DEVELOPMENT CENTRE ACTIVITIES RELATED TO THE PREPARATIONS FOR THE UN FINANCING FOR DEVELOPMENT CONFERENCE TO BE HELD IN MARCH 2002

Background Note

This document is to be reviewed by the Advisory Board on the Development Centre at its meeting on 2 October 2001.

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I. Introduction

1. This notes summarises the various inputs, both in the form of dialogue and analysis, which the Development Centre has so far brought to the process leading up to the International Conference on Financing for Development (FfD), to be held in Monterrey, Mexico on 18-22 March 2002.

2. When first deciding to pursue this initiative in December 1999, the United Nations’ General Assembly agreed to an unprecedented collaboration between the United Nations and other international organisations including the OECD to unearth innovative ways to address the issues affecting the financing of development.

3. Following several rounds of Preparatory Committee (PrepCom) sessions, an International Conference is now being organised with the objective of assessing and reaching decisions on recommendations concerning national, international and systemic issues relating to financing for development in the context of globalisation and interdependence. The event is providing an historic opportunity to address development issues from a finance perspective, as well as the mobilisation of financial resources for the full implementation of the action plans agreed to at other major United Nations’ conferences during the 1990s. It is hoped that the effort will ultimately help to increase private flows to the poorer developing countries.

II. Dialogue

4. Together with the FfD OECD Secretariat Task Force, headed by Deputy Secretary-General Sally Shelton Colby, the Development Centre has been involved at several stages of the preparations for the UN conference especially through the Centre’s President Jorge Braga de Macedo and Head of Division Helmut Reisen.

- In summer 2000, Mr. de Macedo was invited personally to participate in the “systemic issues” working group which fed into Chapter VI of the UN Secretary General’s Report. His statement to the February 2001 PrepCom held at UN Headquarters [cf. Ref. no. 3] also touched on other chapters of the UN Secretary General’s report, where the OECD and the Centre had been involved, including domestic resource mobilisation, private capital flows and official development assistance.

- In February 2001, the Development Centre organised an informal seminar for OECD Delegations and Secretariat at OECD Headquarters with Ambassador Oscar R. de Rojas, the Executive Co-ordinator of the Financing for Development UN Secretariat. Ambassador de


2. This hope was one of the motivating factors for the Centre to launch Activity 1 [as described in the Development Centre’s revised work programme for 2000, approved by the Advisory Board at its meeting of 19 November 1999, CD/AB/M (99)6]. Moreover, work in this area was reinforced in response to a proposal made at the joint DCD/Development Centre seminar held in March 2000, “Development Finance: The Way Forward” by Dr. Stefany Griffith-Jones, representing the Commonwealth Secretariat. She called for careful monitoring of international financial architecture proposals from the perspective of poorer developing countries. [cf. attached Ref. No. 2 and 5 as well as the summary of the findings in the document [CD/AB (2001)2] “Sustaining Reform. Main Results of the Development Centre’s 2000 Programme of Work”.

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Rojas shared with OECD Delegations and the Secretariat, notably the FiD OECD Secretariat Task Force, his ideas on where the financing for development process stood at that time and the expectations with regard to possible outcomes. Ambassador de Rojas also met separately with the OECD Secretary-General and the Centre’s President.

- In March 2001 an informal working meeting was held at the Development Centre’s offices with former President of Mexico Ernesto Zedillo. Mr. Zedillo, Chair of the United Nations’ Eminent-Persons Panel on Financing for Development which produced what became known as the “Zedillo Report” in July 2001, came to Paris to hear first-hand the views of senior OECD staff on the UN Secretary General’s seven-chapter report. Staff from ENV, PUM, DCD, DAF and ECH participated. Mr. Zedillo also met with the OECD Secretaty-General and the Centre’s President.

- In July 2001, Mr. Reisen participated in two meetings with Mexican Minister Mauricio Escanero, Conference Facilitator for the UN FiD Conference, for an exchange of views on his draft of the final outcome report for review at the next PrepCom (15-19 October 2001). These meetings took place at OECD Headquarters and in London at the DFID-sponsored Private Sector Group on Development Finance. The discussions with Mr. Escanero focused in particular on: (a) how to lower the regional concentration of private flows to only a handful of recipient countries; (b) how to reduce systemic risk without lowering the supply of private flows; and (c) how to distribute costs of crisis prevention and resolution in a fair manner.

- As further background, in May 2001, Mr. Reisen presented his impact study of the suggested New Basel Capital Accord to the DIFD-sponsored Private Sector Group [cf. Ref. no. 10]. In February 2001, Special Advisor to the Development Centre Daniel Cohen and Mr. Reisen made presentations at the United Kingdom Overseas Development Institute Discussion Series to prepare for the UN FiD Conference [cf. Ref. nos. 6 and 9].

III. Governance Responses

5. Most of the analysis which the Development Centre is feeding into the UN FiD process is resulting from research being carried out under Activity 1 “Governing Finance and Enterprises: Global, Regional, National” of the Centre’s overall programme on “Globalisation and Governance”. A summary of this work is provided in the following paragraphs, going from national to regional to global responses (as described in the Development Centre’s Programme of Work and Budget updated for 2002 [CD/AB(2001)3]).

National Governance

6. Research at the Development Centre has documented how poor countries can increase the net benefits from financial globalisation in terms of national governance. While there used to be more publicity than hard evidence about the benefits of private capital inflows, the Centre has shown that equity inflows (foreign direct investment and portfolio equity flows) have fostered growth in the recipient countries in the 1990s, while the impact of debt-creating flows remained ambiguous or negative [cf. Ref. no. 11]. In short, durable flows imply durable benefits [cf. Ref. no. 9].

7. Thus, the Zedillo Report has strongly recommended encouraging equity inflows [cf. Ref. no. 12]. But how can equity inflows be attracted? Centre research provides clear evidence that countries perceived as corrupt tend to have a capital inflow structure that is light on foreign direct investment as foreign direct investors are more exposed to the costs of bad governance than volatile money flows.

8. The next question is: How to reduce corruption? Again, recent research at the Centre demonstrates that trade liberalisation should remain a priority as increases in import openness can foster lower corruption levels, with a sizeable effect, in particular, for poorer countries [cf. Ref. nos. 1 and 4].

**Regional Governance**

9. Institution building on a regional basis is the focus of the Centre’s policy research on monetary integration among developing countries. Mainstream advice has recently favoured monetarist corner solutions, e.g. the international monetarist recommends hard pegs and the domestic monetarist recommends pure floating. Moving forward with deeper regional integration makes these corner solutions either non–cooperative (in the case of floats) or costly to exit from (in the case of hard pegs), but it stimulates the intermediate exchange-rate regime, necessary for economic convergence.

10. The European Monetary System (EMS) experience shows that target zones, together with effective codes of conduct wide enough to allow for sufficient flexibility, can indeed give sustained credibility and avoid large misalignments, reducing crisis vulnerability. Expectations however, need to be guided by mutually agreed upon and monitored governance codes which foster integration, based on visible progress in macroeconomic stability and regulatory reform. Such codes have to be “owned by” rather than “imposed on”, the countries concerned. It must therefore be supported by peer pressure and yardstick competition, both of which are built gradually. The “Eurocentric” approach has been successful in earning credibility on the way to monetary integration. This is why the practical implementation of the EMS provides important lessons for developing-country authorities struggling to implement sustainable exchange-rate regimes to support economic convergence [cf. Ref. nos. 2, 4, 5, 7].

**Global Governance**

11. Policy analysis in the area of global governance has focused on:

   - The Highly Indebted Poor Country (HIPC) Initiative;
   - The role of sovereign ratings; and
   - The suggestions by the Basel Committee on Banking Supervision on the New Basel Capital Accord (Basel II).

12. Access of least developed countries to foreign finance will — apart from their governance performance — depend on the impact of the HIPC initiative signed at the 1999 G-7 Summit and discussed recently at the G-8 Summit in Genoa. Development Centre research has compared nominal present values of debt relief granted under this initiative and market values approximated by secondary market prices for Latin American debt in the 1980s. The results suggest that the effects of the HIPC initiative on actual resource flows, including debt service, may be less than often suggested [cf. Ref. no. 6].

13. The increased importance of rating agencies for emerging-market finance has brought their activities to the attention — often critical — of a wider group of observers. Recent Centre research for a UN WIDER-sponsored project carried out jointly with UN ECLAC and the Institute for Development
Studies at the University of Sussex (IDS) finds that the explanatory power of conventional rating determinants — fiscal performance, current account deficits and debt burdens — has declined since the Asian crisis [cf. Ref. no. 8]. But financial-sector strength and short-term liquidity indicators, recently emphasised as important precursors of currency crises, still appear underemphasised in rating assessments. This may explain why recent rating performances for Argentina and Turkey can still be qualified as lagging the markets, as ratings were downgraded only after their recent crises broke.

14. Research on Basel II demonstrates that it would raise capital costs and the volatility of credit supply to sub-investment grade borrowers — the bulk of the developing and emerging markets. The Zedillo Report has taken these concerns on board and the Basel II has now been delayed, not least because of the fear that it would stipulate higher capital costs and hence a lower private capital supply to sub-investment grade borrowers than under purely supervisory aspects [cf. Ref. no. 10].

IV: Questions to Advisory Board Members

15. Advisory Board Members are invited to address the following questions:

a) Does the mix of analysis and dialogue, as described in the preceding paragraphs, appear balanced and properly supported by publications and meetings to achieve the objectives at hand, i.e. to actively contribute to a successful outcome of the UN FfD process and the participation of the OECD therein?

b) Does the current level of collaboration with other Directorates appear appropriate?

c) Do Delegations have a view concerning whether the OECD should put forward not only Members’ observations, including those of the donor community, at the UN Ffd Conference or should it also strive to incorporate the perspectives of emerging markets and poor developing countries as outlined above?
REFERENCES


