

Introduction

At their meeting in Bermuda in September 1996, Commonwealth Finance Ministers discussed international private capital flows and their implications for economic policy. They found much common experience, and asked a group of Finance Ministry officials to consider the issues further, to compare experiences, and to report by their next meeting in Mauritius in September 1997.

2 The Secretary-General was asked to constitute a small working group of senior Commonwealth finance officials on a broad geographical basis, and with diverse experiences in attracting private capital flows. Mr. David Peretz, Deputy Director of the British Treasury was elected to chair the meetings. The Working Group consisted of the following country representatives: Mr. Paul Barry, Chief Representative of the Reserve Bank of Australia; Mr. O. K. Matambo, Permanent Secretary, Ministry of Finance and Development Planning of Botswana, Mr. Alister Smith, Director and Mr. Bruce Rayfuse, Senior Chief, International Finance and Economic Analysis Division, Department of Finance, Canada; Dr. George Yankey, Director in the Legal, Private Sector & Finance Institutions Division of Ministry of Finance, Ghana; H.E. Professor Havelock Ross-Brewster, Ambassador of Guyana to the European Community, Brussels; Dr. Y.V. Reddy, Deputy Governor of the Reserve Bank of India; Mr. Locksley Smith, Special Assistant to Minister of Finance, Jamaica; Datuk Dr. Aris Othman, Deputy Secretary-General of Ministry of Finance, Malaysia; Mr. D. Manraj, Financial Secretary, Mauritius; Mr.

Mueen Afzal, Permanent Secretary in the Ministry of Finance, Pakistan; Mr. Lesetja Kganyago, Ministry of Finance, South Africa; Mr. E. Tumusiime-Mutebile, Permanent Secretary and Secretary to the Treasury, Uganda; Mr. William Reuben Abel, First Secretary in the Ministry of Finance, Vanuatu; and Mr. G.D. Nyaguse, Chief Economist, Ministry of Finance, Zimbabwe.

3 The Group also benefited from the valuable participation of Dr. Kate Phylaktis of City University as their rapporteur, Mr. Pedro Alba from the World Bank; Mr. Matthew Fisher and Ms. Susan Schadler of the IMF. There were a number of invited experts: Mr. Azizali Mohammed, former Director of IMF and Adviser to G24; Professor Richard Portes, Director of Centre for Economic Policy Research (CEPR); Mr. Chris Tillet, Associate Director of Coopers & Lybrand; Mr. Kent Durr, Chairman Elect of CIGA Ltd; Mr. Robert Binyon, Managing Director of the Commonwealth Development Co-operation (CDC). Mr. Rumman Faruqi, Director of Economic Affairs Division of the Commonwealth Secretariat and his colleagues, Dr. Raj Kumar, Dr. Kaniz Siddique, Datuk Ramesh Chander and Dr. Bishakha Mukherjee contributed to the work of the Group and the preparation of the report. Valuable contribution was also made by Mr. Robert Burgess of the British Treasury.

4 The Group, like the Commonwealth, represented wide range of different countries: industrial countries, emerging markets, some of the world's most competitive and dynamic economies, and some poor countries in danger

of marginalisation from the developments in the global economy that are bringing benefits to other parts of the world. Despite these differences the Group found that they have a good deal of shared experience, and have had to face a number of common economic challenges.

- 5 The Group met twice, in February and June 1997, and this is its report. The report is divided into the following sections:
 - 2 the growing role of private capital flows: opportunities and constraints;
 - 3 national policies for enhancing and sustaining private capital flows;
 - 4 handling volatility;
 - 5 the role of the international institutions; and
 - 6 the role of the Commonwealth.

The last four sections (3 to 6) include key conclusions, grouped together at the end of each section. Papers on individual country experiences are at the Annex.

- 6 The Group focused its conclusions in three main areas:
 - a what can and should individual Commonwealth countries do to promote and handle international flows of private capital; to guard against economic risks; and to reap the maximum economic benefit;
 - b what should the international community and institutions do to enhance private

capital flows and deal with systemic risks;

- c how the Commonwealth can help in the process: by spreading best practice among member countries; through policy advice and direct action through technical assistance and other means; and by co-operating and discussing together actions that it wishes the international institutions to take.
- 7 In each area the Group has given special attention to the problems of countries in danger of being marginalised from the benefits of international capital flows. The central and overriding conclusion of the Group is that there are considerable benefits to be had from international capital flows; that over the medium-term all countries can secure these benefits by developing the right kind of enabling environment for investment in their economies. However, in the short- to medium-term, there is much that the international community and the Commonwealth can do to help in the process. These conclusions are very much in line with those of other recent studies such as the World Bank's report: "Private Capital Flows in Developing Countries" (1997) and the Commonwealth Secretariat papers "Coping with International Capital Flows" by Richard Portes and David Vines (1997) and "Private Capital Flows and Development: The Role of National and International Policies" by Gerry Helleiner (1997).