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Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Provisional summary record of the 5th meeting

Held at Headquarters, New York, on Monday, 14 April 2008, at 3 p.m.

President: Mr. Mérorès .... (Haiti)

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The meeting was called to order at 3.05 p.m.

Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (*continued*)

Building and sustaining solid financial markets: challenges for international cooperation

1. **Mr. Almunia** (European Commission) said that up to August 2007 the international financial system had been characterized by ample liquidity, rapid innovation and the search for higher yields. Such developments, underpinned by leverage, had resulted in the spread of financial activity across the global economy, accompanied by unprecedented credit risk within the financial system. As the prices of assets became inflated there had been growing signs that investors had been underestimating that risk. After many years of unconstrained leverage, the global financial system was currently entering a cycle of "deleveraging". Just as such leverage had brought considerable profits, its reduction was currently bringing corresponding losses. The loss of investor confidence in the financial system stemmed from concerns over such factors as the lack of market transparency, the inadequacy of risk-management systems and potential gaps in prudential frameworks. In the short term, investor confidence could only be restored by full disclosure of all losses by financial institutions and adequate recapitalization. In the medium term, the weaknesses in the financial system must be addressed at a fundamental level.

2. However, financial innovation had also brought major benefits to the global economy by fostering a more efficient allocation of resources and boosting economic-growth potential. Such innovation had benefited not only advanced but also emerging economies, through the development of their capital markets, which in turn had helped them to meet financing needs and fostered economic growth.

3. The European Union intended to strike an appropriate balance between restoring investor confidence and retaining adequate incentives for entrepreneurship and innovation in the financial system. In October 2007 the Ministers of Finance of the European Union had adopted a road map which sought to improve financial transparency in the market, particularly with respect to the exposure of banks to securitization and off-balance-sheet items, improve valuation standards, strengthen the banking sector's risk management and investigate structural market issues such as the role played by credit-rating agencies. The road map favoured self-regulation and industry-led initiatives, as the primary responsibility for managing risk in the financial system lay with the private sector. Nevertheless, regulatory action was needed whenever appropriate.

4. The current global financial turmoil required an international financial response, as the actions of any single country could affect others. To date, there had been remarkable international consensus on the underlying causes of the financial turmoil and on the required policy response. The recommendations set forth in the April 2008 report of the Financial Stability Forum on enhancing market and institutional resilience were entirely consistent with the European Union road map. States should not attempt to act alone, as differences in market regulation and oversight could distort competition and generate undesirable regulatory arbitrage. Furthermore, policymakers had an opportunity to learn from one another's experiences. The failure to coordinate efforts would send a negative signal to the markets, which responded most favourably when authorities acted in concert.

5. Emerging economies must be included in efforts to provide financial stability. In addition, the scarcity of primary resources was affecting commodity prices, and the ensuing inflationary pressures posed challenges to the conduct of monetary policy and increased the risk of a further economic slowdown. The international community must work to prevent slower growth from affecting developing countries and the achievements made in reducing poverty.

6. **Mr. Jomo** (Assistant Secretary-General for Economic Development) said that liberalization in the past 25 years had led to deflationary macroeconomic policies resulting in slower economic growth than in the 1950s, 60s and 70s. Financial liberalization had also undermined many of the earlier economic policies, institutions and instruments which had served to advance economic development and growth. International Monetary Fund (IMF) studies had shown a strong tendency for capital flows and macroeconomic policies to be pro-cyclical rather counter-cyclical, which had made financial markets vulnerable to crises. Liberalization had not helped to finance development as much as its proponents had suggested. On the

contrary, during the past quarter of a century, capital flows had tended to go from the capital-poor countries, including those of sub-Saharan Africa, to capital-rich countries, with the exception of East Asia in the years preceding the financial crisis of 1997/98.

7. The cost of funds had not declined significantly, mainly because of the strong influence of the policies of the United States Federal Reserve. While some sources of volatility and instability had been reduced, others had been introduced. The strengthening of financial markets domestically had not increased financing for development. With the exception of microcredit, initiatives for more inclusive financing were lacking.

8. The following areas therefore required urgent attention: crisis prevention and crisis management; financing for development; governance of international financial institutions; and regional monetary and financial cooperation. In the light of the current financial turmoil, IMF must assume a strong leadership role, as it was the most inclusive of monetary and financial institutions. The Group of Seven major industrialized countries and even the Group of Twenty, established by the Group of Seven in 1999, were far from inclusive. The same was true for many other multilateral institutions, including the Financial Stability Forum, in which developing countries had relatively little voice.

9. While developing countries had been relatively isolated from the recent financial turmoil in the West, emerging-market economies and others, would inevitably be affected. The international community must identify the changes in the international financial system which had led to the current crisis as it made decisions about much-needed supervision and regulation. Although concern had been expressed about sovereign wealth funds, there had been no demands for similar transparency of hedge funds. Greater attention must be given to counter-cyclical instruments in efforts to shape financial markets to promote development and meet concerns for equity. Markets could be good servants, but they could also be very cruel masters. It was therefore important for policymakers to draw on recent experience as well as the lessons learned from the preceding 25 years.

10. **Mr. Towe** (Deputy Director, Monetary and Capital Markets Department, International Monetary Fund (IMF)), making a PowerPoint presentation, said that the current global situation and threats to systemic stability were causes for concern. The signs of market stability in recent weeks had only been in response to major policy responses, including cuts in official interest rates and other measures. The private sector had also responded significantly. For example, banks had undertaken efforts to bolster capital. Nevertheless, inter-bank markets continued to be impaired and a significant risk of a debt spiral remained. The areas of greatest concern involved liquidity, credit, the emerging market and macroeconomic risks.

11. With respect to credit, the current situation no longer involved only the sub-prime market. Estimates of losses for holders of United States-issued debt amounted to nearly $1 trillion. The share of the debt which did not involve the sub-prime sector had increased significantly. Thus, there were losses related to commercial real estate, corporate credit and other areas. Default rates had also increased significantly in the so-called prime sector. There were also signs of a potential downturn in the real estate markets outside the United States, including in Europe, where housing prices in many countries were relatively high.

12. With respect to inter-bank markets, credit spreads remained wide and there were still signs of a high level of uncertainty and lack of confidence in the solvency of key banks in both the United States and the euro area. The bank losses from the sub-prime crisis had extended well beyond the United States. European banks were bearing a significant brunt of the downturn in the United States housing market.

13. The United States corporate sector was also vulnerable to a downturn. Default rates in the corporate sector had remained low despite the tightening of lending standards, which was very anomalous and suggested a possible deterioration in that sector. It risked being even more severe than in the past, given the weakness in underwriting standards during the past four years, low levels of collateralization and lax loan conditions.

14. Emerging markets were also facing a threat from the global financial crisis. Their access to capital had recently been constrained and the price of that access had significantly increased. Higher defaults were of particular concern in emerging markets in Eastern and Central Europe, and especially in the Baltic countries.

15. Concerning policy requirements, in the short term, national authorities must make every effort to

avoid a sustained credit crunch by maintaining support and liquidity for inter-bank markets, enhancing bank disclosure to bolster confidence, encouraging banks to seek additional capital to repair balance sheets while discouraging them from paying dividends, and making contingency plans to deal with potentially large stocks of impaired assets. In the medium term, policies should be adopted to enhance credit discipline, the credit-ratings system, consolidated supervision of banks, fair-value accounting, liquidity risk management and crisis management. At the multilateral level, the IMF International Monetary and Financial Committee and the Group of Seven had endorsed the foregoing policy prescriptions and the report of the Financial Stability Forum. There had also been calls in Europe and in the United States for closer cross-border supervisory cooperation. Although the Fund was not a regulatory body and did not set financial standards, it would play a significant role in identifying risks, bring them to the attention of key national and multilateral bodies and be actively engaged with major standard setters, especially the Basel Committee. Most significantly, it would act on the bilateral level to apply lessons learned and policy conclusions through its Financial Sector Assessment Programme and article IV consultations, and would continue to engage in dialogue with national policymakers.

16. **Mr. Bajuk** (Observer for Slovenia), speaking on behalf of the European Union; the candidate countries Croatia, the former Yugoslav Republic of Macedonia and Turkey; the stabilization and association process countries Albania, Bosnia and Herzegovina, Montenegro and Serbia; and, in addition, Armenia, Georgia and Moldova, said that the current market turmoil had exposed the weaknesses in the existing global financial architecture and underlined the need to enhance crisis prevention and management mechanisms. Rapid financial innovation had made it increasingly difficult for supervisors, regulators and authorities at the national and international level to translate risk analysis into policy action, including enhancing capital and disclosure requirements and improving market discipline. Given the global nature of financial markets, early warning capabilities should be increased, including the strengthening of the oversight role of IMF.

17. Consistent and timely international cooperation on banking regulations and supervisory practices through such forums as the Basel Committee must be enhanced. Reform of the international financial architecture was also essential. While the recent agreement on reforming the Fund’s quota and voting system reached by the International Monetary and Financial Committee would increase the credibility and legitimacy of the Bretton Woods institutions, the review of the IMF budgetary framework must be completed and the Fund’s independence maintained. It must be given an opportunity to fulfil its valuable role in low-income countries in promoting macroeconomic stability, growth and debt sustainability. Such efforts should be complemented by enhanced collaboration with the World Bank.

18. **Ms. Gerebizza** (European Network for Financing for Development) said that one of the most worrisome aspects of the current crisis was its spread from the United States of America to Europe and from there to developing countries, where it was undermining efforts to build solid financial markets and compromising the achievement of the Millennium Development Goals. The systemic issues that had led to the crisis must be addressed, as must the impact of such new actors as hedge funds and private equity funds, complex instruments which were largely unregulated.

19. Offshore tax havens and capital flight from developing countries also ran counter to the decisions taken in the Monterrey Consensus calling on developing countries to strengthen tax cooperation and reduce capital flight. An international regulatory framework was needed to ensure stability in developing countries. The challenge was to make financial markets work for developing countries and to realize that they did have resources for financing development that should be protected from capital flight. Proposals in that area included a call to strengthen the United Nations Committee of Experts on International Tax Matters and upgrade it to the status of an intergovernmental entity that would become a world tax organization empowered to take measures to combat capital flight and tax evasion. The nature of the dialogue between the United Nations and the Bretton Woods institutions must change in order to produce the more structured plan required to meet those challenges.

20. **Mr. Blake** (Observer for Antigua and Barbuda) said that the current crisis had revealed the weakness in the global financial architecture, but that was not a new problem. In 2002, the Monterrey Consensus had recommended actions which had not been taken. Policy proposals still seemed to depend on national action,

and he wondered where the global arrangements to address the crisis in an inclusive manner were to be found. He stressed the urgency with which systemic issues must be addressed.

21. **Mr. Heidt** (United States of America) said that the current economic situation was unusually challenging, and over the past three months his Government had made important moves in fiscal and regulatory policy to increase liquidity and stability in its domestic financial markets. After those short-term efforts, it had begun to shift its focus to longer-term regulatory issues, and some encouraging signs of easing pressure could be noted, although growth projections remained pessimistic.

22. The crisis had originated in the industrialized countries and, fortunately, direct spillover of its effects to developing countries had thus far been limited. Policymakers in developing countries faced difficult choices at the macroeconomic, fiscal and regulatory levels, especially in the emerging economies, which played an increasing role in the global economy. He would like to hear more about their policy priorities in the coming year in the light of the financial crisis.

23. **Mr. Yaya** (Observer for Guinea) said that his country was the current President-in-Office of the Leading Group on Solidarity Levies to Fund Development (Groupe Pilote). The road ahead was difficult for developing countries because of the drop in official development assistance, climate change and the crisis in financial markets. Added to those problems was a new element — a food crisis affecting some 100 countries. In the view of the members of the Leading Group, the upcoming Doha Conference should focus on more effective mobilization of aid in the few years remaining for the achievement of the Millennium Development Goals. For its part, the Leading Group would continue to work on a common platform to be presented at Doha, and would continue efforts to expand its membership and increase its cohesion.

24. **Ms. Skaare** (Observer for Norway) said that there was an apparent gap between the financing available for the achievement of the Millennium Development Goals (MDGs) and the funds needed, but in the view of her delegation, available resources, in the form of illicit cross-border financial flows, were being overlooked. Those flows, resulting from corruption, tax evasion and criminal activity, amounted to some $1.6 trillion per year, compared to the estimated $150 billion needed to reach the goals. Such flows harmed society and undermined development, and could be put to better use than enriching the few. Norway was chairing a task force to learn more about the development impact of illicit flows with the objective of identifying policy tools to stem such activity. A critical challenge in the Monterrey Consensus was the creation of an enabling internal environment to mobilize domestic savings and reduce capital flight. Her delegation would continue to explore how best to place the issue of transparency on the international agenda.

25. **Mr. Yang** Yingming (Alternate Executive Director for China, World Bank) said he wished to comment on three implications of the current financial turmoil on developing economies. First, financial innovation had great potential to promote the domestic and global economy, but in practice it was not an automatic force for economic growth and poverty reduction. For financial innovations to work for “Main Street” rather than “Wall Street”, they must be accompanied by appropriate regulations. Regulatory capacity-building took time, however, and therefore financial deregulation, liberalization and innovation must be conducted in a prudent and gradual manner in order to ensure stability, which was important for sustainable development.

26. Second, international surveillance should be conducted in a balanced manner, rather than focusing on developing countries which did not have a major impact on the international economy and imposing conditions on official development assistance. The challenge for the future would be to develop effective mechanisms to enhance surveillance of major industrial economies, particularly those with reserve currencies.

27. Third, emerging economies were being asked to play a more important role in international coordination, given their experience in dealing with the crises of the past decade. The failure to engage those countries at the recent IMF-World Bank meetings had cast suspicion on the motivations of international cooperation efforts led by the Group of Seven. The credibility of international coordination must be improved and must be conducted in an equitable manner.

28. **Mr. Fried** (Executive Director, International Monetary Fund (IMF)) said that, from the tenor of the discussions thus far and the criticisms of the

international financial system, it could be concluded that capital flows were evil and that both national and international governance in financial matters were lacking, conclusions with which he heartily disagreed. On the contrary, internationalization of capital markets had contributed to the alleviation of poverty, and the movement of capital and economic liberalization had helped developing countries. South-South capital flows were also a significant factor. Both a qualitative and a quantitative analysis of international investment were needed.

29. The focus of national governance was quite narrow, consisting mainly in strengthening the hand of the finance minister to address debt sustainability and management through fiscal policy. Interest rates, inflation rates and exchange rates were also important in operating a monetary policy that would allow debt sustainability.

30. The question of who should oversee capital markets was a challenging one. Transparency for the consumer was needed, in addition to prudential regulation to guarantee the integrity of the financial system. He agreed that too much emphasis might have been placed on commercial banks leading up to the current crisis, but rejected the notion of a "shadow banking system" which existed parallel to the international system.

31. Regarding international governance, IMF, the World Bank and the United Nations did function to some extent as an executive committee, in order to balance considerations of representation with the need for efficiency. The 24 finance ministers on the International Monetary and Financial Committee could not act alone, and that ensured regional representation. The Financial Stability Forum, in which the 30 largest capital markets were represented, was also relevant for its purpose. Lastly, the Funds agreement to the International Monetary and Financial Committee recommendation to change quotas was a first step in an effort to balance representation and voice, with adjustments scheduled every five years.

32. **Ms. Mbizvo** (United Nations Office on Drugs and Crime (UNODC)) said that the enormous cost of corruption to the goal of sustainable development was well recognized. Its effects were particularly destructive in the least developed countries. Where private investment was limited, citizens relied to a greater extent on the State, and as capital took flight, there was less money to finance public programmes such as education and health care, and investors and development agencies also stayed away, creating a window for the looting of public assets that should be devoted to financing development.

33. In September 2007, the Stolen Asset Recovery Initiative, known as StAR, had been launched, to enable developing countries to recover assets stolen by corrupt leaders. It was operated jointly by UNODC and the World Bank, as part of efforts to implement the United Nations Convention against Corruption. The StAR Initiative had four objectives: recovery of assets, institutional reform to deter asset theft, lowering of barriers to asset recovery, and empowerment of the Friends of StAR, an action group to engage international leaders in the process.

34. The StAR Initiative was fully engaged in pilot projects for repatriation of assets with the Governments of Bangladesh, Haiti and Indonesia, and was in negotiations with five other countries, with the objective of having six pilot projects by the beginning of 2009. Mutual legal assistance ensured that Governments received cooperation in recovering assets, reflecting the interest of UNODC in making sure that development funds went towards development and that stolen assets were returned to victim countries to be used to finance development.

35. **Ms. Griesgraber** (New Rules for Global Finance Coalition) said that, in addressing the needs of the current global financial crisis, transparency and quality of governance were needed. She regretted that IMF had concluded that it had no regulatory or standard-setting role and that financial giants and wealthy financial entities from the private sector were represented on a par with Governments, while developing countries were not represented equitably. It was also regrettable that the members of the Financial Stability Forum had agreed among themselves how to resolve the crisis, while the systemically insignificant countries — the ones most affected — had not been given a chance to speak for themselves. The IMF quota-reallocation debate which had resulted in a 2.7-per-cent change represented a sad moment for an institution that needed to reclaim its legitimacy. There was a great need for a global monetary and financial architecture that was equitable, inclusive, transparent, and worked for justice.

36. **Mr. Alves** (Brazil) said that many seemed to blame the Fund for not warning the world of the crisis in time, yet he believed that was unfair, as reports warning of problems had been coming out for the two previous years. He asked if sovereign wealth funds posed a potential threat to the financial system, as offshore banks had done in the 1980s. He also noted that members of the Economic and Social Council had not participated in the recent meetings of the Bretton Woods institutions, which would seem to contradict relationship agreements that provided for reciprocal representation.

37. **Mr. Towe** (Deputy Director, Monetary and Capital Markets Department, International Monetary Fund (IMF)) said that priorities in dealing with economic conditions that would become increasingly difficult included sound macroeconomic policy as the first line of defence for both developing and mature markets. The regulatory and supervisory environment must be in order, and authorities must be empowered and mandated to take necessary action. Countries could look to regional mechanisms to strengthen regulatory and supervisory capacity and crisis management, as well. Developing countries might look to securitization to enhance capital markets, but should be careful not to move too quickly down that path. Likewise, the Basel II revised framework could enhance risk management, but it was a complex system, and caution should be exercised before applying the framework prior to building sufficient capacity to manage it.

38. **Mr. Jomo** (Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs) pointed out that, more than two years earlier, in the *United Nations World Economic Situation and Prospects*, the Department had raised the issue of global financial imbalances, although little notice had been paid. When he had drawn the attention of the United States authorities to the vulnerabilities of the sub-prime-mortgage market 16 months earlier, he had been called a prophet of doom. He took no pleasure in being correct, but simply wished to stress the importance of having a balanced discussion on such topics that was sensitive to many different perspectives. It would be difficult to anticipate the dimensions of the crisis in the United States, but it would be naïve for developing countries to expect to be insulated from its consequences. The potential future impact on liquidity and growth in their markets should be recognized.

The meeting was suspended at 4.45 p.m. and resumed at 4.55 p.m.

Financing of climate change mitigation and adaptation

39. **Mr. Kjørven** (Assistant Administrator and Director, Bureau for Development Policy, United Nations Development Programme (UNDP)) said that climate change was a daunting challenge for all Member States in their efforts to find a way of “doing development differently” and incorporate climate-change considerations into the foundations of their economic and social policies, including plans to reach the Millennium Development Goals (MDGs).

40. Urgent collective action was needed from both developed and developing countries through a multilateral framework. One of the reasons for that urgency was that climate change would disproportionately affect the poor. According to the *Human Development Report, 2007/2008*, the world was moving towards five climate-change-induced “tipping points” that could result in a future of diminished opportunity for the poorest 40 per cent of the world’s population.

41. As investment decisions taken today would affect the greenhouse-gas emissions of the future, there was a window of opportunity to direct financial and investment flows into more climate-friendly and resilient new technologies. The United Nations Framework Convention on Climate Change (UNFCCC) report on investment and financial flows had estimated that an additional $200-210 billion would be necessary by 2030 to stabilize global greenhouse-gas emissions and tens of billions of dollars for climate-change adaptation. Investments and financial flows would have to be redirected to more-sustainable, climate-friendly alternatives; funds for mitigation and adaptation activities and technologies would have to be increased; the risk should be shared by providing incentives for private investment in the early deployment of new technologies.

42. Several issues should be borne in mind. First, the cost of inaction far outweighed the cost of action. Second, the priorities for additional support should be identified by developing countries themselves, in accordance with the principles of the Paris Declaration on Aid Effectiveness. Third, development goals should be linked to efforts to combat climate change. Fourth, emerging initiatives designed to finance the response to

climate change must be synchronized with the UNFCCC process by working with host countries and ensuring that the various funds were complementary. Any new financial mechanism should be assessed in the context of the review of financial instruments called for by the 2007 UNFCCC Conference in Bali. Fifth, the United Nations and the Bretton Woods institutions, working together, could play an important role in addressing climate change and achieving development goals.

43. Capacity development should be an integral part of international support and could include investment in a country's capacity to: assess and develop policy options across different economic sectors; integrate the economics of climate-change mitigation and adaptation into development-planning frameworks; and identify opportunities for climate-change investment and determine how best to access and allocate different sources of funding.

44. All development efforts should contribute to achieving significant results in terms of sustainable and human development. If climate finance was well constructed, official development assistance could be an important part of the forward-looking climate-finance architecture, helping to spur a transition towards real sustainable development.

45. Developing the capacity to access and make effective use of all relevant development resources, including climate finance, while managing climate risk and climate vulnerability effectively would be part of all future UNDP efforts. A broad compact was needed between the multilateral financial institutions, the United Nations and the Global Environment Facility, as the multilateral system had to provide powerful, coherent support to stave off a climate disaster in the coming decades.

46. **Mr. Banuri** (Stockholm Environment Institute), making a PowerPoint presentation, said that it was important to think about how to bring together the different approaches to climate change and development. The "climate community" was seeking a comprehensive solution, often starting with emission goals and working backwards to see what needed to be done. The "development community" started with development goals in its concern to protect the development momentum. The "development finance community" looked at what was practical, and had already produced a number of instruments.

47. Although most recent analysis considered a target of 50-per-cent reductions in greenhouse-gas emissions by 2050 to be meaningful, the climate community was already indicating that future emissions had to be reduced by 80 per cent, while even that figure did not guarantee a solution. Yet developing countries had an enormous energy shortfall and would need to increase their electricity infrastructure by a factor of four by 2050, which meant that the overall reduction would need to be even higher.

48. The development community saw a strong correlation between basic human needs and economic development, and suggested a poverty line of $20-30 per day per capita, rather than one or two dollars. The development agenda and the Millennium Development Goals were therefore incomplete and required further work.

49. The long-term inequality between countries had for the first time been somewhat reduced in the current century, when developing countries had achieved a growth rate of over five per cent. Excluding the high growth rates of China and India, however, there had been no decrease in inequality, and a continued growth rate of five per cent would result in higher emissions and lead to climate catastrophe.

50. Development today was thus facing a number of crises, including the unfinished development crisis and the fact that climate change affected poor countries disproportionately, while OECD climate policies could make energy more costly in developing countries. Policy coherence in the North was therefore essential. There was also the impact of developing countries' own climate policies and the danger that the entire growth momentum would come to a halt.

51. The development-finance community was considering very practical approaches, including the carbon market and the clean-development mechanism (CDM), and the carbon tax; yet there were serious concerns with both options. The potential contribution of CDM was limited, as it assumed that there were no reduction goals for developing countries, as agreed in Kyoto. As developing countries' energy consumption was growing faster, CDM and the carbon market could only be effective if the developed countries increased their targets by a factor of five. CDM also assumed that there would be cost reductions over time, but it was not yet clear whether that was correct. The carbon tax,

however, had a significant regressive impact on energy prices.

52. Various scenarios had been considered and, clearly, the earlier that mitigation action was taken, the better. Otherwise the guaranteed high level of impact could result in the breakdown of cooperation between rich and poor countries.

53. The focus on global discussion on emission targets and financing made it difficult to reach agreement. A better approach could be to set more effective targets as a basis for stronger global cooperation. The Stockholm Environment Institute was proposing a set of climate development goals on the model of the Millennium Development Goals, in which the convening power of the United Nations had played a very important role.

54. Climate development goals could include ensuring equitable access to modern energy services while reducing greenhouse-gas emissions and shifting to sustainable, efficient and equitably distributed transport services. Other goals could relate to food security, financing, technology development and cooperation, human health, ecosystems and disaster management. The UNFCCC and other organizations had suggested a similar set of goals.

55. In the case of energy, the problem was the lack — or high cost — of access to modern energy services. Targets were needed for universal coverage, convergence in per-capita availability, stable pricing in relation to per-capita income, use of renewable energies, and national targets for efficiency. There could also be concrete targets for each area. The approach described could help to bring agreement between groups of countries and also between the development, finance and energy communities.

56. **Mr. Monari** (Senior Manager, Sustainable Development Vice-Presidency, World Bank), making a PowerPoint presentation, said that the issue of climate change was one of the most formidable challenges of the century. The World Bank Group was working to integrate climate change and development challenges without compromising growth and poverty reduction. Climate-change action was being scaled up on the basis of the following principles: continued priority for economic growth and poverty reduction in achieving the MDGs; the understanding that increased access to energy services and increased energy use by developing countries were fundamental to those goals; recognition that adaptation to climate variability and change was critical to sustaining development gains in the majority of developing countries; and the understanding that addressing climate change must not divert resources from core development needs.

57. The World Bank Group was developing a strategic framework to integrate mitigation and adaptation into development strategies. A simplistic approach based on withdrawal from carbon-intensive sectors such as thermal power would not serve climate change or the development agenda. The way forward was to support advanced and efficient technologies, but a major increase in financing would be needed to help countries to move to a low-carbon path.

58. Eighty per cent of the funding for climate-friendly development was expected to come from private sources, while the public sector would have the critical responsibility of facilitating investment flows, including through favourable policy and regulatory measures. Other important areas were the acceleration of deployment of advanced and new technologies for addressing climate change and the advancement and sharing of knowledge about synergies and tradeoffs between growth and climate objectives.

59. The Group used a wide range of existing instruments to support development investment and policies, and much of its lending was in sectors with the largest potential for adaptation and/or mitigation. In consultation with interested parties, including developing and developed countries, the UNFCCC, the Global Environment Facility, United Nations agencies and the private sector, the World Bank Group and regional development banks were working together to establish a portfolio of strategic climate investment funds and programmes to help the transition to a low-carbon development path and a climate-resilient economy. The climate investment funds were designed as a medium-term measure to show that it was possible to achieve both growth and poverty reduction in the move towards a low-carbon, climate-resilient future. The Bank would continue to develop its proposal in consultation with key stakeholders.

60. The climate investment funds provided incentives for scaled-up action and transformational change, promoted cooperation and support towards a post-2012 agreement, provided experience and lessons in responding to climate change and utilized skills and capabilities of the international financial institutions.

They also supported investments based on country-led strategies and sought co-financing as appropriate, maximized co-benefits in other areas of sustainable development, particularly in relation to sustainable management of natural resources and ecosystem services and were flexible and efficient in response to country demands.

61. **Mr. Alexander** (United Kingdom) said that the priority was to address the challenge of achieving the MDGs while tackling climate change. The impacts of climate change were already being felt in Africa and in Asia and had come to define the lives of many poor people. If action was not taken immediately, the progress already made towards the goals would be reversed.

62. Climate change made development more difficult and more expensive to achieve, and additional financing would be required to implement low-carbon, climate-resilient development measures. The additional finance, including the post-2012 financial architecture to be agreed on in the context of the UNFCCC, should be integrated within established development processes, nationally and internationally. The United Kingdom had already pledged over $2 billion for tackling climate change and was willing to do more. The carbon market would play a key role, but at present public money would be needed to kick-start the transition to a climate-resilient society.

63. A new development model was needed and the United Kingdom had therefore provided over $30 million to drive development in the Clean Energy Investment Framework. The reach and impact of carbon finance had to be expanded, including by reforming existing mechanisms such as the clean-development mechanism so that more countries could benefit, and by developing new ones. The options for sectoral crediting as a stepping stone for sectoral trading should be considered, together with the inclusion of new sectors, such as land use and deforestation.

64. The United Kingdom had pledged $30 million to the Forest Carbon Partnership Facility and $100 million to a special fund to help safeguard the forests of the Congo basin. It was also allocating $200 million over the next five years to the science and the social and economic impact of climate change and to helping countries put that information to good use.

65. His country had also committed £140 million over four years to the Global Environment Facility and had pledged a further £20 million for the United Nations adaptation funds. Some of the funds set aside for the United Kingdom's Environmental Transformation Fund would be used for pilot approaches to building resilience in a number of developing countries in the hope that their results could be used in the UNFCCC discussions.

66. Future financing needs for climate change were, of course, being discussed under UNFCCC auspices. However, both finance and development ministries should be playing a leading role. It was critical that the Doha outcome should refer to the challenges posed by climate change, with emphasis on the threat to the achievement of the MDGs. In 2005 the international community had come together to make poverty history, but if it did not understand and address climate change, poverty would be the future for billions of people.

67. **Mr. Yang** Yingming (Alternative Executive Director for China, World Bank) said that they had heard a lot about a growing number of urgent needs of the international community, especially in relation to coping with new emerging challenges, with climate change at the top of the agenda. While it was entirely legitimate to discuss all such subjects, he wished to recall that the purpose of their business was development. If emerging new needs were to distract them from the basic development agenda and from the MDGs, they might find that some of those goals had been forgotten in a few years' time. He advocated a longer-term view of development.

68. Equitable and sustainable growth could help all countries to cope with emerging and urgent issues. He wished all the participants success in increasing the pace of achieving equitable and sustainable development.

69. **Mr. Dapkiunas** (Belarus) said it was essential for developing countries to participate at an early stage in the research, development and demonstration of low-carbon-emission energy. Such technologies should be part of the global commons, and the United Nations could play a key role in ensuring the access of all countries to those technologies, including technologies for producing new and renewable energy sources. A discussion of practical implementation should be part of the thematic debates at the next session of the General Assembly.

70. The basic mechanism for the international financing of technology to provide low-carbon emissions was the Clean Development Mechanism, as set forth in the Kyoto Protocol. However, Belarus could not make use of the mechanism until an amendment to the Protocol which had been adopted 18 months earlier came into force. Only two countries, apart from Belarus, had ratified the amendment, which he found very puzzling.

71. Belarus was meanwhile developing a new system of carbon financing which was unlike any other in the world. The national scheme of voluntary commitments would be connected with implementation of the Kyoto Protocol.

72. Success at the 2009 United Nations Climate Change Conference in Copenhagen would depend to a large extent on Member States' collective ability to turn today's words into concrete actions, even small ones such as ratification of the amendment to the Kyoto Protocol.

73. **Mr. Boyce** (Barbados) said that climate change posed a particular threat to small island developing States such as Barbados, which had used their coastlines to achieve middle-income status but which risked losing those natural assets through no fault of their own. It was unfair that such States, because of their middle-income status, should now be required to find the funding to combat climate change at commercial rates. They should therefore be allowed to obtain funding on concessional terms. The international community must also be prepared to make the long-term commitment required to ensure that those States regained their lost assets.

74. **Mr. Shinyo** (Japan) said that his country felt a special responsibility to promote the Kyoto Protocol and to ensure that a suitable post-Kyoto framework was in place after 2013. To that end, it was working hard to propose a way forward within the context of negotiations held under the UNFCCC and also within the Group of Eight. However, the developed world also had a responsibility to provide immediate assistance to those already suffering from the direct consequences of climate change. Under the "Cool Earth Partnership", Japan would therefore provide funds to developing countries amounting to some $10 billion over the next five years: $2 billion in assistance for adaptation and $8 billion for mitigation.

75. Over the past 30 years or so, Japan had doubled its GDP without increasing energy consumption in the industrial sector. As such, it was a remarkable example of how a country could attain the twin goals of economic development and environmental protection. Japan was also willing to share its experience and technology with other countries. In that connection, it intended to provide a further $3 billion in funds for innovative technologies over the next five years. Furthermore, Japan had established a new multilateral climate-change-mitigation fund in cooperation with the United Kingdom and the United States. The first projects had already been implemented through the fund with such countries as Madagascar, Senegal and Guyana.

76. Lastly, he drew attention to the apparent contradiction of using food for biofuels in the context of the current world food crisis. He also called for further discussion within the United Nations of the use of atomic energy as a potential means of reducing carbon-dioxide emissions.

77. **Mr. Bialek** (Observer for Australia) agreed that there was an urgent need for large-scale finance and investment to promote clean technology development and climate-change adaptation. For its part, Australia was considering how best to contribute to climate-change action, including through a range of multilateral instruments. In doing so, it remained cognizant that such actions should be complementary to the allocation of resources under the UNFCCC.

78. The private sector was potentially a major source of global investment and financial flows for mitigation. The Government of Australia firmly believed in the potential power of the carbon market and was moving towards a cap-and-trade emissions-trading system, to become operational by 2011.

79. Having recently ratified the Kyoto Protocol, his Government was of the view that the flexibility mechanisms of the Protocol should continue to focus on the reduction of emissions and that their scope should be broadened to facilitate mitigation in areas that had been excluded or limited in the first commitment period.

80. While the private sector was potentially a major source of funding for the transformation to a low-carbon economy, it was important to recall that the resources allocated by parties nationally, including through official development assistance, were likely to

remain the primary sources of adaptation funding. Governments must therefore be prepared to increase the resources dedicated nationally to address climate impacts, including by scaling up their assistance to the least developed countries, small island developing States and vulnerable developing countries in particular.

81. **Mr. Blake** (Observer for Antigua and Barbuda) said that all those present would surely agree on two points: that climate change was already having an adverse impact on the development gains made by developing countries over the past two decades; and that resources from the international community for climate-change adaptation must be additional to those provided to meet the MDGs and development needs in general. It was also clear that the resources required to address climate change must be organized and mobilized in an inclusive manner. The Kyoto Protocol and the UNFCCC already had the relevant global mechanisms in place in that regard and it was essential that they should be properly utilized, particularly the Adaptation Fund.

82. Small island developing States and African States should not be required to take out loans, including credit or credit guarantees, for the "privilege" of tackling problems that they themselves had not created. Funds for such purposes must therefore be agreed on a grant basis. Furthermore, technology for adaptation and mitigation must remain in the public domain to ensure that it was accessible and affordable to developing countries.

83. Lastly, the funds required to combat climate change should be considered within the context of existing UNFCCC mechanisms. Further efforts to develop new funds and arrangements were merely a distraction.

84. **Mr. Hillman** (Stamp Out Poverty) said that the estimated tens of billions of dollars required each year for climate-change adaptation and mitigation must not come from existing official development assistance; otherwise a stark choice would have to be made between protecting the environment and meeting the MDGs. Additional funding was therefore absolutely critical. In that connection, he welcomed the earlier statement by the representative of the United Kingdom, who had specifically stated that additional funds would be provided to combat climate change.

85. His organization agreed that the UNFCCC provided the appropriate framework for arrangements concerning the costs of financing climate-change adaptation and mitigation. Any effort to increase resources for that purpose must therefore come under that framework, which provided adequate representation for both developing and developed countries.

86. His organization strongly agreed with the need to tax currency transactions and welcomed the renewed interest in a possible currency-transaction development levy designed to generate billions of dollars. In that connection, the Doha outcome should make specific reference to such innovative mechanisms with a view to generating the substantial new revenue required.

87. **Ms. Triastuti** (Indonesia) said that meeting the additional financial requirements to address climate change would be a challenge. Some estimates suggested that some $200 billion in investments would be needed each year to implement low-carbon development policies, thereby underscoring the importance of existing financial mechanisms and the need to develop innovative financing for mitigation and adaptation purposes while implementing the Monterrey Consensus.

88. Governments and regional and international financial institutions would have to shoulder the major burden of those new responsibilities. In that context, finance and trade ministers had recently held meetings in Bali, in parallel with the thirteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to focus on the economic and developmental implications of climate change. As a result, the following had been agreed by the financial ministers: factoring climate change into development planning and economic policies was a necessary first step; it was in the global interest to improve existing financial mechanisms and to develop innovative financing for adaptation and mitigation purposes; a long-term, steady flow of funding and investment was essential; and an enabling environment must be created to ensure that the required level of funding and investment was reached. While the ministers had recognized that trade played a key role in global economic development and welfare, there had still been a divergence of views on how trade could best help efforts for climate-change mitigation and adaptation while keeping development objectives

in mind. Further analysis of the linkages involved would therefore be required.

89. Indonesia welcomed the recent outcomes of the Ad Hoc Working Group on Long-term Cooperative Action under the UNFCCC. The decision to focus on finance and technology negotiations at an early stage was encouraging. Furthermore, the broad consensus emerging demonstrated how serious developed nations were about helping developing countries to adopt low-carbon and climate-resilient measures.

90. Heads of governmental financial institutions must play an active role in mitigation efforts, particularly by making use of important opportunities related to the carbon market, technology transfer and innovation. However, the private sector would also become an increasingly important stakeholder. Incentives to promote corporate social and environmental responsibilities must therefore be developed, and consumers should also be given additional incentives to contribute to mitigation efforts.

91. Further mechanisms needed to be explored in the area of adaptation, since the current 2-per-cent levy on transactions under the Clean Development Mechanism could not meet the predicted level of investments required. The recommendation of a GDP-based levy on so-called Annex 1 countries to finance adaptation therefore merited further consideration.

92. Both finance and technology were the central link between engagement by developing countries and action by industrialized countries. Indonesia was already taking steps to reduce emissions from deforestation and to promote cleaner future energy initiatives. Other countries should take immediate action so that the international community could address the challenge of climate change together.

93. **Mr. Bagchi** (Observer for India) said that climate-change adaptation and mitigation should be allocated equal resources. It was therefore unfortunate that there appeared to be a greater focus on mitigation at the present time.

94. Development itself was a very effective method of adaptation. For example, India spent more than 2.6 per cent of its GDP on development programmes with a very strong adaptation content. The issue of adaptation itself should be approached from the perspective that developing countries had contributed least to climate change. A certain amount of caution was needed when attempting to integrate climate-change financing into traditional development financing, since the typical donor-recipient relationship did not exist: the historical responsibility for climate change went far beyond any traditional concepts of financing for development.

95. One major concern was that integrating climate-change adaptation and mitigation into the development agenda might undermine the availability of additional funds. Another concern was that the new funds proposed by the World Bank might subsequently lead to additional climate-related conditionalities from multilateral financial institutions with respect to both development and commercial financing.

96. In view of the key role that technology could play in combating climate change, it was important to ensure that developing countries had access to advanced clean technologies. Control regimes on such technologies must therefore be removed. Annex 1 countries and other developed countries must also demonstrate a firmer commitment to investment in cleaner technologies in order to ensure a commensurate commitment on the part of the private sector.

97. **Mr. Lobo de Mesquita** (Portugal) said that combating climate change would involve massive shifts in investment patterns in a vast range of sectors, including the need to scale up funding and to optimize the allocation of existing funds. It was therefore essential to ascertain that financial markets were capable of mobilizing the investment required and to ensure that efforts were being made for a comprehensive review of existing and planned investment and financial flows. At the same time, each and every contribution towards the common goal of long-term cooperation to address climate change must be explored as a matter of urgency and with a particular focus on the needs of developing countries.

98. While the carbon market could make a substantial contribution towards the mitigation of emissions and the adoption of a new development paradigm, that would not be sufficient to address the complex financial challenges of climate-change adaptation and mitigation. Similarly, official development assistance alone would not deliver all of the financial flows identified as necessary. The private sector therefore must play an important role in financing climate-change mitigation and adaptation.

99. In that context, he enquired how further advantage could be taken of the synergies between development and climate-change adaptation and mitigation by scaling up and optimizing the use of resources through international financial institutions, the Global Environment Facility (GEF) and official development assistance; how market-related mechanisms could be further used to co-finance adaptation needs in developing countries; and how best to support vulnerable countries in their adaptation and mitigation policies through multilateral finance.

100. **Mr. Ehouzou** (Benin) said that rising sea levels and creeping desertification were contributing to the level of poverty in West Africa. He therefore welcomed the encouraging words of commitment from representatives of the World Bank to assist the countries of West Africa in combating climate change.

101. **Ms. Alves** (Brazil) said that the financing of climate-change adaptation and mitigation was addressed by the UNFCCC and its Kyoto Protocol, which established financial mechanisms for the provision of resources on a grant or concessional basis. The relevant provisions of those instruments should therefore be implemented.

102. While the World Bank had an important role to play in mobilizing financial resources and in designing innovative financial mechanisms to tackle global warming, it should respect the UNFCCC process under way without prejudging results or anticipating decisions. The World Bank also played a pivotal role in harnessing the resources that recipient countries needed to combat poverty and to promote economic development. To that end, its efforts should focus on actions that would benefit the environment while promoting development.

103. The legal framework for attracting private investment to mitigate global warming must reflect the development agenda: investments that failed to take into account social benefits, the cost of alternatives and the scaling up of resources could not be called climate-friendly. Furthermore, the climate-related funds under discussion at the World Bank should have a multilateral governance structure that was as inclusive as possible, and policies on the utilization of resources should be decided by consensus. Further definition of the financial architecture for climate-change mitigation and adaptation should be guided by a spirit of partnership, mutual accountability and cooperation for development, without any distinction among major economies or emitters.

104. **Mr. Monari** (Senior Manager, Sustainable Development Vice-Presidency, World Bank), summing up, said he agreed that the public sector must create an enabling environment to foster private investment in new technologies. Preliminary discussions on the Clean Technology Fund, for example, aimed to see whether the Fund could finance the incremental costs needed to achieve a low-carbon path. Other proposed methods to mobilize private funds included the issuance of guarantees.

105. **Mr. Kjørven** (Assistant Administrator and Director, Bureau for Development Policy, United Nations Development Programme (UNDP)), responding to the final points raised by the representative of Japan, said that the climate-change threat was such that countries would need to look at a broad range of energy options in order to address it, including the use of atomic energy. Recent events had also clearly demonstrated the need for food security. Resources provided to combat climate change must therefore be additional to those provided to ensure food security. In that connection, the comparative advantages and disadvantages of biofuels should be assessed with respect to their impact on both food security and climate change. Furthermore, greater emphasis should be placed on agriculture in international development, particularly the need to reverse land degradation and desertification.

106. In response to the question from the representative of Portugal, he noted that there was a clear potential for synergies between climate-change adaptation, mitigation and development by expanding energy access to the poor and through the rehabilitation of degraded agricultural land.

107. **Mr. Banuri** (Stockholm Environment Institute) pointed out that the levy on transactions under the Clean Development Mechanism was already being criticized as a tax imposed on developing countries. It was therefore worthwhile examining the implications of such a levy more carefully. A more general concern was that funds for adaptation would be difficult to access with the urgency required, and that official development assistance might not prove to be as reliable a source of funding as it had first appeared, leading to a need for new forms of taxation.

108. With regard to funding for mitigation, a central issue was not only the creation of liquidity through loans but also the provision of subsidies, through public support, to make energy available to developing countries. The Clean Development Mechanism could function in that regard, but only if the targets for Annex 1 countries could be met by developing countries.

109. Building capacity for developing countries, especially through the expansion of their energy infrastructure, was another way to enable those countries to be able to cope with climate change. There was therefore a strong impetus not only for direct investment in development but also for the creation of subsidies, either through official development assistance or through alternative mechanisms.

Concluding comments and closure of the special high-level meeting

110. **The President** said that the special high-level meeting had provided an occasion for a rich and constructive dialogue in which a wealth of ideas and innovative policy approaches had been put forward to advance the development agenda on the five key issues selected. He encouraged the General Assembly, the Bretton Woods institutions, WTO, UNCTAD and other stakeholders to build on those ideas prior to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held in Doha later in 2008. For its part, the Economic and Social Council would continue to contribute to the preparation of the Conference, particularly in those areas where enhanced coordination and effective international cooperation could make the greatest impact.

111. The current world economic and development outlook was worrying. Developed countries faced daunting challenges to avoid a major growth deceleration which could affect all other countries, while developing countries faced an unusual degree of uncertainty regarding export and financial flows. For many in the latter group, the difficulties were compounded since they confronted substantial increases in international food and energy prices. If the deceleration in industrial countries was severe and long, and the prices of food and energy remained too high, in many countries the development gains of the past few years might vanish. Every effort should be made to avoid such an eventuality.

112. At the round-table discussion of new initiatives on financing for development, reference had been made to the impressive number of new initiatives since the Monterrey Conference, some of which were already being implemented with decisive results. That situation once again demonstrated the importance of political will in moving the development agenda forward. However, several speakers had sounded a note of caution: a need to evaluate experiences was necessary so as to better focus the efforts behind those initiatives.

113. At the round-table discussion on supporting development efforts and enhancing the role of middle-income countries, including in the area of trade, there had been an increasing recognition that international support was necessary to eradicate poverty in those countries through innovative efforts. Many speakers had stressed that due attention should be paid to middle-income countries in multilateral forums. As mentioned in several statements, an early agreement in the current multilateral trade negotiations to fully implement the Doha Development Agenda was crucial for those countries.

114. It had become clear during the round-table discussion on supporting development efforts of least developed countries, including through trade capacity-building, that the challenges those countries faced were becoming more complex as they increased their linkages with the international economy. It might therefore be expedient to pay greater attention to the nature of the assistance provided and to other forms of international cooperation with those countries, including by enhancing synergies with the private sector. Enhanced aid for trade, in particular, was essential. A successful Doha Round would indeed boost the world economy. However, in order for least developed countries to benefit more fully from the Doha Round, enhanced aid for trade must be one of its vital components.

115. The views expressed during the thematic debate on building and sustaining solid financial markets had once again underscored the critical role that well-functioning domestic financial markets in the North and the South played in the stability and growth of the world economy. However, concerted joint efforts were also essential to enhance the global regulatory framework designed to protect the international system from crises.

116. On the basis of the views expressed during the discussion on the financing of climate-change adaptation and mitigation, it was clear that the international community was facing a daunting task that required the involvement of all countries and development actors. Creative new approaches and innovative domestic and international cooperation policies would also be necessary, particularly for the mobilization of additional financial resources to support the new efforts. One of the main concerns should be climate-change adaptation and mitigation in the more vulnerable countries, where the potential dangers of climate change could severely affect millions of people.

117. Many countries had been deeply affected by the impact of the global food crisis, as shown by the food riots witnessed in over 30 countries in recent days. The international community and the Council therefore must take action. The Secretary-General strongly supported action, including by the Council, and had indicated his willingness to intervene personally. In that connection, a special meeting of the Council would be held in the first half of May to propose a global response to the current crisis.

118. He declared closed the special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development.

The meeting rose at 6.45 p.m.