22 December 1999

Final

Joint Report
on Progress on Strengthening the International Financial Architecture and on Implementation of the Cologne Debt Initiative as proposed by the G 7 Finance Ministers to the Economic Summit in Cologne 1999

1. At the Cologne Summit in June 18 – 20, 1999, the G 7 Heads of State or Government endorsed a Report by G 7 Finance Ministers on strengthening the international financial architecture. Since then considerable progress has been made in various fora, in particular in the IMF, the World Bank and the Financial Stability Forum in implementing the proposals for reforms. G 7 Finance Ministers and Central Bank Governors met in Washington on September 25, 1999, and noted work that had been done since the Cologne Summit.

2. In the course of the year it has become clear that the worst of the crises in South-East Asia and elsewhere is over. However, there is no reason for complacency. The implementation of agreed reforms remain key to financial stability both at domestic and international level. Against this background, G 7 Finance Ministers will continue to cooperate closely.

Progress on Strengthening the International Financial Institutions

3. Several measures have been taken to reinforce the role of the **Interim Committee** (IC). The IC was transformed into a permanent committee of the Board of Governors of the IMF with the new name **International Monetary and Financial Committee** (IMFC). The President of the World Bank has been given a privileged role at the Committee's meetings, while the chairman of the Financial Stability Forum has been given observer status. Moreover, preparatory meetings will take place at the Deputy-level twice a year. Finally, recognising that there are issues which are of interest to members of both the IMFC and the

Development Committee (DC), joint meetings will be held as needed, such as the meeting on HIPC held in September 1999.

4. Following through on their commitment to Leaders in Köln to create **an informal mechanism for dialogue among systemically important countries**, within the framework of the Bretton Woods institutional system, the G-7 officially launched the **G 20** at the time of their 25 September meeting in Washington. Canada´s Finance Minister Paul Martin will chair the G 20 for the first two years.
The group consists of Finance Ministers and Central Bank Governors representing 20 countries including the European Union, the European Central Bank, as well as the IMF and the World Bank and their policy committees. The first meeting of G 20 Finance Ministers and Central Bank Governors was held on 15 – 16 December in Berlin, where discussions focussed on three broad themes: (1) the role and objectives of the G 20; (2) the domestic policy responses to globalisation; and (3) the role of the international community in reducing vulnerabilities to financial crises.

5. The **Financial Stability Forum** (FSF) has taken forward its important work and will present reports on highly-leveraged financial institutions, capital flows and offshore financial centres in April 2000. The FSF met on 15 September to review the progress made in these areas. The G 7 Finance Ministers also look forward to the results of the FSF-work on development of international best practices for deposit insurance schemes and, later in 2000, to ongoing efforts to assess the desirability and feasibility of enhanced public disclosures by financial institutions. Moreover, reflecting the earlier G 7-commitment to expand membership in the forum to include significant financial centres in a format that provides for effective dialogue, four new members – Australia,
Hong Kong, the Netherlands and Singapore – participated in the September meeting.

Progress on Enhancing Transparency and Promoting Best Practices

6. Considerable progress has been made in developing a framework of internationally agreed codes and standards. The IMF adopted the “Code of Good Practices on Fiscal Transparency” in 1998 and strengthened the Special Data Dissemination Standard (SDDS) in 1999. The **“Code of Good practices on Transparency in Monetary and Financial Policies”** was adopted at the Annual Meeting in September 1999. A Supporting Document providing a fuller description of practices of the new code, their rationale in the context of transparency, illustrative country examples of applications of the practices, and a review of practical considerations that may arise in their implementation is planned for discussion at the IMF in June 2000. A review of experience with assessments of implementation of the new code is planned for discussion in August 2000.

7. In April 1999 the OECD published its **"OECD core principles of corporate governance".** In May the World Bank and the OECD adopted two initiatives (the "Global Corporate Governance Forum" of the World Bank and a similar platform in the OECD) to promote the implementation of these principles on a broad basis (regional development banks, international organisations, representatives of the private sector and developing and reforming states).

8. The Financial Stability Forum has compiled a prototype **compendium of existing financial and economic policy standards**, which will be a valuable tool for promoting the implementation of standards and is now working on setting out priority standards. A new working group of the FSF has been established to address the issue of implementation and compliance with standards. The G 7 Finance Ministers called on the FSF to help improve coordination of technical assistance for implementation of standards.

9. There is agreement that work must now focus above all on implementation issues and on **monitoring compliance with standards**. The IMF is to assume the leading role by virtue of its surveillance function. There must be close co-operation with other standard-setting bodies, with each standard setter to assume responsibility in its area of competence. The IMF continues to develop the use of **transparency reports** on an experimental basis (“Reports on the Observance of Standards and Codes”) in order to assess to what extent IMF member countries are meeting the various disclosure standards and codes. A Status Report on the Third Round of Experimental Reports will be issued in early March 2000. This type of report is to be increasingly integrated into the Article IV consultation procedure.

10. **Transparency and accountability within the IMF** has been enhanced. The IMF has further broadened its disclosure policy since Cologne in order to improve the underlying conditions for rational decisions by market participants. Particularly noteworthy is the pilot project in which staff reports on Article IV consultations are published (as of September 1999, 46 countries had agreed to participate in the pilot project). The experience with the release of Article IV PINs (Public Information Notices), policy PINS, Letters of Intent, Chairman’s Statements and the voluntary release of Article IV staff reports will be reviewed at the IMF in June/August 2000. External evaluations were completed in various areas of the IMF’s work, and the results will be considered in future reforms to enhance transparency. Some of the key issues raised by the evaluators will be followed up in the IMF’s “Biennial Review of Surveillance” planned for February 2000.

Further Progress in Other Fields

11. The G 7 Finance Ministers will continue to work together to ensure the **full implementation** of all the reforms that have been endorsed at the Cologne Summit. They attach particular importance to **reducing vulnerabilities** to financial crisis of individual countries and of the system as a whole and fostering well-functioning international capital markets by implementing the agreed G7-framework on private sector

involvement in crises. In particular, the following proposals of the Cologne report need to be pursued further:

12. Work continues on the development of better ways to prevent and respond to crises, including through the **involvement of the private sector**. The G 7 Finance Deputies are pushing forward, with a view to the spring meetings, the endeavours to better implement the Cologne framework of principles and tools aimed at guiding official actions to involve the private sector in crisis resolution.

13. Work is presently in progress in various fora (World Bank, IMF, FSF) on how to disseminate best practices in the area of **debt management**. The IMF and the World Bank, in co-operation with national debt management experts and the FSF, should develop a set of best practices in public debt management by the spring 2000. In addition, the IMF should intensify its work with member governments on the use of high-frequency debt monitoring systems which can be used to verify the sustainability of national debt structures.

14. Further work is going on, with a view to the spring meetings, on appropriate **exchange rate regimes** for emerging market economies and on important issues involved in managing the risks posed by large-scale **capital flows.**

15. The G 7 Finance Ministers welcome the **closer cooperation of IMF and World Bank** on financial sector issues and call for more effectively integrating the efforts and operations of the two institutions in the financial sector in advising emerging countries. Already, the IMF and the World Bank have intensified and enhanced their assessment of countries' financial systems through **financial sector assessment programmes** on a pilot basis, which serve to identify potential vulnerabilities in countries' financial systems.

16. The G 7 Finance Ministers look forward to the completion by the Basle Committee of the review of its 1988 Capital Accord. They also expect the completion of the Basle Committee/ IOSCO reviews on the core set of **international accounting standards** developed by the IASC. At the same time, they look forward to IASC’s work on accounting standards or additional guidance for the insurance sector.

Promoting Social Policies to Protect the Poor and Most Vulnerable

17. The Cologne Summit emphasised the need to strengthen social infrastructure to give globalisation a "human face" and asked the IFI to support and monitor the development of sound social policies and to develop a set of policies and practices that can be drawn upon in the design of adjustment programs.

18. To help ensure that social policies are in place to ease adjustment during times of crisis and prevent the burden of adjustment from falling disproportionately on the poorest and most vulnerable groups in society,

the World Bank is working with other institutions, especially the UN agencies, to develop a set of good practices of social policy, based on the principles set out in the Copenhagen Declaration announced at the March 1995 World Summit for Social Development. The Bank is focusing on helping its members to implement these universally agreed principles and drawing and applying lessons of good practice. To this end the Bank will deepen its efforts through further discussions with governments, the IMF, UN agencies, the private sector and the civil society, as well as through enhancing concrete cooperation with the IMF in poor countries.

19. These principles and good practices in social policy need to be given operational effect so that IMF and World Bank programs take full account of the social dimensions. An important step in this direction was made at the September 27, 1999 meeting of the Development Committee and the September 26, 1999 joint meeting of the Interim and Development Committees which recognised the importance of integrating social policies into the Bretton Woods institutions' strategies. In this context, the IMF has replaced the "Enhanced Structural Adjustment Facility" (ESAF) by the new **"Poverty Reduction and Growth Facility"** (PRGF), which aims at making poverty reduction efforts among low-income countries a key and more explicit element of a renewed growth-oriented economic strategy.

The Köln Debt Initiative

20. At the Cologne Summit, leaders asked for faster, broader and deeper debt reduction for qualifying poorest countries, emphasised the need for a stronger link between debt relief and poverty reduction, and called on the International Financial Institutions and the Paris Club to work with the countries to ensure that three quarters of eligible countries received debt relief by the end of 2000. Concrete proposals were to be agreed by the time of the next Annual Meeting of IMF and World Bank in September 1999. In particular, the Paris Club was asked to increase the debt cancellation rate to 90 % or more if needed to achieve debt sustainability. In addition, leaders called for full cancellation of ODA debt on a bilateral basis, through various options. IFIs were encouraged to maximise the use of their own resources in meeting their costs. There was also an agreement that costs to the IFIs will require bilateral contributions to an expanded HIPC Trust Fund, taking into account appropriate burden sharing. In meeting the costs, the G 7 Finance Ministers call for appropriate burden sharing among donors taking into account all relevant aspects, including the magnitude and quality of ODA already extended and past ODA forgiveness, and recognising the contributions of countries with high ODA loans outstanding relative to GDP.

21. Substantial progress was made in shaping the structure of the enhanced Debt Initiative by the time of the September 1999 Annual Meeting in Washington, and more has been made since then. Faster, deeper and broader debt relief has found broad support by the international community. The Paris Club has agreed

on the modalities of a higher rate of debt cancellation of 90% and more on commercial debt if needed to achieve debt sustainability. Paris Club creditors individually have agreed to full cancellation of ODA debt on a bilateral basis. Paris Club Creditors now look to other bilateral or commercial creditors to take comparable action. World Bank and IMF adopted the concept of country specific poverty reduction strategies in order to focus policies on poverty reduction. These strategies will contain explicit monitorable outcome indicators and will be developed and implemented by the countries concerned in close cooperation with the IFI's and in consultation with the civil society, with reinforced emphasis on transparency, accountability and good governance and attention being paid to the multidimensional aspects of poverty**.**

22. Considerable progress has been made in identifying and securing resources for financing of the HIPC-Initiative. There is broad support for the use of reflows from an IMF's Special Contingent Account and of interest income on the proceeds of an off-market sale of a part of IMF gold to finance the IMF' s share. The World Bank has increased the contribution from its net income and is considering additional support for future cases. Many Regional Development Banks are still in the process of identifying possible internal sources of financing.

23. Bilateral contributions to the HIPC Trust Fund of the World Bank announced at the Annual Meeting are expected to add up to some US-$ 2 billion. Procedural requirements for some major contributions (including a substantial contribution by the European Union) are basically fulfilled. Other important contributions still require legislative approval notwithstanding the strong commitment of governments involved.

24. In order to meet the target agreed at the Cologne summit the practical implementation of faster, broader and deeper debt relief must now be accelerated. Interim relief should also be provided to eligible countries between the decision and completion points. The IFIs' announced intention to bring forward four cases in January 2000, and five to seven more by the spring meetings is welcome.