United Nations A/AC.257/24

General Assembly

Distr.: General
24 April 2001

Original: English

Preparatory Committee for the International Conference on Financing for Development
Third session
2-8 May and a full week in October/November 2001
Item 2 of the provisional agenda*
Review of the inputs to the substantive preparatory process and the International Conference on Financing for Development

Working paper prepared by the Facilitator

Introduction

1. In its resolution 55/245, the General Assembly decided that the Preparatory Committee for the International Conference on Financing for Development, at its third session, taking into account all inputs submitted to it at its second session (see General Assembly resolution 55/186; and A/AC.257/12-19), the results of the dialogue held therein (see A/55/28/Add.1, annex I), the compilation of governmental submissions on possible initiatives or themes that would be made available at the third session (see A/AC.257/23) and other relevant inputs, would consider in greater depth issues contained in a working paper, prepared by the Facilitator, which would serve as a means to further focus the discussions of the substantive preparatory work, within the framework of its substantive agenda (see A/55/28, part two, chap. VI, sect. B, decision 1/1). This paper has been prepared to fulfil that mandate.

2. In discharging this task, the Facilitator benefited from informal consultations with delegates to the Committee, members of the coordinating secretariat who contributed to the elaboration of the Secretary-General's report and various stakeholders.

3. Many of the issues covered in the present paper are interrelated and cross-cutting. The first section highlights some of these interlinkages. Subsequent sections correspond to the six headings of the substantive agenda. There should be a clear understanding, however, that any issue could be addressed in its diverse interrelationships at any given point, being an integral part of an interrelated whole.

Interlinkages

4. The International Conference on Financing for Development aims to contribute to confront the challenges of development at the global scale, from the perspective of finance. By addressing in an holistic manner the issues related to financing in support of development, actively involving all relevant stakeholders, public and private, the Conference, and the process leading up to it, is creating a unique opportunity to identify common concerns and to pursue win-win scenarios.

5. Thus, the Conference is poised to foster convergence of efforts aimed at making globalization

* A/AC.257/21.

01-34759 (E) 010501

work for all and achieving the internationally agreed development targets and the Millennium Summit goals. Five cross-cutting issues are particularly salient:

1. **Enhanced coherence in support of financing for development.**

- At the national level, a crucial challenge is to enhance the coherence and consistency of macroeconomic and structural policies vis-à-vis social and environmental development goals.
- At the international level, the challenge is to enhance the coherence and consistency of the international monetary, financial and trading systems in support of development.
- The synergy of national and international development enabling efforts is increasingly key to support financing for development, at both the policy and operational levels.

2. **Participation and ownership.**

- Enhancing the participatory nature of decision-making and norm-setting on matters of financing for development at the global level, including enhanced participation of relevant stakeholders, especially developing countries, is required from the perspectives of equity, effectiveness and efficiency.
- National ownership of development policies and strategies is similarly important. Conditionality, if it is to be applied, should be coherent with national development goals and implementing capacities. An important element is also the respect of national policy autonomy, for instance, vis-à-vis the capital account management and the choice of exchange rate regimes.
- Enhanced national capacity-building is an important step to achieve an effective participation of developing countries in relevant international decision-making and norm-setting as well as policy implementation.

3. **Technical and financial assistance for capacity-building.**

- Capacity-building is at the core of efforts to support financing for development. A key challenge is to integrate, in a mutually reinforcing manner, national and international efforts and resources for capacity-building in the interrelated areas of the financing for development agenda.
- It is important to ensure sustained availability and flexibility in the deployment and efficient use of adequate resources for technical assistance for capacity-building, through enhanced convergence of efforts of concerned United Nations system agencies, in partnership with key financial actors, public and private.
- Technical and financial assistance for capacity-building must evolve to ensure responsiveness to the requirements of developing countries and the special needs of Africa, the least developed countries, small island developing States, landlocked and transit developing countries and other developing countries, as well as countries with economies in transition with special difficulties in attracting financing for development.

4. **Regional complementarity and synergies.**

- Recognizing regional-specific needs and challenges and harnessing regional cooperation and integration as building blocks to complement global efforts to enhance the policy coherence of the international monetary, financial and trading systems in support of development, improve the participation and ownership of developing countries in norm-setting and decision-making processes and support technical and financial assistance for capacity-building.

5. **Public-private partnerships in support of financing for development.**

- Fostering greater synergies between private and public finance, in particular through more effective incentives and arrangements to enable private actors to better combine their private interests with objectives that concern the society or economy as a whole, such as national development goals and the provision of global, regional and national public goods.

Heading I.
Mobilizing domestic financial resources for development

6. Each country has primary responsibility for its economic development. The mobilization of domestic resources is the foundation for self-sustaining development. An enabling domestic environment is vital not only in mobilizing domestic resources but also in attracting and effectively using international investment and assistance.

7. National efforts to mobilize domestic financial resources should consolidate enabling domestic environments geared to promote growth with equity, through good governance, effective domestic institutions, the rule of law and sound macroeconomic, structural and social development policies that are gender- and environment-sensitive.

8. Based on common international understandings that respect diversity and specific country circumstances, these national efforts should be supported by an enabling international environment, including good international financial and trade governance and adequate external resources mobilization.

9. In the pursuit of good governance at the national and international levels, an immediate priority is to fight corruption:

- How to enhance international cooperation to fight corruption, eliminate money-laundering and illegal transactions and repatriate illegally transferred funds? How could an international legal instrument against corruption under the aegis of the United Nations be effective to fight corruption?

10. Public finance is not only central to domestic resource mobilization but is also an area where action by Governments can lead to early and effective results:

- How can multilateral and bilateral development agencies support national efforts to formulate medium-term fiscal frameworks that promote financial stability while providing a measure of predictability for public spending programmes?
- How can international cooperation support national efforts to put in place an efficient and equitable tax system?
- How can the international community support national efforts to tap civil society and private sector resources to contribute to the provision of infrastructure and social services, so that public resources can be concentrated in other areas where there can be no substitute for government activity?

11. Fostering a dynamic private sector is another crucial part of an enabling environment:

- How best to foster private sector development, particularly the development of a functioning financial sector to encourage private savings and productive investments?

12. An important challenge is to widen access to sources of finance so that all segments of the population can participate in development. Finance for small and medium-sized enterprises and microcredit, in both urban and rural areas, can play a key role in this regard, considering its critical impact on employment and income distribution:

- How can the international community support national efforts to foster the development of more inclusive financial services and ensure access by all, notably women and the poor? How to capitalize on the recent innovations in financial instrumentality to develop microfinance and other financial products for small borrowers? Within the context of the United Nations partnerships with business, is it possible to deepen financial innovation to better serve the financial needs of the poor? How to benefit from the experience of postal savings?

13. A basic priority is to put on track a comprehensive capacity-building and technical assistance effort to support generating an increasing stream of domestic financial resources and efficiently channelling them to development goals.

- How best to strengthen technical assistance efforts for national capacity-building in the critical areas of public finance and financial sector development, including capacity-building for enhanced participation in the formulation and implementation of codes and standards, as well as for financial sector reforms needed to facilitate investment flows?

Heading II. Mobilizing international resources for development: foreign direct investment and other private flows

14. Long-term investment flows, in particular foreign direct investment, are of essential importance in complementing the national development efforts of developing countries and countries with economies in transition, particularly to consolidate infrastructure development, enhance technology transfer, deepen productive linkages and boost overall competitiveness.

15. A central challenge is to attract foreign direct investment (FDI) flows and other private flows to a much larger number of countries and sectors. Key to this effort is the emergence and consolidation of transparent, stable and predictable frameworks for private activity, as well as the institutions, corporate governance and infrastructure that allow businesses, both domestic and international, to operate efficiently.

16. One immediate priority area would be helping countries that have made significant progress on the institutional and policy front to gain recognition among international investors; another priority area is the creation of guarantee and/or co-financing mechanisms to help encourage FDI to countries and sectors where there are insufficient flows:

- Would global hearings — involving Governments, the private sector and civil society — to discuss the issues surrounding international investment agreements contribute to finding common ground to facilitate investment flows to more developing countries and sectors?
- How can the international community, in particular technical assistance programmes of the international financial and trade institutions, contribute to fostering a good climate for a dynamic private sector — both domestic and foreign — to support development?
- How can international organizations further support the efforts of developing countries and the private sector to improve corporate governance in support of development, including through innovative partnerships that enhance social and environment responsible investments, as well as through the formulation and implementation of competition policies and corporate standards and regulations that effectively take into account the needs of developing countries?
- How to strengthen public-private partnerships, including through ODA leverage and the support of the international and regional financial institutions, to finance critical infrastructure projects and other priority development areas for developing countries and countries with economies in transition, not only by sharing risk with the private sector but also by improving awareness of business opportunities in these countries?
- How to enhance the role of export credit and guarantee authorities and corresponding bodies at the multilateral level, such as the Multilateral Investment Guarantee Agency (MIGA), as well as private sector bodies of the multilateral development banks, such as the International Finance Corporation (IFC), the Foreign Investment Advisory Service (FIAS), in stimulating and triggering increased flows to developing countries?
- What other measures and incentives could be effectively used by source countries and international institutions, both public and private, to encourage corporations to invest in low-income countries, and/or in sectors with the greatest developmental impact?
- What further action by international financial institutions and public-private partnerships could help promote more and deeper linkages between foreign affiliates and the domestic economy to enhance the developmental impact of foreign investments, including through enhanced transfers of technology? How best to link the promotion of small enterprises in developing countries to efforts to maximize the benefits from foreign investment?
- How to strengthen the contribution of the multilateral development institutions, particularly the World Bank and the regional development banks, working in partnership with the private sector, in supporting the promotion of long-term private financial flows to regional and subregional development projects?

- Bearing in mind that financing from equity and other securities is key to corporate financing, what additional steps are necessary to promote institutions, such as regional stock exchanges, and innovative instruments, to expand the access of developing countries to securities markets?
- What should be the features of technical assistance for capacity-building to contribute to enhancing private capital flows for financing development, particularly in the areas of human resource development and institutional strengthening, including through science, technology and information and communication technology (ICT)?

Heading III. Trade

17. The expansion of international trade and integration into the world economy are indispensable instruments for promoting long-term economic growth and combating poverty. A central challenge is to ensure a stable, predictable, non-discriminatory, transparent, fair and equitable multilateral trading system in support of development, which contributes in a coherent manner to spread the benefits of trade to all developing countries, ensuring rapid and sustained growth of incomes and exports to finance their development goals.

18. Trade barriers and producer subsidies by developed countries currently impose costs on developing countries that significantly exceed aid flows. Lifting them would allow many more developing country products to reach the markets of developed countries. The lifting of conventional barriers should not be followed by the introduction of new ones — even if these are in connection with commendable objectives, such as to improve labour or environmental practices. Support for trade liberalization and improvement of standards and safeguards must be separate and reinforce, not undermine, development.

19. Trade liberalization in developing countries must be well tailored and phased, in line with national economic and social objectives, and be complemented with greater diversification and a substantial expansion of national productive capacities of developing countries, including through appropriate transfers of technology and capacity-building. Access to appropriate risk management mechanisms is also an important objective.

- How to support the enhancement of the development dimension of multilateral trade agreements? How to ensure that any future World Trade Organization (WTO) trade negotiations be best linked to development goals? How to provide further political impetus to the work taking place at WTO and elsewhere to enhance the impact of trade on development?
- How to deepen the political momentum building towards ensuring full market access of the exports of least developed countries to the markets of all industrialized countries and taking further positive steps in this direction for other developing countries? By type of beneficiary country (small island developing States, others)? By sector (e.g., focusing in the first instance on textiles and clothing and on the reduction of barriers of trade in agricultural products, in particular developed countries' subsidies for agricultural products)? By impact (e.g., focusing on the removal of tariff peaks or anti-dumping measures affecting the export products of developing countries, expanding systems of preferences)? By advancing simultaneously on all these fronts?
- How best to enhance the contribution of regional and subregional cooperation and integration as building blocks to foster global trade and development?
- How to strengthen the contribution of the World Bank, Governments, donors and other financial and development institutions, both public and private, in support of a diversified export capacity to benefit from trade? How best to ensure fully funded programmes to assist developing countries in removing supply-side constrains and improving trade infrastructure?
- How to strengthen the existing mechanisms of the international financial institutions for compensatory balance of payments support in times of commodity price shocks?
- How can the relevant international organizations support developing countries to gain access to risk management instruments in commodity

markets and cope with persistent terms of trade decline and commodity price instability?

- How can the relevant international organizations contribute to ensure access for developing countries, in particular vulnerable countries, such as small island developing States, to insurance against natural catastrophes?
- What steps should be taken on a priority basis to match the requirements of technical and financial assistance for capacity-building in this regard, including in such areas as trade negotiations and dispute settlement, as well as in support of implementation capacities? How to support the integrated framework for least developed countries and build on its experience to enhance the coherence of trade capacity-building for other developing countries?

Heading IV. Increasing international financial cooperation for development through, inter alia, official development assistance

20. Albeit weakened in its effectiveness by low levels, official development assistance (ODA) plays an essential role as a complement to other sources of financing for the development of developing countries, particularly in the case of countries in Africa, least developed countries and other low-income countries, where ODA flows continue to represent the bulk of external financing.

21. ODA can help countries to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while they expand their human capital and productive capacity as well as diversify their export bases. ODA can also help countries to improve their enabling environment for private sector activity through infrastructure and institutional development, and thus pave the way for robust growth.

22. But ODA resources will only make an effective contribution to development if based on national policy ownership and enhanced partnerships among national, regional and international actors, civil society and the private sector. It should not be seen merely as a transfer of financial resources but also as a vehicle for access to knowledge and capacity-building.

23. At the same time, we are confronted with the growing challenge of fostering an enhanced provision of global public goods (GPGs). The financing of this new agenda should not be allowed to come at the expense of the former. ODA allocations to support developing countries' national efforts should be topped-up by additional, issue-specific, GPG financing.

24. The challenges in the area of international financial cooperation for development thus fall into four broad categories:

1. Strengthening the rationale and political support for enhanced levels of international development assistance resources.

- What could be the key components of a global information and advocacy campaign, particularly in developed countries, highlighting the mutual interest in and the relevance and urgency of international development assistance? In this context, how best to mobilize and harness the support for achieving Millennium Summit goals and other internationally agreed targets as an integral part of the effort to mobilize ODA resources in line with the target 0.7 per cent of donor country gross national product (GNP), including through appropriate time frames?
- How to ensure that attention to Millennium Summit goals and other internationally agreed targets, such as those pertaining to health and education, is complemented by adequate focus on economic growth and development?

2. Improving aid delivery channels and modalities.

- How can the efforts of aid agencies to simplify and harmonize operational policies and procedures be enhanced to reduce transactions costs and increase delivery efficiency, and, closely related, how can the capacity of developing and countries with economies in transition for designing and managing their own operational policies and procedures be strengthened? How can progress on untying aid be accelerated?
- How best to enhance cooperation between donors and recipient countries so that resources are available on a timely basis to respond to improvements in domestic policies and the

ensuing opportunities for investments in areas key to the achievement of Millennium Summit goals and other internationally agreed targets, through the development of comprehensive poverty reduction strategies by developing countries and matching commitments from donors for coordinated and harmonized support?

- How to strengthen ongoing coordination processes of nationally owned development efforts, such as the Comprehensive Development Framework (CDF)/the poverty-reduction strategy papers (PRSP) and the United Nations Development Assistance Framework (UNDAF)/ common country assessments, including through enhanced transparency and participation, as well as through better coordination with efforts in other areas such as trade?
- Are existing mechanisms adequate to ensure that sufficient resources are provided to sustain a range of ODA mechanisms and channels that matches the short- and long-term needs of developing countries, while providing a sound balance between diversity of channels and efficiency in aid delivery? How can gaps be best identified and proposals brought to the attention of governing bodies of the relevant institutions so that they can be filled according to the mandate and capabilities of each institution?
- Bearing in mind that South-South cooperation conducted between developing countries with relatively similar natural and cultural conditions can promote the transfer of appropriate technology in an efficient manner, how best to harness regional and subregional triangular cooperation as a delivery tool?
- How best to facilitate the effective participation of ODA recipient countries, as a collective, in international aid policy discussions aimed at forging strong partnerships to enhancing the effectiveness of aid in generating growth and eradicating poverty?

3. **GPG provision and financing.**

- How to differentiate, in a practical way, ODA for primarily national development purposes from GPG financing, as a tool for budgeting and advocacy strategies? How could national sector ministries (e.g., environment or health) and/or treasury departments be encouraged to contribute to the financing of GPGs falling into their respective mandates (to avoid diversion of aid resources)?
- How to use multilateral and bilateral public financing for GPGs as an incentive to encourage and leverage private contributions? What other incentives can be provided so that private resources are mobilized for GPG financing?
- In respect to GPGs would it be important and desirable to explore on a priority basis new financing modalities, including payments by one country to another for services rendered?
- How best to pursue a more efficient system of managing knowledge as a GPG, aimed at both the promotion of innovation through adequate intellectual property rights protection as well as the promotion of the widest possible utilization of available knowledge for development through public-private partnerships and the active engagement of the international institutions? How best to utilize ICT as a major strategic tool for capacity-building in developing countries and countries with economies in transition?

4. **Innovative sources for development financing.**

- How best to explore this issue in the context of the analysis requested by the General Assembly in its resolution S-24/2?

Heading V.
Debt

25. Debt financing is an important option that countries have to mobilize resources for public and private investment. Many developing countries and countries with economies in transition have managed debt financing effectively to expand their level of investment, and this in turn has led to growth and generated ample resources to repay the debt and support both consumption and investment expenditures. Others — for different reasons, including domestic economic mismanagement, conflicts, natural catastrophes and external economic shocks, such as terms of trade changes, international interest rate hikes or contagion — are faced with difficult or even unbearable debt burdens.

26. It is important to note that most low-income countries do not face primarily a debt problem. They face a broader problem of development financing, and the focus should be not so much on one particular type of flow but on the volume and flexibility of the aggregate net transfers to each country from donors. Debt relief should be additional and not at the expense of development assistance.

27. Bearing in mind the importance of fully funding and implementing the heavily indebted poor countries (HIPC) initiative:

- Are there any exceptional situations in which even more drastic relief may be called for? For instance, in the face of natural catastrophes or as countries emerge from conflicts, or when countries, in spite of their efforts on policy and governance, fall "off-track" in the pursuit of the poverty reduction and other basic social targets included in Millennium Summits goals?
- What other special measures, including debt cancellation, should be considered to address the challenges of poverty eradication and sustainable development, particularly in Africa?
- How to avoid "cross subsidization" of debt relief by other developing countries?
- How best to ensure, for low-income countries, adequate grant financing and appropriate concessionality of new borrowing along with sound debt management capacity to prevent the problem of excessive debt burdens from recurring?

28. For countries with a mix of official and private creditors and relying on access to international financial markets (where attempts to offer debt relief raise questions on moral hazard and future access to financing):

- What preventive measures, including through technical assistance, could be put in place to avoid unsustainable accumulation of public and private debt ?
- What kind of mechanisms can help to expedite the resolution of debt crises when many types of creditors are involved and ensure fair burden-sharing among them and the debtor? How best to develop clearer principles and more transparent mechanisms for working out debt problems? What is the feasibility of mediation-type mechanisms?

Heading VI. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

29. A central challenge is to ensure the inclusive, adequate governance of economic globalization in support of development in the context of increasing interdependence. International institutions and policy coordination need to be strengthened in relation to the objective of increased and more equitable world economic growth. Broadening the participation of developing countries in norm-setting and decision-making processes is key to ensure the soundness and legitimacy of agreements and to effective and efficient follow-up. Increased cooperation with civil society and the private sector is also an important component of these efforts:

- How to encourage all relevant national, regional and international policy-making forums to further pursue efforts to become more accountable, responsive and transparent to public concerns, as well as to review their composition and consultation mechanisms so as to ensure fuller and deeper participation of developing countries and adequate consultation with all concerned actor and stakeholder groups?
- How to continue to benefit from the technical and logistical advantages of ad hoc groupings and limited representation forums, while ensuring that decisions with global repercussions are taken in forums that are more inclusive and that have clearly defined and broad-based intergovernmental mandates, such as the International Monetary and Financial Committee, the Development Committee and the General Assembly and Economic and Social Council?
- What would be the most appropriate form for an enhanced institutional relationship between WTO and the United Nations? Should the Ministerial Council of WTO be asked to consider this matter again at one of its forthcoming meetings?

- How can the objectives of democracy (reflecting the weight of population), economic pragmatism (reflecting economic size) and diversity (reflecting the perspective of countries that are small in population and economic terms — or both) be balanced to enhance the voice and participation of developing countries in global economic governance? How to catalyse efforts to achieve this purpose in an incremental way?
- What would be a practical formula for more systematic consultation between the United Nations, the Bretton Woods institutions, WTO, regional development banks, civil society organizations and business representatives at the international level?
- How to promote further global tax cooperation to enhance efficient and equitable national tax systems and avoid tax evasion, double taxation and the risk of "races to the bottom"? Could a forum for cooperation on tax matters play a role as a first step in that direction?
- What kind of awareness-raising and specific policy coordination effort could major industrialized countries undertake to fulfil their special responsibility in ensuring that their macroeconomic policies, including exchange rate policies, take into account their effects in creating an international economic environment favourable to equitable growth and development, international financial stability and enhanced financial flows for development? How could multilateral surveillance be strengthened for this purpose?

30. Though progress on reform of the international financial architecture had moved in the right direction, it has been insufficient given the magnitude of the changes required to ensure its support of development and has been asymmetrical, with slower progress in the area of international reform, as opposed to reforms at the national level in many developing countries.

31. It is necessary to deepen national, regional and international efforts to improve surveillance, early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner, taking a comprehensive and long-term perspective while remaining responsive to the challenges of development and the protection of the most vulnerable countries and social groups.

- What kind of measures are required to ensure that the resources at the disposal of the international institutions, in particular the International Monetary Fund and similar regional bodies, are sufficient to allow them to provide emergency financing in a timely and accessible manner to countries affected by financial crisis?
- Beyond the liquidity requirements to prevent and respond to financial crises, what kind of measures are required to increase the long-term resources at the disposal of the international financial system, strengthened by regional and subregional efforts, to allow them to adequately support economic and social development, including support for infrastructure, poverty eradication and social safety nets?
- How best to ensure that the international financial institutions and other development agencies, in providing policy advice, supporting adjustment programmes and requiring implementation of codes and standards, more fully take into account the special needs and implementing capacities of developing countries, in accordance with nationally owned development policies and strategies?
- How to support the development of appropriate frameworks for the involvement of the private sector in the prevention and resolution of financial crisis, including clearer rules for an equitable distribution of the cost of crisis resolution adjustments between the public and private sectors and among debtors, creditors and investors?
- What measures could be put in place in both destination and source countries to avoid costly crises and their contagion, and allow a country to harness the potential benefits of portfolio and credit flows while containing excessive volatility and other risks they entail, particularly in the case of short-term capital flows and highly leveraged transactions?
- How to ensure that sovereign risk assessments of developing countries by rating agencies be based on objective and transparent criteria?
- How can regional and subregional financial institutions and arrangements be harnessed and strengthened to support the reform of the

international financial system, enhance financing for development and provide or leverage emergency financing in time of crises?

32. The International Conference on Financing for Development and its follow-up should contribute to the realization of the United Nations potential as a central pillar of international coordination and cooperation, acting in collaboration with the Bretton Woods institutions, regional development banks and the World Trade Organization to ensure that globalization works for development and that its benefits reach all people:

- How can we maximize the General Assembly's capacity to provide a forum to further consolidate a broader global agenda for a strengthened and stable international financial and trading system that is responsive to the priorities of growth and equitable development? How best to ensure its collaboration with other multilateral institutions, in particular the Bretton Woods institutions and WTO, in addressing priorities for action, emerging issues and policy gaps in the follow up to the Conference?

- What would be required for the Economic and Social Council to become a more effective forum for identifying coherence gaps and discussing general policy coordination issues on international economic, social and related matters? Would enhanced participation of finance, trade and other relevant ministries in key meetings and high-level consultations and a more comprehensive regular reviews of trends in financing for development policies and performance contribute to strengthen efforts to achieve more coherence and consistency?

- Which should be the features of the follow-up mechanism of the Conference? How best to continue building bridges between development and finance and trade deliberations and initiatives? How best to continue and nurture the high-level political dialogue to assess the global economy and progress of implementation of the outcome of the Conference among the United Nations, the Bretton Woods institutions and the World Trade Organization, with the participation of Member and observer States of the United Nations, as well as other relevant stakeholders?