economic decision-making and norm-setting, stresses the importance of advancing current efforts to reform the international financial architecture, taking into account the progress in the context of International Monetary Fund quota review during the Thirteenth General Review, and invites the Fund and the World Bank to present a progress report on the issue of enhanced voice and participation of developing countries in their decision-making process at the 2006 special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development;

“13. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes and underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion;

“14. *Takes note* of the proposal to use special drawing rights allocation for development purposes and invites further consideration in that regard;

“15. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries, in particular least developed countries, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and are an essential source of knowledge and expertise for their developing-country members;

“16. *Calls* for the continued effort of the multilateral financial institutions, in providing policy advice, technical assistance and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the specific local conditions, special needs and implementing capacities of developing countries, and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and hunger and poverty eradication policies and strategies;

“17. *Stresses* the need to continuously improve standards of corporate and public sector governance, including accounting, auditing and measures to ensure transparency, noting the disruptive effects of inadequate policies;

“18. *Requests* the Secretary-General to submit a report to the General Assembly at its sixty-first session on the implementation of the present resolution;

“19. *Decides* to include in the provisional agenda of its sixty-first session, under the item entitled ‘Macroeconomic policy questions’, the sub-item entitled ‘International financial system and development’.”

3. At its 37th meeting, on 15 December, the Committee had before it a draft resolution entitled “International financial system and development” (A/C.2/60/L.67) submitted by the Vice-Chairman of the Committee, Selwin Hart (Barbados), on the basis of informal consultations held on draft resolution A/C.2/60/L.2.

4. Before the adoption of the draft resolution, statements were made by the representatives of the United Kingdom of Great Britain and Northern Ireland (on behalf of the European Union), the United States of America and Jamaica (on behalf of the Group of 77 and China) (see A/C.2/60/SR.37).

5. At the same meeting, the Committee adopted draft resolution A/C.2/60/L.67 (see para. 7).

6. In the light of the adoption of draft resolution A/C.2/60/L.67, draft resolution A/C.2/60/L.2 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

7. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

International financial system and development

The General Assembly,

Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled “Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity”, as well as its resolutions 57/241 of 20 December 2002, 58/202 of 23 December 2003 and 59/222 of 22 December 2004,

Recalling also the United Nations Millennium Declaration¹ and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development² and the Plan of Implementation of the World Summit on Sustainable Development (“Johannesburg Plan of Implementation”),³

Recalling further the 2005 World Summit Outcome,⁴

Emphasizing that the international financial system should further sustain economic growth and support sustainable development and hunger and poverty eradication, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance, external debt relief and an open, equitable, rule-based, predictable and non-discriminatory global trading system,

Stressing the importance of commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development,

Stressing also that good governance at the international level is fundamental for achieving sustainable development, and in this regard reiterating the importance of promoting global economic governance through addressing the international finance, trade, technology and investment patterns that have an impact on the development prospects of developing countries in order to ensure a dynamic and enabling international economic environment and that, to this effect, the international community should take all necessary and appropriate measures, including ensuring support for structural and macroeconomic reform, a

¹ See resolution 55/2.

² *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

³ *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.

⁴ See resolution 60/1.

comprehensive solution to the external debt problem and increasing the market access of developing countries,

Reaffirming the commitment to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting, and to that end stressing the importance of continuing efforts to reform the international financial architecture, noting that enhancing the voice and participation of developing countries and countries with economies in transition in the Bretton Woods institutions remains a continuous concern,

Recognizing the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

Emphasizing the need for additional stable and predictable financing to help developing countries undertake investment plans to achieve internationally agreed development goals,

Recognizing, in this regard, the value of developing innovative sources of financing from various sources on a public, private, domestic and external basis to increase and supplement traditional sources of financing,

Reiterating the need to strengthen the leadership role of the United Nations in promoting development,

1. *Takes note* of the report of the Secretary-General;⁵
2. *Notes* that global economic growth and a stable international financial system, inter alia, can support the ability of developing countries to achieve internationally agreed development goals, including the Millennium Development Goals, and stresses the importance of cooperative efforts by all countries and institutions to cope with the risks of financial instability;
3. *Emphasizes* that economic growth should be further strengthened and sustained, noting that global economic growth depends on national economic growth and that implementation of sound macroeconomic policies could significantly contribute to a revitalization of economic growth;
4. *Invites* the World Bank, the International Monetary Fund, the regional development banks and other relevant institutions to further integrate development dimensions into their strategies and policies, consistent with their respective mandates;
5. *Notes* that developing countries as a whole continue to experience a net outflow of financial resources, and requests the Secretary-General, in continuing collaboration with international financial institutions and other relevant bodies, to analyse the range of reasons for this in his report under this item;
6. *Underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the

⁵ A/60/163.

International Monetary Fund and the Financial Stability Forum, as well as the consideration by the International Monetary and Financial Committee of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, inter alia, through an even-handed implementation of surveillance, including at the regional level, and a sharpening of surveillance of capital markets and systemically and regionally important countries, with a view, inter alia, to the early identification of problems and risks, integrating debt sustainability analysis, the fostering of appropriate policy responses, the possible provision of financing and other instruments designed to prevent the emergence or spread of financial crises and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

7. *Also underlines* the importance of efforts at the national level to increase resilience to financial risk, stresses in this regard the importance of better assessment of a country's debt burden and its ability to service that debt in both crisis prevention and resolution, and welcomes the ongoing work of the International Monetary Fund on assessing debt sustainability;

8. *Invites* developed countries, in particular major industrialized economies, to take into account the effect of their macroeconomic policies on international growth and development;

9. *Recognizes* the need for multilateral surveillance to remain at the centre of crisis prevention efforts and that surveillance should focus not only on crisis-prone countries but on the stability of the system as a whole;

10. *Reiterates* that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

11. *Notes* the impact of financial crises or risk contagion in developing countries and countries with economies in transition, regardless of their size, and in this regard welcomes the efforts of the international financial institutions, in their support to countries, to continuously adapt their array of financial facilities and resources, drawing on a full range of policies, taking into account the effects of economic cycles, as and where appropriate, having due regard to sound fiscal management and the specific circumstances of each case, so as to prevent and respond to such crises in a timely and appropriate way;

12. *Underscores* the importance of competitive and inclusive private and public financial markets in mobilizing and allocating savings towards productive investment and thus making a vital contribution to national development efforts and to an international financial architecture that is supportive of development;

13. *Invites* the international financial and banking institutions to consider enhancing the transparency of risk-rating mechanisms, noting that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis, and encourages relevant development institutions, including the United Nations Conference on Trade and Development, to continue their work on this issue, including its potential impact on the development prospects of developing countries;

14. *Stresses* the importance of strong domestic institutions in promoting business activities and financial stability for the achievement of growth and

development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors, and also stresses that international cooperation initiatives in those areas should encourage flows of capital to developing countries;

15. *Underlines* that the issue of enhancing the voice of developing countries and countries with economies in transition in the Bretton Woods institutions is of vital importance, stresses the importance of enhancing ongoing work in this regard, taking into account progress in the context of the International Monetary Fund quota review, and invites the World Bank and the International Monetary Fund to continue to provide information on this issue, using existing cooperation forums, including those involving Member States;

16. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion, and notes that more than one hundred countries have participated in or agreed to participate in the joint World Bank-International Monetary Fund financial sector assessment programme;⁶

17. *Notes* the proposal to use special drawing rights allocations for development purposes, and considers that any assessment of special drawing rights allocations must respect the Articles of Agreement of the International Monetary Fund and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level;

18. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and are an essential source of knowledge and expertise for their developing-country members;

19. *Calls for* the continued effort of the multilateral financial institutions, in providing policy advice, technical assistance and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and hunger and poverty eradication policies and strategies;

20. *Stresses* the need to continuously improve standards of corporate and public sector governance, including auditing and measures to ensure transparency, noting the disruptive effects of inadequate policies;

21. *Requests* the Secretary-General to submit a report to the General Assembly at its sixty-first session on the implementation of the present resolution;

⁶ See A/59/218 and Corr.1, para. 15.

22. *Decides* to include in the provisional agenda of its sixty-first session, under the item entitled “Macroeconomic policy questions”, the sub-item entitled “International financial system and development”.
