

**HALIFAX SUMMIT**

**15-17 June 1995**

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## COMMUNIQUÉ

16 June 1995

### Preamble

1. We, the Heads of State and Government of seven major industrialized nations and the President of the European Commission, have met in Halifax for our 21st annual Summit. We have gathered at a time of change and opportunity, and have reaffirmed our commitment to working together and with our partners throughout the world.

### Growth and Employment

2. The central purpose of our economic policy is to improve the well-being of our people, allowing them to lead full and productive lives. Creating good quality jobs and reducing unemployment, which remains unacceptably high in too many of our countries, is thus an urgent priority for all of us. We have committed to establishing an economic environment conducive to the accomplishment of this goal.

3. We remain encouraged by the continued strong growth in much of the world's economy. While there has been some slowing, in most of our countries the conditions for continued growth appear to be in place and inflation is well under control. We will pursue appropriate macroeconomic and structural policies to maintain the momentum of growth.

4. Yet problems remain. Internal and external imbalances, together with unhelpful fluctuations in financial and currency markets, could jeopardize achievement of sustained, non-inflationary growth as well as the continued expansion of international trade.

5. We remain committed to the medium-term economic strategy that we earlier agreed upon. Consistent with it, we are determined to make the best possible use of the current economic expansion by taking steps to promote durable job creation. This requires determined action to further reduce public deficits, to maintain a non-inflationary environment and to increase national savings for the funding of a high level of global investment. Each country has to keep its own house in order.

6. We endorse the conclusions reached by G-7 Finance Ministers in Washington and ask them to maintain close cooperation in economic surveillance and in exchange markets.

7. Good fiscal and monetary policies will not on their own deliver the full fruits of better economic performance. We must also remove obstacles to achieving the longer-term potential of our economies to grow and create secure, well-paying jobs. This will require measures to upgrade the skills of our labour force, and to promote, where appropriate, greater flexibility in labour markets and elimination of unnecessary regulations. At Naples we committed ourselves to a range of reforms in the areas of training and education, labour market regulation and adjustment, technological innovation and enhanced competition. As we pursue these reforms, we welcome the initiation by the OECD of a detailed review of each member economy's structural and employment policies.

8. As a follow-up to our discussions, we agree to ask ministers to meet in France before our next Summit to review the progress made in job creation and consider how best to increase employment in all of our countries.

9. We are also committed to ensuring protection for our aging populations and those in need in our societies. To this end, some of our countries must take measures to ensure the sustainability of our public pension programmes and systems of social support. Similar attention is required in some of our countries to ensuring the availability of private sector pension funds.

10. We welcome the results of the G-7 Information Society conference held in Brussels in February, including the eight core policy principles agreed to by Ministers, and encourage implementation of the series of pilot projects designed to help promote innovation and the spread of new technologies. We also welcome the involvement of the private sector. We encourage a dialogue with developing countries and economies in transition in establishing the Global Information Society, and welcome the proposal that an information society conference be convened in South Africa in spring 1996.

## **Meeting the Challenges of the 21st Century**

11. International institutions have been central to our pursuit of stability, prosperity, and equity for the past 50 years. Last year, in Naples, we called for a review of the international institutions to ensure that they are equipped to deal effectively with the challenges of the future. Today, in Halifax, we are proposing some concrete steps toward this goal. All countries have a stake in effective, efficient institutions. We pledge our full energies to strengthening the institutions in partnership with their entire membership to enhance the security and prosperity of the world.

## **Strengthening the Global Economy**

12. The world economy has changed beyond all recognition over the last fifty years. The process of globalisation, driven by technological change, has led to increased economic interdependence: this applies to some policy areas seen previously as purely domestic, and to interactions between policy areas. The major challenge confronting us is to manage this increased interdependence while working with the grain of markets, and recognizing the growing number of important players. This is especially important in the pursuit of global macroeconomic and financial stability.

13. Close consultation and effective cooperation on macroeconomic policies among the G-7 are important elements in promoting sustained non-inflationary growth avoiding the emergence of large external and internal imbalances, and promoting greater exchange market stability. Our Ministers have adopted a number of changes to the structure of their consultations over time, in order to strengthen policy cooperation, including enhanced consultation with the IMF.

14. The growth and integration of global capital markets have created both enormous opportunities and new risks. We have a shared interest in ensuring the international community remains able to manage the risks inherent in the growth of private capital flows, the increased integration of domestic capital markets, and the accelerating pace of financial innovation.

15. The developments in Mexico earlier this year and their repercussions have sharpened our focus on these issues. We welcome the recent more positive turn of events in Mexico, as well as the positive developments in a number of emerging economies.

16. The prevention of crisis is the preferred course of action. This is best achieved through each country pursuing sound fiscal and monetary policies. But it also requires an improved early warning system, so that we can act more quickly to prevent or handle financial shocks. Such a system must include improved and effective surveillance of national economic policies and financial market developments, and fuller disclosure of this information to market participants. To this end, we urge the IMF to:

- establish benchmarks for the timely publication of key economic and financial data;
- establish a procedure for the regular public identification of countries which comply within these benchmarks;
- insist on full and timely reporting by member countries of standard sets of data, provide sharper policy advice to all governments, and deliver franker messages to countries that appear to be avoiding necessary actions.

17. If prevention fails, financial market distress requires that multilateral institutions and major economies be able to respond where appropriate in a quick and coordinated fashion. Financing mechanisms must operate on a scale and with the timeliness required to manage shocks effectively. In this context, we urge the IMF to:

- establish a new standing procedure --"Emergency Financing Mechanism"-- which would provide faster access to Fund arrangements with strong conditionality and larger upfront disbursements in crisis situations.

18. To support this procedure, we ask:

- the G-10 and other countries with the capacity to support the system to develop financing arrangements with the objective of doubling as soon as possible the amount currently available under the GAB to respond to financial emergencies.

19. To ensure that IMF has sufficient resources to meet its ongoing responsibilities, we urge continued discussions on a new IMF quota review.

20. Solid progress on the elements discussed above should significantly improve our ability to cope with future financial crises. Nevertheless, these improvements may not be sufficient in all cases. In line with this, and recognizing the complex legal and other issues posed in debt crisis situations by the wide variety of sources of international finance involved, we would encourage further review by G-10 Ministers and Governors of other procedures that might also usefully be considered for their orderly resolution.

21. We continue to support the inclusion of all IMF members in the SDR system. Moreover, we urge the IMF to initiate a broad review of the role and functions of the SDR in light of changes in the world financial system.

22. Closer international cooperation in the regulation and supervision of financial institutions and markets is essential to safeguard the financial system and prevent an erosion of prudential standards. We urge:

- a deepening of cooperation among regulators and supervisory agencies to ensure an effective and integrated approach, on a global basis, to developing and enhancing the safeguards, standards, transparency and systems necessary to monitor and contain risks;
- continued encouragement to countries to remove capital market restrictions, coupled with strengthened policy advice from international financial institutions on the appropriate supervisory structures;
- Finance ministers to commission studies and analysis from the international organizations responsible for banking and securities regulations and to report on the adequacy of current arrangements, together with proposals for improvement where necessary, at the next Summit.

23. We also recognize that international financial fraud is a growing problem. We are committed to improving communication between regulators and law enforcement agencies.

### **Promoting Sustainable Development**

24. A higher quality of life for all people is the goal of sustainable development. Democracy, human rights, transparent and accountable governance, investment in people and environmental protection are the foundations of sustainable development. The primary responsibility rests with each country but bilateral and multilateral international cooperation is essential to reinforce national efforts. We are committed to securing substantial flows of funds and to improving the quality of our assistance.

25. IDA plays an indispensable role in helping to reduce poverty and integrate the poorest countries into the global economy. We urge all donor countries to fulfil promptly their commitments to IDA-10 and to support a significant replenishment through IDA-11. We look forward to the recommendations of the Development Committee's Task Force on Multilateral Development Banks.

26. Multilateral institutions play a crucial role by providing intellectual leadership and policy advice, and by marshalling resources for countries committed to sustainable development. The United Nations and the Bretton Woods institutions should build on their respective strengths. The UN offers a unique forum for consensus building on global priorities, is an advocate for core values, and responds to development and humanitarian needs. The Bretton Woods institutions have a particular role in promoting macroeconomic stability, in supporting favourable environments for sustainable development and in mobilizing and transferring resources for development. We will work with the organizations and all their members to ensure relevant multilateral institutions:

- make sustainable development a central goal of their policies and programmes, including by intensifying and deepening the integration of environmental considerations into all aspects of their programmes;
- encourage countries to follow sound economic, environmental and social policies and to create the appropriate legal and structural framework for sustainable development;
- encourage countries to follow participatory development strategies and support governmental reforms that assure transparency and public accountability, a stable rule of law, and an active civil society;

- encourage the development of a healthy private sector, expand guarantees and co-financing arrangements to catalyse private flows, and increase credit for small and medium-sized enterprises;
- continue to provide resources for the infrastructure needed for sustainable development, where these are not available from the private sector.

27. We agree on the need to actively support the peace process in the Middle East. Such support would include the establishment of a new institution and financing mechanism enhancing regional cooperation. We therefore urge the Task Force already at work to continue its deliberations with an aim to arriving at a suitable proposal in time for the Amman summit next October.

### **Reducing Poverty**

28. An overriding priority is to improve the plight of the world's poor. Persistence of extreme poverty and marginalization of the poorest countries is simply not compatible with universal aspirations for prosperity and security. Sub-Saharan Africa faces especially severe challenges. We will work with others to encourage relevant multilateral institutions to:

- focus concessional resources on the poorest countries, especially those in Sub-Saharan Africa, which have a demonstrated capacity and commitment to use them effectively, and take trends in military and other unproductive spending into account in extending assistance;
- direct a substantially increased proportion of their resources to basic social programmes and other measures which attack the roots of poverty.

29. We welcome the Paris Club response to our encouragement last year to improve the treatment of the debt of the poorest countries and urge the full and constructive implementation of the Naples terms. We recognize that some of the poorest countries have substantial multilateral debt burdens. We will encourage:

- the Bretton Woods institutions to develop a comprehensive approach to assist countries with multilateral debt problems, through the flexible implementation of existing instruments and new mechanisms where necessary;
- better use of all existing World Bank and IMF resources and adoption of appropriate measures in the multilateral development banks to advance this objective and to continue concessional ESAF lending operations.

30. Open markets throughout the world are also crucial to accelerated economic growth in the developing countries. Multilateral institutions should work to assist the integration of the poorest countries into the world trading system. We encourage the WTO to monitor and review the Uruguay Round's impact on the least developed countries.

### **Safeguarding the Environment**

31. We place top priority on both domestic and international action to safeguard the environment. Environmental protection triggers the development and deployment of innovative technologies, which enhance economic efficiency and growth and help create long-term employment. In their policies, operations and procurement, G-7 governments must show leadership in improving the environment. This will require the appropriate mix of economic instruments, innovative accountability mechanisms, environmental impact assessment and voluntary measures. Efforts must focus on pollution prevention, the "polluter pays" principle, internalisation of environmental costs, and the integration of environmental considerations into policy and decision making in all sectors.

32. We underline the importance of meeting the commitments we made at the 1992 Rio Earth Summit and subsequently, and the need to review and strengthen them, where appropriate. Climate change remains of major global importance. We will work with others to:

- fulfil our existing obligations under the Climate Change Convention, and our commitments to meet the agreed ambitious timetable and objectives to follow up the Berlin Conference of the Parties;
- implement the medium-term work programme adopted pursuant to the Convention on Biological Diversity;
- conclude successfully the work of the CSD intergovernmental panel on forests, and promote a successful UN Conference on Straddling Fish Stocks and Highly Migratory Fish Stocks and

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international consensus at the next CSD session on action to deal with the problems of the world's oceans.

33. We encourage a clearer delineation of the mandates of the CSD and UNEP. CSD should be the global forum for identifying and agreeing upon long term strategic goals for sustainable development. UNEP should act as an international environmental voice and catalyst; it should focus on monitoring, assessment, and the development of international environmental law.

### **Preventing and Responding to Crises**

34. Disasters and other crises complicate the development challenge and have exposed gaps in our institutional machinery. To help prevent and mitigate emerging crises, including those with human rights and refugee dimensions, we will ask:

- the UN Secretary-General to explore means to improve the analysis and utilization of disaster and conflict-related early warning information, particularly through the High Commissioners on Human Rights and Refugees;
- the Bretton Woods institutions and the UN to establish a new coordination procedure, supported as necessary by existing resources, to facilitate a smooth transition from the emergency to the rehabilitation phase of a crisis, and to cooperate more effectively with donor countries;
- the bodies involved in the provision of humanitarian assistance to cooperate more closely with the Department of Humanitarian Affairs in its assigned coordination role.

### **Reinforcing Coherence, Effectiveness, and Efficiency of Institutions**

35. To fulfil their missions effectively into the future, multilateral institutions must continue to undertake reforms and to improve coordination and reduce overlap. The international financial institutions have shown flexibility in responding to the changing needs of the world economy; there nevertheless remain a number of areas where improvements are desirable to better prepare the institutions for the challenges ahead. We will encourage:

- the World Bank and the regional development banks to decentralize their operations wherever possible;
- the IMF and the World Bank to concentrate on their respective core concerns (broadly, macroeconomic policy for the IMF and structural and sectoral policies for the World Bank);
- revision of the Ministerial committees of the IMF and the World Bank to promote more effective decision-making;
- the World Bank Group to integrate more effectively the activities of the International Finance Corporation and the Multilateral Investment Guarantee Agency into its country assistance strategies;
- the multilateral development banks to coordinate their respective country programmes more effectively with bilateral and other multilateral donors.

36. So as to allow the United Nations better to meet the objectives in its Charter, we will encourage broadening and deepening the reform process already underway, and will work with others to:

- complete the Agenda for Development, which should set out a fresh approach to international cooperation and define the particular contribution expected of U.N. bodies;
- develop a more effective internal policy coordination role for the Economic and Social Council (ECOSOC); encourage deeper cooperation between UN and specialized agencies both at headquarters and in the field; consolidate and streamline organizations in the economic and social fields, such as humanitarian relief and development assistance; and encourage the adoption of modern management techniques, with a more transparent and accountable Secretariat;
- update and focus mandates to avoid duplication; eliminate overlaps with new organizations; e.g., UNCTAD with WTO, and consider the roles of certain institutions in light of evolving challenges; e.g., Regional Economic Commissions and UNIDO;

We call upon Member States to meet their financial obligations and urge early agreement on reform of the system of assessment.

37. To increase overall coherence, cooperation and cost effectiveness we will work with others to encourage:

- rationalization of data collection, analysis, priority setting, and reporting activities, and greater complementarity in the provision of assistance at the country level;
- improved coordination among international organizations, bilateral donors and NGOs;
- all institutions to formulate and implement plans to effect significant reductions in operating costs over the next few years.

## **Follow-Up**

38. These are our initial proposals to prepare multilateral institutions for the challenges of the next century. We intend to promote them actively, working together with the wider international community in all appropriate organizations. In particular, in the UN, we commit ourselves to working with other members to advance these goals. We will use the 50th anniversary celebrations in October 1995 to build consensus on these priorities with others. We will take stock at our meeting next year in France.

## **Creating Opportunities through Open Markets**

39. We recognize that new investment and increased trade are vital to achieving our growth and employment objectives. In a global market, opportunities for domestic and foreign producers and suppliers of goods and services depend as much on domestic policies as on external barriers. In order to improve market access, we intend to work for the reduction of remaining internal and external barriers.

40. We will implement the Uruguay Round Agreements fully, and reaffirm our commitment to resist protectionism in all its forms. We will build on the Agreements to create new opportunities for growth, employment and global cooperation. We will work together and with our trading partners to consolidate the WTO as an effective institution, and are committed to ensuring a well-functioning and respected dispute settlement mechanism. We endorse closer cooperation between the WTO and other international economic institutions. We recognize the importance of enhancing the transparency of the WTO.

41. We support accession to the WTO in accordance with the rules that apply to all of its members and on the basis of meaningful market access commitments. We are committed to ensuring that our participation in regional trade initiatives continues to be a positive force for the multilateral system.

42. The momentum of trade liberalization must be maintained. We are committed to the successful completion of current negotiations in services sectors and, in particular, significant liberalization in financial and telecommunications services. We will proceed with follow-up work foreseen in the Uruguay Round Final Act. We encourage work in areas such as technical standards, intellectual property and government procurement; an immediate priority is the negotiation in the OECD of a high standard multilateral agreement on investment. We will begin discussions on investment with our partners in the WTO. We recognize that initiatives such as regulatory reform have a particularly important contribution to make to trade liberalization and economic growth by removing administrative and structural impediments to global competition.

43. Consistent with the goal of continued trade liberalization, we will pursue work on:

- trade and environment to ensure that rules and policies in these different areas are compatible;
- the scope for multilateral action in the fields of trade and competition policy;
- trade, employment and labour standards.

44. We will work together with our partners in the WTO and other appropriate fora to create the basis for an ambitious first WTO Ministerial Meeting in Singapore in 1996.

## **Economies in Transition**

45. We recognize the progress of many countries in transition toward democratic, market-based societies. Early and determined macroeconomic stabilization has proven the most effective strategy to allow an early return to growth. To consolidate these gains, the process of far-reaching structural reform must be pursued vigorously. We will continue our support for economic reform in the economies in transition, and their integration into the global trade and financial systems. We recognize their need for improved market access.

46. We welcome the good start Ukraine has made on its bold programme of economic reform. The recent Stand-By Arrangement with the IMF provided the basis for substantial financial support by the international financial institutions and bilateral donors. We encourage Ukraine to continue its reform efforts in close cooperation with the international financial institutions. Assuming the continuation of

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strong economic reform, an additional \$2 billion in commitments could be available from the international financial institutions by the end of 1996.

47. We are encouraged by Russia's renewed commitments to financial stabilization and economic reform. Continued political reform is also necessary. We believe that a stable political, regulatory and legal environment, and the development of a modern financial sector, together with the full implementation of the policy measures outlined in the recently-signed IMF Stand-By Arrangement, will promote Russian economic recovery. We welcome the June 3 Paris Club debt rescheduling agreement and recognize the relevance of a comprehensive multilateral treatment of Russia's external public debt. We also note Russia's interest in working in close cooperation with the Paris Club.

### **Nuclear Safety**

39. We affirm the importance of improving nuclear safety in countries of Central and Eastern Europe and the Newly Independent States and welcome efforts and progress made to date. We will continue to support these initiatives.

40. Recognizing that each country is responsible for the safety of its nuclear facilities, we congratulate President Kuchma of Ukraine on his decision to close the Chernobyl nuclear power plant by the year 2000. We reaffirm the commitments of support made last year at Naples under the G-7 Action Plan for Ukraine's Energy Sector. We are pleased to note the replenishment of the Nuclear Safety Account and the commitment of additional bilateral grants for short-term safety upgrades and preliminary decommissioning work in anticipation of the closure of Chernobyl.

41. Recognizing the economic and social burden that the closure of Chernobyl will place on Ukraine, we [pledge] [will continue] efforts to mobilize international support for appropriate energy production, energy efficiency and nuclear safety projects for Ukraine. Any assistance for replacement power for Chernobyl will be based on sound economic, environmental and financial criteria. We call upon the World Bank and the EBRD to continue their co-operation with Ukraine in devising a realistic long-term energy strategy, based on the results of the EBRD-funded least-cost investment study, and to increase their financial contribution in support of appropriate energy sector reform and investment. We also call on the World Bank to mobilize private sector support for non-nuclear energy and energy conservation.

### **Next Summit**

50. We have accepted the invitation of the President of France to meet in Lyon from June 27th to 29th, 1996.



## Political and other non-economic declarations

### **Review of the International Financial Institutions**

16 June 1995

#### **1. Introduction**

At the Naples Summit, G-7 Leaders agreed that the Halifax Summit should focus on how to "assure that the global economy of the 21st century will provide sustainable development with good prosperity and well-being of the peoples of our nations and the world" by identifying the framework of institutions required to meet these challenges.

This paper examines the need for changes to the architecture of the international financial institutions -- i.e. International Monetary Fund, the World Bank Group, and the regional development banks.

Broadly speaking, the international financial institutions have demonstrated an exceptional degree of flexibility in adapting to changing demands. Nevertheless, there remain a number of areas where improvements are both possible and desirable.

#### **2. The Principal Challenges**

Today's world is very different from the one in which the Bretton Woods institutions were created.

- The global economy is more integrated and, as a result, all countries have a much greater stake in developments outside their borders.
- World trade has grown steadily, and direct and portfolio investment flows have increased sharply in recent years.
- Capital market liberalization, technological change, and financial innovation have transformed the global financial landscape -- with great benefits, but also new risks.
- There is a much greater consensus on the role of the market, economic incentives, and open policies, and much less faith in dirigiste solutions to economic problems.
- A variety of new global challenges have emerged in areas such as environmental stewardship and the importance of good governance.
- The influence of developing countries in the world economy is growing, yet, a large portion of the world's population still lives in extraordinary poverty.
- The imperative of continued transition in the countries of Central and Eastern Europe, the former Soviet Union, and elsewhere remains clear.

These changes leave the international community with a variety of continuing challenges: promoting economic policies that ensure sustained non-inflationary growth and correct imbalances that engender financial and exchange market instability; adapt to a world of large and highly mobile private capital; and promoting more effective sustainable development and poverty reduction.

#### **3. Constraints and Other Considerations**

In exploring potential institutional responses to these challenges, several general considerations need to be kept in mind. Although donor countries face fiscal constraints, which not only limit their ability to finance new institutions or new pool put pressure on the financing of existing obligations, efficient and effective international institutions will continue to merit our financial support. This strongly argues that the primary focus should be support for existing international financial institutions effectively. It also means that the needs which are identified must be consistent with the magnitude and the specific nature of the resources available to address them.

The existing complement of international institutions has grown to a point where the international community would benefit from a concerted effort to eliminate unnecessary overlap, consolidate functions in the institutions that are most effective, clearly on private sector development, while continuing to play a vital role in those areas where the private sector cannot or will not play a role. In the future it will be

beneficial to encourage the emerging economies to assume a degree of global responsibility which is broadly in line with their contribution to the world economy.

#### **4. Economic Policy and Exchange Market Cooperation**

Close consultation and effective cooperation on macroeconomic policies among the G-7 are important elements in promoting sustained non-inflationary growth, avoiding the emergence of large external and internal imbalances, and promoting greater exchange market stability. We have adopted a number of changes to the structure of our consultations over time in order to strengthen policy cooperation. Specifically, the process of consultation with the IMF has been enhanced and the focus of discussions extended. These changes are designed to improve our capacity to identify, and better respond to, potential risks.

Appropriate structural policies contribute to the effectiveness of sound macroeconomic policies. Structural policies that increase the flexibility and dynamism of the supply side of economies limit the persistence of macroeconomic imbalances and ac macroeconomic policy adjustments. Such policies also enhance the longer-term potential of economies to grow and create secure, high-paying jobs.

The most effective route to greater exchange market stability lies in the pursuit of sound domestic monetary and fiscal policies. Further progress in achieving a non-inflationary environment and reducing inflation differentials will mitigate one important source of exchange rate variability. Further substantial progress in reducing fiscal deficits and increasing national savings will also contribute to greater exchange market stability. Early policy action to avoid large external imbalances would help reduce the likelihood of large and potentially destabilizing exchange rate adjustments.

In addition, continued cooperation in the exchange markets can be a useful and effective means for moderating exchange rate movements that are not driven by fundamental changes in economic conditions or policies. Close monitoring and coordinated responses in the exchange markets can be appropriate when exchange rates get out of line. In this context, it should be noted that, in their April 25 Statement, the G-7 Finance Ministers and Central Bank Governors agreed that recent exchange rate movements had "gone beyond the levels justified by underlying economic conditions in the majors countries. They also agreed that orderly reversal of those movements is desirable, would provide a better basis for a continued expansion of international trade and investment, and would contribute to our common objectives of sustained non-inflationary growth. They further agreed to strengthen their efforts in reducing internal and external imbalances and to continue to cooperate closely in exchange markets."

Administrative measures, such as selective taxes or controls on capital transactions, are an ineffective and very costly means to attempt to limit exchange market volatility. Since it would be impractical to implement such controls across geographic areas and financial instruments, they would merely shift the location of activity or the financial vehicle for the transactions. Controls would also tend to hamper investment and capital flows that are productive for growth and reinforce stability.

#### **5. Promoting Financial Stability in a Globalized Economy**

There is a need to ensure that the economic advantages made possible by integrated, flexible financial markets can be enjoyed around the world while, at the same time, more effectively managing financial developments with potentially broad economic implications. In the past, this challenge has been met through a network of institutions and arrangements, which include the IMF, BIS, G-7, G-10, and OECD. These groups have significantly strengthened cooperation and information-sharing among policy makers and financial market supervisors and regulators. They have also developed a complex set of formal and ad hoc financial facilities that have been used to respond to financial market crises which threatened to have major economic consequences.

The international community must also improve its ability to address the risks inherent in the dramatic growth in private financial flows, the increased integration of domestic capital markets, and greater recourse to financial innovations. Episodes of financial market distress, as most recently experienced in Mexico, illustrate both the potential dangers and challenges these institutions must be prepared to meet.

A number of interrelated elements are required to effectively deal with these challenges:

- An improved early warning system is needed to avoid financial shocks where possible. This requires, *inter alia*, an effective ongoing system of surveillance of national economic policies and developments.
- When potential problems are identified, there is a need to ensure that the capacity exists to induce appropriate policy responses at an early stage.

- Appropriate and adequate multilateral financial mechanisms are required that can, when needed, be brought to bear on a scale and with the timeliness required to overcome the consequences of external shocks that may arise from the increase mobility of international capital. Crucially, there is a need to ensure that these mechanisms operate in such a way, in terms of conditionality, as to quickly restore market confidence and access to private sector money.
- An effective system of cooperation among the major industrial countries and multilateral financial institutions is needed, which allows a rapid and concerted response to external shocks.
- There may also be a need to look at other mechanisms that might usefully be considered in situations of financial crisis.

#### Early Warning and Surveillance

Timely and comprehensive data are the backbone of an effective surveillance process in the multilateral institutions. Properly constituted, surveillance serves three key functions: it provides the discipline needed to ensure that economic developments are systematically reviewed by the multilateral institutions and their implications clearly identified; it provides an opportunity for governments to deliver collective advice to one another with respect to economic policy measures, past or and it permits the private sector to make informed decisions and perform its role more efficiently.

Minimising the occurrence of financial shocks requires improved transparency -- i.e., that all countries publish timely and reliable data on a broad range of economic and financial indicators. Quick and widespread access to such information will allow f better perform their role as the primary conduits by which capital moves from savers to borrowers. Of particular importance is the role that continuous and comprehensive data publication can play in minimising the scope of abrupt shifts in financial mar sentiment in response to unwelcome surprises. Well-informed and well-functioning financial markets are the best lines of defence against financial crises. To this end, the IMF should:

- establish benchmarks for the timely publication of key economic and financial data;
- establish a procedure for the regular public identification of countries which comply with these benchmarks;
- insist on full and timely reporting by member countries of standard sets of data.

G-7 Finance Ministers and Central Bank Governors conduct regular, detailed surveillance discussions, with the input of the IMF, which are primarily focused on their own policies and prospects. More broadly-based surveillance is carried out by the IMF in the context of its annual reviews of economic performance in member countries. The IMF also conducts broader assessments of economic policies, developments and prospects from a global perspective in its World Economic Outlook, which it publishes twice a year. Given its global mandate and the expertise of its staff, the IMF should continue to be the focus of surveillance. However, the IMF's surveillance activities should be improved in four specific ways:

- Greater resources and attention should be devoted to those countries of global significance, including both industrial countries and emerging economies.
- Clear and direct policy advice should be offered to all governments, particularly those which appear to be avoiding necessary policy measures.
- Greater attention should be devoted, in general, to financial and banking sector developments and, in particular, to the pattern of capital flows and their maturity. Better balance should also be achieved in the Fund's overall surveillance process between cross-cutting issues, such as common developments in capital markets, and country-specific issues.
- Wherever feasible, the Fund should be more open and transparent in its assessments and policy advice.

Some of these objectives conflict, to some degree, with one another. Most importantly, any surveillance process faces a tension between the desire to function as a cooperative process and the frequent need to deliver a sharp, unambiguous policy message to national authorities. In carrying out this task, the IMF obviously needs to be selective. In practice, this means focusing particular attention on countries with a potentially large impact on the world economy.

Should bilateral surveillance fail to achieve its desired effect on the policies of certain member countries, a direct, but private, dialogue with national authorities should be encouraged.

- The IMF Managing Director should be invited to work more closely with Executive Directors and when necessary, member governments, with a view to initiating a concerted policy dialogue with the national authorities of problem countries.
- Where appropriate, governments should be prepared to take on the role, collectively or individually, of passing a strong message on the need for policy actions to the national authorities of these countries.

#### Early and Appropriate Policy Responses

In a well-functioning system, a country would begin taking policy actions to correct external or internal imbalances as soon as these materialise. The international financial institutions are set up to facilitate this process in several ways. The IMF, for example, undertakes a regular process of consultations with all member countries. These consultations provide an opportunity to candidly review the current policy stance of members and discuss prospective problems before these arise. The timing of such consultations should be flexible and responsive to changes in country policies and the external economic environment.

In cases where external financing is required to support early policy actions, the Fund is able to provide financial support through a variety of facilities. These differ largely in terms of the nature of the macroeconomic and structural problems they seek to address and the degree of conditionality attached to them. The IMF and MDBs also provide significant financing for structural reforms. Such reform programmes are designed to reduce major economic distortions with a view to creating more dynamic economies, which are better able to cope with external shocks should they arise in the future.

#### Financing Mechanisms

The international community's ability to respond to short-term liquidity needs and medium-term balance of payment difficulties in individual countries is centred principally on two institutions, the IMF and the BIS. At times, these have been supplemented by *ad hoc* bilateral and multilateral mechanisms. The IMF has at its disposal a number of financing facilities, each of which generally requires the negotiation of an acceptable economic policy programme as a prelude to disbursement of loans which, in turn, are predicated on the fulfilment of the agreed policy commitments and targets.

Should the financial need of one or more member economies be sufficiently large to strain the IMF's regular resources or threaten the functioning of the international financial system, the G-10 countries stand ready to provide loans to the IMF through the General Arrangements to Borrow (GAB). To bridge the gap between the urgent liquidity needs that often arise in a time of crisis and the weeks or months that may be required for the IMF to begin disbursing its loans, the monetary authorities of the G-10 countries have found it necessary on occasion to extend short-term credits, either directly or through the BIS.

A key question should be what constitutes the right mix of surveillance, adjustment and financing -- rather than viewing the crisis as the consequence of inadequate financing. The Mexican crisis clearly illustrates that the vast financial flows that are now commonplace in private markets pose important new challenges. It also illustrates the importance of strong policy action in responding to such crises, and the crucial need for any financial support to be conditional on that. While this episode points to a need to review both the size and the speed of access to the financing mechanisms, it is also understood that there can be no presumption that multilateral financing will be provided in every instance of local or regional financial crisis.

This episode also highlights the necessity for international financial institutions and major economies to be able to respond rapidly and in a well coordinated fashion, when confronted with a problem that could have adverse economic consequences for a significant number of countries or pose a significant threat to the stability of the world's increasingly integrated financial system.

Issues pertaining to financing mechanisms can be identified in terms of the means by which funds can be made available and the sources of such funds. The IMF's facilities continue to represent an important source of financing for macroeconomic stabilisation in many countries. Moreover, an IMF arrangement is an essential element for any agreement with the BIS and creditor governments on a short-term bridging facility. In the aftermath of Mexico, attention might usefully be focused on the adequacy of the Fund's current mechanisms (including use of the "exceptional circumstances" clause on a selective and *ad hoc* basis).

- We would propose the establishment within the IMF of a new standing procedure -- "Emergency Financing Mechanism" -- involving a fund arrangement with strong conditionality but with high up-front

access and faster procedures to access Fund resources in crisis situations under the "exceptional circumstances" clause.

The IMF presently has adequate usable resources to finance its commitments to Mexico and other projected lending without a significant increase in its liquidity. Nevertheless, in order to support the above-mentioned new standing procedure, we would ask:

- that the G-10 and other countries with the capacity to support the system develop financing arrangements with the objective of doubling as soon as possible the amount currently available under the GAB to respond to financial emergencies;

To ensure that the IMF has sufficient resources to meet its ongoing responsibilities, we urge continued discussions on a new IMF quota review.

#### Strengthening International Cooperation

Should financial market crises arise, it is important that we improve existing mechanisms for sharing our analyses and strengthen our ability to coordinate a quick response. A willingness to cooperate is obviously essential but this must be backed up by fast and reliable channels of communications at all levels of operational responsibility.

In essence, the methods of coordination and cooperation among the major industrialised economies and the multilateral financial institutions must be modernised and brought into line with the growing speed and breadth of financial market integration. Since these groups have at their disposal the same information technology that markets have exploited, further improvements in these capabilities appear both feasible and desirable.

Solid progress on the elements discussed above should significantly improve the international community's ability to cope with future financial crises. Nevertheless, these improvements may not be sufficient in all cases. In line with this, and recognising the complex legal and other issues posed in debt crisis situations by the wide variety of sources of international finance involved, we would encourage further review by G-10 Ministers and Governors of other procedures that might also be useful considered for their orderly resolution.

## **6. Strengthening Financial Market Supervision and Regulation**

The growth of financial markets, the development of new instruments, and a desire for diversification of investment have spurred global integration of national markets and increased liquidity. These developments have led to a more efficient allocation of capital and thus greater growth of economic activity. At the same time, with today's highly integrated financial markets, there is a greater potential for the rapid transmission of financial disturbances. Close international cooperation in the regulation and supervision of financial institutions and markets is essential to the continued safeguarding of the financial system and to prevent erosion of necessary prudential standards.

Continued strengthening of these efforts has the full support of G-7 Finance Ministers and Central Bank Governors. We look forward to the development and further enhancement of concrete international understandings, where necessary and appropriate, on the safeguards, standards, transparency, and systems necessary to reduce potential risks. In this context, we recognise the important initiatives being undertaken separately and jointly by various committees under the aegis of the BIS and the International Organisation of Securities Commissions as well as by national authorities.

- The G-10 should be encouraged to intensify their review of work in this area and there should be a call for the Basle Committee on Banking Supervision and the International Organisation of Securities Commissions to work closely together in add major issues in this area and the desirable steps to address identified problems and to report back. These reports should help Ministers to reach conclusions regarding the extent of systemic risks and their implications for the world economy, measures deemed essential to an integrated approach to potential systemic risks.
- The IMF should consider extending existing obligations regarding the convertibility of current account transactions to the staged liberalisation of capital account transactions. At the same time, the IMF, the World Bank and regional development banks authorities should encourage an integrated approach to ensure that adequate supervisory, regulatory and policy structures are in place to support the sound development of financial markets in countries which are removing these restrictions. This might be done, for example, by increasing technical assistance and strengthening contacts with other regulatory authorities.

We also recognise that international financial fraud is a growing problem. We are committed to improve communication between regulators and law enforcement agencies.

## 7. Special Drawing Rights

- We reiterate our support for a one-time special allocation of SDRs, through an amendment of the Fund's Articles of Agreement, to reduce inequities in the current system by allowing new members, particularly the countries of Central and Eastern the former Soviet Union, to participate fully in the SDR system. This approach would also provide additional SDRs to other countries, particularly the poorest countries with the greatest need. The broader question of the appropriate future role of the SDR in the international monetary system should be the subject of a separate study as agreed at the last meeting of the Interim Committee.

## 8. Sustainable Development

The multilateral development banks -- i.e., the World Bank and regional development banks -- must continue to play a key role in the promotion of sustainable development. In recent years, the MDBs have been broadly responsive to emerging challenges an impressive set of operational and administrative reforms. This is most clearly evident in their ongoing response to the historic challenge of transforming the countries of Central and Eastern Europe and the former Soviet Union from centrally-planned to

The MDBs have also learned valuable lessons from past successes and failures, which provide clear evidence of the complexity of the developmental challenge. The international community has a shared interest to ensure that these institutions continue to adapt to the challenges of today's world and contribute efficiently to the development process of poor countries. In line with this, the following areas deserve closer examination.

### Allocating Resources More Effectively

Greater attention needs to be paid to the use of increasingly scarce public resources. Budget constraints in many donor countries are leading to growing pressures on concessional programs. As a result, priorities must be sharpened and difficult choices made concerning both the sectoral and country focus of assistance efforts and we reaffirm our support to the MDBs' endeavour in this regard.

- It is essential that the MDBs narrow their focus and increasingly direct their lending toward the provision of "public" goods, for which private support is inadequate or simply not available. This argues for a stronger focus on programs such a support primary education and health care or protection of the environment. Such investments are not only economically sound, but typically demonstrate exceptionally high social rates of return as well.
- Wherever feasible, traditional lending for capital projects should be left to the private sector and more generally the MDBs should ensure that their lending is genuinely additional to private sector finance, and not replacing it. In order to promote private involvement in the development process, the MDBs should: encourage private sector financing of capital projects through various financing mechanisms; encourage the development of a healthy private sector by establishing a policy environment conducive to private enterprise; and support the provision of sufficient infrastructure for sustainable growth.
- Concessional resources should be allocated primarily to the countries that need them most and have a demonstrated capacity to use them effectively. Countries with sustained and growing access to capital markets should be progressively "graduated" concessional to the ordinary capital windows of these institutions.
- In line with our objective of supporting efficient and effective multilateral institutions, we urge all donor countries to fulfil promptly their commitments to IDA 10 and to support a significant replenishment of IDA 11.

### Future Policy Directions

A number of key development challenges have their root causes in poverty. The international development institutions clearly have an essential role to play in reducing poverty through direct interventions and the promotion of sustainable, labour-in

- To better play this role, the country strategies of the MDBs need to be more clearly driven by the poverty reduction strategies of recipient countries. In turn, country strategies should include clear statements of expected progress on key poverty indicators and provide monitorable benchmarks to better judge the success of individual projects.

- The MDBs should also give serious consideration to sharply reducing their lending programmes in any country that does not clearly demonstrate a firm commitment to poverty reduction. In some cases, this commitment might be assessed against the share of spending directed to basic social services compared to the share directed to non-productive areas, such as military spending.

The MDBs have responded well to the challenges of integrating sound environmental principles into their operational policies. Nevertheless, there continues to be concern about the implementation of these policies. This being the case:

- Comprehensive environmental assessments should be an integral part of the programme and project development process and mitigative actions taken as appropriate. Greater attention should also be paid to the environmental impacts of completed projects. Consultation with relevant parties should be undertaken at various stages of the project cycle.

There is also considerable public scepticism about the overall quality of MDB projects and whether the MDBs are contributing to effective development, particularly in regions such as sub-Saharan Africa. Clearly, there is a need to better demonstrate results "on the ground" and to continue to press for higher quality projects.

- One way to achieve this would be for the institutions to take better account of the lessons of experience from their past successes and failures. It would be useful to examine the possibility of introducing common standards and criteria for evaluation across these various institutions. This would not only help improve the exchange of information, but would ensure the consistency of project and program evaluations across different institutions. We would also encourage the IMF to establish its own independent evaluation unit.

Developmental effectiveness can also be improved through efforts to strengthen policy coordination. While the traditional division of labour between the IMF and the World Bank makes good sense, operations would be improved if joint missions and projects were the norm both in areas of shared responsibility, such as financial sector reform and budget exercises, and where macroeconomic and structural issues interact.

- For countries which are drawing on the resources of the Fund, efforts should be made to operationalize a more integrated approach. Where appropriate, the use of common policy framework papers should be encouraged.
- Scope may also exist to improve coordination between the World Bank and the RDBs, with each focusing on their core missions and through stronger cooperation where these intersect. The Development Committee Task Force might explore the scope for improved consultation on respective country programs with a view to a clearer division of the sectoral responsibilities of these institutions in individual member countries.
- The World Bank and the regional development banks should be encouraged to decentralize their operations wherever possible.
- The activities of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) must be more strongly integrated into the World Bank Group.

Looking ahead, the MDBs will need to do more to better customize their services to meet the changing needs of many of their borrowing members. A key challenge will be to continue to increase the capacity of the private sector to provide services which, in most countries, have previously been provided by governments.

- To catalyse greater private sector participation, the World Bank has introduced a new guarantee programme which is aimed, in particular, at leveraging additional private flows for infrastructure investment. In the same vein, the World Bank and work actively to expand their cofinancing arrangements with private and public financial institutions.
- To catalyse greater private sector flows, while assuring adequate risk sharing among public and private lenders, the World Bank Group should be encouraged to examine new public-private institutional arrangements which might better support the organization.

Turning to debt, considerable progress has been made on the international debt strategy at recent Summits. Nevertheless, significant debt overhang problems clearly persist in a number of the poorest countries. Last December, as called for at the Naples Summit, the Paris Club of creditor governments agreed to increase the level of debt reduction to (up to) 67 percent for the most severely-indebted, low-income countries and to operationalize a "stock of debt" approach. We welcome the Paris Club's progress

to improve the treatment of the debt of these countries and urge the full and constructive implementation of Naples terms, a step that is in the interest of both debtors and creditors.

- To address the overall debt burdens of these countries in a comprehensive manner, a coordinated approach should be maintained to official bilateral, commercial, and multilateral debt, and special attention should be paid to the prevention of problems.
- Further study on a country-by-country basis needs to be made of the extent and nature (by institution and type of debt) of the problems faced, in order to determine where innovative approaches are most appropriate.

There is a general agreement that measures have to be taken to ensure that the burden of multilateral debt does not impede the growth prospects for the poorest countries. Exit strategies need to be found for countries with particularly high levels of debt and poor track records.

- The IMF and World Bank should take the lead in developing a comprehensive multilateral approach to assist countries with multilateral debt and debt-service ratios above prudent levels in addressing their debt burdens, through the flexible implementation of existing instruments, and new mechanisms where necessary.
- Thought should be given to the better use of all existing IMF and World Bank resources and further consideration of appropriate measures in the multilateral development banks, to advance this objective.
- An important part of any resolution of these debt problems will be the availability of financing on more highly concessional or grant terms. Thought also should be given to increasing the share of official bilateral assistance directed to the poorest countries in such assistance.

Disasters and other crises have demonstrated gaps in the institutional machinery. To help resolve emerging crises, the Bretton Woods institutions and the UN should establish a new coordination procedure, supported as necessary by existing resources transition to the rehabilitation phase in countries emerging from economic or political crisis, and to cooperate more effectively with donor countries.

#### Strengthening Governance and Management

A number of key governance mechanisms of the international system have become less effective in recent years. There is a clear need to redesign and refocus a number of these mechanisms if they are to have a more meaningful role.

Consideration might be given to two options to reinvigorate the Interim and Development Committees. The first option could be to create a new forum with a broader mandate than the current Interim and Development Committees. Under this option, the Interim and Development Committees could be reconstituted into a single joint Fund-Bank Committee to focus on global financial and development policy issues.

An alternative option might be to transform the Development Committee into a more effective policy steering committee with a relationship to the World Bank Group analogous to that of the Interim Committee to the IMF. Under both cases, it could be required that Ministerial attendance be limited to the Annual meetings. Discussions at the Spring meetings could then be at the level of senior officials.

The time has also come for international financial institutions to better prioritise their activities. In particular, these institutions need to actively address the growing overlap and unnecessary duplication of many of their activities. Not only welcome savings, but they could also contribute to greater policy coherence throughout the IFI system.

- There appears to be scope to reduce overlap in the area of macroeconomic surveillance. In this area, the IMF and the OECD have sometimes come to perform similar surveillance. The OECD should give relative priority to structural issues without traditional macroeconomic studies, which are necessary to enable sound evaluation of structural policies. These studies should focus more on medium term prospects.

Finally, there is a need for these institutions to clearly demonstrate their commitment to cost effectiveness.

- In line with this, those institutions which have already begun to formulate and implement plans to effect significant reductions in their operating costs should be encouraged in their work. Those institutions yet to begin such a process should during upcoming budget exercises with a view to achieving measurable results over the next few years.



Such plans could help to reinforce the pressure on many of these institutions to better prioritise their activities. It should also be stressed that these savings need not necessarily come at a cost to the services that are provided to borrowing me leaner and "smarter" institutions.

## **9. OTHER INSTITUTIONS AND ISSUES**

The broader Halifax process will also need to review the coherence of the overall system of international institutions. The international community has a strong interest in eliminating duplication between the IFIs and the UN system and operating these institutions on as cost efficient a basis as possible.

Attention also needs to be paid to the synergies, as well as potential overlap, between the World Trade Organisation and the various trade-related activities of other international institutions.

- The WTO needs to become a strong force for open markets and the continued liberalization of world trade. To ensure that it has a credible leadership role, it will be essential that the WTO's activities are closely coordinated with the IMF, World Bank, OECD and trade-related UN bodies to avoid unnecessary duplication in their activities.

## CHAIRMAN'S STATEMENT

17 June 1995

1. In this 50th anniversary of the end of the Second World War and the birth of the United Nations, we discussed in a spirit of cooperation political issues of global importance. Noting with satisfaction what has been achieved through reconciliation and cooperation, we confirmed our desire to work together ever more closely in finding solutions.

### **Commitment to Multilateral Engagement**

2. We reaffirm our commitment to the UN, whose Charter lays down the fundamental principles for an international order based on peace and security, sustainable development, and respect for human rights. We support measures to strengthen the UN, which is called upon to play an ever more important role in the post Cold War period, and will work with other Member States to build, through concrete reforms of the institutions, a more effective and efficient organization to meet the challenges of the next half-century. We call upon Member States to meet their financial obligations and urge early agreement on reform of the system of assessment.

3. The United Nations must be able to act more quickly and effectively to address threats to international peace and security. We, for our part, are determined to coordinate more closely our individual efforts to assist in the prevention, management and resolution of conflicts. A high priority should be placed on the early warning of crises, political mediation and, in accordance with realistic mandates, the rapid deployment of UN civilian and military personnel, including peacekeepers, to areas of conflict. We encourage further efforts to improve operational planning and procedures for peacekeeping missions as well as to modernize command and control equipment, logistical arrangements and facilities. We also stress the need for measures to ensure the security of UN personnel, including the early entry into force of the recently-adopted UN Convention for the Safety of United Nations and Associated Personnel. We welcome the growing role of regional organizations and arrangements in building stability and security, in the prevention and management of conflicts, and we attach special importance to reinforcing cooperation between such organizations and the United Nations.

### **Arms Control and Disarmament**

4. We welcome the indefinite extension of the Nuclear Non-Proliferation Treaty and the commitment of States party to the universalisation of the Treaty as well as their decisions to strengthen the review process and adopt a set of principles and objectives for non-proliferation and disarmament. The entry into force of START I is a major landmark in the process of nuclear arms control, which was greatly helped by the decision of Ukraine to accede to the NPT. We now look forward to the early ratification of START II. We support the safe and secure dismantlement of the nuclear weapons eliminated under START I and we welcome the work of the United States and Russia on measures to ensure that the fissile material from these weapons is rendered unusable for weapons purposes. The disposal of weapons-grade plutonium deserves particular attention and we encourage its further study.

5. We are encouraged by the growing international recognition of the need to complete without delay universal, comprehensive and verifiable treaties to ban nuclear weapons tests and to cut off the production of fissile material for nuclear weapons and other nuclear explosive devices. Recognizing the continuing dangers posed worldwide by criminal diversion and illicit trafficking of nuclear materials, and drawing on the decisions taken in Naples and the practical work undertaken by our experts since then, we resolve to work together to strengthen systems of control, accounting and physical security for nuclear materials; to expand our cooperation in the area of customs, law enforcement and intelligence and to strengthen through venues such as the IAEA and INTERPOL the international community's ability to combat nuclear theft and smuggling. We emphasize the importance of bringing the Chemical Weapons Convention into force at the earliest possible date, and call for rapid progress in developing verification systems for the Biological and Toxin Weapons Convention.

6. The excessive transfer of conventional arms, in particular to areas of conflict, is one of our main preoccupations. We are appalled by the continuing injuries to civilians caused by anti-personnel landmines. We urge States to become party to the 1980 Conventional Weapons Convention and to

participate in its review conference this fall in an effort to strengthen multilateral controls over anti-personnel landmines. We urge all countries to support full implementation of the UN Register of Conventional Arms, and note that Article 26 of the UN Charter calls for "the least diversion for armaments of the world's human and economic resources". Regional organizations can help promote transparency and confidence-building measures that reduce excessive stockpiling of conventional weapons. We shall work with others for effective and responsible export controls on arms and sensitive dual-use goods and technologies.

### **Promoting New Approaches**

7. New approaches are needed in the UN and elsewhere to deal with emerging global challenges such as environmental degradation, unsustainable population growth, mass displacement of victims of conflict and involuntary migration across borders. Initiatives such as the UN Secretary-General's Agenda for Development that highlight the linkages between economic, social and political issues could make an important contribution to international stability. We commit ourselves to working with other Member States to build on it. We also recognize the importance of non-governmental organizations in the UN's work on economic and social development, including human rights and humanitarian assistance, and believe that greater coordination of their efforts with those of the UN and other organizations would benefit the world community. We reiterate our firm belief in the necessity for the international community to promote efficient means to respond promptly to humanitarian emergencies, and support the work of the WEU in this area.

8. Respect for the rights of the individual is at the heart of a durable, secure and prosperous international order. We will work to promote good governance and democratic accountability, which are the surest guarantees of respect for universal human rights and fundamental freedoms. We condemn all forms of discrimination and intolerance, including aggressive nationalism and the mistreatment of persons belonging to minorities. We call upon all States to protect the rights set out in the Universal Declaration of Human Rights, and to ratify and comply full with international Covenants and other multilateral human rights instruments. We reaffirm our support for the UN High Commissioner for Human Rights and his coordinating role on human rights throughout the UN system. We call for the strengthening of international mechanisms of accountability for human rights violations, and on governments to cooperate fully with courts, tribunals and investigative commissions, including on the effective pursuit of individual cases within the bounds of international and domestic law.

9. We restate our resolve to defeat all forms of terrorism. Following recent outrages, we agree to share more intensively our experiences of, and lessons learned from, major terrorist incidents, and to strengthen our cooperation in all areas of counter-terrorism, including research and technology. We call upon all States that assist terrorists to renounce terrorism and to deny financial support, the use of their territory or any other means of support to terrorist organizations. We attach particular importance to measures to impede the ability of terrorist organizations to raise funds, and urge other governments to strenuously enforce laws against terrorist activity and join existing treaties and conventions against terrorism. In pursuit of these shared aims, we charge our terrorism experts group to report to a ministerial level meeting on specific, cooperative measures to deter, prevent, and investigate terrorist acts. These sessions should be held prior to our next meeting.

10. Transnational criminal organizations are a growing threat to the security of our nations. They undermine the integrity of financial systems, breed corruption, and weaken emerging democracies and developing countries around the world. To counter their criminal activities effectively, we will work to reinforce existing institutions, strengthen our cooperation, exchange of information, and assistance to other nations. Sanctuaries provided by some countries to transnational criminal organizations and their agents create a major difficulty in the implementation of justice. We all agree to cooperate more closely together, and with others, to ensure that they cannot escape justice by crossing borders. We encourage all governments to adhere to and implement relevant international conventions and the recommendations of the Financial Action Task Force. We recognize that ultimate success requires all Governments to provide for effective measures to prevent the laundering of proceeds from drug trafficking and other serious crimes. To implement our commitments in the fight against transnational organized crime, we have established a group of senior experts with a temporary mandate to look at existing arrangements for cooperation both bilateral and multilateral, to identify significant gaps and options for improved coordination and to propose practical action to fill such gaps. The group will report back to the Summit in 1996.

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## Europe

11. After five decades of division, we now have the historic opportunity to establish in all of Europe democracy, market economy, stability, peace and prosperity. We strongly support the contribution of the European Union to stability and cooperation through its Europe Agreements with Central European countries and the Baltic States as well as through Partnership Agreements with Russia, Ukraine and other newly independent States. We encourage States to take full advantage of the opportunities afforded by the Pact on Stability in Europe and NATO's Partnership for Peace programme for enhancing security and stability in the whole of Europe. We encourage other multilateral fora and arrangements to assist in the integration of Europe. We are pleased with the steps taken at the Budapest Summit last year to strengthen the capabilities of the OSCE, and we will contribute to the OSCE study into a security model for Europe for the 21st century.

12. We are deeply concerned by the continuing escalation of hostilities in Bosnia, especially in the area of Sarajevo. We appeal to all parties to establish an immediate moratorium on military operations in order to allow political negotiations, without which no lasting solution is possible, to resume as quickly as possible on the basis of the Contact Group proposals which we urge the Bosnian Serbs to accept.

13. We condemn the taking of UN hostages by the Bosnian Serbs, their deplorable shelling of civilian populations and their obstruction of UNPROFOR's freedom of movement. We demand the immediate and unconditional release of the remaining hostages, and hold the Bosnian Serb leadership accountable for their safety. We call on the Bosnian government and all other parties to renew the Cessation of Hostilities Agreement, and to ensure the free passage of humanitarian assistance.

14. We welcome the decision of the UN Security Council to strengthen UNPROFOR and to provide it with a rapid reaction capacity to enhance its security and its ability to protect civilians, facilitate the delivery of humanitarian assistance and promote conditions for a lasting peace. The Rapid Reaction Force will be under UN command, as stipulated in the Security Council resolution, and operate in accordance with UNPROFOR's existing mandate.

15. We call for renewed impetus to be given urgently to the peace process and, in this connection, we welcome the appointment of Carl Bildt as EU negotiator, and offer our strong support to him and UN negotiator Thorvald Stoltenberg in their efforts to achieve a durable settlement.

16. We call for early mutual recognition between the republics in the former Yugoslavia within their existing internationally recognized borders; recognition between Bosnia and the Federal Republic of Yugoslavia would be an important first step, and we urge President Milosevic to take it. The Bosnian-Croat Federation is a way to advance reconciliation, and we continue to support steps to help stabilize the situation in the former Yugoslav Republic of Macedonia.

17. We remain concerned about the risk of further fighting in Croatia. Both the Croatian government and the Croatian Serbs must exercise restraint. We urge the parties to honour the March 29, 1994 ceasefire and to cooperate with the United Nations in implementing UNCRO's new mandate. We call for further development of the Economic Agreement between the two sides and the opening of political talks to achieve a settlement respecting the internationally recognized borders of Croatia while establishing autonomy for the Serb population on the basis of the principles underlying the Zagreb-4 Plan for Croatia.

## Middle East and Africa

18. The Israel-Jordan Peace Treaty is an important building block for peace throughout the region. It is imperative that the momentum for peace be maintained. We encourage the conclusion of peace treaties between Israel and Lebanon and Syria. We pledge our firm support for the Israeli-Palestinian Declaration of Principles. We urge Israel and the Palestinian Authority to conclude, as agreed between them, the arrangements for elections in the Palestinian Autonomous Territory and the redeployment of the Israeli Defence Forces. We also recognize the importance of the economic basis for peace, notably the need for regional integration. We reiterate our call to the League of Arab States to end its boycott of Israel.

19. We call upon the Government of Iran to participate constructively in regional and world affairs, and to desist from supporting radical groups that seek to destroy the Middle East Peace Process and destabilize the region. We also call on the Iranian Government to reject terrorism and, in particular, to withdraw its support from the continuing threats to the life of Mr. Salman Rushdie and others associated with his work.

We call on all States to avoid any collaboration with Iran which might contribute to the acquisition of a nuclear weapons capability.

20. We reiterate our resolve to enforce full implementation of each and every relevant UN Security Council resolution concerning Iraq and Libya until they are complied with, and recall that such implementation would entail the reassessment of sanctions. We urge Iraq to reconsider its rejection of UN Security Council Resolution 986 which would permit the sale of oil and purchase of humanitarian goods.

21. We support the positive steps of the Algerian government towards economic reform, and believe that peace and stability provide the only durable foundation for success. We call for an end to the violence in Algeria, and urge all parties that accept non-violent and democratic principles to pursue political reconciliation through peaceful dialogue and a genuine electoral process.

22. We applaud the peaceful and democratic transition of power in South Africa, the successful holding of elections elsewhere in Southern Africa, and the Angolan peace process. These developments provide good grounds for optimism about Africa's longer term prospects. We will continue to support efforts by African leaders to prevent conflict and enhance the welfare of their populations through democratisation, structural reform, and economic liberalization.

23. We condemn extremists in Burundi and Rwanda and support measures to hold them accountable for their actions, including through the International Tribunal for Rwanda. We call for greater international support for humanitarian assistance for the Rwanda/Burundi region. We support the convening of a UN and OAU-sponsored Conference on Stability and Security in the Lakes Region.

## **Asia-Pacific**

24. We welcome the emerging dialogue and cooperation in and with the Asia-Pacific region in various forms including the ASEAN Regional Forum. We welcome China's growing participation in international and regional fora dealing with political, economic and security issues. Each of us will pursue our respective dialogues with China in the interests of a more stable and prosperous world. We look forward to a smooth transfer of government in Hong Kong in 1997, with the object of maintaining its economic prosperity and social stability.

25. We call on North Korea to observe the agreements reached at the NPT Review and Extension Conference. We believe the Agreed Framework between the United States and North Korea offers a real prospect for resolving the North Korea nuclear problem, and we are encouraged by recent developments in this regard. We call on North Korea to fulfil its commitment to the regime of IAEA safeguards and to uphold the terms of the Agreed Framework. The support of the international community can be demonstrated inter alia through participation in the Korean Peninsula Energy Development Organization (KEDO). We also believe that progress in the North-South dialogue will contribute to peace and security on the Korean Peninsula.

26. We are concerned about the potential for conflict in Kashmir and urge all parties to pursue a peaceful settlement. To help lower tension and build confidence on the subcontinent, as well as to strengthen the framework of global security, we urge India and Pakistan to support international arms control norms, accede to the NPT and refrain from taking further steps towards ballistic missile deployment or any other measures that might precipitate a regional arms race.

27. We call on the Government of Myanmar to release Aung San Suu Kyi and other political prisoners, without conditions, and to engage in a dialogue of reconciliation aimed at the full and early realization of democracy and national unity.

28. The South China Sea has become increasingly an area of territorial dispute. We call upon all parties to resolve their differences in a peaceful manner respecting international norms.

## **Americas**

29. We encourage implementation by the States of the Americas of the Miami Summit Plan Of Action to strengthen democratic institutions, eliminate the threat of terrorism, eradicate poverty and discrimination, conserve their natural environment, and negotiate the Free Trade Area of the Americas. We support the Government of Mexico's bold steps towards political reform and dialogue. We commend the effort of the Guarantor Group of the Rio Protocol to help Peru and Ecuador achieve a permanent peace between

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them. We support international cooperation in Haiti's economic and democratic development, and look forward to free and open legislative elections scheduled for June 25.

**CHAIRMAN'S G-7 STATEMENT ON FORMER YUGOSLAVIA**  
[BY PRIME MINISTER JEAN CHRÉTIEN]

I am here on behalf of the Group of Seven, the seven Heads of Government. We discussed this tonight at dinner, and they have asked me to come and read to you this statement. I will read it to you in English.

At a time when all information indicates that there is a danger of renewed intensification of fighting in Bosnia, in particular in Sarajevo, we send out to all the parties a strong call for the greatest restraint.

We appeal to the Bosnian Serbs and to the Federation of Bosnia-Herzegovina to establish an immediate moratorium on military operations in order to allow political negotiations, without which no lasting solution is possible, to resume as quickly as possible, on the basis of the Contact Group proposal.

We call upon the Croatian Government and the Krajina Serbs to refrain from all military action and to resume the negotiation process.

To promote this resumption of negotiations, we express our confidence in Mr. Bildt and Mr. Stoltenberg, whom we invite to visit the area very quickly to this end.