Foreword

We are delighted that the Commonwealth Secretariat, the World Bank and the International Monetary Fund were able to collaborate in this important conference on *Developing Countries and the International Financial System*, which was held in Lancaster House, London from June 22–23, 2000. We are most grateful to all the speakers and participants who came and shared their considerable expertise with each other and with us. In organising this conference, we made a special effort to invite very senior policy-makers from developing countries, as we hoped that the conference would offer them a valuable opportunity to define and express their views on the international financial architecture. We had two days of fruitful and thought-provoking discussion.

The subject of a new design of the international financial system has been put very high on the international agenda because of the frequency, severity and high development costs of recent financial crises. The President of the World Bank, James Wolfensohn, in his address to the Board of Governors during the IMF/World Bank Annual Meetings in Prague, 'Building an Equitable World', spoke about the global need to establish a stronger global financial architecture to deal with international financial crises and the phenomenon of instability in one country affecting us all. Horst Köhler, the IMF's Managing Director, in his address cautioned against complacency and emphasised that it was in the interest of all that the entire membership of the IMF is fully involved and takes full ownership of measures to strengthen the global financial architecture.

So far, there has been progress in a number of areas, thanks to the efforts of the international community and of the international organisations and developing countries. The conference provided an important opportunity – given the seniority and expertise of participants – to assess progress, and discuss future steps.

Even though progress on the international financial architecture has been important, it has been somewhat asymmetrical. In particular, there are three aspects where a broader approach would be beneficial. The first is the issue of capital flows. Crises such those in East Asia were caused not just by problems in the East Asian countries themselves, but to a large extent by imperfections in international capital markets which led to rapid surges and reversals of massive private flows. To deal with the problems of very large and potentially reversible capital flows, there is a clear need for better international regulation of those private capital flows. It is also arguable that there is a need for sufficiently large international provision of official liquidity to control crises within countries, and to prevent them spreading to other countries.

A second source of asymmetry in the process of international financial reform has been the limited participation of developing countries, including the main emerging market countries, in the process, especially in the decision-making fora. Clearly, the participation of developing countries in the G-22 and now the G-20 are useful steps, though these fora are mainly of a consultative nature. However, it would be a major step forward if developing countries, and development concerns, were represented in decision-making fora such as the Financial Stability Forum (FSF), to increase their relevance and legitimacy.

A third and final source of asymmetry has been the undue focus on crisis prevention and management, mainly for middle-income countries. Important as this is, it may have led us to a neglect of the equally, if not more important, issues of appropriate external financing for low-income countries. These require development finance in the form of multilateral lending, official aid and debt relief. They also need official and other assistance to attract more private capital flows. It is thus essential to broaden the debate on international financial architecture to ensure that the interests of smaller and poorer developing countries are taken into account.

Finally, we would like to draw attention to a serious source of concern for developing countries and for all those concerned with development, namely the views recently emerging, mainly from the industrialised countries, for a significant scaling down of lending by the IMF and the World Bank. As several of the papers prepared for this Conference point out, these proposals are exactly the opposite of what developing countries, and indeed the world economy, need. Amongst the crucial roles of the Bretton Woods Institutions are the provision of liquidity and of longer-term development finance. In both cases, the International Financial Institutions (IFIs) fill gaps not covered, or not yet covered, by private flows, either because private lenders or investors have temporarily withdrawn or because they are not willing to finance certain countries, sectors or projects. In addition, IFIs should surely facilitate and catalyse access to new and sustainable private flows.

Not only is it important to reaffirm the value of IFIs in today's and tomorrow's world, it is also crucial to make suggestions on how to maximise IFIs' contribution to development. Again, the Lancaster House

Conference made a significant contribution to this important discussion.

The Report of the Conference was presented at the Commonwealth Finance Ministers' Meeting in September 2000 and distributed to the IMF/World Bank Annual Meetings in Prague. We commend this volume of papers prepared for the Conference as a timely and important contribution to the debate about reform of the international financial system.

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