

KÖLN SUMMIT

18-20 June 1999

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COMMUNIQUÉ

Cologne, 20 June 1999

1. We, the Heads of State and Government of eight major democracies and the President of the European Commission, met in Köln for the 25th Economic Summit. On the threshold of the new millennium we discussed growing opportunities as well as forward-looking solutions to the challenges facing our nations and the international community.

2. Globalisation, a complex process involving rapid and increasing flows of ideas, capital, technology, goods and services around the world, has already brought profound change to our societies. It has cast us together as never before. Greater openness and dynamism have contributed to the widespread improvement of living standards and a significant reduction in poverty. Integration has helped to create jobs by stimulating efficiency, opportunity and growth. The information revolution and greater exposure to each other's cultures and values have strengthened the democratic impulse and the fight for human rights and fundamental freedoms while spurring creativity and innovation. At the same time, however, globalisation has been accompanied by a greater risk of dislocation and financial uncertainty for some workers, families and communities across the world.

3. The challenge is to seize the opportunities globalisation affords while addressing its risks to respond to concerns about a lack of control over its effects. We must work to sustain and increase the benefits of globalisation and ensure that its positive effects are widely shared by people all over the world. We therefore call on governments and international institutions, business and labour, civil society and the individual to work together to meet this challenge and realise the full potential of globalisation for raising prosperity and promoting social progress while preserving the environment.

I. Getting the World Economy on Track for Sustained Growth

4. Since we met last year in Birmingham, the world economy has faced major challenges. Progress has been achieved in addressing the crisis and laying the foundations for recovery. Policy steps aimed at supporting growth in the major industrialised countries and important policy actions leading to stronger performance in some emerging markets have improved the economic outlook. A number of substantial challenges still remain. We therefore renew our commitment to pursue appropriate macroeconomic policies and structural reforms. These will contribute to more balanced growth in the world economy, thereby reducing external imbalances.

5. The world economy is still feeling the effects of the financial crises that started in Asia two years ago. Without an open, rules-based world trading system and the beneficial flows of goods and services it encourages, the countries affected would be having much greater difficulty recovering from these crises and stabilising their economies.

6. We welcome the outline agreements recently reached by Russia with the IMF and the World Bank and look forward to their speedy implementation as a further important step in Russia's reform program. Once an IMF agreement is in place, we encourage the Paris Club to act expeditiously to negotiate a debt rescheduling agreement with Russia. In order to support Russia's efforts towards macroeconomic stability and sustainable growth, we encourage the Paris Club to continue to deal with the problem of the Russian debt arising from Soviet era obligations, aiming at comprehensive solutions at a later stage once Russia has established conditions that enable it to implement a more ambitious economic reform program.

7. We agreed to intensify our dialogue within the G8 structures on the longer term social, structural and economic reform in Russia. To this end, we have instructed our personal representatives to ensure the overall continuity and cohesion of the work among the G8 on this subject. Particular emphasis should be given to concrete areas of cooperation such as small business development, strengthened cooperation with regions, health, the social impact of economic transformation. We agreed to deepen our cooperation on law enforcement, fighting organised crime and money laundering, including as they relate to capital flight.

II. Building a World Trading System That Works for Everyone

8. The multilateral trading system incorporated in the World Trade Organisation (WTO) has been key to promoting international trade and investment and to increasing economic growth, employment and social progress. We therefore renew our strong support for the WTO and our commitment to an open trade and investment environment. We call on all nations to resist protectionist pressures and to open their markets further. We encourage those states not yet members of the WTO to join it, by accepting its principles.

9. Given the WTO's vital role, we agree on the importance of improving its transparency to make it more responsive to civil society while preserving its government-to-government nature. We pledge to work for a successful ministerial meeting in Seattle in order to launch the new round. We will also seek a more effective way within the WTO for addressing the trade and environment relationship and promoting sustainable development and social and economic welfare worldwide.

10. We therefore call on all nations to launch at the WTO Ministerial Conference in Seattle in December 1999 a new round of broad-based and ambitious negotiations with the aim of achieving substantial and manageable results. All members should have a stake in the process. We encourage all members to make proposals for progress in areas where developing countries and in particular least developed countries can make solid and substantial gains; all countries should contribute to and benefit from the new round. An effective new round of trade negotiations should help pave the way for the further integration of the developing countries into the world economy. In this context we reaffirm our commitment made in Birmingham last year to the least developed countries on improved market access. We also urge greater cooperation and policy coherence among international financial, economic, labour and environmental organisations.

11. Because trade is increasingly global, the consequences of developments in biotechnology must be dealt with at the national and international levels in all the appropriate fora. We are committed to a science-based, rules-based approach to addressing these issues.

III. Designing Policies for More Employment

12. One of the most urgent economic problems is the high level of unemployment in many countries. We reaffirm the importance of intensified international cooperation and enhanced efforts at the national level to design the right policies for more employment. To strengthen the foundations for sustainable growth and job creation, we strongly emphasise a two-tiered approach:

- promoting structural re-forms to enhance the adaptability and competitiveness of our economies and to help the long-term unemployed to return to the labour market;
- pursuing macroeconomic policies for stability and growth and ensure that monetary and fiscal policies are well balanced.

13. The greater the adaptability of our economies, the greater the likelihood that economic growth will result in more employment. We therefore strongly support the elimination of structural rigidities in labour, capital and product markets, the promotion of entrepreneurship and innovation, investment in human capital, reform of the tax/benefit systems to strengthen economic incentives and encourage employment, and development of an innovative and knowledge-based society.

14. We also endorse the G8 Labour Ministers' conclusions at their conference in Washington last February, namely to provide social safety nets that support employment, to prevent long-term unemployment by early action, to facilitate job search by offering labour market information and employment services, to promote lifelong learning and new forms of work organisation, to ensure equal access to the labour market for all workers, including job entrants and older workers, and to take forward the social dialogue.

IV. Investing in People

15. Basic education, vocational training, academic qualifications, lifelong upgrading of skills and knowledge for the labour market, and support for the development of innovative thinking are essential to shape economic and technical progress as we move towards a knowledge-based society. They also enrich individuals and foster civic responsibility and social inclusion.

16. In support of these goals, we agree to pursue the aims and ambitions set out in the Köln Charter.

17. Adaptability, employability and the management of change will be the primary challenges for our societies in the coming century. Mobility between jobs, cultures and communities will be essential. And the passport to mobility will be education and lifelong learning for everyone.

18. To this end, we support an increase in exchanges of teachers, administrators and students among the nations of the Eight and with other nations and invite our experts to identify the main obstacles to increased exchanges and to come forward with appropriate proposals before the next Summit. We call upon the Organisation for Economic Cooperation and Development (OECD) and the United Nations Educational, Scientific and Cultural Organisation (UNESCO) to study how different countries are attempting to raise education standards, for example by looking at best practices in the recruitment, training, compensation and accountability of the teaching profession internationally. We commit ourselves to explore jointly ways to work together and through international institutions to help our own countries as well as developing nations use technology to address learning and development needs, for example, through distance learning.

V. Strengthening Social Safeguards

19. As the process of globalisation has gained momentum, it has brought with it important social and economic progress. At the same time, rapid change and integration have left some individuals and groups feeling unable to keep up and has resulted in some dislocation, particularly in developing countries. We therefore need to take steps to strengthen the institutional and social infrastructure that can give globalisation a "human face" and ensure increasing, widely shared prosperity.

20. Social security policies, including social safety nets, must be strong enough to encourage and enable individuals to embrace global change and liberalisation and to improve their chances on the labour market, while enhancing social cohesion. We recognise that faced with financial constraints, it is vital to strike a sustainable balance between social support programs and greater personal responsibility and initiative.

21. We are convinced that the countries most seriously affected by the recent economic and financial crises will sustain a speedier recovery if they create and improve the necessary social infrastructure. It is therefore particularly important to maintain investment in basic social services during times of crisis. Budgetary priorities and flexibility should enhance the quality of social infrastructure and investment.

22. Democracy, the rule of law, good governance and respect for human rights and for core labour standards are further indispensable prerequisites for social stability. The development of well-functioning and corruption-free institutions that are cost-effective, transparent and accountable to the public must complement the process of liberalisation.

23. We call on the International Financial Institutions (IFIs) to support and monitor the development of sound social policy and infrastructure in developing countries. We commend actions already being taken in this regard. We urge the International Monetary Fund (IMF) to give more attention to this issue in designing its economic programs and to give particular priority to core budgets such as basic health, education and training to the extent possible, even during periods of fiscal consolidation. We welcome the efforts of the World Bank, in collaboration with the UN, to develop principles of good practice in social policy and their work to strengthen partnerships with borrower countries through the comprehensive development network. We invite the World Bank and the IMF to work together to develop a set of policies

and practices that can be drawn upon, by donors and borrowers alike, in the design of adjustment programs that ensure the protection of the most vulnerable.

24. We support improved exchange of information, including analysis of the cost and benefits of social safety nets, within the UN, the OECD, and in other appropriate fora on the design and implementation of social reforms.

25. We commit ourselves to promote effective implementation of the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work and its Follow-up. We also welcome the adoption of the ILO Convention on the Elimination of the Worst Forms of Child Labour. We further intend to step up work with developing countries to improve their capacity to meet their obligations. We support the strengthening of the ILO's capacity to assist countries in implementing core labour standards.

26. We also welcome the increasing cooperation between the ILO and the IFIs in promoting adequate social protection and core labour standards. We urge the IFIs to incorporate these standards into their policy dialogue with member countries. In addition, we stress the importance of effective cooperation between the WTO and the ILO on the social dimensions of globalisation and trade liberalisation.

VI. Deepening the Development Partnership

27. Developing countries are essential partners in a globalised world. We are committed to working with them, especially with the poorest countries, to eradicate poverty, launch effective policies for sustainable development and develop their capacity to integrate better into the global economy, thus benefiting from the opportunities offered by globalisation.

- We will continue to provide substantial support and assistance to developing and transition economies in support of their own efforts to open and diversify their economies, to democratise and improve governance, and to protect human rights.
- We will strive gradually to increase the volume of official development assistance (ODA), and to put special emphasis on countries best positioned to use it effectively.
- To ease future debt burdens and facilitate sustainable development, we agree to increase the share of grant-based financing in the ODA we provide to the least developed countries.
- Non-governmental organisations also have an important role to play.
- While international assistance and debt relief are clearly important, their positive effects depend on sound national efforts towards economic and structural reform and good governance, where the private sector and civil society are able to play productive roles.
- We intend to step up work with developing countries and multilateral institutions to improve developing country capacity to exercise their rights and meet their obligations in the global trading system so as to ensure that they derive the full benefits of liberalised trade and thus contribute to global economic growth.
- We call on the UN and the IFIs to help developing countries mobilise sufficient means for social services and basic infrastructure and continue to support and to mainstream democratisation, good governance and the rule of law into country development strategies.
- We reaffirm our support for the OECD mandate to finalise a recommendation on untying aid to the least developed countries. We call on OECD members to bring this effort to a successful conclusion as soon as possible.

28. We reaffirm our commitment to contribute to the achievement of economic and social development in Africa, Asia and Latin America. We will review the situation in that regard every year, on the basis of reports by the IFIs and the relevant regional development banks, on the alleviation of poverty.

VII. Launching the Köln Debt Initiative

29. We have decided to give a fresh boost to debt relief to developing countries. In recent years the international creditor community has introduced a number of debt relief measures for the poorest countries. The Heavily Indebted Poor Countries (HIPC) framework has made an important contribution in this respect. Recent experience suggests that further efforts are needed to achieve a more enduring solution to the problem of unsustainable debt burdens. To this end we welcome the 1999 Köln Debt Initiative, which is designed to provide deeper, broader and faster debt relief through major changes to the HIPC framework. The central objective of this initiative is to provide a greater focus on poverty

reduction by releasing resources for investment in health, education and social needs. In this context we also support good governance and sustainable development.

30. We are aware that new proposals will require additional substantial financing. While several means of financing are under consideration, credible progress in identifying additional funding possibilities is needed, and we stand ready to help with financing solutions. In this context we recognise the importance of fair burden sharing among creditors.

VIII. Redoubling Efforts to Protect the Environment

31. To underscore our commitment to sustainable development we will step up our efforts to build a coherent global and environmentally responsive framework of multilateral agreements and institutions. We support the outcome of the G8 Environment Ministers' meeting in Schwerin and will expedite international cooperation on the establishment, general recognition and continual improvement of environmental standards and norms. We agree that environmental considerations should be taken fully into account in the upcoming round of WTO negotiations. This should include a clarification of the relationship between both multilateral environmental agreements and key environmental principles, and WTO rules.

32. We agree to continue to support the Multilateral Development Banks in making environmental considerations an integral part of their activities and we will do likewise when providing our own support. We will work within the OECD towards common environmental guidelines for export finance agencies. We aim to complete this work by the 2001 G8 Summit.

33. We reaffirm that we consider climate change an extremely serious threat to sustainable development. We will therefore work towards timely progress in implementing the Buenos Aires Plan of Action with a view to early entry into force of the Kyoto Protocol. In particular, we encourage decisions on the operation of the Kyoto mechanisms and on a strong and effective compliance regime. We underline the importance of taking action to reduce greenhouse gas emissions through rational and efficient use of energy and through other cost-effective means. To this end, we commit ourselves to develop and implement domestic measures including under the UN Framework Convention on Climate Change. We also agreed to exchange experience on best practices. We will also promote increasing global participation of developing countries in limiting greenhouse gas emissions. We welcome the action already taken by developing countries and stress the need to support their efforts through financial mechanisms, the development and transfer of technology, and capacity-building. We note the important role that the Clean Development Mechanism (CDM) can play in these areas. We also welcome the intention announced by some developing countries in Buenos Aires to undertake further commitments to abate their greenhouse gas emissions.

IX. Promoting Non-proliferation, Arms Control and Disarmament

34. Strengthening the international non-proliferation regime and disarmament measures is one of our most important international priorities. We intend to build a broad international partnership on expanded threat reduction to address security, arms control, decommissioning and non-proliferation requirements while reducing risks to the environment. This will build on efforts currently being undertaken and planned by G8 countries and others. We are committed to increased resources for these purposes and encourage all other interested countries to join us.

35. We recognise the continuing need to protect and manage weapons-grade fissile material, especially plutonium. In past years, G8 countries have worked on the issue of managing weapons-grade nuclear material no longer required for defence purposes. We affirm our intention to establish arrangements for the safe management of such fissile material. We strongly support the concrete initiatives being undertaken by G8 countries and others for scientific and technical cooperation necessary to support future large-scale disposition programs. We invite all interested countries to support projects for early implementation of large-scale programs and urge establishment of a joint strategy. We recognise that an international approach to financing will be required involving both public and private funds and we will review potential increases in our own resource commitments prior to the next G8 Summit.

36. We are deeply concerned about recent missile flight tests and developments in missile proliferation, such as actions by North Korea. We undertake to examine further individual and collective means of addressing this problem and reaffirm our commitment to the objectives of the Missile Technology Control Regime (MTCR).

37. Effective export control mechanisms are essential for achieving a broad range of our arms control and non-proliferation objectives. We will continue to look for ways to strengthen these mechanisms. At the same time we stress the role of the Nuclear Suppliers' Group in preventing nuclear proliferation.

38. One year after the nuclear tests by India and Pakistan, we reiterate our concerns and reaffirm our statement from the Birmingham Communiqué. Recent missile tests have further increased tension in the region. We encourage both countries to follow first positive steps already undertaken by joining international non-proliferation and disarmament efforts and taking the steps set out in UN Security Council resolution 1172.

X. Tackling Global Challenges

39. In many countries, violent conflicts and civil wars continue to be an obstacle to making good use of the opportunities of globalisation. Effective crisis prevention and management must address the root causes of these conflicts. These causes include the political manipulation of ethnic tensions, economic and social inequality, and extreme poverty as well as the absence of democracy, the rule of law and good political and economic governance. They are often exacerbated by human rights violations, environmental degradation, scarcity of resources, rapid population growth and the rapid spread of diseases.

40. In order to improve our ability to prevent crises, it is necessary, consistent with the principles and purposes of the UN Charter, to:

- enhance the capacity to recognise and address the potential for conflict at an early stage. Risks and causes of violent conflicts must be more effectively monitored and the information shared to forestall them;
- ensure that our security, economic, environmental and development policies are properly coordinated and are conducive to the prevention of violent conflict. We will, in our dialogue with other countries and international institutions, work to coordinate our policies;
- recognise the important role the United Nations plays in crisis prevention and seek to strengthen its capacity in this area;
- monitor systematically military expenditures in the larger context of public expenditure patterns and in the macroeconomic context for growth and development;
- encourage and support the efforts of regional organisations and arrangements to expand their jurisdictional and operational ability, in accordance with international law, to help control and resolve conflict in their area;
- promote a free press, establish fair electoral processes, help improve the democratic accountability and functioning of legislatures, of judicial systems and of the military and the police forces, and improve human rights monitoring and advocacy.

41. We are concerned at the continuing global spread of AIDS. We reaffirm the need to continue efforts to combat AIDS at the national and international level through a combined strategy of prevention, vaccine development and appropriate therapy. We welcome and support the coordinating and catalytic role of UNAIDS in the fight against AIDS. We call on co-sponsors and other partners to cooperate in the formulation of clear goals, strategies and initiatives at both the global and regional level.

42. We also pledge to continue our national and international efforts in the fight against infectious and parasitic diseases, such as malaria, polio and tuberculosis, and their drug-resistant forms. In particular we will continue to support the endeavours of the World Health Organisation and its initiatives "Roll Back Malaria" and "Stop TB". We call on governments to adopt these recommended strategies.

43. In light of the increasing importance of issues concerning food safety we invite the OECD Working Group on Harmonisation of Regulatory Oversight of Biotechnology and the OECD Task Force for the Safety of Novel Foods and Feeds to undertake a study of the implications of biotechnology and other aspects of food safety. We invite OECD experts to discuss their findings with our personal representatives. We ask the latter to report to us by the next Summit on possible ways to improve our approach to these issues through international and other institutions, taking into account the reflections underway in other fora.

44. We welcome the growing recognition by the international community of the damaging effects of all forms of corruption and the coming into force of the OECD Anti-Bribery Convention in February 1999. We

hope that more countries will ratify the Convention. We applaud the results and planned follow-up of the international conference on anti-corruption efforts, attended by over 80 countries including all G8 partners, and the OECD conference on anti-corruption efforts, both held in the United States in February 1999. In the context of the UN Crime Convention, we urge that acts of corruption involving public officials be made criminal offences.

45. We will sustain the momentum of international efforts to combat transnational organised crime and the threat it represents to political, financial and social stability worldwide. We commend the work of the Senior Experts Groups on Transnational Organised Crime and on Terrorism and urge them to continue their work, in particular for an early conclusion of the negotiations of UN conventions and protocols on organised crime. We also call for more rapid progress of negotiations on the UN Convention on the Financing of Terrorism. We ask the two expert groups to report back to us next year. We reaffirm our commitment to tackle the drug issue, in particular through active implementation of the conclusions of the 1998 UN General Assembly Special Session on the World Drug Program. We welcome the upcoming Ministerial Meeting on Crime to be held in Moscow this fall.

46. We renew the commitment we made at the 1996 Moscow Summit to safety first in the use of nuclear power and the achievement of high safety standards worldwide. In this regard, we attach great importance to the results of the Nuclear Safety Convention peer review meeting and to the International Atomic Energy Agency Conference on Strengthening Nuclear Safety in Eastern Europe.

47. We reaffirm our commitment to strengthen cooperation in the field of nuclear safety. We welcome the concerted efforts to address the Year 2000 computer problem ("Millennium Bug") in this area. With regard to the Nuclear Safety Account, we continue to attach great importance to full and timely implementation of the grant agreements.

48. There has been real progress since the Birmingham Summit in tackling the "Millennium Bug". But there is still much to do. We will maintain vigorous programs of action to ensure our own Year 2000 readiness and to minimise the potential impact on our countries and on the world as a whole. We urge all other governments to do the same. In these efforts, high priority should be given to the key infrastructure sectors * energy, telecommunications, financial services, transport and health * as well as to defence, the environment and public safety. Public confidence will be crucial and will depend heavily upon transparency and openness as to the state of preparation in critical sectors. Governments, international organisations, infrastructure providers and information technology suppliers will need to ensure a regular flow of reliable information to the general public. It will be important, as the date approaches, for responsible bodies to have in place contingency plans to cope with system failures that may occur in the most sensitive areas despite intensive preparations. We urge third countries to do the same. We will maintain close cooperation among ourselves and with others on this as well as other aspects of the problem. We shall convene a special G8 conference on contingency planning later this year.

Next Summit

49. We have accepted the invitation of the Prime Minister of Japan to meet in Okinawa (Kyushu) on 21-23 July next year.

G8-STATEMENT ON REGIONAL ISSUES

Cologne, 20 June 1999

Kosovo

We welcome the decisive steps already taken and now underway to end violence and repression in Kosovo, to establish peace and to provide for the safe and free return of all refugees and displaced persons to their homes. In this regard, we particularly welcome the adoption on June 10 of United Nations Security Council Resolution (UNSCR) 1244, and commend the intensive efforts of our Foreign Ministers and others, including the Special Envoys of the European Union and the Russian Federation, to restore peace and security.

We reaffirm strong support for the international civil and security presences in accordance with UNSCR 1244. We welcome the leadership of the United Nations in the international civil presence, and pledge to collaborate closely to ensure the United Nations' success in carrying out its complex mission. We also welcome the agreement reached between NATO and Russia on the international security presence, and the relevant Military Technical Agreement. In that regard, we insist that all parties to the conflict in Kosovo respect the cease-fire and fully abide by the terms of UNSCR 1244 and the Military Technical Agreement concerning the withdrawal of all Yugoslav and Serb military, police, and paramilitary forces from Kosovo and the demilitarisation of the KLA and other armed Kosovo Albanian groups.

We expect all residents of Kosovo to contribute to the creation of a democratic, multi-ethnic Kosovo. The return of refugees and displaced persons to their homes and the assurance of security for all persons including Serb and all other minorities in Kosovo will be high priorities of the international community. To ensure the wellbeing of the refugees and displaced persons, their return must be undertaken in a safe, orderly, and organised fashion. We will work cooperatively with each other, the United Nations, the European Union, the OSCE, and other international organisations to facilitate safe return including demining.

We will fully cooperate with the work of the International Criminal Tribunal for the Former Yugoslavia. We affirm our commitment to a meeting of the international donor community in July to address short-term humanitarian and other needs for Kosovo, and a subsequent meeting in the fall after a full assessment of needs has been developed pursuant to the assistance coordination process chaired by the European Commission and the World Bank.

We stress the importance of the civil implementation and, given the key role the G8 has played in the Kosovo crisis, we invite our Foreign Ministers to review on a regular basis the progress achieved thus far in this process and to provide further guidance.

South Eastern Europe Stability Pact and Donor Coordination

We welcome the adoption of the Stability Pact on June 10 in Cologne, an initiative of the European Union which will continue to play the leading role. This Stability Pact has launched a process for South Eastern Europe with the objective of a positive mid- and long-term perspective for the countries in the region to achieve lasting peace as well as political and economic stability. We take note that countries in the region participating in the Stability Pact commit themselves to continued democratic and economic reforms, as well as bilateral and regional cooperation amongst themselves to advance their integration, on an individual basis, into Euro-Atlantic structures. We consider this stabilisation process to be one of the major political and economic challenges ahead of us. We declare our readiness to take strong action to achieve all the objectives of the Stability Pact. In regard to the above, the Federal Republic of Yugoslavia must demonstrate a full commitment to all of the principles and objectives of the Pact.

We underline that, in order to achieve the goals of the Stability Pact, the countries of the region bear a primary responsibility. Assistance from outside can help, but not replace the countries' own efforts. Therefore we call on the countries of South Eastern Europe to cooperate with each other and within the international community to develop a shared strategy for stability and growth of the region. In recognition of the principle of fair burden sharing, we also call on the international donor community to undertake the necessary measures in order to give the countries in the region a strong signal of active international support and solidarity and to organise donor conferences as early as feasible.

We welcome the progress made through the chairmanship of the European Commission and the World Bank towards establishing a donor coordination process to develop a coherent international assistance strategy for the region opening the door for all donor opportunities as well as to mobilise additional financial support for reconstruction, regional integration, economic recovery and reform and to promote sound macroeconomic and structural policies by the countries concerned. This process will be guided by the High Level Steering Group, in which the Special Coordinator of the Stability Pact will play an important role.

The High Level Steering Group will be co-chaired by the European Commission and the World Bank and include the Special Coordinator of the Stability Pact, the IMF, the EIB and the EBRD which will be active in the region, plus one UN representative and the Finance Ministers of major donor countries and, where appropriate, Development Ministers.

Middle East Peace Process

We reaffirm our support for a negotiated settlement in the Middle East, that should be based on the full implementation of existing commitments and on the principles of land for peace, UNSC resolutions 242 and 338, the Madrid and Oslo Agreements, UNSC resolution 425, and secure and recognised boundaries. We welcome recent encouraging statements by the Prime Minister-elect of Israel and call upon all parties to pursue the Middle East Peace Process with resolve, renewed efforts and good faith, leading to a comprehensive, just and lasting peace.

We urge both Israel and the Palestinians to implement fully and promptly the Wye River Memorandum, to combat terror, to fight violence and incitement to violence and to refrain from all activities that prejudice the outcome of the Permanent Status negotiations. We call upon both sides to resume immediately the Permanent Status negotiations. We believe that the parties should set a goal of concluding the Permanent Status negotiations within a target period of one year.

We also call for an early resumption of negotiations between Israel and Syria and Lebanon in order to achieve peace agreements. In the meantime, we urge all parties concerned strictly to respect the provisions of the April 26, 1996, understanding and to contribute actively to the work of the monitoring group in South Lebanon.

We equally underline the importance of resuming the multilateral track of the peace process and encourage the working groups and steering group to pursue their activities, supporting the bilateral negotiations and enhancing regional cooperation and economic integration.

We remind all parties that sustained economic development and improved living standards for the Palestinian people are real factors in securing peace and enhancing stability in the region.

We are convinced that peace and security and the fulfilment of the rights of all the people of the Middle East, including the Palestinians, are vital to a lasting, just and negotiated settlement that provides for the Palestinians to live as a free people on their own land.

Jordan

We welcome King Abdullah's reaffirmation of Jordan's long-standing support for the Middle East Peace Process. We are committed to enhancing stability by supporting Jordan's economic reform during this critical period. We recognise the importance that Jordan attaches to alleviating its debt burden and call on the international community to provide economic assistance, including, where appropriate, debt relief.

Nigeria

The G8 warmly welcomes Nigeria's return to civilian rule and democracy. It recognises that the strong backing of the international community will be needed to help the new government implement the necessary political and economic reforms. The G8 will assist positive change in Nigeria by continued support for democracy and human rights, good governance, transparency and accountability and the reduction of poverty.

Kashmir

We are deeply concerned about the continuing military confrontation in Kashmir following the infiltration of armed intruders which violated the Line of Control. We regard any military action to change the status quo as irresponsible. We therefore call for the immediate end of these actions, restoration of the Line of Control and for the parties to work for an immediate cessation of the fighting, full respect in the future for

the Line of Control and the resumption of the dialogue between India and Pakistan in the spirit of the Lahore Declaration.

Cyprus

The Cyprus problem has gone unresolved for too long. Resolution of this problem would not only benefit all the people of Cyprus, but would also have a positive impact on peace and stability in the region.

Both parties to the dispute have legitimate concerns that can and must be addressed. The members of the G8 are convinced that only comprehensive negotiations covering all relevant issues can do this.

The members of the G8, therefore, urge the UN Secretary-General in accordance with relevant UN Security Council resolutions to invite the leaders of the two parties to negotiations in the fall of 1999. They call upon the two leaders to give their full support to such a comprehensive negotiation, under the auspices of the UN Secretary-General.

In accepting this invitation, the two parties/leaders should commit themselves to the following principles:

- No pre-conditions;
- All issues on the table;
- Commitment in good faith to continue to negotiate until a settlement is reached;
- Full consideration of relevant UN resolutions and treaties. The members of the G8 undertake to give their full and sustained backing to the negotiating process and hope that it will prove possible for its outcome to be reported to the meetings of Heads of State and Government at the OSCE Summit this November.

KÖLN CHARTER

AIMS AND AMBITIONS FOR LIFELONG LEARNING

Cologne, 18 June 1999

The challenge every country faces is how to become a learning society and to ensure that its citizens are equipped with the knowledge, skills and qualifications they will need in the next century. Economies and societies are increasingly knowledge-based. Education and skills are indispensable to achieving economic success, civic responsibility and social cohesion.

The next century will be defined by flexibility and change; more than ever there will be a demand for mobility. Today, a passport and a ticket allow people to travel anywhere in the world. In the future, the passport to mobility will be education and lifelong learning. This passport to mobility must be offered to everyone.

Part 1: Basic Principles

Meeting our social and economic goals will require a renewed commitment to investment in lifelong learning.

- by Governments, investing to enhance education and training at all levels;
- by the private sector, training existing and future employees;
- by individuals, developing their own abilities and careers.

The rewards for investing in people have never been greater and the need for it has never been more pressing. It is the key to employment, economic growth and the reduction of social and regional inequality. As we move into the next century, access to knowledge will be one of the most significant determinants of income and the quality of life. Globalisation means that developed and developing countries alike stand to gain from higher standards of skills and knowledge across the world.

A commitment to greater investment in people must be underpinned by three principles:

- first, that everyone should have access to learning and training, not just those who are intellectually gifted or economically privileged, and basic education should be free of charge. Special attention should be given to the needs of the disadvantaged and the importance of combating illiteracy;
- second, that everyone should be encouraged and enabled to continue learning throughout their lives, not just in the years of compulsory schooling;
- third, that developing countries should be helped to establish comprehensive, modern and efficient education systems.

Part 2: Essential Elements

The essential elements of a strategy for lifelong learning and training are:

- high-quality early years education;
- primary education that enables all children to achieve good competence in reading, writing, arithmetic, and Information and Communications Technology (ICT) and to develop basic social skills;
- secondary education that develops the aptitudes and abilities of all students, not only those bound for higher education and professional careers, provided by schools aware of the needs of labour markets;
- vocational training that imparts skills attuned to the needs of the labour market and the most up-to-date technology and which opens up pathways to higher qualifications;
- higher education that offers opportunities for everyone capable of profiting from degree-level work, with financial support as necessary to ensure access for everyone who can benefit;
- adult skill acquisition that enjoys appropriate public or employer support, accommodates family needs and affords ready opportunities for re-skilling throughout life. This should include high-quality work-based learning systems and equipping people with the skills needed for self-generated learning.

At all stages of learning emphasis should be given to the importance of creativity, entrepreneurship and education for democratic citizenship, including respect for the political, civil and human rights of all people, the value of tolerance and pluralism, and an understanding and respect for the diversity of different communities, views and traditions.

Part 3: Building Blocks

Education systems have strong national characteristics and they have a very important role in fostering cultural diversity. But there are important areas where countries share common priorities and approaches or have identified particularly effective strategies for modernising their education and training systems to raise standards at all levels. The following are key building blocks:

- Teachers are the most vital resource in promoting modernisation and higher standards; their recruitment, training, deployment and appropriate incentives are critical to any successful education system;
- the mutually supportive roles of public and private finance and the need to raise the overall level of investment in education and training;
- modern and effective ICT networks to support traditional methods of teaching and learning and to increase the quantity and range of education and training, for example, through distance learning;
- the continued development and improvement of internationally recognised tests to benchmark student achievement;
- the recognition of professional qualifications and work experience;
- the promotion of the study of foreign languages to increase the understanding of different cultures and enhance mobility in a globalise world;
- increased attention to the establishment of clear targets in terms of higher standards and levels of achievement;
- the need to develop a culture of entrepreneurship in education, not least in developing the closest R&D links between universities and companies.

G7 STATEMENT

Cologne, 18 June 1999

I. World Economy

1. Since we met last year in Birmingham, the world economy has faced major challenges. However, we note with satisfaction the recent improvement in market confidence and in the prospects for growth of the world economy as a whole. Continued strong growth in the United States, important policy actions to promote recovery in Japan, the successful launch of Economic and Monetary Union in Europe, a general non-inflationary environment and progress with respect to financial and economic stabilisation in East Asia as well as in Latin America are encouraging developments. But a number of serious challenges remain, and continued action remains essential.

2. To turn these developments into stable and sustainable economic growth, we need to pursue balanced macroeconomic policies supportive of domestic demand and investment while preserving price stability. This will contribute to achieving more balanced growth among our economies and thereby reduce external imbalances. Some of our countries, to enhance employment opportunities and reap the potential of their economies, need to reinforce macroeconomic policies with strong structural measures aimed at improving market-based incentives for all economic actors. Such structural measures will be a prerequisite for enhancing employment growth and improving the environment for investment.

3. More specifically:

- In North America, macroeconomic policy should aim at maintaining the conditions for balanced growth.
- In the euro area, it is important to pursue an appropriate mix of macroeconomic and structural policies aimed at strengthening prospects for improved growth and higher employment.
- In the United Kingdom, economic policies should continue to aim at fostering non-inflationary growth.
- In Japan, it is still essential to implement stimulus measures until domestic demand-led growth is restored and to pursue structural measures to enhance the economy's efficiency and competitiveness.
- Emerging market economies have made considerable progress, and the foundations for a renewal of growth have been established in a number of countries. While much remains to be done, currently improved prospects owe much to the policy action taken by these economies, supported by the International Monetary Fund (IMF), the World Bank and bilateral assistance. They also require a supportive international environment characterised by solid aggregate G7 domestic demand and open markets.

4. It is our conviction that an increasingly open and integrated world economy will offer expanding opportunities and shared benefits for all its members. In light of our special responsibility for the world economy, we pledge to continue close cooperation to foster worldwide economic growth. Leaders in other countries also share responsibility for promoting global growth and financial stability, and we urge them to pursue policies that contribute to these objectives. The international community will stand ready to support countries pursuing strong policies in the face of difficult economic challenges.

II. Strengthening the International Financial Architecture

5. In the increasingly integrated world economy, the challenge is to promote global financial stability through national action and enhanced international cooperation.

6. The financial crises of the past two years in Asia, Russia and Latin America have revealed key weaknesses in the international financial system, including weak policies and institutions in many developing countries and an inadequate focus on risk on the part of banks and investors in industrialised countries. In our statement on the world economy of 30 October last year, we identified some actions already taken to address these problems and a number of key areas where further reform was required. Since then, important progress has been made in a number of these areas. We welcome the report from

our Finance Ministers published today highlighting this progress and recommending further steps. Taken together, we believe these recommendations represent a significant strengthening of the international financial system which will help reduce the risk of financial crises and make it easier to manage future crises effectively.

7. We attach particular importance to the following measures:

A. Strengthening and reforming the International Financial Institutions (IFIs) and arrangements

This does not require new institutions, but the existing institutions to adapt to meet the demands of today's global financial system. The IMF and the World Bank have the central role in the international economic and financial system, and in facilitating cooperation among countries in these fields. We welcome:

- the establishment of the new Financial Stability Forum to enhance international cooperation and coordination in the area of financial market supervision and regulation;
- the strengthening and reform of the governance structures of the IFIs, inter alia by giving the Interim Committee of the IMF a permanent standing as the "International Financial and Monetary Committee", and by further improving IMF surveillance and programs;
- the commitment to work together to establish an informal mechanism for dialogue among systemically important countries, within the framework of the Bretton Woods institutional system.

B. Enhancing transparency and promoting best practices

This will enable market participants to make informed judgements about risks and provide greater incentives for policy-makers to implement sound policies. We call for:

- rapid development and completion of internationally agreed codes of transparency and standards of best practice, both for the public sector and where appropriate for private financial institutions. In addition, priority should be given to the provision of more timely and comprehensive data on capital flows. Steps should be taken to improve the quality and timeliness of public disclosure of direct material exposure to Highly Leveraged Institutions (HLI's) and of relevant information by HLI's;
- compliance with these codes and standards, in particular through enhanced surveillance and publication of the results in the IMF's transparency reports and compilation of the various financial and economic policy standards and best practices into a common reference such as a compendium on international financial and economic policy standards;
- enhanced transparency of the IFIs through greater release of IMF and World Bank documents, and further steps to undertake internal and external evaluation of their functions.

C. Strengthening financial regulation in industrialised countries

Creditors must be induced to act with greater discipline and encouraged to assess more prudently the risks associated with their lending. We call for concrete action to:

- improve risk assessment and risk management, including through the Basle Committee's proposed revisions to the Capital Accord;
- address the implications of Highly Leveraged Financial Institutions for supervisors and regulators, including through improved transparency;
- encourage offshore financial centres to comply with internationally agreed regulatory standards and to cooperate more effectively in the fight against money laundering.

D. Strengthening macroeconomic policies and financial systems in emerging markets

The recent crises have demonstrated the need for emerging market borrowers to strengthen their policy framework and financial systems if they are to reap the full benefits of integration into the international financial system. In this respect, we encourage:

- emerging economies to strengthen their financial systems as they carry out a careful and well-sequenced approach to capital account liberalisation, and to avoid excessive reliance on short-term capital borrowing;
- emerging economies to maintain appropriate and sustainable exchange rate regimes backed by a consistent macroeconomic and a robust financial system reflecting the economic circumstances of countries. The policies of the IMF need to be focused on promoting this objective more effectively;
- the IMF and the World Bank to enhance their cooperation in providing advice and assistance to emerging economies on strengthening financial systems.

E. Improving crisis prevention and management, and involving the private sector

In a world of increasingly open capital markets we need to shape expectations so that private-sector creditors know they will bear the consequences of the risks they take, and to reduce the risk of financial market contagion. We call for:

- support through the IMF's new Contingent Credit Line (CCL) for countries pursuing sound and sustainable policies but potentially affected by financial market contagion;
- greater use of market-based tools to involve the private sector in forestalling and managing crises, including through stronger efforts to broaden the use of collective action clauses in sovereign debt contracts, as well as better communication and cooperation between emerging market countries and their creditors;
- agreement on a broad framework for involving the private sector in crisis resolution, which sets out in advance principles, considerations and a broad range of tools for actions as described in our Finance Ministers' report;

F. Promoting social policies to protect the poor and most vulnerable.

Social policies are the cornerstone of a viable international financial architecture. Economic development and reform must benefit all members of society.

- The poor and most vulnerable must be better protected from the burden of adjustment in times of crisis.
- The international community must work with governments and national authorities to foster investment in people through education, health and other basic social needs, which are the foundations for long-term development.

The IFIs and other organisations must make these objectives an essential part of their policies.

8. We believe the full implementation of these initiatives and reforms will make a significant contribution to enhancing the stability of the world financial system. We ask our Finance Ministers to take them forward urgently in close cooperation with other countries, the IFIs and the private financial community.

III. Köln Debt Initiative

9. One of the most critical challenges confronting the international community as we approach the new millennium is to ensure that heavily indebted poor countries pursuing sound policies, and that demonstrate a commitment to reform and poverty alleviation, are not crippled by the burden of debt. The Heavily Indebted Poor Countries Initiative (HIPC Initiative) has made an important contribution towards this objective. The time has come to go further. We therefore call for an expanded initiative that will provide faster, broader and deeper debt relief. We strongly believe that this will promote the goals of poverty reduction, sustainable development and good governance. It should also reinforce the incentives for reform and growth, while enhancing the prospects for access to private credit in the future.

10. The Köln Debt Initiative should be built on an enhanced framework for poverty reduction, developed by the IFIs in consultation with other institutions and with civil society. This is critical to ensure that more resources are invested in health, including AIDS prevention, education and other social needs, which are essential for sustainable development.

11. We welcome and endorse the Report of our Finance Ministers on the Köln Debt Initiative. The proposals contained in this report will lead to a deeper debt reduction through more ambitious targets, faster debt relief through greater flexibility in the timing of delivery of agreed debt relief packages, and a stronger focus on early cash flow relief by the International Financial Institutions. We also ask the Paris Club and other bilateral creditors to forgive commercial debt up to 90 % and more in individual cases if needed to achieve debt sustainability, in particular for the very poorest among these countries. In addition to these amounts, we call for full cancellation on a bilateral basis, through various options, of Official Development Assistance (ODA) debt. For poor countries not qualifying under the HIPC Initiative, the Paris Club could consider a unified 67 per cent reduction under Naples terms and, for other debtor countries, an increase of the existing limit on debt swap operations.

12. If implemented, the debt stock of countries possibly qualifying under the HIPC Initiative would be reduced, from some US \$ 130 billion in nominal terms (US \$71 billion in net present value) remaining after traditional debt relief, by an additional US \$ 50 billion in nominal terms (US \$27 billion in net present value). These measures, together with forgiveness of debts arising from Official Development Assistance, of which up to US \$20 billion in nominal terms are owed to G7 countries, would reduce the overall debt stock by more than half, lowering the debt service burden significantly and freeing resources for priority social spending.

13. We recognise that these changes will entail significant costs, in particular arising from debt owed to the IFIs. We are prepared to support a number of mechanisms to meet these costs recognising the importance of maintaining an adequate concessional lending capacity by the IFIs:

- To meet the IMF's costs, the Fund should mobilise its resources, while maintaining an appropriate level of reserves, through the use of premium interest income, the possible use of reflows from the special contingency account or equivalent financing, and the use of interest on the proceeds of a limited and cautiously phased sale of up to 10 million ounces of the IMF's gold reserves.
- The Multilateral Development Banks (MDBs) should build on the work they have begun to identify and exploit innovative approaches which maximise the use of their own resources.
- The costs to the IFIs will also require bilateral contributions. We have pledged substantial contributions to the existing HIPC Trust Fund. We will consider in good faith contributions to an expanded HIPC Trust Fund.
- In meeting the costs, we 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.

14. We would welcome efforts by the private sector to reinforce the objectives of this initiative, including through contributions to a Millennium Fund to help finance debt relief.

15. On the basis of this framework, we call on the IFIs and the Paris Club to provide faster, deeper and broader debt relief, to work with the HIPC countries to ensure that three quarters of eligible countries have reached their decision point by the year 2000, and to assist the very poorest countries to embark on the HIPC process as soon as possible. Concrete proposals should be agreed by the time of the next Annual Meetings of the IMF and the World Bank.

IV. Nuclear Safety/Ukraine

16. We renew our commitment to the successful implementation of the Memorandum of Understanding (MoU) between the G7 and Ukraine. We welcome Ukraine's renewed firm commitment to the closure of Chernobyl on schedule by the year 2000. Our overriding goal is the closure of the Chernobyl power plant by the agreed timetable.

17. We note that significant progress has been made in carrying out the Shelter Implementation Plan to secure the environmental safety of the sarcophagus covering the remains of the destroyed Chernobyl reactor. To date, contributions to the Chernobyl Shelter Fund total US \$393 million, including US \$50

million from Ukraine. We have agreed that the G7 will help ensure the continued financing and the progress in the work under the Shelter Implementation Plan. We call on concerned governments and private-sector donors to join us in this effort. To this end, we plan to hold a pledging conference before the next summit.

18. We reaffirm our commitment to assist Ukraine, within the context of the MoU, in mobilising funds for energy projects to help meet its power needs. To date, projects have been agreed totalling over US \$746 million. In addition, in the field of nuclear safety US \$485 million have been granted, not including the Shelter Implementation Plan. We look to the Government of Ukraine to accelerate the fundamental reforms in the energy sector, including improvements in cash collection and privatisation, to encourage financially viable investments in power generation and distribution and in energy efficiency. We commend the steady work that has allowed Ukraine, the European Bank for Reconstruction and Development and EURATOM to enter into the final phase of negotiations on loans to complete two reactors at Rivne and Khmelnytsky. We call on the parties to take the necessary steps to provide for an early agreement on loans for safe, cost-effective, and financially and environmentally sound projects.

V. Financial Crime, Harmful Tax Competition and International Tax Evasion

19. In order to secure the benefits of the globalisation of financial markets and the introduction of new information technology, the fight against financial crime must remain a priority of national and international policy. We reaffirm our concerns regarding problems raised by under-regulated and non-cooperative jurisdictions, including many offshore financial centres, in the fight against money laundering and other financial crimes.

20. We welcome the work of the G7 Finance Ministers' on financial crime and regulatory abuse. We will be promoting the Key Principles they have drawn up for improving the exchange of information between supervisory authorities and enforcement authorities, throughout the world as standards to which all countries should aspire.

21. We welcome and support the work of the Financial Action Task Force on Money Laundering (FATF) to identify jurisdictions which fail to cooperate effectively in the international fight against money laundering and thus facilitate the laundering of proceeds from corruption and organised crime. The FATF should take concrete steps to bring offshore financial centres and under-regulated and non-cooperating jurisdictions into compliance with the 40 recommendations against money laundering and to protect the international financial community from the adverse impact of those that do not comply. We call upon our Ministers of Finance, in coordination with other Ministers, in particular with Ministers of Justice and the Interior, to coordinate the development and implementation of complementary positions regarding offshore financial centres and the FATF's work on non-cooperative jurisdictions in the various fora where these issues are being addressed.

22. We welcome the establishment of the OECD's Forum on harmful tax competition and the actual start of implementing the guidelines and recommendations adopted by the OECD with respect to the harmful effects of unfair tax practices. We strongly endorse the current work program of the Forum, in particular the efforts to identify tax havens. We also support the Forum's intention to engage in a dialogue with jurisdictions identified through this process. We urge that this work be given a high priority. We also note the ongoing work to implement the code of conduct within the European Union.

23. We welcome the progress made by the OECD's Fiscal Committee and the FATF to explore further the links between tax evasion and avoidance and money laundering, and in particular to ensure the effective flow of information to tax authorities without undermining the effectiveness of anti-money laundering systems. We encourage each group to continue working on their respective responsibilities.

24. We urge the OECD to continue to address the barriers limiting effective exchange of information between tax authorities, in particular those which arise from excessive bank secrecy rules.

1 In this context, we take note of the fact that Chancellor Schröder, during his visit to Ukraine on 8 and 9 July of this year, intends to consult with President Kuchma on non-nuclear alternatives to these projects.

REPORT OF G7 FINANCE MINISTERS ON THE KÖLN DEBT INITIATIVE

Cologne, 18 June 1999

1. Launched in 1996, the initiative to reduce the debt overhang of heavily-indebted poor countries (HIPC Initiative) has already yielded positive results, bringing together for the first time multilateral, Paris Club, and other official bilateral creditors in a comprehensive framework for debt relief. Nonetheless, recent developments and experience have highlighted the vulnerability of many HIPCs to exogenous shocks. At the threshold of a new millennium, it is now time to reinforce the initiative so as to enhance the prospects for a robust and lasting exit for qualifying countries from recurrent debt problems.

2. We therefore support faster, deeper and broader debt relief for the poorest countries that demonstrate a commitment to reform and poverty alleviation. If implemented, the debt stock of countries possibly qualifying under the HIPC Initiative would be reduced, from some \$ 71 billion in Net Present Value (NPV) remaining after traditional debt relief, by an additional \$ 27 billion. These measures, together with forgiveness of debts arising from Official Development Assistance (ODA), of which some \$ 20 billion in nominal terms are owed to G 7 countries, would lower countries' debt service burden significantly and free resources for priority social spending.

A Framework for Poverty Reduction

3. While enhanced debt relief will reinforce debtor countries' scope for policy action, sound economic policies must continue to be pursued, and renewed unproductive expenditure must be avoided. At the same time, it is important that the benefits of debt relief are targeted to assist the most vulnerable segments of population. Hence, there will have to be a strong link between debt relief, continued adjustment, and improved governance and poverty alleviation. Both better governance in budgetary matters and financial savings derived from debt relief should allow for targeted expenditure on basic social services.

4. The pursuit of sound social policies should be integrated with structural adjustment programs that debtor countries are expected to implement. The new HIPC initiative should be built on an enhanced framework for poverty reduction, developed by the International Financial Institutions (IFIs). This is critical to ensure that more resources are invested in health, education and other social needs, which are essential for development.

5. To that effect, the World Bank and the IMF should adapt their support under the "Policy Framework Papers" (PFP), in particular the IMF's programs under the Enhanced Structural Adjustment Facility (ESAF). Integrating their efforts, the World Bank and IMF should help qualifying countries with the drafting and implementation of poverty reduction plans for the effective targeting of savings derived from debt relief, together with increased transparency of budgetary procedures to protect social expenditures. Throughout program design and implementation, there should be consultations with broader segments of the civil society. Such dialogue will be the basis for deepening the sense of "ownership" with governments and citizens in debtor countries when necessary adjustment programs are to be adopted.

6. We call upon the World Bank and the IMF to develop by the time of the Annual Meetings specific plans for such an enhanced framework for poverty reduction.

Faster Debt Relief

7. While implementation of debt relief must continue to be predicated on sound economic policies over two stages, debtor countries should be allowed to advance the "completion point" through improved performance. The second stage could thus be shortened significantly if a country meets ambitious policy targets early on ("floating completion point"). This mechanism should lay out specific priority steps needed to deepen structural reforms and enhance social sector investment, focusing in particular on poverty reduction.

8. In addition to addressing the debt overhang, the HIPC Initiative should focus more on significantly reducing the cash-flow burden of debt service payments, in order to release resources for poverty reduction. The debt service burden of qualifying countries should be alleviated more quickly through

provision of "interim relief" by the IFIs even before debt reduction is implemented at the "completion point". This is already current practice in the Paris Club for bilateral debts, and the IFIs should provide comparable treatment. Furthermore, after the "completion point", the IFIs could frontload debt stock reduction in a way to reduce debt service payments more strongly in the early years.

9. In order both to make the HIPC process more predictable and to simplify the modalities of earlier cash-flow relief, the amount of debt reduction should be determined at the "decision point" on the basis of the situation prevailing at that time. This will provide greater certainty about the level of debt relief.

10. A number of the very poorest countries with heavy debt burden have not yet embarked on the HIPC process. We call on the IFIs and the Paris Club to make it a priority to assist them to begin the process.

Deeper and Broader Debt Relief

11. In order to achieve lasting debt workouts for qualifying HIPCs and to support their efforts to alleviate poverty, the international community should commit to new steps to free up resources. Target ratios indicating the level where debt sustainability can be assumed, should be reassessed and lowered. Thus, we support bringing down the debt/exports ratio from a current 200-250 percent range to 150 percent. In addition, the alternative debt/revenue ratio should be given more attention and be lowered from currently 280 percent to 250 percent. This suggests also a revision of the sub-criteria designed to avoid moral hazard under this alternative and describing the minimum GDP ratios of exports and tax revenues; these sub-criteria could be lowered from 40 percent and 20 percent, respectively, to 30 percent and 15 percent. These combined revisions would result in deeper debt forgiveness, take greater account of debtor countries' fiscal positions and broaden the HIPC Initiative to more countries.

12. While bilateral creditors in the Paris Club currently grant countries qualifying for the HIPC Initiative debt forgiveness of up to 80 percent on commercial debt, we support an even deeper degree of cancellation. To achieve debt sustainability, we would be prepared to forgive up to 90 percent and more in individual cases if needed, in particular for the very poorest among these countries. For poor countries not qualifying under the HIPC Initiative, the Paris Club could consider a unified 67 percent reduction under Naples terms and, for other debtor countries, an increase of the existing limit on debt swap operations with due regard to appropriate transparency.

13. While many bilateral creditors have forgiven debt arising from Official Development Assistance and/or extend ODA to poor countries only in the form of grants, remaining ODA debt continues to be a source of the debt overhang in many countries. We therefore call on all creditor countries to forgive bilaterally, through a menu of options, all ODA debt of qualifying countries on top of the amounts required to achieve debt sustainability. We are aware that such forgiveness would present a special burden on some creditor countries. In order to help ensure that HIPCs do not face new debt problems in the future, new ODA should preferably be extended in the form of grants.

Financing

14. We recognise that these changes will entail significant costs, in particular arising from debt owed to the IFIs. However the final costs of the initiative are subject to many uncertainties, and actual outlays will be spread over a long period of time. We are prepared to support a number of mechanisms to meet these costs, recognising the importance of maintaining an adequate concessional lending capacity by the IFIs:

- To meet the IMF's costs, the Fund should mobilise its resources, while maintaining an appropriate level of reserves, through: the use of premium interest income; possible use of reflows from the special contingency account or equivalent financing; and use of interest on the proceeds of a limited and cautiously-phased sale of up to 10 million ounces of the IMF's gold reserves.

The multilateral development banks should build on the work they have begun to identify and exploit innovative approaches which maximise the use of their own resources.

The costs to the IFIs will also require bilateral contributions. We have pledged substantial contributions to the existing HIPC Trust Fund. We will consider in good faith contributions to an expanded HIPC Trust Fund.

In meeting the costs, we 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.

15. On the basis of this framework, we call upon the IFIs and the Paris Club to provide faster, deeper and broader debt relief. Concrete proposals should be agreed by the time of the next Annual Meetings of the IMF and World Bank.

G7 Finance Ministers' Report of to the Heads

Cologne, 18 June 1999

Introduction

1. A well-functioning international financial system is essential to allow an efficient allocation of global savings and investment, and provide the conditions needed to improve world-wide growth and living standards in all countries. Recent events in the world economy have demonstrated that a strengthening of the system is needed to maximise the benefits of, and reduce the risks posed by, global economic and financial integration.

2. Reform of the international financial architecture will also reinforce the open multilateral trading system. Keeping markets open for goods and capital will make the global economy more resilient to shocks. The benefits and economic opportunities derived from open markets have led to a significant improvement in living standards in industrialised and emerging economies. We believe the process of globalisation offers great additional potential to create wealth and employment.

3. As Finance Ministers of the major economies, we are aware of our special responsibility for improving the conditions for a proper functioning of the international financial and monetary system and, in particular, enhancing sound fundamentals necessary for exchange rate stability. To this end we will maintain strong cooperation to promote stability of the international monetary system and exchange rates among major currencies that are in line with fundamentals.

4. Following the remit from last year's Birmingham Summit, we have proposed in co-operation with other countries a number of important reforms to the architecture of the international financial system. We believe the initiatives and reforms that have been agreed will make a significant contribution to the stability of the world financial system.

5. In this increasingly integrated global economy, in which policy responsibility still lies mainly with sovereign states, the challenge is to promote global financial stability through national action as well as through enhanced international cooperation. All countries, together with the international financial institutions and private sector financial institutions, must share this responsibility.

6. This does not require new international organisations. It requires that all countries assume their responsibility for global stability by pursuing sound macroeconomic and sustainable exchange rate policies and establishing strong and resilient financial systems. It requires the adoption and implementation of internationally-agreed standards and rules in these and other areas. It requires the existing institutions to adapt their roles to meet the demands of today's global financial system: in particular to put in place effective mechanisms for devising standards, monitoring their implementation and making public the results; to have the right tools to help countries to manage crises; and to take steps to enhance their effectiveness, accountability and legitimacy. It also requires the right structure of incentives for all participants in the international financial system – national authorities as well as the private sector.

7. Our overall strategy is to identify and put in place policies to help markets work properly and to provide the public goods necessary to achieve this objective. This requires public authorities to provide for enhanced transparency and disclosure, improved regulation and supervision of financial institutions and markets, and policies to protect the most vulnerable. It also requires that private creditors and investors bear responsibility for the risks that they take, and are involved appropriately in crisis prevention and crisis management. In these respects, the establishment of internationally-agreed codes and standards for policy-makers serves both as an incentive for better governance and as a yardstick against which to measure country risk.

8. Last autumn, we identified for our Leaders the need for concrete actions to strengthen the international financial architecture. This report recommends specific reforms in six priority areas:

- a. Strengthening and reforming the international financial institutions and arrangements;
- b. Enhancing transparency and promoting best practices;

- c. Strengthening financial regulation in industrialised countries;
- d. Strengthening macroeconomic policies and financial systems in emerging markets;
- e. Improving crisis prevention and management, and involving the private sector;
- f. Promoting social policies to protect the poor and most vulnerable.

9. We believe these proposals will reduce the risk of, and help better manage, future financial crises. We are committed to, and will monitor closely, their implementation, and will continue to report on progress as necessary. Of course, financial markets will continue to evolve and this is likely to require further adaptations of the international financial system in the years ahead.

A. Strengthening and reforming the international financial institutions and arrangements

10. The development of global economic and financial arrangements to reflect the changing nature of the world economy is a continuous process. Our aim is to promote more efficient international financial institutions and arrangements, in which all relevant interests can be effectively represented.

11. We agree on a set of principles which should guide this process:

- a. The IMF and the World Bank have the central role in the international economic and financial system, and in facilitating cooperation among countries in these fields.
- b. The international supervisory and regulatory bodies have a crucial role to play in making the international financial system more robust.
- c. The accountability and transparency of these bodies and of the IFIs should be strengthened.
- d. A broad range of countries should be involved in discussions on how to adapt the international financial system to the changing global environment.
- e. A system based on constituencies is appropriate for the governance of the institutions.

12. A number of steps have been taken to widen the ongoing dialogue on the international financial system to a broader range of countries, including the establishment of the New Arrangements to Borrow (NAB) comprising 25 participants; the special meetings involving Ministers and Governors of systemically significant economies that occurred during 1998; the seminars involving 33 industrial and emerging economies held this Spring in Bonn and Washington; and this year's Spring meeting of the IMF Interim Committee which was prepared for the first time by a special meeting of deputies.

13. The new Financial Stability Forum was created to enhance international cooperation and coordination in the area of financial market supervision and surveillance. The Forum met for the first time in April, and agreed to focus initially on three issues: the implications of highly leveraged institutions, off-shore centres and short-term capital flows. This process will include participants from other industrial and emerging economies. We agree that the Forum should, by the time of the September meeting, be broadened to include significant financial centres, in a format that provides for effective dialogue.

14. A number of proposals have been discussed for institutional reform, including the proposal for transformation of the Interim Committee into a Council. At this time, recognising our special responsibility as major shareholders in the Bretton Woods institutions we have agreed to support the following important steps towards institutional reform.

- a. The Interim Committee would be given a permanent standing as the "International Financial and Monetary Committee". The Committee's mandate should be consistent with the principle, which we reaffirm, that the IMF must play a prominent role in facilitating cooperation among all countries, especially in the area of macroeconomic and monetary issues that are at the centre of the IMF's mandate, as stated in Article 1 of its Articles of Agreement.
 - Deputy-level meetings of the new Committee would be held twice a year shortly before the Ministerial meetings, building on the successful meeting of the Interim Committee Deputies this April.
 - The President of the World Bank would play a privileged role in the new Committee; the Chairman of the Financial Stability Forum would be given observer status.
 - Joint sessions of the International Financial and Monetary Committee and the Development Committee would be held when appropriate on issues where there is a clear overlap of responsibilities.

- b. We will work together to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system.

We continue to review these arrangements, taking account of the proposals which have been put forward to strengthen the institutional arrangements, including the proposal to transform the Interim Committee into a Council.

15. We have also agreed to take steps to improve the effectiveness of the IMF and other IFIs, including by:

- a. pursuing enhanced monitoring of policy commitments while drawings on the Fund remain outstanding but after program conditionality has ended, in order to reinforce incentives for good performance;
- b. sharpening the focus of the IFIs on sectors where they have a comparative advantage, and broadening their dialogue with other international fora and with the private sector. Special attention needs to be paid to the specific circumstances of the country concerned aiming at encouraging direct ownership of the programs;
- c. building upon the experience of IMF-supported programmes in the financial crisis, the IMF should explore ways further to improve IMF surveillance and programmes so that they better reflect the changes in the world economy, in particular potentially abrupt large-scale cross border capital movements.
- d. enhancing the accountability of the IMF by improving transparency, the decision-making procedures and the timely flow of information.
- e. encouraging the IMF to continue undertaking systematic evaluations both internal and external of the effectiveness of selected operations programmes, policies and procedures.

B. Enhancing transparency and promoting best practices

16. The availability of accurate and timely information is an essential ingredient for well-functioning financial markets and market economies. Such information is necessary for market participants and should be used by them to make good decisions. It also provides greater incentives for policy-makers to implement sound economic policies. Improved information will help markets to adjust more smoothly to economic developments, minimise contagion and reduce volatility.

17. Significant progress has been achieved in a number of areas. The IMF has made substantial progress in promoting enhanced disclosure of economic statistics and indicators, and in developing voluntary codes of good practice and standards to ensure appropriate transparency of the processes by which governments formulate macroeconomic and financial policies:

- a. The IMF Executive Board approved in March 1999 an expansion of the Special Data Dissemination Standard (SDDS) to provide for a more comprehensive and timely disclosure of data on countries' international reserve positions. The expanded SDDS, which will go into effect in April 2000, addresses gaps in the original standard established in 1996. Efforts are also being taken through the Inter-Agency Task Force on Financial Statistics to harmonise the statistics published on developing and transition countries' external debt by the BIS, IMF, OECD, and the World Bank, and quarterly publication has begun.
- b. The IMF's Code of Good Practices on Fiscal Transparency has been approved by the Executive Board and was endorsed by the Interim Committee in April 1998. An implementation manual, questionnaire, and self-evaluation report have been prepared and are being disseminated.
- c. A draft Code of Good Practices on Transparency in Monetary and Financial Policies has been published for comment and should be completed by the 1999 IMF Annual Meetings.

18. The IMF has also approved a number of measures to increase transparency in member countries' economic policies as well as its own operations, including: (i) greater use of Public Information Notices to provide information on IMF policy issues; (ii) procedures for the release of Letters of Intent, Memoranda of Economic and Financial Policies, and Policy Framework Papers that underpin IMF-supported programs; (iii) publication of the Chairman's statement following Board approval or review of members' programs; and (iv) a pilot project for the voluntary public release of Article IV staff reports. In the World Bank, Country Assistance Strategies, which set out the major development challenges of individual countries and guide the Bank's lending programme, will in principle be made public as of July 1999.

19. Transparency of the private sector is of particular importance to the orderly and efficient functioning of financial markets. The Basle Committee, IOSCO, and the IAIS have established Core Principles for supervision in their respective areas of responsibility. Valuable actions in this area also include IOSCO's issuance of Disclosure Standards to Facilitate Cross-Border Offerings and Initial Listings by Multinational Issuers. The BIS-Committee on the Global Financial System (CGFS) is reviewing ways to improve market disclosure, including a model template for public disclosure of their exposures and risk profile by institutions engaged in trading, investment and lending activity, both regulated and unregulated. Further work on this issue, involving other relevant authorities, was supported in the Financial Stability Forum.

20. We support and commend the efforts being taken by private sector bodies to enhance transparency. We welcome the completion by the International Accounting Standards Committee of its core set of international accounting standards, and we look forward to IOSCO, IAIS and the Basle Committee completing their reviews. We urge all those involved in setting accounting standards to work together so that high quality accounting standards can continue to be developed and agreed internationally.

21. With considerable progress already having been made in the development of standards and codes of good practice, the key challenge now facing the international community is to encourage implementation. We attach high priority to the following steps:

- a. Wider compliance with the SDDS by countries with access to the international capital markets, wider agreement on specific SDDS standards for reporting of external debt, addition of indicators of financial sector soundness, and efforts to promote greater public awareness of, and use of, the information conveyed by the SDDS.
- b. Steps further to increase transparency in the IMF's own operation and its member countries' economic policies, including the greater release of Board documents.
- c. Developing a system for surveillance of implementation of the codes and standards, built on the Article IV process of the IMF, involving close collaboration with the World Bank and the standard setting bodies. To this end, we call on the Fund to develop a mechanism for coordinating this liaison, and to report on the effectiveness of the Article IV process as a means of monitoring and encouraging adherence to standards. Country adherence to standards should also be used in determining Fund conditionality.
- d. Systematic incorporation of information on a country's observance of transparency standards in the Fund's regular Article IV surveillance reports, as well as in special reports on country transparency practices prepared by the staff. We are encouraged in this respect that experimental transparency reports have already been prepared by the Fund staff, and that countries have engaged in pilot self-assessments of their own transparency practices. We look to these reports to be extended to form an integral part of the Article IV surveillance process.
- e. Continued efforts towards implementation of the Core Principles established by the Basle Committee, IOSCO, and IAIS, including in the context of the Core Principles Methodology Working Group and with appropriate involvement by the IMF and World Bank.
- f. Moves by our regulators to consider a country's adherence to the range of relevant international standards, including international standards for banking supervision, as part of the prudential criteria used when considering market entry by foreign banks.
- g. Recognising the importance of providing a sufficient degree of transparency by all market participants, steps should be taken to improve transparency by all market participants, including steps to improve the quality and timeliness of public disclosure of direct material exposure to highly leveraged financial institutions, and of relevant information by highly leveraged institutions. We look forward to the work of the Financial Stability Forum on this issue.
- h. The ongoing efforts by IOSCO to review the advisability and feasibility of imposing transparency and disclosure requirements on highly leveraged institutions.
- i. Completion of the work of the CGFS on reporting of aggregate positions and transactions in foreign exchange markets.
- j. Measures to induce off-shore centres to comply with internationally agreed standards and codes in the area of transparency and supervision. We look forward to the work of the Financial Stability Forum on this issue.

- k. The OECD's recently-approved core principles on corporate governance, and the World Bank's continuing work with the OECD and other international institutions to encourage their broadest possible adoption and implementation in emerging market and industrial countries.
- l. Compilation of the various financial and economic policy standards and best practices into a common reference such as a compendium on international financial and economic policy standards, through which countries could articulate their intention to implement the various standards and best practices.

C. Strengthening financial regulation in industrial countries

22. The past two years have reminded us that investors and creditors often tend to underestimate risks as they reach for higher yields. In periods of market euphoria, market participants can make credit and investment decisions that might not otherwise have been made. In hindsight, the failures on the part of lenders and supervisors in the major countries include poor risk management practices, inadequate information as well as inadequate attention to available information, and capital standards that provide unintended incentives to lend to risky borrowers. Such excessive risk taking, combined with high degrees of leverage, can magnify the negative effects of any event or series of events.

23. Measures to induce creditors and investors to act with greater discipline (i.e., to analyse and weigh risks appropriately in their lending and investment decisions), should aim at avoiding excessive leverage and encouraging more prudent assessment of the risks associated with lending to emerging markets. In addition to the measures on transparency set out above, we have identified three critical areas that should be addressed by industrial countries:

- a. Improving risk assessment and risk management. Measures to induce creditors and investors in industrial countries to act with greater discipline can dampen investors' tendency to underestimate risks in good times and exaggerate them in bad times. These measures can take the form of increased supervisory oversight of firms' risk management practices, and strengthened capital adequacy.
- b. Assessing the implications for supervisors and regulators of Highly Leveraged Institutions (HLIs). Leverage can play a positive role, but problems can arise when excessive leverage is accompanied by excessive concentration of risk. In addition, concerns have been expressed about the activities of HLIs with respect to their impact on market dynamics generally and vulnerable economies in particular.
- c. Encouraging offshore financial centres (OFCs) to comply with international standards. Financial market participants need to compete on a level playing field. Therefore, as we continue to strengthen our own regulatory standards, it will be important for OFCs to strengthen their supervisory systems and standards.

24. A substantial amount of work has already been undertaken. In particular, in January 1999, the Basle Committee promulgated guidance on sound practices for banks in relation to HLIs, including credit analysis practices, and the development of more accurate exposure measures. The sound practices also include setting meaningful overall credit limits for HLIs, and monitoring credit exposures relating to HLIs.

25. Special requirements are demanded by the supervision of complex, internationally active financial organisations. The Joint Forum on Financial Conglomerates has done valuable work on the development of principles, regulatory techniques and other guidance for meeting some of the most significant regulatory challenges arising from the emergence of inter-nationally active financial conglomerates. In February 1999 its parent organisations, the Basle Committee, IOSCO and IAIS endorsed and released a package of papers dealing with, among other things, techniques for:

- a. assessing the capital adequacy of conglomerates,
- b. facilitating the exchange of information among supervisors, including the identification of co-ordinators,
- c. facilitating co-ordination among supervisors, and
- d. testing the fitness and propriety of managers, directors and major shareholders of conglomerates.

26. On risk assessment and risk management, the existing work of the Basle Committee provides a useful start for further work in this area. More work is now required:

- a. We welcome the Basle Committee's recent agreement on proposed revisions to the Capital Accord to make it more sensitive to risk, including credit risk involved in lending to emerging markets and in

short-term lending, and reflecting compliance with international standards such as the SDDS and Basle Core Principles. We welcome the Basle Committee's intention to consider broader revisions to the existing system of risk-based capital regulation, taking into account changing market practices.

- b. We encourage private firms to strengthen their own risk management practices. In this regard, we note that the Counterparty Risk Management Policy Group will soon issue a report on strengthened risk management practices. Once issued, we call on national authorities to consider whether to endorse these recommendations.
- c. National authorities should ensure that banking institutions in their countries implement adequate risk management practices in accordance with the recommendations set forth in the Basle Committee's January 1999 papers on HLIs.
- c. We welcome the efforts of IOSCO to strengthen risk management practices for securities firms in relation to HLIs and to consider other measures to limit counterparty risk in dealings with HLIs.

27. On Highly Leveraged Institutions, we look forward to the work of the new Financial Stability Forum on a number of issues, including systemic issues relating to market dynamics generally and vulnerable economies in particular. Considerations should be broadly based and encompass the whole range of available measures, including of the pros and cons of indirect and direct supervisory approaches as well as of enhancing transparency by improving reporting and disclosure.

28. Some offshore centres have already taken measures to enhance home country supervision. However, not all countries have yet taken such measures. Moving forward, we hope the following will occur:

- a. Countries with close relations with OFCs should exert pressure on those jurisdictions to comply with international standards.
- b. As noted above, the Basle Committee should link risk weights to compliance with international standards.
- c. IOSCO and Basle-sponsored working groups should make membership in their bodies contingent on progress towards implementation of international standards.
- d. The Financial Action Task Force should take concrete steps to bring OFCs, and under Ö regulated and non-cooperating jurisdictions, into compliance with the 40 recommendations against money laundering and to protect the international financial community from the adverse impact of those that do not comply.
- e. More generally, we look forward to the work of the Financial Stability Forum on OFCs.

29. In writing this report we took account of the reports of the G7 Financial Experts Group on Supervision and Regulation in the Financial Sector and the G7 Working Group on Financial Crime.

D. Strengthening macroeconomic policies and financial systems in emerging markets

30. Recent financial crises have demonstrated the need to strengthen economic fundamentals and financial systems in emerging economies. This is essential not only to improve economic welfare in these countries, but also to help create an environment conducive to international economic and financial stability. While large-scale international capital flows have provided an important contribution to the development of emerging economies, they have also changed the nature of risks facing those countries: weak macro-economic policies and financial infrastructures can be penalised more severely and more suddenly by investors. A broad international consensus has recently been formed on a number of issues:

- a. Countries need to pursue sound macroeconomic policies, including sustainable exchange rate regimes and prudent fiscal policies. They should adhere to sound principles of debt management. A high priority should also be given to strengthening emerging economies' financial sectors and supervisory regimes.
- b. Some emerging economies have sought to achieve exchange rate stability by adopting peg regimes against a single currency or a basket of currencies, often in the same region, of countries with which they have the closest trade and investment links. Countries choosing fixed rates must be willing, as necessary, to subordinate other policy goals to that of fixing the exchange rate. If countries choose fixed rates, recent history suggests that arrangements institutionalising that policy can be useful to sustaining a credible commitment to fixed rates.

- c. There are particular risks and vulnerabilities associated with excessive short-term borrowing, particularly in foreign currencies. Where problems have developed, there have often been important and unwise policy biases in favour of short term capital flows. Countries should avoid excessive accumulation of short-term debt, maintain an appropriate structure of liabilities, and seek to eliminate biases in favour of short-term borrowing.
 - d. Capital account liberalisation should be carried out in a careful and well-sequenced manner, accompanied by a sound and well-regulated financial sector and by a consistent macroeconomic policy framework.
 - e. The use of controls on capital inflows may be justified for a transitional period as countries strengthen the institutional and regulatory environment in their domestic financial systems. Where financial sectors and supervisory regimes are weak, safeguards may be appropriate to limit foreign currency exposure of the banking system. More comprehensive controls on inflows have been employed by some countries as a means to shield themselves from market pressures. Such steps may carry costs and should not in any case be used as a substitute for reform. In addition to these considerations, controls on capital outflows can carry even greater long term costs. They have not been a very effective policy instrument and should not be a substitute for policy reform, although they may be necessary in certain exceptional circumstances.
31. We agree that emerging economies themselves must take the lead in strengthening their economies and financial systems. In addition:
- a. It is our objective to help emerging economies adapt their policies and organisations to those required to participate fully in the world economy.
 - b. The IFIs and other international bodies should enhance their cooperation in terms of giving useful advice and assistance to emerging economies.

32. Numerous countries will need technical assistance if standards of best practice are to be implemented without delay and effective supervision is to be achieved. As there is only a limited number of experts available both in national authorities and in international organisations, we call on the Financial Stability Forum to consider methods to improve the coordination of technical assistance, including the possibility of establishing a clearing mechanism for this purpose at the international level to ensure that technical assistance is co-ordinated and to make best use of all available resources.

Exchange rate regimes in emerging economies

33. Further work is needed on appropriate exchange rate regimes for emerging market economies. The choice of exchange rate regime is critical for emerging economies to achieve sustainable economic development, and also has important implications for the world economy, including in the context of large-scale official financing. In this context:
- a. We agree that the most appropriate regime for any given economy may differ, depending on particular economic circumstances, such as the degree of integration with its trading partners. Since economic circumstances vary over time, the most appropriate regime for any given country may also vary. In any case, stability depends on the exchange rate regime being backed by consistent macroeconomic policies and supported by robust financial systems.
 - b. We agree that the international community should not provide large-scale official financing for a country intervening heavily to support a particular exchange rate level, except where that level is judged sustainable and certain conditions have been met, such as where the exchange rate policy is backed by a strong and credible commitment with supporting arrangements, and by consistent domestic policies.
 - c. We encourage the IMF to continue its work in this area and to enhance the attention it gives to exchange rate sustainability in the context of its surveillance activities. The IMF should encourage countries to adapt their policies by giving them advice, and support when appropriate, in order to help avoid moves towards unsustainable positions.

Financial systems

34. Further efforts are needed to strengthen financial systems in emerging markets:
- a. We commit ourselves to enhancing our cooperation, together with the IFIs and relevant international regulatory bodies, to promote improved financial supervision in emerging economies.

- b. The IMF and the World Bank should coordinate their advice to emerging economies, in particular in the area of financial sector reforms. As part of policy reviews, they should enhance surveillance over the broad range of policies now understood to be crucial to financial stability. Countries should be encouraged to demonstrate their commitment to making rapid progress towards full compliance with existing international codes as part of IMF and World Bank conditionality when the IFIs extend loans or credits.
- c. We welcome the establishment of the Financial Sector Liaison Committee (FSLC) in September 1998, and the IMF-World Bank Financial Sector Assessment Programme (FSAP), to enhance effective collaboration between the Fund and Bank in this area. The breadth and pace of these efforts need to be increased, by more effectively integrating the efforts and operations of the two institutions in the financial sector, also drawing on relevant expertise in national and international regulatory and supervisory bodies. We call upon the Fund and the Bank to prepare a joint report on their progress and on proposals to meet these objectives by the time of the Annual Meetings in September. These proposals should aim to provide more effective organisation and deployment of resources to improve crisis response, the design and delivery of financial-sector programmes, and technical assistance for member countries.
- d. We welcome commitments given by the emerging economies of Asia and Latin America in various fora to take the necessary steps towards implementation of the Basle Core Principles for effective banking supervision. We call upon the governments of other countries to make every effort to ensure that by 2001 plans are in place to implement the Core Principles. The core principles of IOSCO and IAIS should also be implemented by all countries without delay.
- e. Governments should narrow the scope of their guarantees of private obligations so as to make sure that creditors do not lend to private entities with the expectation that they will be protected from adverse outcomes. Those guarantees that are provided should be clear and transparent: non-bank financial institutions that fall outside the scope of such regulation should not be covered by explicit or implicit government guarantees created for the banking sector.

Capital flows

35. We encourage the IMF to continue its work on the appropriate pace and sequencing of capital account liberalisation, and to explore further issues related to the Fund's role in facilitating an orderly approach to such liberalisation. In this context, particular attention should be paid to eliminating policy biases in favour of short-term capital flows, particularly in foreign currencies, and promoting sound debt management policies. The IMF should also further refine its analysis of the experience of countries with the use of capital controls. In this regard, there is a strong case for further studying the benefits and costs of market-based prudential measures aimed at curbing excessive capital inflows, including those used by the Chilean authorities in the recent past.

36. We call on the IMF and other relevant institutions to cooperate with national authorities to create a better system for monitoring cross-border capital flows:

- a. We note the importance of timely and comprehensive data on capital flows, and encourage the IMF and national authorities, with the assistance of relevant institutions such as the BIS, to create more detailed data on inflows and outflows of capital by maturity, currency, type, and borrower. In this context, we welcome the agreement to improve data on short-term liabilities of the official sector in the context of strengthening the Special Data Dissemination Standard (SDDS).
- b. We encourage the use of high-frequency debt monitoring systems which can be used to verify the sustainability of debt structures, especially of foreign short-term exposures, and encourage the IMF to intensify its work with member governments in this area.
- c. We look forward to the work of the Financial Stability Forum on short-term capital flows.

Debt management

37. We will work with emerging market economies and the IFIs to promote best practices in debt management, which should:

- a. encourage greater reliance on long-maturity, and if possible domestic-currency denominated, debt to maintain a debt profile that provides substantial protection against temporary market disruption; avoid transforming long-term debt into short-term debt;
- b. remove biases which encourage short-term private borrowing;

- c. encourage the creation of deeper domestic bond markets to facilitate long-term domestic currency debt financing;
- d. encourage governments that are heavily dependent on commodities revenue to hedge their exposure to commodity price volatility, and promote arrangements that provide greater contractual risk-sharing between creditors and debtors;
- e. promote debt management that minimises exposure to liquidity risk, including rollover risk, rather than minimises short-term borrowing costs. Provisions in sovereign debt contracts that can augment balance of payments pressure in a crisis should be avoided; and
- f. promote the use of contractual provisions in offshore sovereign bond documentation that facilitate orderly restructuring, as described in section E below.

E. Improving crisis prevention and management, and involving the private sector

38. Recent crises have emphasised the need to improve the approach of the international community to financial crisis prevention and resolution, and adapt it to a world of open capital markets. We need to shape expectations so that private creditors know that they will bear the consequences of their investment decisions, and to identify ways to reduce the risk of contagion.

Crisis prevention

39. Prevention of financial crises is key. The measures that we have outlined in the sections above provide important ways to improve crisis prevention. In addition, new clear principles and new tools are needed to limit contagion and to fully recognise the crucial role private investors play in today's integrated financial markets.

40. The new IMF contingent credit line (CCL) will play an important part in promoting international financial stability. This facility aims at protecting from contagion countries with reasonable debt structures, sound macro-economic and structural policies, and which are also engaged in an appropriate process of consultation with private creditors. The facility should encourage the IMF towards an increasing focus on crisis prevention, and will provide further incentives for countries to take early measures to avoid the risk of financial crisis. The CCL provides an additional mechanism for encouraging countries to implement standards.

41. Countries should take ex ante steps to strengthen the framework for the market-based, cooperative and orderly resolution of the debt payment difficulties that do arise. We have agreed on the following measures:

- a. Appropriate communication between debtors and creditors is important in both crisis prevention and resolution. We encourage emerging economies to develop mechanisms for more systematic dialogue with their main creditors. We also support strengthened contacts between the international financial institutions, notably the IMF, and the private sector.
- b. We encourage the use of market based tools aimed at preventing crises and facilitating adjustment to shocks, including through the use of innovative financial arrangements, including private market-based contingent credit lines in emerging countries and roll-over options in debt instruments. These measures would facilitate access to the international markets in times of instability for emerging countries, and, in the context of a sound debt management framework, can thus help prevent liquidity crises and give countries a breathing space to make decisive macro-economic or structural adjustments.

42. We have agreed on the importance of stronger efforts to encourage progress in broadening the use of collective action clauses in sovereign debt contracts, along with other provisions that facilitate creditor coordination and discourage disruptive legal action. We recommend:

- a. making the use of such provisions a component of international best practices in debt management, and a consideration in determining access to the IMF's Contingent Credit Line;
- b. focusing attention on the use of these provisions in international surveillance, and making such provisions a consideration in IMF conditionality, as appropriate;
- c. considering incorporating these provisions into sovereign debt that is enhanced by the multilateral development banks;

- d. Further considering the possible inclusion of such provisions in our own debt instruments, and otherwise encouraging the use of such provisions in the debt instruments issued by other sovereigns in our markets.

43. We also encourage efforts to establish sound and efficient bankruptcy procedures and strong judicial systems. We support the work of the international financial institutions to help countries to improve the transparency, predictability, and equity of their insolvency and debtor-creditor regimes.

A framework for private sector involvement in crisis resolution

44. In addition to crisis prevention measures addressed above, we are agreed that the international financial community needs to set out in advance a broad framework of principles and tools for involving the private sector in the resolution of crises. The following framework should help to promote more orderly crisis resolution and therefore be of mutual benefit to debtors and creditors in finding cooperative solutions. It should also help to promote cooperative solutions between borrowing countries and the private sector and to shape expectations in a way which reduces the risk that investors believe they will be protected from adverse outcomes. Developing a framework of this kind which facilitates debtor/creditor cooperation should minimise the incidence and intensity of crises and also minimise the time before debtor countries can expect to regain market access.

Principles

45. We agree that this framework should comprise the following key principles:

- a. The approach to crisis resolution must not undermine the obligation of countries to meet their debts in full and on time. Otherwise, private investment and financial flows that are crucial for growth could be adversely affected and the risk of contagion increase.
- b. Market discipline will work only if creditors bear the consequences of the risks that they take. Private credit decisions need to be based on an assessment of the potential risk and return associated with a particular investment, not on the expectation that creditors will be protected from adverse outcomes by the official sector.
- c. In a crisis, reducing net debt payments to the private sector can potentially contribute to meeting a country's immediate financing needs and reducing the amount of finance to be provided by the official sector. It can also contribute to maintaining appropriate incentives for prudent credit and investment decisions going forward. These potential gains must be balanced against the impact that such measures may have on the country's own ability to attract new private capital flows, as well as the potential impact on other countries and the system in general through contagion.
- d. No one category of private creditors should be regarded as inherently privileged relative to others in a similar position. When both are material, claims of bondholders should not be viewed as senior to claims of banks.
- e. The aim of crisis management wherever possible should be to achieve co-operative solutions negotiated between the debtor country and its creditors, building on effective dialogues established in advance.

Considerations

46. The principles outlined above, and the tools we propose below, should help establish a broad framework for making judgements about the policy response appropriate to a given case. The appropriate role for private creditors, if any, and the policy approaches needed to induce private creditors to play this role will vary depending on the circumstances of the particular case. There are advantages to making clear in advance the basic considerations that will guide our actions and specific approaches we will employ. The principles and tools we propose should help provide a degree of predictability for investors, without sacrificing the flexibility required to address effectively each particular financial crisis.

47. There is a variety of circumstances where countries might face external financing pressures. There are circumstances where we believe emphasis might best be placed on market-based, voluntary solutions to resolve the country's financial difficulties. There are also cases where more comprehensive approaches may be appropriate to provide a more sustainable future payments path. In practice, there will be a spectrum of cases between these two extremes. Where a country falls on this spectrum, will help to determine the policy approach best suited to its particular circumstances. Relevant considerations include the country's underlying capacity to pay and its access to the markets.

48. In addition, the feasibility of different policy approaches will depend on the nature of outstanding debt instruments. These will influence assessments of which claims need to be addressed to resolve the country's financing difficulties, the magnitude of possible concerns about equitable treatment among various categories of creditors, and the scope for voluntary versus more coercive solutions. The nature of the relevant debt obligations can differ along many axes, including whether the debt obligations are principally private or public; foreign or local currency; short-term or long-term; payment of principal or interest; offshore or onshore; secured or unsecured; held narrowly or held by a diffuse group of creditors.

49. It is important to put into place incentives that would encourage a country to take strong steps at the early stages of its financial difficulties to prevent a deepening crisis.

Tools

50. To address effectively a wide range of potential cases, the international community needs to have a broader range of tools available to promote appropriate private sector involvement. The tools available to the international community should comprise the following:

- a. Linking the provision of official support to efforts by the country to initiate discussions with its creditors to explain its policy program.
- b. Linking the provision of official support to efforts by the country to seek voluntary commitments of support, as appropriate, and/or to commit to raise new funds from private markets.
- c. Linking the provision of official support to the country's efforts to seek specific commitments by private creditors to maintain exposure levels.
- d. Linking the provision of official support to the country's efforts to restructure or refinance outstanding obligations.
- e. In cases where a country's official debt needs to be restructured in the Paris Club, the Paris Club principle of comparability of treatment applies to all categories of creditors other than the international financial institutions. The Paris Club should adopt a flexible approach to comparability, taking into account factors including the relative size and importance of different categories of claims.
- f. Imposing a reserve floor that effectively ensures that the private sector makes an adequate contribution, such as through debt restructuring, alongside official resources in the resolution of crises.
- g. In exceptional cases, it may not be possible for the country to avoid the accumulation of arrears. IMF lending into arrears may be appropriate if the country is seeking a cooperative solution to its payment difficulties with its creditors.
- h. In exceptional cases, countries may impose capital or exchange controls as part of payments suspensions or standstills, in conjunction with IMF support for their policies and programmes, to provide time for an orderly debt restructuring.

51. We call on the IMF further to develop and define the legal and technical questions involved in implementing the specific approaches identified in the framework agreed here. We look forward to its conclusions by the autumn Annual Meetings.

52. In order to guide expectations more effectively, we agree that we will seek to provide a clear and timely explanation of the policy approaches, adopted in individual cases, in relation to the principles and considerations that we have laid out above.

F. Promoting social policies to protect the poor and most vulnerable

53. Recent events in the world economy have underlined the important link between economic and social issues; and that good economies depend both on stable relationships between governments and their citizens, and strong social cohesion. An efficient social system, by equipping people for change, builds trust and encourages people to take the risks which are a necessary part of a competitive modern market. This in turn helps to mitigate the risks and spread the benefits of globalisation.

54. Effective social policy can in particular ease the task of adjustment during times of crisis, helping build support for necessary reforms and ensuring that the burden of adjustment does not fall disproportionately on the poorest and most vulnerable groups in society.

55. Action in these areas can be subject to a number of constraints. In general, the resources available for social programmes are limited, other priorities are pressing and institutional capacity can be stretched.

In times of downturn, policy makers may face particularly difficult choices between safeguarding immediate social welfare, and ensuring the adjustment necessary to restore confidence and promote stable growth, which provides the best way of reducing poverty and supporting social welfare. We believe there are strong benefits for all countries and the IFIs in working together to develop and promote practices in social policies which most effectively support economic development.

56. Countries, each with their different culture and traditions, have developed their own systems and practices for addressing social issues. There is likely to be mutual benefit for countries in sharing experiences of policies which work best at different stages of development. Experiences were discussed at the seminar involving 33 economies held this spring in Washington. The seminar:

- a. considered the most important areas of social spending, the ways in which public expenditure can be effectively targeted to the neediest, and the trade-offs which are involved when levels of social spending are determined;
- b. underlined the importance of monitoring social developments and operating social policy in a transparent way, so that both governments and their populations can be more aware, at the earliest possible stage, of areas of particular need, and plan on that basis.

57. Moreover, since countries operating in the modern globalised economy are likely to face similar pressures, there is a case for identifying principles, policies and best practices, and for their promulgation through international organisations. We note with approval the principles of good practice in social policy which have been prepared by the World Bank, in collaboration with the United Nations. At the last meeting of the Development Committee, Ministers asked the World Bank to report back at the 1999 Annual Meetings on its work on policies and best practice to protect the poorest groups and maintain the momentum for development.

58. Further work is needed to identify and promulgate principles, policies and best practices in social policy. We call on:

- a. the UN to make rapid progress in developing the basic social principles as part of the follow-up on the Copenhagen Declaration of the World Summit for Social Development;
- b. the World Bank, with full participation from the IMF, to report back to the 1999 Annual Meetings on identifying policies and best practice to support the process of economic development. In times of crisis, these can be drawn upon in the design of adjustment programmes to ensure protection of the most vulnerable;
- c. the IMF and the World Bank, in their work on transparency and good governance to consider more explicitly the way in which this can be geared to ensuring implementation of social programmes which minimises waste and maximises efficiency;
- c. the World Bank and the IMF to strengthen collaboration in the preparation of public expenditure reviews of individual countries which analyse the composition and efficiency of public expenditure;
- d. the IMF, in assisting countries to develop macroeconomic frameworks in times of crisis, to take into consideration the degree to which the adjustment programmes provide for adequate spending in the social sector;
- e. the World Bank to work with countries, the Fund and Regional Development Banks on drawing up and monitoring implementation and follow up of social indicators;
- f. the Fund and Bank to increase the attention they give to these issues in the design of adjustment and sector programmes, and to develop further their cooperation in this area. In addition, we call on all countries to consider what more can be done to encourage the pursuit of sound social policies both inside and outside of crisis situations.

59. Effective social policy will help provide a foundation for sustainable development, by ensuring that the benefits of globalisation are widely shared, equipping people for change and ensuring that economies are more robust.

60. Sustainable development at a global level, enabling all countries to share the benefits of economic growth, also depends on measures to reduce the unsustainable debt burdens on the poorest countries and alleviate poverty. The initiatives on social policy must therefore be taken forward together with initiatives on debt relief and poverty reduction, on which we have presented separate proposals to our Heads.

CONCLUSIONS OF THE G8 FOREIGN MINISTERS

Gürzenich/Cologne, 10 June 1999

1. On the eve of a new millennium, characterised by globalisation, and aware of unprecedented opportunities but also continuing challenges to peace, stability and prosperity, we discussed a number of issues of common G8 and global concern. We drew the following conclusions:

2. Trying to identify the major challenges which face us at the end of the 20th century, we observe that

- The main goal of the peoples of the United Nations to save succeeding generations from the scourge of war is not yet achieved;
- International stability has been undermined by regional, ethnic and intra-state conflicts; the disintegration and fragmentation of sovereign states constitutes a serious danger to international peace and security;
- Democracy has made significant progress around the world, but by no means all people have the opportunity to live in democratic societies, and in some areas the pace of democratic reform has slowed;
- Human rights enjoy greater recognition, but by no means everywhere in the world can people invoke them as guaranteed rights;
- Not all persons, especially those caught up in armed conflict, enjoy the right to protection enshrined in the UN Charter;
- The increased availability of weapons, from small arms to weapons of mass destruction and their delivery systems, runs counter to international efforts to reduce and control those weapons, for the purpose of enhancing international security and stability;
- Terrorism, organised crime and drug trafficking continue to endanger our democracies and international stability, despite our efforts and international co-operation;
- The integration of markets and unprecedented mobility of people, information, goods and capital, have generated economic growth, improved living standards, shared ideas, of values and cultural understanding and placed a premium on investing in people and social infrastructure, but globalisation has also brought new risks and inherent vulnerabilities in both developed and developing countries;
- International financial crises can undermine social cohesion and challenge us to secure and enhance the social benefits of globalisation;
- Sustainable development is rapidly taking hold, with unprecedented reductions in poverty and improvements in environmental protection, but many people continue to live in poverty and serious environmental degradation persists;

3. Human Security

The effective protection of people, both individually and collectively, remains central to our agenda. The G8 is determined to fight the underlying causes of the multiple threats to human security, and is committed to creating an environment where basic rights, the safety and the very survival of all individuals are guaranteed. We emphasise that crucial cornerstones of human security remain democracy, human rights, rule of law, good governance and human development.

We regard the spread of small arms, the danger posed by landmines, international terrorism and transnational crime, drugs and infectious diseases, poverty, economic distress and oppression to be among the most serious threats to mankind. As effective action against these threats, the G8 agrees to support:

- The protection of civilians and safeguarding of the rights of children in armed conflicts,
- Combating illicit small arms proliferation,
- Control of conventional arms transfers,

- Implementation of the Ottawa Convention on landmines,
- Combating organised crime, drug trafficking and terrorism, including by advancing the conventions for the suppression of terrorism financing and combating acts of nuclear terrorism.

4. Conflict prevention

Central to our vision for improved conflict prevention and management is a reformed, effective and efficient United Nations. Full respect for the provisions of the UN Charter and the principles and norms of international law is fundamental. Strengthening democracy, human rights and the rule of law is also of crucial importance.

- On the eve of the new millennium, we will meet in Berlin in December 1999 on the initiative of the German Presidency to discuss conflict prevention and conflict resolution.

5. Non-proliferation and disarmament

We remain committed to further enhancing the process of disarmament and strengthening the international non-proliferation regime and to ensure effective export control mechanisms. We continue to follow the deteriorating situation in South Asia closely, including the effects of the Indian and Pakistani nuclear tests. Recalling the provisions of the UNSC resolution 1172, we call upon India and Pakistan to implement the CBMs on which they have embarked and, as a matter of priority, to follow through on their declared intention to adhere to the CTBT and the remaining provisions.

In the field of disarmament and non-proliferation co-operation, we welcome all the initiatives currently being planned and undertaken by G8 countries and others, including an adequately financed expanded threat reduction programme.

We recognise the need for the safe and effective management of weapons-grade nuclear material designated as no longer required for defence purposes including plutonium disposition, remain committed to continue our work on this issue and strongly support the corner initiatives undertaken to that end. We confirm the commitment of our countries to work for an early start to negotiations on a Fissile Material Cut-Off Treaty.

We remain determined to ensure the early and successful conclusion to the negotiations on a legally-binding Protocol to strengthen the Biological and Toxin Weapons Conventions and press for universal adherence to and implementation of the Chemical Weapons Convention.

6. Regional issues

On May 6, 1999 we convened on the Petersberg, Bonn, and agreed on general principles we deemed indispensable for ending violence and repression in Kosovo and enabling the safe and free return to Kosovo of all refugees and displaced persons. Based on these principles, Martti Ahtisaari, President of Finland, acting on behalf of the European Union, and Victor Chernomyrdin, Special Representative of the President of the Russian Federation, presented to President Slobodan Milosevic in Belgrade on June 2, 1999, a peace plan which was accepted by the Government of the Federal Republic of Yugoslavia and the Assembly of the Republic of Serbia. The momentum created hereby allowed us at our meeting in Cologne, "Gurzenich", on June 8, 1999 to succeed in preparing a United Nations Security Council resolution which will provide the basis for a fair and viable political solution.

We welcome the Military Technical Agreement of 9 June 1999 and look forward to an early cease-fire and the beginning of a verified withdrawal of Serb forces from Kosovo. This will allow the suspension of military action, the immediate adoption of the United Nations Security Council Resolution, and rapid introduction into Kosovo of international civil and security presences.

The priority now is to ensure that the provisions of the UNSCR are implemented rapidly to create the conditions for the free and safe return of the refugees and the displaced person to their homes. We invite all Serb and other minority residents of Kosovo to remain and to contribute to the creation of a democratic, multi-ethnic Kosovo. The civil presence in Kosovo will have a crucial and urgent role to create security, democracy and economic reconstruction for all the peoples of an autonomous Kosovo and more widely in the region, consistent with the proposed Stability Pact for all South Eastern Europe.

We urge the international donor community to meet at the earliest possible date and in close co-operation with the mechanisms of the (envisioned) Security Pact and with the European Union and the World Bank which will have a decisive co-ordinating role, at an international conference that should initiate all

necessary steps for the reconstruction and economic stabilisation in South Eastern Europe in order to give to the affected countries in the region a strong signal of active international support and solidarity. We welcome the European Union's readiness to begin this process by convening with the World Bank a donors' conference, at the earliest possible date, addressing the immediate needs for rehabilitation and reconstruction in Kosovo.

We reaffirm our full support for a negotiated comprehensive peace in the Middle East, based on the principles of land for peace, UNSCRs 242, 338 and 425 and the arrangements of Madrid and Oslo. We call for full and immediate implementation of the Wye River Accord, immediate resumption of permanent status negotiations, and avoidance of unilateral actions which might prejudice the outcome of negotiations.

We believe that Iraq must comply with all relevant Security Council resolutions. We call upon the Security Council, basing itself upon the reports of the panels on disarmament. Humanitarian relief and the treatment of Kuwaiti missing persons to develop and adopt a comprehensive strategy on the basis of all relevant UNSCRs, building upon the recommendations of the panel reports.

We welcome recent political developments in Iran, including the holding of the first local elections, and Iran's leadership of the OIC. We want to see closer relations with Iran and we urge Iran to adopt a more positive approach to the Middle East Peace Process. We urge Iran to take further measures to ensure the human rights of all citizens, including the Baha'i and other communities, and to act on a continuing basis in accordance with its condemnation of all forms of violence and terrorism. We call upon Iran not to construct weapons of mass destruction and missiles to deliver them.

We welcome the recent elections in Indonesia which we hope will lead to reduced internal tensions. We will continue to support the reform process which we believe will encourage sustainable development to the benefit of the entire population. We welcome the agreement on the future of East Timor, signed on 5 May 1999 by the Secretary-General of the United Nations and the Foreign Ministers of Portugal and Indonesia. We urge all parties to bring about rapid end to the violence and an early deployment of UN observers. We look forward to a successful resolution of this long standing issue in terms acceptable to the East Timor people.

We support the Republic of Korea's policy of engagement with the Democratic People's Republic of Korea, and welcome the resumption of South-North Korean dialogue. We continue to support the Agreed Framework and KEDO, and encourage broadened international support for its work. We are concerned at the DPRK's missile test and export of missile technology, and expect it to avoid destabilising activities. We urge the DPRK to act constructively on security and humanitarian issues.

We are concerned about the suspension of the negotiations between the factions in Afghanistan and the intensified fighting. We urgently call upon the factions to resume the negotiations under the auspices of the UN.

We desire to see the full restoration of democracy and the respect of human rights in Myanmar/Burma.

We are deeply concerned about the continuing military confrontation in Kashmir, following the infiltration of militants across the Line of Control. We call upon India and Pakistan to respect the Line of Control, to work for an immediate cessation of the fighting, and to return to the negotiation table in spite of the Lahore declaration.

We welcome the progress made in many African countries in the field of economic reforms, sustainable development, democracy and good government in the last decade. In particular, we warmly welcome and strongly support Nigeria's return to civil rule and democracy. We encourage Nigeria to take early concrete steps toward economic and institutional reform and to create the open and transparent system essential to promote economic growth and prosperity. We are deeply concerned by the extension of armed conflicts, the huge influx of arms and military equipment to conflict areas in Africa and the increasing role in these conflicts of non-state entities controlling resources whose trafficking fuels armed activities. We urge the International Community to consolidate its efforts to prevent conflict in Africa, and look forward to an enhanced UN effort, in co-operation with the OAU and sub-regional organisations.

We are particularly concerned by the ongoing conflicts in the Democratic Republic of Congo and the Great Lakes Region as a whole, the resumption of civil war in Angola, the continuing conflict between Ethiopia and Eritrea, in Sudan and Somalia, and condone the overthrow of the legitimate authority in Guinea-Bissau, Niger and Comoros. We support the consolidation of the peace settlement in Sierra

Leone. It is vital that the relevant United Nations Security-Council Resolutions should be fully respected, and we encourage all efforts to resolve conflict which threatens the development of African countries and the stability and security of large parts of Africa.

We reiterate our support for the UN efforts to reach a comprehensive settlement on the Cyprus problem on the basis of the relevant Resolution of the UN Security Council. We recommended that the G8 Summit leaders urge the UN Security-General to invite the leaders of both parties to enter into comprehensive negotiations without pre-conditions. We urge all those concerned to avoid any measures that could increase tensions on the islands and complicate efforts to promote a just and lasting peace.

7. Social and Political Foundations for Resilient Economies

Experience has shown that those countries in which democracy and human rights, the rule of law and good governance are widely established, and which participate effectively in regional co-operation, are generally more resilient and less vulnerable to the impact of unanticipated financial and economic crises. Where a crisis nonetheless develops, it is essential to maintain effective social spending to mitigate the negative impact. We applaud efforts to promote capacity-building through the growing co-operation of the International Financial Institutions, the United Nations and other international organisations and donors in order to reduce systemic vulnerability to crises. We also encourage sharing of best practices on social safety nets and other social infrastructure. We urge the International Financial Institutions to enhance their efforts to assist developing countries in making improvements in these areas, and to continue work on best practices in social policy with a view to assisting vulnerable groups and improving the foundation for effective development.

8. Non-Aligned Movement

We have a fruitful exchange of views over a wide range of global issues for the purpose of strengthening our co-operation with our colleagues of the NAM-Troika delegation (South Africa, Columbia and Bangladesh).

STATEMENT FROM JOINT MEETING OF FOREIGN MINISTERS OF THE G8 AND THE NON-ALIGNED MOVEMENT

Gürzenich/Cologne, 10 June 1999

- We, the Foreign Ministers of the G8, the Troika of Foreign Ministers of the Non-Aligned Movement (South Africa, Bangladesh and Colombia), and the Chair of the G77, the Ambassador of Guyana, met in Cologne on 10 June 1999. We had a fruitful exchange of views on a number of crucial issues of common concern to our peoples.
- As a result of its successful Durban-summit of September 1998 the non-aligned Movement had taken up a constructive dialogue among partners, and with groups like the G8. Regular dialogue is a most promising way to strive for promoting our common objectives.

STABILITY PACT FOR SOUTH EASTERN EUROPE

Gürzenich/Cologne, 10 June 1999

I Participants, description of situation

1. We, the Foreign Ministers of the Member States of the European Union, the European Commission, the Foreign Ministers of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Romania, the Russian Federation, Slovenia, the former Yugoslav Republic of Macedonia, Turkey, the United States of America, the OSCE Chairman in Office and the Representative of the Council of Europe representing the participants in today's Conference on South Eastern Europe; and the Foreign Ministers of Canada and Japan, Representatives of the United Nations, UNHCR, NATO, OECD, WEU, International Monetary Fund, the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development, acting within their competences, representing the facilitating States, Organisations and Institutions of today's Conference, as well as the Representatives of the Royaumont process, BSEC, CEI, SECI and SEECF, have met in Cologne on 10 June 1999, in response to The European Union's call to adopt a Stability Pact for South Eastern Europe.

2. The countries of South Eastern Europe recognise their responsibility to work within the international community to develop a shared strategy for stability and growth of the region and to cooperate with each other and major donors to implement that strategy. Seizing the opportunity to address structural shortfalls and unresolved issues will accelerate democratic and economic development in the region.

3. We will strive to achieve the objective of lasting peace, prosperity and stability for South Eastern Europe. We will reach this objective through a comprehensive and coherent approach to the region involving the EU, the OSCE, the Council of Europe, the UN, NATO, the OECD, the WEU, the IFIs and the regional initiatives. We welcome the fact that the European Union and the United States have made support for the Stability Pact a priority in their New Transatlantic Agenda, as well as the fact that the European Union and the Russian Federation have made the Stability Pact a priority in their political dialogue.

4. A settlement of the Kosovo conflict is critical to our ability to reach fully the objectives of the Stability Pact and to work towards permanent, long term measures for a future of peace and inter-ethnic harmony without fear of the resurgence of war.

II Principles and norms

5. We solemnly reaffirm our commitment to all the principles and norms enshrined in the UN Charter, the Helsinki Final Act, the Charter of Paris, the 1990 Copenhagen Document and other OSCE documents, and, as applicable, to the full implementation of relevant UN Security Council Resolutions, the relevant conventions of the Council of Europe and the General Framework Agreement for Peace in Bosnia and Herzegovina, with a view to promoting good neighbourly relations.

6. In our endeavours, we will build upon bilateral and multilateral agreements on good neighbourly relations concluded by States in the region participating in the Pact, and will seek the conclusion of such agreements where they do not exist. They will form an essential element of the Stability Pact.

7. We reaffirm that we are accountable to our citizens and responsible to one another for respect for OSCE norms and principles and for the implementation of our commitments. We also reaffirm that commitments with respect to the human dimension undertaken through our membership in the OSCE are matters of direct and legitimate concern to all States participating in the Stability Pact, and do not belong exclusively to the internal affairs of the State concerned. Respect for these commitments constitutes one of the foundations of international order, to which we intend to make a substantial contribution.

8. We take note that countries in the region participating in the Stability Pact commit themselves to continued democratic and economic reforms, as elaborated in paragraph 10, as well as bilateral and regional cooperation amongst themselves to advance their integration, on an individual basis, into Euro-Atlantic structures. The EU Member States and other participating countries and international organisations and institutions commit themselves to making every effort to assist them to make speedy and measurable progress along this road. We reaffirm the inherent right of each and every participating State to be free to choose or change its security arrangements, including treaties of alliance as they

evolve. Each participating State will respect the rights of all others in this regard. They will not strengthen their security at the expense of the security of other States.

III Objectives

9. The Stability Pact aims at strengthening countries in South Eastern Europe in their efforts to foster peace, democracy, respect for human rights and economic prosperity, in order to achieve stability in the whole region. Those countries in the region who seek integration into Euro-Atlantic structures, alongside a number of other participants in the Pact, strongly believe that the implementation of this process will facilitate their objective.

10. To that end we pledge to cooperate towards:

- preventing and putting an end to tensions and crises as a prerequisite for lasting stability. This includes concluding and implementing among ourselves multilateral and bilateral agreements and taking domestic measures to overcome the existing potential for conflict;
- bringing about mature democratic political processes, based on free and fair elections, grounded in the rule of law and full respect for human rights and fundamental freedoms, including the rights of persons belonging to national minorities, the right to free and independent media, legislative branches accountable to their constituents, independent judiciaries, combating corruption, deepening and strengthening of civil society:
- creating peaceful and good-neighbourly relations in the region through strict observance of the principles of the Helsinki Final Act, confidence building and reconciliation, encouraging work in the OSCE and other fora on regional confidence building measures and mechanisms for security cooperation;
- preserving the multinational and multiethnic diversity of countries in the region, and protecting minorities;
- creating vibrant market economies based on sound macro policies, markets open to greatly expanded foreign trade and private sector investment, effective and transparent customs and commercial/regulatory regimes, developing strong capital markets and diversified ownership, including privatisation, leading to a widening circle of prosperity for all our citizens;
- fostering economic cooperation in the region and between the region and the rest of Europe and the world, including free trade areas; promoting unimpeded contacts among citizens;
- combating organised crime, corruption and terrorism and all criminal and illegal activities;
- preventing forced population displacement caused by war, persecution and civil strife as well as migration generated by poverty;
- ensuring the safe and free return of all refugees and displaced persons to their homes, while assisting the countries in the region by sharing the burden imposed upon them;
- creating the conditions, for countries of South Eastern Europe, for full integration into political, economic and security structures of their choice.

11. Lasting peace and stability in South Eastern Europe will only become possible when democratic principles and values, which are already actively promoted by many countries in the region, have taken root throughout, including in the Federal Republic of Yugoslavia, International efforts must focus on consolidating and linking areas of stability in the region to lay a firm foundation for the transition of the region as a whole to a peaceful and democratic future.

We declare that the Federal Republic of Yugoslavia will be welcome as a full and equal participant in the Stability Pact, following the political settlement of the Kosovo crisis on the basis of the principles agreed by Foreign Ministers and taking into account the need for respect by all participants for the principles and objectives of this Pact.

In order to draw the Federal Republic of Yugoslavia closer to this goal, respecting its sovereignty and territorial integrity, we will consider ways of making the Republic of Montenegro an early beneficiary of the Pact. In this context, we welcome involvement in our meetings of representatives of Montenegro, as a constituent Republic of the Federal Republic of Yugoslavia. We also note the intention of the European

Union and other interested participants to continue to work closely with its democratically elected government,

IV Mechanisms of the Stability Pact

12. To reach the objectives we have set for ourselves, we have agreed to set up a South Eastern Europe Regional Table. The South Eastern Europe Regional Table will review progress under the Stability Pact, carry it forward and provide guidance for advancing its objectives.

13. The Stability Pact will have a Special Coordinator, who will be appointed by the European Union, after consultation with the OSCE Chairman in Office and other participants, and endorsed by the OSCE Chairman in Office. The Special Coordinator will chair the South Eastern Europe Regional Table and will be responsible for promoting achievement of the Pact's objectives with-in and between the individual countries, supported by appropriate structures tailored to need, in close cooperation with the governments and relevant institutions of the countries, in particular other interested associated countries of the European Union, as well as relevant international organisations and institutions concerned. The Special Coordinator will provide periodic progress reports to the OSCE, according to its procedures, on behalf of the South Eastern Europe Regional Table.

14. The South Eastern Europe Regional Table will ensure coordination of activities of and among the following Working Tables, which will build upon existing expertise, institutions and initiatives and could be divided into sub-tables:

- Working Table on democratisation and human rights;
- Working Table on economic reconstruction, development and cooperation;
- Working Table on security issues.

15. Responsibilities for these Working Tables are referred to in the Annex to this document. The Working Tables will address and facilitate the resolution of the issues entrusted to them by arrangements to be agreed at each table.

16. The South Eastern Europe Regional Table and the Working Tables will consist of the participants of the Stability Pact. The facilitator States, Organisations and Institutions as well as the regional initiatives referred to in paragraph 1 of this document are entitled to participate in the Working Tables and in the South Eastern Europe Regional Table if they so wish. Neighbouring and other countries, in particular other interested associated countries of the EU, as well as relevant international organisations and institutions may be invited as participants or observers, as appropriate, and without any ensuing commitment to the future, to the South Eastern Europe Regional Table and/or the Working Tables, in order to contribute to the objectives of the Stability Pact.

V Roles of and cooperation between participants

17. Work in the Stability Pact should take into account the diversity of the situation of participants. To achieve the objectives of this Pact, we will provide for effective coordination between the participating and facilitating States, international and regional Organisations and Institutions, which have unique knowledge and expertise to contribute to the common endeavour. We look to the active and creative participation by all concerned to bring about the conditions which will enable the countries in the region to seize the opportunity represented by this Pact. Each of the participants will endeavour to ensure that the objectives of the Stability Pact are furthered in their own participation in all relevant international Organisations and Institutions.

Role of the EU

18. We welcome the European Union's initiative in launching the Stability Pact and the leading role the EU is playing, in cooperation with other participating and facilitating States, international Organisations and Institutions. The launching of the Pact will give a firm European anchorage to the region. The ultimate success of the Pact will depend largely on the efforts of the States concerned to fulfil the objectives of the Pact and to develop regional cooperation through multilateral and bilateral agreements.

19. We warmly welcome the European Union's readiness to actively support the countries in the region and to enable them to achieve the objectives of the Stability Pact. We welcome the EU's activity to strengthen democratic and economic institutions in the region through a number of relevant programmes.

We note progress towards the establishment and development of contractual relations, on an individual basis and within the framework of its Regional Approach, between the EU and countries of the region. We take note that, on the basis of the Vienna European Council Conclusions, the EU will prepare a "Common Strategy towards the Western Balkans", as a fundamental initiative.

20. The EU will draw the region closer to the perspective of full integration of these countries into its structures. In case of countries which have not yet concluded association agreements with the EU, this will be done through a new kind of contractual relationship taking fully into account the individual situations of each country with the perspective of EU membership, on the basis of the Amsterdam Treaty and once the Copenhagen criteria have been met. We note the European Union's willingness that, while deciding autonomously, it will consider the achievement of the objectives of the Stability Pact, in particular progress in developing regional cooperation, among the important elements in evaluating the merits of such a perspective.

Role of countries in the region

21. We highly appreciate the contribution and the solidarity of the countries in the region with the efforts of the international community for reaching a peaceful solution on Kosovo. We welcome the efforts so far deployed and results achieved by countries in South Eastern Europe towards democratisation, economic reform and regional cooperation and stability. These countries will be the main beneficiaries of the Pact and recognise that its successful implementation, and the advance towards Euro-Atlantic structures for those seeking it depend decisively on their commitment to implement the objectives of the Pact, in particular on their willingness to cooperate on a bilateral and multilateral level and to promote the objectives of the Pact within their own respective national structures.

Role of the OSCE

22. We welcome the OSCE's intention, as the only pan-European security Organisation and as a regional arrangement under Chapter VIII of the UN Charter and a primary instrument for early warning, conflict prevention, crisis management and post-conflict rehabilitation, to make a significant contribution to the efforts undertaken through the Stability Pact. We reaffirm that the OSCE has a key role to play in fostering all dimensions of security and stability. Accordingly, we request that the Stability Pact be placed under the auspices of the OSCE, and will rely fully on the OSCE to work for compliance with the provisions of the Stability Pact by the participating States, in accordance with its procedures and established principles,

23. We will rely on the OSCE institutions and instruments and their expertise to contribute to the proceedings of the South Eastern Europe Regional Table and of the Working Tables, in particular the Working Table on Democratisation and Human Rights. Their unique competences will be much needed in furthering the aims and objectives of the Stability Pact. We express our intention, in cases requiring OSCE involvement with regard to the observance of OSCE principles in the implementation of the Stability Pact, to resort, where appropriate, to the instruments and procedures of the OSCE, including those concerning conflict prevention, the peaceful settlement of disputes and the human dimensions. States parties to the Convention establishing the Court of Conciliation and Arbitration may also refer to the Court possible disputes and ask for the non-binding opinion of the Court.

Role of the Council of Europe

24. We welcome the Council of Europe's readiness to integrate all countries in the region into full membership on the basis of the principles of pluralist democracy, human rights and the rule of law. The Council of Europe can make an important contribution to the objectives of the Pact through its parliamentary and intergovernmental organs and institutions, its European norms embodied in relevant legally-binding Conventions, primarily the European Convention of Human Rights (and the Court), its instruments and assistance programmes in the fields of democratic institutions, human rights, law, justice and education, as well as its strong links with civil society. In this context, we take note with great interest of the Council of Europe's Stability Programme for South East Europe to be implemented, together and in close coordination with the countries concerned and other international and regional organisations active in the field.

Role of the UN, including UNHCR

25. We underline the UN's central role in the region for peace and security and for lasting political normalisation, as well as for humanitarian efforts and economic rehabilitation. We strongly support

UNHCR's lead agency function in all refugee-related questions, in particular the protection and return of refugees and displaced persons and the crucial role undertaken by WFP, UNICEF, WHO, UNDP, UNHCHR and other members of the UN system. We look forward to the active involvement of relevant UN agencies in the South Eastern Europe Regional Table. We note that the UN Economic Commission for Europe has expertise which can usefully contribute to the proceedings of the Working Tables of the Stability Pact.

Role of NATO

26. We note NATO's decision to increase cooperation with the countries of South Eastern Europe and its commitment to openness, as well as the intention of NATO, the Euro-Atlantic Partnership Council and the Partnership for Peace to work in cooperation with other Euro-Atlantic structures, to contribute to stability and security and to maintain and increase consultations with the countries of the region. We call for their engagement, in conformity with the objectives of the Pact, in regional security cooperation and conflict prevention and management. We welcome these stabilisation activities aimed at promoting the objectives of this Pact. The enhanced use of NATO's consultative fora and mechanisms, the development of an EAPC cooperative mechanism and the increased use of Partnership for Peace programmes will serve the objectives of overall stability, cooperation and good-neighbourliness envisaged in the Pact. 27. The members of NATO and a substantial number of other participants underscore that the Alliance has an important role to play in achieving the objectives of the Pact, noting in particular NATO's recent decisions to reach out to countries of the region.

Role of the United States of America

28. Having worked closely with the European Union to launch this Pact, the United States of America will continue to play a leading role in the development and implementation of the Pact, in cooperation with other participants and facilitators. We believe that the active role of the United States underscores the vital importance attached by countries of the region to their integration into Euro-Atlantic structures.

We note the United States' readiness to support this objective, as these countries work to become as strong candidates as possible for eventual membership in Euro-Atlantic institutions. We welcome the ongoing contribution of the United States, including through economic and technical assistance programmes, and through its shared leadership in International Financial Institutions, to the States of South Eastern Europe. The United States will coordinate and cooperate with the other donors to ensure the maximum effectiveness of assistance to the region.

Role of the Russian Federation

29. Russia has played and continues to play a key role in the region. Russian efforts and contribution to achieving a peaceful solution of conflicts there, in particular of the Kosovo crisis, are appreciated. Having been involved at an early stage in the launching of this Pact, the Russian Federation will continue to play a leading and constructive role in development and implementation of the Pact, in cooperation with the EU, the UN, the OSCE, the Council of Europe, international economic and financial organisations and institutions, as well as regional initiatives and individual states. The Russian Federation can make a valuable contribution to activities aimed at promoting peace, security and post-conflict cooperation.

Role of the IFIs

30. The IMF, the World Bank, the EBRD and the EIB, as the European Union financing institution, have a most important role to play, in accordance with their specific mandates, in supporting the countries in the region in achieving economic stabilisation, reform, and development of the region. We rely on them to develop a coherent international assistance strategy for the region and to promote sound macro-economic and structural policies by the countries concerned. We call on these International Financial Institutions to take an active part in the South Eastern Europe Regional Table and the relevant Working Tables,

Role of the OECD

31. We note the OECD's unique strength as a forum for dialogue on medium-term structural policy and best practices. We rely on the OECD in consideration of its well-known competence in dealing with economies in transition and its open dialogue with the countries of South Eastern Europe, to take an active part in the South Eastern Europe Regional Table and to assist in the process of economic

reconstruction, the strengthening of good governance and administrative capacities and the further integration of affected States into the European and global economy.

Role of the WEU

32. We welcome the role which the WEU plays in promoting stability in the region. We note in this respect the contribution to security the WEU makes, at the request of the European Union, through its missions in countries in the region.

VI Regional initiatives and organisations

33. We stress our interest in viable regional initiatives and organisations which foster friendly cooperation between neighbouring States. We welcome sub-regional cooperation schemes between participating countries. We will endeavour to ensure cooperation and coordination between these initiatives and the Stability Pact, which will be mutually reinforcing. We will build on their relevant achievements.

34. We note that the Royaumont process has already established a dynamic framework for cooperation in the area of democracy and civil society. Therefore, Royaumont has a key role to play in this area, particularly within the framework of the first Working Table of the Stability Pact,

35. We note the role of the Organisation of the Black Sea Economic Cooperation in promoting mutual understanding, improving the overall political climate and fostering economic development in the Black Sea region. Welcoming its engagement to peace, security and stability through economic cooperation, we invite the BSEC to contribute to the implementation of the Stability Pact for South Eastern Europe.

36. We note that the Central European Initiative has established, with countries in the region, a stable and integrated framework of dialogue, coordination and cooperation in the political, economic, cultural and parliamentary fields. On the basis of its experience, it has an important role to play in the framework of the South Eastern Europe Regional Table.

37. We note that the South East Europe Cooperation Initiative (SECI) has developed an innovative approach to economic and infrastructure related cooperation in the region by facilitating joint decision-making by the South Eastern European countries in its areas of activity. As such, it has a key role to play concerning regional economic issues, in particular the removal of disincentives to private investment in the region, in the framework of the Stability Pact,

38. We commend the South Eastern Europe Cooperation Process as a further successful regional cooperation scheme. We encourage its further development and institutionalisation, including the finalisation of its charter on good-neighbourly relations and cooperation.

39. We note the contribution in the security dimension of the South Eastern European Defence Ministers (SEDM) group, which has brought the countries of the region and other nations into a variety of cooperative activities which enhance transparency and mutual confidence, such as the new Multinational Peace-Keeping Force for South East Europe.

40. We expect the proposed Conference on the Adriatic and Ionian Sea region to provide a positive contribution to the region.

VII International donor mobilisation and coordination process

41. We reaffirm our strong commitment to support reconstruction, stabilisation and integration for the region, and call upon the international donor community to participate generously. We welcome the progress made by the World Bank and the European Union, through the European Commission, towards establishing a donor coordination process. This process will closely interact with the relevant Working Table, and will identify appropriate modalities to administer and channel international assistance. The World Bank and the European Commission will also be responsible for coordinating a comprehensive approach for regional development and the necessary donors conferences.

VIII Implementation and review mechanisms

42. Effective implementation of this Pact will depend on the development and the strengthening of administrative and institutional capacity as well as civil society in the countries concerned both at national and local level - in order to reinforce the consolidation of democratic structures and have longer-term benefits for effective administration and absorption of international assistance for the region.

43. The South Eastern Europe Regional Table and the Working Tables will be convened for their inaugural meetings at the earliest possible opportunity at the invitation of the Presidency of the European Union. They will work to achieve concrete results according to agreed timeliness in conformity with the objectives of the Stability Pact, The South Eastern Europe Regional Table will meet periodically, at a level to be determined, to review progress made by the Working Tables. The South Eastern Europe Regional Table will provide guidance to the Working Tables.

Annex

Organisation of the South Eastern Europe Regional Table and the Working Tables of the Stability Pact for South Eastern Europe

A. The South Eastern Europe Regional Table will carry forward the Stability Pact by acting as a clearing house for all questions of principle relating to the substance and implementation of the Stability Pact as well as a steering body in the Stability Pact process. The South Eastern Europe Regional Table will provide guidance to the Working Tables.

B. The Working Tables are instruments for maintaining and improving good-neighbourly relations in the region by constructively addressing and facilitating the resolution of the issues entrusted to them. The objectives of the Working Tables will be in particular:

- the discussion of issues in a multilateral framework conducive to the definition of ways to address shortfalls and to the settlement of differences by arrangements and agreements, drawing on the expertise and support of participants as well as facilitator States, Organisations, Institutions and regional initiatives, in particular from the OSCE and the Council of Europe;
- the identification of projects aimed at facilitating the achievement of arrangements, agreements and measures in conformity with the objectives of the Pact. Special attention is to be given to projects which involve two and more countries in the region.
- where necessary, the injection of momentum in areas where further progress should be achieved.

C. Each Working Table will address the following range of issues and will decide, as appropriate, whether the establishment of sub-tables, comprising the participants and facilitators, will be necessary;

- Working Table on democratisation and human rights, which will address:
 - i. democratisation and human rights, including the rights of persons belonging to national minorities; free and independent media; civil society building; rule of law and law enforcement: institution building; efficient administration and good governance; development of common rules of conduct on border related questions; other related questions of interest to the participants;
 - ii. refugee issues, including protection and return of refugees and displaced persons;
- Working Table on economic reconstruction, development and cooperation, including economic cooperation in the region and between the region and the rest of Europe and the world; promotion of free trade areas; border-crossing transport; energy supply and savings; deregulation and transparency; infrastructure; promotion of private sector business; environmental issues; sustainable reintegration of refugees; other related questions of interest to the participants, while maintaining the integrity of the donor coordination process;
- Working Table on security issues, which will:
 - iii. address justice and home affairs, as well as migratory issues; focus on measures to combat organised crime, corruption, terrorism and all criminal and illegal activities, transboundary environmental hazards; other related questions of interest to the participants;
 - iv. receive regular information from the competent bodies addressing transparency and confidence-building measures in the region. This Table will also encourage continued implementation of the Dayton/Paris Article IV Arms Control Agreement and progress of the negotiations of Article V, and should consider whether, at an appropriate time, further arms control, security and confidence building measures might be addressed, by the competent bodies, taking into account existing obligations and commitments under the CFE Treaty.

v. receive regular information from the competent bodies addressing cooperation on defence/military issues aimed at enhancing stability in the region and among countries in the region, and facilitate the sustained engagement of all concerned to ensure regional security, conflict prevention and management. The work of this Table will complement and be coherent with efforts for the security of this region undertaken by various European and Euro-Atlantic initiatives and structures.

D. The Working Tables will establish work plans in conformity with the objectives of the Stability Pact. Within the range of their competence, they can establish side tables or call meetings and conferences on matters of a specific or sub-regional nature. In this context, special attention is to be given to fostering the exchange between private citizens (in particular youth), societal groups, entrepreneurs and companies as well as non-governmental organisations and their respective counterparts in the various countries of the region. They will, in particular, pay attention to the coherence and consistency of their work with existing activities and seek to promote complementarity and synergy, as well as avoid duplication, with existing activities.

E. The Chairmanship of the Working Tables will be established by the South Eastern Europe Regional Table. The Working Tables will report to the South Eastern Europe Regional Table. The respective chairs of the South Eastern Europe Regional Table and the Working Tables will meet periodically and as necessary to discuss and coordinate the activities of the Working Tables and to monitor progress.

F. The location and timing of the individual Working Tables should be arranged to facilitate, to the extent possible, the attendance of participants who may take part in more than one Working Table, without excluding different Tables developing their own calendars according to their respective dynamics. Tables could take place either in rotation in the countries of the region or at the invitation of individual countries or of the European Union or in Vienna, at the venue of the Permanent Council of the OSCE.

G. The host country, or host Organisation, should provide at its expense meeting facilities, such as conference rooms, secretarial assistance and interpretation. The European Union has expressed its readiness to bear such expenses when meetings are held at the seat of its institutions.

1 Bulgaria, Croatia, the Russian Federation, Slovenia and Turkey recognise the Republic of Macedonia under its constitutional name.

2 The Federal Republic of Yugoslavia is one of the successor states of the former Socialist Federal Republic of Yugoslavia.

CIVILIAN ASPECTS
IMPLEMENTATION OF PEACE SETTLEMENT IN KOSOVO
PROPOSALS OF THE G8 PRESIDENCY

Gürzenich/Cologne, 10 June 1999

The G8 Foreign Ministers adopted the following general principles on the civilian aspects of the implementation of an interim peace settlement in Kosovo:

1. Integrated civilian implementation structure to maximise effectiveness.
2. A Special Representative of the United Nations Secretary-General, as envisaged in paragraph 6 and 10 of the draft United Nations Security Council Resolutions prepared by the G8 Foreign Ministers on 8 June 1999 should be appointed rapidly to lead the civilian effort.
3. Other international organisations with relevant expertise to contribute as part of an integrated structure, with each Organisation retaining its own separate accountability,
4. A Steering Board to give strategic direction, bringing together the, EU, the UN, the OSCE, the G8-Member States, the organisations involved and a representative of the OIC.
5. Close coordination between the civilian and military presences from the outset.
6. Civilian implementation structure to be deployed rapidly, as soon as a secure environment has been established.
7. A conference of the relevant international organisations to be convened urgently by the United Nations Secretary-General to assign responsibility for the specific areas set out in paragraph 11 of the draft United Nations Security Council Resolutions as prepared by the G8 Foreign Ministers on 8 June 1999.
8. Particular priority to be given to the establishment and deployment of an international civilian police force, and to the training of a locally recruited police force, in order to take on responsibility for civil law and order as soon as possible from KFOR, as envisaged in the MTA of 9 June 1999.
9. Given the scale of the reconstruction task, an early donors' conference in which G8 member states pledge to play a full part.
10. The restoration of stability in Kosovo to be part of a wider strategy for regeneration of the region, as set out in the Stability Pact for South Eastern Europe.