



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

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REMARKS BY THE EXECUTIVE SECRETARY OF THE
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
AT THE SECOND PLENARY SESSION

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1. I would like to thank Enrique Iglesias, President of the Inter-American Development Bank, for inviting me to address this meeting of the Board of Governors, and the Brazilian authorities, and Mr. Martus Tavares in particular, for their warm hospitality which we will enjoy again in a few weeks' time at ECLAC's biennial meeting in Brasilia. I would also like to convey to you a cordial greeting from United Nations Secretary General Kofi Annan and invite you all to take an active part in the United Nations Summit on Financing for Development, which will take place in Monterrey, Mexico, next week.
2. The events of the last five years underscore the importance of this global dialogue on development problems, the first of its kind to be held in two decades. In retrospect, it is obvious that the events unleashed in the East Asian economic powerhouses in the second half of 1997 and exacerbated by the Russian crisis in August 1998 had a far more profound impact on developing countries than was at first realized.
3. These events ushered in a transition from a period of abundant private capital going back to the early 1990s to a new phase in which external financing was not readily available, and only on far more volatile, more costly terms and conditions. This situation was further aggravated by the incipient contraction in foreign direct investment, which had been the most abundant source of private capital funding in the 1990s. The year 2002 marks the third consecutive year in which the flow of private capital funds to Latin America and the Caribbean has shrunk, and the fourth year in a row in which the net transfer of capital from abroad will be zero or slightly negative.
4. The decline in available financing, compounded by the impact of the slowdown in the world economy on international trade, stalled the economic recovery that had begun in 2000, leading to negligible growth in 2001, with the likelihood of zero growth throughout Latin

America and the Caribbean in 2002. Overall, in the five-year period from 1998 to 2002, economic growth in the region was no more than 1.5% a year, a figure that just parallels the demographic growth rate. This trend should move us to fully rethink the recent patterns in regional development and the problems facing the world economy, which are reflected in its limited capacity to speed up growth in the developing nations and in the unusually frequent occurrence of economic crises.

5. The Monterrey Summit will afford a unique opportunity to identify the problems facing the global economy and to expand international cooperation to address them. I will limit myself here to financial issues only. It should be noted that the Asian crisis sparked an intense debate on the need to reform the international financial architecture. This controversy and the measures taken in connection with it has led to some progress. However, on the whole, the process of reform has been slow, incomplete, and marked by the lack of a consensus on critical areas of sound international financial governance, including the very content of the reform agenda. The "Monterrey Consensus" is the first time a consensus has been built on the agenda for international financial and trade reform.

6. Among the progress achieved in the reform process, I would like to point out the more preventive approach to macroeconomic oversight on the part of the International Monetary Fund, the improvement in the information available on the financial markets and the enhancement of the regulatory frameworks and prudential oversight for the banking systems in many countries as part of a more pragmatic approach to financial liberalization. However, the standards on banking regulation that have been discussed by the Basle Committee, if not modified, may further reduce credit to borrowers considered high-risk, which include developing countries.

7. Some progress has also been made in designing International Monetary Fund credit lines although the most innovative of these, the stand-by credit, has not been used, indicating that its design is flawed. Decisions on whether IMF conditionalities should be limited to macroeconomic issues and closely related areas of structural reform also represent a breakthrough, but there is still some way to go. The very role of the IMF emergency lending facility has again been called into question in recent discussions and proposals. This poses a serious threat to countries that, given the unstable situation of international private flows, are up against the chronic threat of insufficient liquidity. Despite a wide range of proposals on actively using Special Drawing Rights to finance IMF operations, including those put forward by former IMF Managing Director Michel Camdessus, this issue is still off the reform agenda as it has been for the last two decades.

8. The absence of multilateral rules for dealing with the problems of overindebtedness has been highlighted by many analysts as one of the most conspicuous gaps in international regulation. The recent addition of this issue to the agenda should therefore be considered a major achievement. If the mechanism is poorly designed, however, it may become a source of further discrimination against developing countries, leading, in particular, to higher country-risk spreads. Accordingly, many developing countries view these proposals cautiously. The greatest danger lies in considering this instrument a substitute for rather than a supplement to the IMF's emergency financing facility. Debt restructuring thus basically needs to be seen as the proper

instrument for addressing problems of solvency, whereas if it is used instead of the emergency financing facility to resolve liquidity problems, it could result in higher country-risk spreads.

9. The Heavily Indebted Poor Countries Initiative should also be viewed as progress. However, inadequate funding for the initiative eventually generated high charges for the developing countries through increases in the intermediation spreads of certain multilateral financial institutions and cutbacks in their technical assistance programs. It is indeed paradoxical that the initiative, far from being a move towards normalizing access to external financing, is actually depriving the beneficiary countries of the use of the financing for a prolonged period and subjects them to a lengthy period of structural conditionality.

10. Lastly, two areas in which there has been little progress in international financial reform concern issues that are key to this meeting: the role of regional and subregional financial institutions and the role of multilateral development banks. The Inter-American Development Bank plays both roles. Its basic function as an anticyclical source of external financing was apparent recently when private capital was in short supply. Its active role as a catalyst for private resources, as a forum for policy dialogue, and as a support for regional and subregional processes of various kinds is also quite clear. Hence, in the area of international financial reform, attention needs to focus once more on the major role played by multilateral development banks, particularly regional ones. Here, I should stress the importance of the proposals put forward by the External Advisory Group on the role of the IDB. I would also like to express my personal thanks to President Iglesias for asking me to be part of the Group.

11. Given the slow pace of international financial reform, which is not yet complete despite clear signs of the urgent need for such reform in an adverse international environment, the international community must take decisive measures. The Monterrey Summit offers an invaluable opportunity to do so. On behalf of the United Nations Secretary General, I extend to all of you a cordial invitation to participate actively in this event.