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Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Summaries by the President of the General Assembly of the review sessions on the six thematic areas of the Monterrey Consensus, held in New York between February and May 2008

I. Introduction

1. The General Assembly, in its resolution 62/187, requested the President of the General Assembly to provide a programme of work for the preparatory process for the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held in Doha (the Doha Review Conference), including, inter alia, six substantive informal review sessions of the whole on the six thematic areas of the Monterrey Consensus.

2. In a letter dated 10 January 2008 addressed to all States, the President of the General Assembly, Srgjan Kerim, emphasized the importance of a successful outcome to the Doha Review Conference and proposed a work programme for the preparatory process. The programme included a timetable of review sessions on the thematic areas of the Monterrey Consensus and interactive hearings with representatives of civil society and the business sector. Accordingly, the review sessions were held at United Nations Headquarters in New York during the period from February to June 2008.

3. A subsequent letter, dated 25 January 2008, from the two facilitators of the preparatory process, Ambassador Maged A. Abdelaziz of Egypt and Ambassador Johan L. Løvald of Norway, outlined the modalities of the review sessions. Each session was co-chaired by the two facilitators and included an initial panel discussion, organized in cooperation with the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat, comprising five panellists from developed and developing countries and relevant stakeholders. The panel discussion was followed by a policy debate among Member States, with the participation of all relevant stakeholders.

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4. In accordance with paragraph 10 of General Assembly resolution 62/187, the President of the General Assembly, with the support of the two facilitators and the United Nations Secretariat, prepared informal summaries of the review sessions to serve as inputs to the preparations for the Doha Review Conference. The summaries are presented below. Each summary consists of two sections covering: (a) panel presentations and responses by the panellists to questions from participants; and (b) an account of the policy deliberations, with the participation of all stakeholders.

II. Opening remarks

5. At the opening of the first session, Ambassador Abdelaziz read out the opening remarks of the President of the General Assembly. At the same meeting, the Assistant Secretary-General for Economic Development of the Department of Economic and Social Affairs, Jomo Kwame Sundaram, presented the introductory remarks of the Under-Secretary-General for Economic and Social Affairs, Sha Zukang.

6. In his opening statement, the President of the General Assembly underlined the critical role of the Monterrey Consensus in forging a global partnership for development and achieving the Millennium Development Goals. Even as growth prospects had improved in developing countries, inequality between and within countries was still rising. Moreover, the recent financial turmoil could reduce demand in developed countries, with significant spillover effects into emerging markets and developing countries. It was therefore crucial to promote equitable growth that would lead to human development and support opportunities and benefits for all. Calling climate change a major threat to long-term prosperity, the President underlined that the financing for development process had a special responsibility to support the efforts of Member States towards mitigation and adaptation.

7. The Under-Secretary-General of the Department of Economic and Social Affairs underlined that in the Monterrey Consensus countries had reaffirmed the primary responsibility of developing countries to mobilize their domestic resources for development. Developed countries should be active partners in the development process. While many developing countries had improved their macroeconomic management, further regulatory and legal reforms were needed to promote the business sector. Private capital flows played an important role in supplementing the domestic resources of developing countries, yet the overall development impact of capital flows was limited by their concentration in a dozen fast-growing emerging markets. Increased efforts were needed to promote the reach and the development impact of foreign direct investment (FDI). In conclusion, the Under-Secretary-General emphasized that the current international financial turmoil further underscored the need for a robust global partnership for development.

III. Review session on mobilizing domestic financial resources for development, held on 14 February 2008

8. Panel presentations were made by Nelson Barbosa Filho, Deputy Secretary of Economics, Ministry of Finance, Brazil; Carlos Braga, Director, Economic Policy and Debt Department, World Bank; Nilufer Cagatay, Professor of Economics,

University of Utah, United States of America; Mushtaq Khan, Professor of Economics, School of Oriental and African Studies, University of London, United Kingdom of Great Britain and Northern Ireland; and John Sullivan, Executive Director, Center for International Private Enterprise, United States. An overview of the information presented by the panellists is provided in paragraphs 9 to 28 below.

A. Panel presentations

1. Role of government, governance and the growth imperative

9. It is important for Governments to have a vision of sustainable and inclusive development. A national development strategy identifying the main objectives and policy orientation is necessary to make progress towards this vision. Such a strategy is the basis of good policy management. Economic growth should be one of the main objectives, since it is a sine qua non of sustainable development. Since 2002, developing countries have made important progress in many areas of domestic resource mobilization and economic growth has accelerated.

10. Partnership as emphasized in the Monterrey Consensus is critical to supporting and facilitating development. A sound international economic environment is also essential. National ownership of policies is crucial for effective development management. Cooperation policies should consider streamlining conditionalities. Policy space is a key factor in the promotion of sustained economic growth.

11. A market-friendly environment will encourage private economic activity and promote growth, but will not necessarily address income inequality. Government has a fundamental role in addressing market failure and ensuring an equitable income distribution. It should also address the issue of corporate governance in order to ensure conditions that attract investment and facilitate the survival of firms.

12. Increasing public investment in infrastructure and services for the poor is essential to support sustained and equitable growth. Sound public investment will pay for itself in the future.

13. Mobilization of private and public domestic resources is often constrained by institutional and political weaknesses in developing countries; this is a governance problem. Good governance at the international level is also critical. There is increasing consensus on the elements of good governance at the national level: participatory democracy, effective rule of law, gender equality, stable property rights and absence of corruption. If such conditions are realized, individuals will have the confidence to save and businesses will have the confidence to invest, and people will be served by an accountable Government promoting social justice and providing for the common good.

14. In most developing countries, the realization of such conditions will require significant time, considerable financial resources and enormous political effort. For example, adequate consolidation of property rights requires not just a commitment from the Government but also the allocation of resources for enforcement, arbitration, protection and conflict resolution. This should not imply abandoning an ambitious agenda for institutional reform. Rather, it implies a pragmatic, selective approach that yields an impact on resource mobilization and efficiency of investment in the near future. There is historical evidence that this is the path taken by successful dynamic economies.

15. A viable strategy for governance reform should identify narrowly defined and feasible areas, scale up results and be linked to the national development strategy. These areas may differ among States, because the initial conditions and dominant market failures are different, as are their institutional capacities. One important potential area is the building of risk-sharing institutions. Another is strategies to combat corruption, which should similarly focus on a few narrowly defined aspects that affect the implementation of critical national development policies and programmes.

16. Technical assistance in governance reform and institution-building is needed in most developing countries, but particularly in least developed countries, landlocked least developed countries and small island developing States and in countries emerging from conflict. International cooperation in support of pro-poor policies is important in low-income countries and in middle-income countries with large pockets of poverty.

17. States with small economies face a constraint on growth because of their size and can benefit from regional cooperation in trade and investment.

2. Macroeconomic objectives and policies

18. Sound macroeconomic policy should promote growth and employment, improve income distribution and enhance resilience to shocks. Macroeconomic policy should be sound, solid and flexible and should adapt to the long-term structural changes that are taking place in developing countries. It should also include counter-cyclical elements to respond to short-run fluctuations. Two important elements of employment objectives are full employment of men and women and sufficient opportunities for decent work.

19. Because low and stable inflation is a public good, monetary policies should be geared to this target. But there are many paths to low inflation. While high inflation has the potential to degenerate into hyperinflation and should be avoided, short-run inflation targets that are too low can lock the economy into a low growth path. Therefore, it is important to tune the speed of convergence to low inflation.

20. The amount of capital flight — legal and illegal outflows — from some developing countries is staggering. This might signal a weakness in macroeconomic policies. Capital flight is often a result of poor governance and a lack of confidence in the national economy. States have to weigh whether removing restrictions to capital flows will aggravate capital flight or help to develop the financial system. In any case, prudential regulation is fundamental.

21. Developing countries often face constraints in their balance of payments. Exchange rate policy should be flexible and pragmatic in order to support sustained economic growth and other development objectives.

22. In recent years, there has been more emphasis on fiscal policy space which can be increased through mobilization of domestic revenue, more productive investments, improving expenditure efficiency and increased external aid. In many low-income countries it has been a major challenge to replace import tariffs with equivalent tax revenues.

23. A key objective of fiscal policy should be sustained economic growth, which requires the mobilization of fiscal revenues in a sustainable manner. There is scope

in most developing countries to increase tax revenue through effective tax collection, progressive tax rates, modernization of tax legislation and broadening of the tax base. Perceived accountability of national and local governments should be enhanced through the linking of tax collection and service delivery. Lessons from some States show that some reduction in tax rates can increase compliance and simplification of the tax system can increase coverage. Mobilization can also be strengthened by more effective expenditures and sound debt management. Cautious management of Government revenues from exploitation of natural resources is important as is ensuring a fair share of commodity revenue flows.

3. Social policies, enhancing the domestic financial system and entrepreneurship

24. The Monterrey Consensus commits to a holistic approach to people-centred development. Mobilization of human resources is important in achieving sustainable development. The qualification of the labour force is a key consideration of investors. Since to a significant extent the brain-drain is a result of "pull" factors, cooperation is necessary to counter this flow of skilled workers from developing countries.

25. Gender inequalities persist in labour markets, credit markets and distribution of assets. The Monterrey Consensus needs to be strengthened regarding gender equality issues, giving more specificity to the issues included. There needs to be a better understanding of the role of women in development, moving beyond their roles as caregivers and labourers. Macroeconomic policies should be more coherent with other policies in terms of gender equality. Policies should go beyond gender budgeting and take into account tax issues, business cycles, employment, decent work for all and the unpaid "care economy". Reforms should also address the bias against women in property rights. In social protection policies, it is important to consider family allowance policies privileging the mother.

26. Entrepreneurship is the basis of a dynamic economy. It is important to focus on the foundations of entrepreneurship. There must be incentives for creating and doing business. There should be public-private dialogue to establish and expand family-owned, small and medium-sized enterprises. Important areas of reform include strengthening corporate governance; anti-corruption measures, including principles of transparency and accountability; increasing the profitability of doing business; and simplifying procedures for establishing new businesses. Development of the informal sector should also be targeted.

27. National development banks can address three areas of market failure in the financial sector of developing countries: the insufficiency of long-term finance, shortage of infrastructure investment and financing of small and medium-sized enterprises. Better access to finance by small and medium-sized enterprises is vital to development, as are microfinance providers that serve women and small rural enterprises and households; hence, the importance of policies promoting an inclusive financial sector.

28. Remittances constitute a growing flow of resources to developing countries. This is opening new opportunities in local areas that benefit from such flows for developing the banking sector and creating new income-generating activities.

B. Policy deliberations

1. Review of progress and key strategic considerations

29. Many participants expressed satisfaction and appreciation for the panel presentations and said that the commitments outlined in the Monterrey Consensus reflected the critical need of enhancing the international economic environment and the implementation of development policies in key areas by developing countries. The key areas included macroeconomic policy reforms, strengthened macroeconomic and fiscal management, reform of legal and regulatory systems, increased investments in economic and social infrastructure, the development of the financial system (including expanded access to micro-, small and medium-sized enterprises and increasing public and private savings), strengthening governance and intensifying the fight against corruption. There was a convergence of views that developing countries had made significant progress in most of these areas. Such progress had been clearly reflected in annual reports of the major institutional stakeholders as well as in the reviews and analyses of scholars and non-governmental organizations.

30. Several speakers stressed that the Monterrey Consensus was the foundation of the global partnership to achieve the internationally agreed development goals, including the Millennium Development Goals. While external resource flows had an important supporting role to play, sustained long-term development could only be achieved through successful mobilization of domestic resources. There had been positive developments since the adoption of the Monterrey Consensus. Economic growth was accelerating and developing economies were achieving increased stability, partly in response to an improved mobilization of domestic resources. Yet, in some regions accelerated growth had not always resulted in the improvement of human development indicators and had not been inclusive or pro-poor.

31. Several participants highlighted that creating a positive investment climate was one of the most pressing tasks facing development. This required action in strategic areas such as national financial and institutional systems (in particular the ones that encourage entrepreneurial activity), public-private partnerships, national and local governance, human resource development, macroeconomic policies, economic empowerment of women and incorporation of small-scale producers into the broader economy. Some participants stated that the private sector should take the lead in achieving sustainable growth and mobilizing domestic resources. In that regard, it was important to lower excessive costs and streamline bureaucratic procedures to register new business, formalize informal activities and expand existing firms. Some speakers stressed that implementing reforms to eliminate bureaucratic red tape, as well as putting in place and enforcing laws against corruption, should be a priority in many States.

32. Numerous participants pointed out that the efforts of all partners, including multilateral institutions, should encompass all the actions outlined in the Monterrey Consensus. Such actions were mutually reinforcing and a comprehensive approach would optimize the synergies between domestic resource mobilization, aid, international trade, private capital flows and debt relief. Several speakers said that recent progress had made developing countries more resilient. They were better prepared to cope with the global deceleration of growth due to the current financial turmoil.

33. A large number of speakers pointed out that in key areas, where improvements in the international economic environment were necessary, progress was lagging: the Doha Development Round of trade negotiations had barely advanced; global financial markets remained volatile; and the outflow of highly trained and skilled persons from developing countries persisted, in part because many developed countries were systematically recruiting them while restricting the movement of semi-skilled and unskilled workers. Policy space remained constrained and conditionalities remained strong, despite the general view that they were counterproductive. Moreover, progress had been insufficient in addressing the special needs of Africa, the least developed countries, small island developing States, and landlocked developing countries and in confronting the development challenges of countries emerging from conflict.

34. In that regard, according to a number of participants, least developed countries and small island developing States remained very vulnerable. For these countries, additional technical assistance support was necessary and official development assistance (ODA) and debt relief continued to be required to bridge their gap between savings and investment. In addition, for both those countries and landlocked least developed countries, more external resources were crucial for infrastructure investments, which were a critical ingredient of sustained development. In addition, several participants noted the special needs of States transitioning to a market economy, which required support for the development of their legal systems.

35. Poverty eradication, according to many participants, was a crucial challenge for developing countries and the efforts to combat poverty required international support. Assistance was essential for least developed countries. Yet such support was also important for middle-income countries in order to complement their efforts in fighting poverty and inequity. It was also pointed out that climate change posed new challenges and that this should be taken into account in the financing for development process.

36. A number of participants indicated that in preparing for the Doha Review Conference there should be more emphasis on analysis of successful efforts and lessons learned. A judicious incorporation of best practices in different policy areas could make a significant contribution to policy implementation and development. Economic freedom and investing in people fostered the mobilization of domestic resources. Some pointed out the importance of promoting and consolidating social cohesion. Others stressed that natural resources should be used to serve national interests. There were convergent views on the adequacy of the approach that no one size fits all and that national ownership was critical for effective policy management and sustained development. There was also convergence on the need for small-sized economies and particularly small island developing States to promote greater economic integration.

2. Macroeconomic policies and the mobilization of public revenues

37. In the view of many participants, the mobilization of public resources and adequate fiscal policies were critical for sustained development. The link between a national development strategy and the reality of budget allocations often needed strengthening in developing countries. In order to finance essential public services and investments, it was important to enhance public revenues and use national

resources effectively. There was considerable scope in many developing countries to raise additional revenues. This required putting in place more effective and just tax systems, including efficient tax administrations.

38. A large number of participants noted the close link between improving governance and increasing the tax base and revenues. The willingness of people to pay taxes derives from their trust that the Government will meet their needs. This concept was at the root of public accountability and required a transparent budgetary process and transparent management of public finances. The list of issues for reform of public finance and administration was long, including areas such as control of public expenditure, the budgeting process, transparency in procurement, civil service reform and tax administration. In that regard, strengthening international cooperation in tax matters, in particular through the United Nations, could be crucial.

39. Some participants pointed out the need for developing countries to further explore how monetary and fiscal policies could directly stimulate capital accumulation and economic growth. It was stated that in many developing countries it was important to scale up public investment; in fact, the positive impact of public investment on competitiveness was often ignored. Where public expenditures were fully covered by current revenues, the Government should invest using borrowed funds, as long as the public balance was sustainable.

40. Many participants stated that trade liberalization and tax competition, in the context of FDI, had eroded the tax base. Revenues from tariffs could not easily be substituted by new or higher taxes, particularly in least developed countries. It was important, therefore, that development partners of least developed countries assist such countries in their trade and investment negotiations to prevent further erosion of their tax base. It was underscored that it was also important to strengthen multilateral cooperation on tax issues through the upgrading of the Committee of Experts on International Cooperation in Tax Matters. For countries rich in natural resources, the commodity boom had led to considerably higher revenues. Given the fact that some of these natural resources could eventually be exhausted and that the high prices might end, it was important for Governments to explore how to retain a greater share of the commodity rents and to channel those rents to a stabilization fund or to investments that could help to attain a more sustainable development path.

3. Human resource development and financial sector deepening

41. Many participants focused on investment in human capital as paramount for sustained development and the eradication of poverty. Strengthening human resources required enhanced, non-discriminatory education and health policies, basic infrastructure (particularly targeting the poor), better social protection and active labour market policies leading to decent work for all. Further efforts were necessary in all those areas.

42. Many participants called for gender equality and the empowerment of women. Their contribution to development could be increased markedly and could benefit everyone; yet, the Monterrey Consensus had not paid sufficient attention to those issues. The role of women was critical in formulating and implementing poverty eradication policies. The gender aspects of development should be considered

beyond the social sectors and encompass other policy areas such as economic growth, migration, the environment, peacebuilding and reconstruction.

43. Development of the domestic financial sector, according to many participants, was of the utmost importance in many developing countries. It was central to the mobilization of domestic financial resources. A diversified, well-regulated, inclusive domestic financial system that promoted and captured savings — and channelled them to sound projects and ideas — was a key pillar in sustained development and a dynamic private sector. It was essential to provide adequate financial services, including long-term funding, to small and medium-sized enterprises. Yet, new efforts by Governments in that area should complement rather than compete with private financial activities. Some participants pointed out that national development banks could be instrumental in providing long-term capital for productive activities and financial resources for infrastructure development.

44. A number of participants stressed that widespread access to finance — developing an inclusive financial sector that provided a wide variety of financial products — was vital. It was essential to ensure that financial services reached women, rural areas and the poor. Microcredit was important for microenterprises and small family firms. For many female entrepreneurs, microcredit was crucial to their success. Many speakers emphasized the importance of enhancing national and international efforts towards strengthening microfinance.

45. Many participants referred to the increasing importance of remittances for a substantial number of countries. The amount of these private flows continued to increase significantly. Additional measures were necessary to lower the cost of transferring such flows. Moreover, countries in which such flows originated could explore ways to assist migrants in increasing them. It was also noted that remittances could provide an opportunity at the local level to promote development and banking activities.

46. Various speakers pointed out that capital flight represented a major loss of resources for developing countries. According to some estimates, annual amounts of legal and illegal outflows reached hundreds of billions of dollars. The factors that triggered such flows were several: inadequate macroeconomic policies, lack of trust in the national economy, funds obtained through illegal or criminal operations, deficient tax administration capacity, lack of transparency of cross-border flows and insufficient international tax cooperation. It was important to increase efforts in all those areas in a way that addressed those factors and reduced the opportunities and incentives for such capital flight. A number of participants stated that a global partnership was required to prevent corrupt assets being transferred abroad as well as to help to recover them. It was also important that all States become parties to the United Nations Convention against Corruption and ensure that it was effectively implemented.

IV. Review session on mobilizing international resources for development: foreign direct investment and other private flows, held on 15 February 2008

47. The panel presentations were given by Mansoor Dailami, Manager, Office of the Vice-President for Development Economics and the Chief Economist, World Bank; Prabhat Patnaik, Professor, Centre for Economic Studies and Planning,

Jawaharlal Nehru University, India; Molly Pollack, Executive Director, Chile/Global, Chile; John Simon, Executive Vice President, Overseas Private Investment Corporation, United States; and Rogerio Studart, Executive Director, World Bank, Brazil. An overview of the information presented by the panellists is provided in paragraphs 48 to 73 below.

A. Panel presentations

1. Trends and policy frameworks in private resource flows to developing countries

48. Private capital flows to developing countries have been on a strong upward trend since 1970, with boom-bust cycles in 1982, 1984 and 1997. Such flows are being supported by domestic economic reforms, improved macroeconomic fundamentals and higher economic growth. This has been recognized by international financial markets and reflected in significantly lower bond spreads.

49. The impact of the recent financial turmoil on emerging markets has been limited so far, but private capital flows are expected to decline somewhat in the short term owing to a moderation in global growth and tighter credit conditions. However, the prospects for increasing private capital flows to developing countries are positive in the long run, driven by their age-population structures, cost advantage and promising medium to long-term outlook for investment and growth. It was noted that the current financial turmoil did not start in developing countries, as was the case in previous crises.

50. Since the International Conference on Financing for Development was held in Monterrey, Mexico, many developing countries, including a considerable number in Africa, have improved their policy fundamentals and growth prospects and are attracting increasing levels of private capital inflows and a number of investment funds. FDI has grown at a healthy pace. The basic lesson is that countries need to have made any necessary reforms and to have high growth to attract foreign private capital. Since 2002, the percentage and absolute number of poor people has decreased in Latin America coinciding with a larger flow of FDI and other external flows.

51. Yet gaps and weaknesses persist. While FDI has increased, it remains concentrated in a few countries. Despite the increase in private financial flows to developing countries, these have, to an extent, been the result of the rapid and unsustainable increase in liquidity in the main developed financial markets, including the mortgage and credit markets. Progress on reforming international trade has been limited and the international community has also failed to establish an international financial architecture that would enhance the level and stability of private capital flows to developing countries.

52. A number of developing countries have benefited from the recent increase in commodity prices. However, the extra revenue from this has in a number of instances ended up as accumulated reserves or been used to repay debt. This reserve accumulation could in many cases be put to better uses, such as expanding infrastructure and productive capacity or tackling poverty more directly. In many instances, reserves exceed the levels necessary for prudential policy and protection against shocks; yet high reserve levels may generate improved sovereign ratings. Countries have, however, established investment companies and sovereign wealth

funds to use reserves for productive purposes, often investing in bond and equity markets. More consideration nevertheless needs to be given to how the high level of reserves in many countries can be employed in a manner that furthers development.

53. A significant development has been an increase in local currency debt issuance by both public and private sectors in some developing countries. The economic effect can be similar to increasing the stock of external debt when many of the creditors operating in the domestic market are foreign.

54. It is important to create a business-friendly environment in developing countries, strengthen risk-sharing mechanisms, promoting public-private partnerships and increasing the domestic market through human capital development and measures to ensure that growth is inclusive. It is also necessary to invest in infrastructure and foster regional integration and South-South cooperation. While developing countries should create appropriate incentives to attract productive foreign capital, they should be cautious of short-term and potentially destabilizing capital flows. In this regard, an appropriate sequencing of financial liberalization is important.

55. International institutions should support further infrastructure development, venture capital and other lending instruments and facilitate business contacts and public-private initiatives. They should also employ existing instruments and create new ones to expand their support to developing countries to attract stable and longer-term private capital flows.

56. The international community at large should ensure that there is an enabling international economic environment, including a fair trade system and a stable and inclusive international financial architecture. Trade agreements should consider incorporating labour standards. States should be on an equal footing to ensure mutual benefits from bilateral trade and investment agreements.

57. It is important for the business sector to respect labour standards, become more socially responsible and gender-sensitive and consider the environmental implications of their undertakings. It should be more transparent and respect national and international rules and principles.

58. Multilateral and bilateral efforts could strive to facilitate private capital flows to, and mobilize private resources within, developing countries. An example provided was the Small Business Finance Initiative for Latin American banks that was recently launched by the United States, to help the United States and local banks in Latin America to improve their ability to extend good loans to small businesses in Latin America. Moreover, the efficient movement of private capital needs to be complemented by the efficient movement of labour and, in this regard, developed countries should consider easing restrictions on labour mobility.

59. Further progress should be encouraged in strengthening private capital flows to low-income countries and to facilitate financing for small and medium-sized enterprises and of housing and private equity. There is also a need for cooperation to establish investment vehicles for low-income countries and to facilitate the dissemination of best practices in attracting sustainable long-term private capital from abroad.

2. Enhancing foreign direct investment flows and policies

60. FDI continues to be the largest and most stable capital flow and is increasingly focused on services. While FDI is highly concentrated in a few large economies, as a percentage of gross domestic product (GDP) its levels in low-income countries are on a par with those in middle-income countries. In absolute terms, FDI inflows are related to income per capita and low-income countries attract limited levels of these flows. Through facilitating the transfer of knowledge and technology, increasing employment generation and enhancing productivity, cross-border linkages, competitiveness and entrepreneurship, FDI can serve to stimulate economic growth and reduce poverty.

61. In assessing the development impact of FDI, it is however important to distinguish between the different forms of FDI as there are conditions under which it does not promote development. It can be especially beneficial in the industrial sector, in particular when it is linked to manufacturing of goods for export. However, where FDI occurs through mergers and acquisitions, it may not augment the real resources of the economy; rather, its main impact may be to increase the supply of foreign exchange, leading to more accumulation of reserves or an unwanted appreciation of the exchange rate. Even greenfield investment can lead to a net employment loss when increased imported inputs replace domestic production or when it results in less labour-intensive activities. Moreover, in the effort of trying to attract foreign investment, countries may discriminate against local enterprises and erode the domestic tax base.

62. FDI can also be questionable in the extractive industries, where capital intensive corporations may predominate and where a large proportion of the revenues are repatriated overseas. Low-income countries with natural resources should ensure that appropriate standards are being complied with and, moreover, should try to ensure that the revenues from this sector are employed to diversify their economy. FDI can sometimes also be volatile and negatively affected by global conditions.

63. Development finance institutions and bilateral donors can play an important role in attracting FDI to lower-income countries through risk-sharing or risk-mitigation techniques. They can also inform investors about prospects and thereby address the perception-reality gap faced by these countries and also provide finance tools, including risk insurance, that are not yet available in local markets in developing countries.

64. While certain views stressed the exploitative nature of FDI and its lack of impact on the local economy, it was also pointed out that FDI flows tended to be beneficial. In the latter case, FDI and economic growth can be mutually reinforcing. There is a need to reconcile these divergent views.

65. Developing countries must distinguish between different types of investment in international agreements. In particular, there is a need to ensure corporate social responsibility on the part of foreign investors. The United Nations Global Compact provides useful guidance in this regard. However, an assessment of the impact of patent protection in the developed world on technology transfer through FDI is warranted.

66. There is a need to reassess the measurement of FDI. There have been claims that FDI stocks, flows and profits are inaccurately measured and that “round tripping” also distorts the actual levels of net direct investment from abroad.

67. South-South investment flows are becoming increasingly significant. They should be promoted, since investors from the South possess certain advantages (use of similar technology and accounting systems, language and cultural affinity) when operating in other developing countries.

68. There may be a need for a multilateral regulatory framework for FDI. This needs to be looked at carefully given the fact that States may need to discriminate in their treatment of different forms of FDI.

3. Investment in human capital, innovation and technological development

69. There is a need for developing countries to promote innovation and technological development in order to accelerate growth. Public-private partnerships, at all levels, can be a facilitating mechanism in this respect. The example of Chile was cited, where public-private partnerships have been successfully undertaken with a view to increasing the competitiveness of human resources and of productive sectors and services by promoting and developing high impact innovations, technology transfer and management for the country. Still there is a concern about risk-sharing under public-private partnerships; the test will come in the event of an economic shock.

70. Expatriates can play a crucial role in the acceleration of technological change, business creation and investment capital in their countries of origin. They can assume the role of pioneer investors and impart market connections, technology transfer and training to their countries of origin. Their role in this regard has been illustrated in countries such as China, India, Ireland, Israel and others.

71. Developing countries also need to focus on strengthening human capital and should in particular endeavour to upgrade their stock of qualified human resources. This should be complementary to efforts to promote innovation and technological development and can be facilitated through investment in education as well as public-private partnerships and regional talent networks that promote knowledge exchange.

72. Countries and donors should support strategies to strengthen entrepreneurship. The highly skilled diasporas have played an important role in this area in some countries and there is scope for learning from their experience and scaling up their contributions in this respect. Governments could explore ways to encourage the entrepreneurial activities of diasporas in their countries of origin.

73. Measures should be undertaken to support small and medium-sized enterprises, which are an important generator of employment in many countries. In this regard, where they are viable and have a beneficial impact, the backward linkages between larger enterprises and their smaller counterparts should be encouraged and supported.

B. Policy deliberations

1. Review of commitments and enhancing policies to mobilize international private resource flows for development

74. Many participants stated that the challenge was to stimulate foreign private flows that would lead to development. This also included facilitating private capital flows to a wider group of countries and maximizing their development impact. More needed to be done to create a supportive and enabling international environment for broad-based development.

75. A number of participants stressed that there needed to be more initiatives by developed countries to provide incentives to their investors to invest in developing countries. At the same time, there was a need for a common understanding on what constituted an enabling investment climate. In that respect, it was important for policy reforms relating to the investment climate to be increasingly determined by developing countries and this appeared to be happening in some instances.

76. Various participants said that a number of least developed countries had also undertaken measures to improve their business environment. Best practices needed to be disseminated in that area. Of particular relevance were transparent, non-discriminatory and predictable conditions for investment, including an effective legal and regulatory framework.

77. Several participants pointed out that to reduce the possibility of financial crises, developing countries must have an effective system for monitoring and managing public and private sector external debt. It was also important to increase the transparency of private capital flows and to implement counter-cyclical policies that reduced the vulnerability of recipient countries to market volatility. It was also stated that short-term private capital flows were prone to instability and there might be a need for controlling such flows. It was also pointed out that credit rating agencies should rate sovereign risk according to objective and transparent criteria. It was stated that the activities of those agencies should be under the auspices of international intergovernmental organizations.

78. Many participants expressed the view that remittances had an important role in contributing to development and poverty reduction. Key issues relating to remittances included improving the quality and coverage of data on remittances, reducing the costs of remittance flows and enhancing their development impact. Overall, the legal, institutional and regulatory environments for remittances needed further improvement and one of the important issues in that regard was to strengthen the quality of local financial institutions.

79. Numerous participants stated that it was important for policymakers at both the national and international levels to strengthen oversight of financial market activities. International oversight institutions should adopt measures and strengthen existing mechanisms to prevent illicit transfers, such as tax fraud, money-laundering, illegal capital flows, the abuse of transfer pricing by transnational corporations, corruption and financing of terrorism. In that direction, it was suggested that countries should implement the recommendation of the Financial Action Task Force.

80. Many participants emphasized the need to enhance national and international efforts to strengthen microcredit and microfinance. Some stressed the importance of

strengthening the grant element of the support provided by international financial institutions to development programmes. The need to develop responsible and sustainable forms of tourism was also emphasized, as was the need to explore innovative initiatives to mobilize international private resources for small island developing States.

2. Policies to improve the development impact of foreign direct investment

81. Many participants underlined that the challenge was to channel greater levels of FDI to developing countries, while ensuring that those investments were translated into sustainable development gains. In that respect, attention needed to be paid to the quality, as well as the quantity, of FDI. There was a crucial need to create an enabling domestic and international environment to facilitate sustainable international flows of direct investment.

82. According to some speakers, attracting FDI was determined by a wide range of factors. A healthy domestic private sector was an important precondition for attracting FDI, as were adequate infrastructure, qualified human resources and large and expanding markets. It was stated that in many cases lower income countries that lack large endowments of natural resources had little to offer foreign investors. For those countries, FDI could not be expected to be a prime source of development finance in the immediate period and official resources were necessary.

83. Several participants pointed out that the measures to promote investment should not take the form of outright liberalism. Indeed, the Government should play an important role in facilitating flows of FDI to selected industries and the efficient utilization of external resources required a Government development strategy. The sovereignty of national policies should be guaranteed.

84. It was noted that competition for FDI had resulted in significant incentives provided to investors by developing country Governments and through bilateral and multilateral agreements. Recent years had seen a proliferation of international investment agreements at the bilateral, regional and interregional levels. Under the Agreement on Trade-Related Investment Measures and the Agreement on Trade-Related Aspects of Intellectual Property Rights, developing countries had been constrained in the use of performance measures that would assist in encouraging investors to contribute to developmental goals. Hence, the proper balance had to be struck between the benefits from entering into international investment agreements and the need to secure sufficient policy space.

85. Various participants stressed the importance that domestic policies should facilitate technology transfer and local productive linkages with FDI. A key factor to achieve this was an adequate business environment for small and medium-sized enterprises.

86. Some participants noted that multilateral investment agreements could be less effective than bilateral investment treaties. At the same time, bilateral investment treaties should ideally be negotiated on an equal footing. Development partners should assist developing countries, and especially least developed countries, in their investment negotiations so that their legitimate interests were protected.

87. It was suggested that development partners and the donor community could play a role in encouraging FDI that was driven by fiscal incentives from home countries. This might serve to reduce the tax concessions demanded by foreign

investors from developing countries. At the same time, private companies should be encouraged not to demand deep and long-lasting tax concessions when investing in developing countries.

88. A number of speakers stated that the bulk of FDI into least developed countries flowed into natural resource extraction and could have a limited role as a driving engine for sustainable development. It was argued that FDI in the extractive industries could have a limited impact on employment creation and the repatriation of profits by investors diluted the benefits of their activities. Given this, it was important that recipient countries discouraged the overexploitation of natural resources, ensured that labour standards were upheld and strengthened transparency and accountability relating to the use of revenues, taking into account the standards set in the Extractive Industries Transparency Initiative.

89. It was pointed out that FDI delivered through mergers and acquisitions did not necessarily increase the productive capital stock. Yet it was noted that a large proportion of FDI to developing countries since 2002 represented longer-term investment and, moreover, had gone into greenfield investment, expanding the productive capacity in the economy.

90. Many participants underscored the fact that South-South FDI had been growing significantly and could impart a positive impact on development. Developing host countries needed to consider how to fully leverage the expansion of FDI from developing and transition economies.

91. The importance of promoting internationally agreed corporate social responsibility standards, which respect the environment and workers' rights, was emphasized by a large number of speakers. Transnational corporations should undertake measures necessary to increase the development impact of their investment, especially in least developed countries, and should be encouraged to contribute to the sustainable development of local communities. It was pointed out that more emphasis should be given to promoting investments in the social sectors, with a view to addressing asymmetries in resource distribution, furthering social insurance and benefiting women and poor sections of society. The work undertaken within the United Nations system to develop legally binding guidelines for corporate social responsibility was welcomed.

92. Several speakers noted that an efficient physical infrastructure, including transport, electricity supply and communications, was a prerequisite for creating an environment capable of attracting investment and fostering development. Public investment in basic infrastructure was important for attracting FDI and facilitating local private investment. International financial institutions could also play an important role in facilitating private investment into infrastructure, especially in least developed countries, through mitigating the risks that investors face. FDI in critical infrastructure sectors could be pursued as a joint partnership between the public and the private sectors. To be successful, such partnerships should be clearly defined and structured.

93. Various participants pointed out that while there has been some reduction recently in the degree of concentration of FDI, its expansion in recent years has been uneven. Despite significant improvements in their investment climates, many least developed countries received inadequate levels of inflows and remained marginalized within global production frameworks. It was important to strengthen

and explore new bilateral and multilateral risk mitigation to facilitate greater flows of FDI to least developed countries.

94. A number of participants indicated that while developing countries continued to undertake and intensify efforts to put in place improved policy frameworks for FDI, the leading reformers had not always been the leading recipients of international direct investment. Given this, domestic reforms had to be complemented by international measures, including by global and regional development organizations, in order to encourage the diversification and transparency of sustainable long-term private capital flows.

95. Some participants noted that the creation of larger markets through regional integration among developing countries could improve the ability of developing countries, especially smaller nations, to attract FDI. It was felt that this issue, namely the creation of larger economic space through regional integration, had not been sufficiently addressed at Monterrey.

96. Many speakers emphasized that technical assistance in promoting FDI and building an enabling domestic environment was an important complement to domestic efforts. Indeed, it was important for countries to recognize the synergies that could exist between ODA and FDI and harness them for attracting more FDI and ensuring its development benefits.

V. Review session on international trade as an engine for development, held on 19 and 20 May 2008

97. Panel presentations were made by Lakshmi Puri, Acting Deputy Secretary-General and Director, Division on International Trade in Goods and Services and Commodities, United Nations Conference on Trade and Development (UNCTAD); Martin Khor, Director, Third World Network; Kym Anderson, George Gollin Professor of Economics, University of Adelaide, Australia; Peter Thompson, Director for Trade and Development, European Commission; and Hamidur Rashid, Director-General for Multilateral Economic Affairs, Ministry of Foreign Affairs, Bangladesh. An overview of the information presented by the panellists is provided in paragraphs 98 to 117 below.

A. Panel presentations

1. International trade developments in the current decade

98. International trade is inextricably linked to development. Most fast-growing economies also have a dynamic trade sector. Trade linkages, external and domestic, denote the importance of the holistic approach of the Monterrey Consensus; in particular, the stress on the need to enhance the coherence and consistency of the international monetary, financial and trading systems in support of development and to strive for sound macroeconomic management and supportive structural policies. The World Trade Organization, where comprehensive multilateral trade negotiations have been taking place since 2001, and UNCTAD, which recently held its twelfth session, at which the Accra Accord was adopted, are both key stakeholders in the financing for development process and participated actively in the International Conference on Financing for Development in Monterrey.

99. Trade involving developing countries has grown at a comparatively fast pace in the current decade. This has provided significant impetus for global growth and has led to measurable improvements in the current accounts of this group of countries. Yet, while on the whole trade expansion has contributed to economic growth, increased employment and poverty alleviation, a considerable number of developing countries (including many least developed countries) have remained at the margins of this process. To integrate the latter countries into the global economy in such a way that they may increasingly share the benefits of expanding world trade is one of the main challenges facing the international community.

100. There has been an increased share of value added in the exports of developing countries. Manufactured goods exported by these countries now account for 25 per cent of global market share — double the proportion of the early 1980s. High-technology exports from these countries in the past 25 years have grown twice as fast as those of developed countries. Developing countries, which traditionally as a group have been major producers of primary commodities, are now major consumers of those goods. Partly because of these factors, but also because of increasing regional and interregional trade in manufactures and services, South-South trade is one of the most dynamic factors in world trade. The quantitative trade changes since the adoption of the Monterrey Consensus have been accompanied by significant autonomous trade liberalization in a large number of developing countries and by numerous bilateral or broader free trade agreements.

101. Trade in services has also grown and now comprises slightly more than 15 per cent of the total export of goods and services from developing countries. The movement of natural persons across borders in search of jobs or higher wages has also increased measurably, despite obstacles to such movement. Recorded remittances of migrant workers from developing countries to their country of origin are growing significantly.

102. Today, the Doha Development Round of multilateral trade negotiations, the aftermath of financial turmoil and the food crisis are shaping international trade discussions. The ongoing food crisis is the consequence of transitory as well as more deeply rooted problems. Food export subsidies and subsidies to domestic food producers, as well as high tariffs on many agricultural products in many developed countries, have discouraged production and exports in numerous countries with an agricultural potential. Also, over the years, the agricultural policy approach for developing countries favoured by multilateral financial institutions has led to elimination of subsidies, withdrawal of Government support and reduction of tariffs in this sector. These policies, together with the distortions introduced by the policies of many developed countries, have caused some countries to become food deficit countries leading to more intense difficulties when food prices rise. Indeed, this is the actual condition of many least developed countries and some of the other food deficit countries.

2. Lessons learned and international trade-related strategies

103. Openness to trade tends to spur growth, helps to stabilize prices and promotes efficiency gains through increased competition. It allows countries to take advantage of specialization and economies of scale. In the long run, trade openness enhances and facilitates increases in productivity, which are a key factor in sustained development. Yet such outcomes are not automatic; mutually supportive

policies (an adequate macroeconomic framework, infrastructure and human resource development) are necessary. Reliance on market forces is important, but not enough; proactive Government policies to promote investment and increases in productivity, as well as to develop the workforce and build high-quality skills, are also needed. It is therefore crucial that international trade-related policies are an integral part of development policies and national development strategies.

104. Liberalization is one key element in international trade strategies. Further liberalization in developed countries, developing countries and countries with economies in transition as envisaged in the Doha Development Round can bring large gains for virtually every country. Yet, in any economy, liberalization has costs and benefits that must be weighed carefully. In developing countries where factor mobility is limited and new job opportunities are few, the economic and social costs of liberalization tend to be high. The replacement of tariff revenues, usually an important and stable share of Government revenues, often leads to complex political discussions and difficult parliamentary negotiations. At the same time, while potential benefits of liberalization can be large, there is no certainty that they will necessarily materialize. It is thus important to design liberalization policies (of goods and services) in a way that costs are absorbed without significant social stress and that additional measures are taken to ensure that the expected benefits will be actually forthcoming. A crucial factor to consider is the adequate liberalization pace and sequence, in particular the time needed for the development of long-term comparative advantage in some economic activities. Thus, the process should proceed by stages, synchronizing liberalization with the country's economic conditions.

105. While many share the view that trade liberalization leads to static and dynamic gains, some econometric studies show that there is no causality between trade openness and growth. Also, the causation link can be ambiguous, as it may be argued that expanding trade causes economic growth as well as that increased trade is the consequence of economic growth. No country has sustained growth without some degree of initial protection. The large developed economies of today protected their manufacturing in the initial stages of industrialization. On the other hand, no fast growing developing country has achieved rapid economic expansion by imposing trade barriers; the emphasis has been on export-led growth.

106. Aid for trade can be a vital component of liberalization. It enables recipient countries to effectively take advantage of potential benefits and facilitates coping with the costs of adjustment. Aid for trade can help to build trade infrastructure such as transport, communications, power facilities and markets and can assist in addressing some of the adjustment measures required by opening the domestic market. The European Union has taken a very active role in developing a global vision on aid for trade. The United States is also paying special attention to this issue in its aid programme. However, two aspects remain essential for success. Firstly, beneficiaries should be fully involved in needs assessment, identification of priorities and planning of activities. Secondly, aid should not involve conditionalities or become a substitute for effective progress in the implementation of the Doha Development Agenda. Assistance in trade facilitation can also be very important, as it can play a catalytic role in areas where potential gains are large.

107. Past experience points to the importance of resource-rich countries taking advantage of the present commodity boom to diversify. This is an issue to which the

Accra Accord paid special attention. For several commodities, high current prices are probably transitory. Even if prices of commodities remain high, commodity-exporting countries should embark on a process to diversify into the secondary and tertiary sectors. On this score, the consideration of industrial policies to develop dynamic comparative advantages is relevant, in particular since it is an instrument that has allowed several countries to sustain long-term expansion of exports of manufactures.

108. For developing countries that are not rich in natural resources, the high prices of commodities in international markets represent additional costs that can be difficult to absorb. This is particularly so if a country already has a significant current account deficit or a large external debt. Higher import prices require additional trade financing. This is the situation today in a number of food deficit countries.

109. Agreeing on multilateral trade disciplines in agriculture has been difficult, partly because of fluctuating and falling real world prices for food during the past 60 years. To keep domestic food prices stable, many Governments have sought to insulate and increasingly protect farmers from international market forces. However, the cost of protection and assistance to farmers is very high, which leads to major distortions in agricultural markets and reduces the incomes of the rural poor in many developing countries. The higher prices of agricultural products today may reduce the pressures for protection, increase the chances of reforming agricultural policies and facilitate implementation of the Doha Development Agenda in the World Trade Organization negotiations.

110. The growth impetus in many developing countries and the significant increase in trade and investment flows among countries of the South present an important window of opportunity for all countries, regardless of their level of development. However, South-South trade remains hampered by significant trade barriers; those barriers are higher than the barriers that developing countries face vis-à-vis developed countries. There is considerable scope for putting in place policies to boost trade between low and middle-income countries. Progress in the Global System of Trade Preferences (GSTP) is important. Regional and subregional trade agreements can also provide significant impulses to trade, but they also carry risks of fragmentation. Generally, South-South trade agreements have been more development friendly than North-South trade agreements.

3. Doha Development Round of multilateral trade negotiations and new policy challenges

111. After lengthy negotiations, a crucial juncture has been reached in the Doha Development Round. A political push is necessary to overcome special interests and ensure the conclusion of the current negotiations. It is important that the negotiations are brought to a close soon, including full implementation of the Doha Development Agenda. In addition, and in order to have a positive impact on the trade negotiations attendance at the Doha Review Conference on financing for development should be at the highest level.

112. Making progress in the agricultural sector negotiations as part of the Doha Development Agenda requires that negotiations be ambitious and contemplate few or no exceptions, especially in eliminating export subsidies, increasing market access and substantially reducing the tariff binding overhang and domestic support

such as for cotton. In practice, agricultural subsidies in developed countries mostly benefit high income groups. Also, it is important to operationalize the special and differential treatment for developing countries; this should be a priority issue.

113. Since Monterrey, new trade-related policy challenges have emerged: the repercussion of the subprime mortgage crisis on the world economy, whose deceleration might intensify protectionist pressures; the large global trade imbalances, whose persistence is a serious threat to stability, in particular of exchange rates; the food crisis; and the increasing evidence of climate change. It is important to resist calls for protectionist measures and to try to ensure a smooth unwinding of global trade imbalances. Both tasks require international cooperation.

114. The current food crisis has led to export controls in several countries. This is an issue that might need further consideration because international rules in this sphere have not been developed; nothing in the World Trade Organization seems to prevent export bans and this issue is not being tackled in the current international trade negotiations. Trade has a role to play in resolving the food crisis. But an increase in global food supplies is necessary and this requires a long-term structural response. The latter should be assisted by international cooperation through a substantial increase in development policy support.

115. There are various aspects of international trade related to climate change. Indeed, responses to climate change have significant implications for trade and development. Measures to ensure that the production of goods for export markets are environmentally friendly are important, especially so when exporters risk additional import restrictions without such measures, for example if trade measures penalizing the carbon content of imported goods were implemented. Another danger is the requirement that tariffs for environmentally friendly products (mostly exported by the North) should be actually zero. Nevertheless, international cooperation can play an important role by facilitating access to climate friendly technology for export expansion.

116. Regional integration and bilateral trade agreements can be important tools to expand trade. It also allows developing countries to calibrate their moves towards full reciprocity and countries with small domestic markets to develop economies of scale. On the whole, free trade agreements, including North-South free trade agreements, can be development friendly, particularly if the deal is not unbalanced. These deals can include development oriented features such as investment promotion provisions and a measure of flexibility in intellectual property rights. Still, the key to sustained long-term trade growth is multilateral liberalization through negotiations where all countries can participate effectively.

117. For least developed countries to draw measurable benefits from the trade negotiations, it is important that all developed countries and other countries in a position to do so provide duty-free and quota-free access for their products. The envisaged duty and quota treatment includes 97 per cent of exports from least developed countries. It is therefore important to ensure that the products included in the remaining 3 per cent are not products characterized by a substantial export potential or products that have been particularly dynamic in the last few years. Also, many of the least developed countries are net food importers. Actual progress in the Doha Development Round will lead to substantial reduction in export subsidies and domestic support in a number of food exporting countries. This will lead to increases in the price of several food staples imported by least developed countries

and will require additional assistance to those countries, in particular increased aid for trade.

B. Policy deliberations

1. International trade trends and development

118. Many participants reviewed the positive trends in world trade in the current decade, including strong expansion of international trade at a faster rate than world GDP and rapid growth of South-South trade surpassing world trade. Moreover, the share of developing countries in world merchandise trade had exceeded one third of world trade and developing countries had accounted for more than half of the growth in world trade in 2007. An increase in regional trade agreements had been an important contributing factor in the growth of South-South trade and regional integration, notably in Asia and Latin America. An increase in bilateral trade agreements had also bolstered North-South and South-South trade.

119. A number of speakers also underscored the persistent deficiencies of recent trade evolution, specifically the concentration of growth in a small number of developing countries, the marginalization of least developed countries and other vulnerable countries in North-South and South-South trade, including their inability to exploit their comparative advantage in specific exports; the dependence of many developing countries on commodity exports and their undiversified production structure; the deterioration of terms of trade of these countries and the uneven distribution of the benefits of trade across sectors and countries.

120. Participants also referred to the current global economic downturn and possible recession in some of the principal trading partners of developing countries. The creation of new economic channels between countries had the potential to stimulate growth but also to propagate recession. It was therefore necessary to find ways of ensuring that adjustments for affected countries were as painless as possible. It was also stated that the prevailing philosophy of free trade only privileged the interests of transnational corporations and developed countries. For instance, the bulk of the windfall profits from higher commodity prices were often being repatriated by international corporations rather than being invested in the host country.

121. The importance of trade as an engine of growth was underlined by many participants. It was noted that export growth accounted for over 60 per cent of GDP growth of all developing countries and over 40 per cent of the GDP growth of least developed countries between 2000 and 2005. A number of participants pointed out that trade contributed to growth and development by encouraging specialization of production, improving access to inputs and technology, promoting economies of scale, increasing competition and efficiency, creating employment and providing consumers with wider choices.

122. Some speakers emphasized that developing countries needed broad and predictable access to developed country markets as a prerequisite to benefit from trade. At the same time, the views of many participants converged on the need for preferential market access for least developed countries and other vulnerable countries. While several participants stressed that the recent positive trade evolution underscored the ongoing opportunity for all developing countries to make

contributions to expanding international trade under an open, rule-based multilateral trading system, others expressed concerns about some of the rules of the multilateral trading system and stated that they needed to be addressed. A number of speakers also expressed concern about signs of increased protectionism in some developed countries.

123. Many participants cautioned that more open trade was not a guarantee of development and poverty reduction. They stressed that developing countries needed to develop their productive capability to take advantage of the opportunities of increased market access and at the same time minimize the costs of adjustment entailed by trade reforms and any loss in preferential access. In this regard, developing countries needed full access to technology at an affordable price, infrastructure investment, human resource development, an enabling domestic environment for private investment and innovation and an appropriate social safety net. FDI in developing countries could also play an important role. Developing countries, including least developed countries, needed policy space to manage their trade, financial and development policies in alignment with their national development priorities and strategies.

124. Concern was expressed by many speakers that the relation between the current food crisis and international trade needed to be fully addressed in a concerted global context. It was pointed out that agricultural subsidies and import barriers hindered access for developing country agricultural exports and contributed to declines in agricultural investment and productivity, holding back development in those countries. The recent introduction of export restrictions by some countries had aggravated food shortages and contributed to price increases.

2. International trade policies and lessons learned

125. Participants recalled that the Monterrey Consensus reaffirmed international commitment to ensuring that trade played its full part in promoting economic growth, employment and development. Some regretted that trade as an engine for development was an area of least progress in the implementation of the Monterrey Consensus. The Doha Development Round, launched in 2001, had not been concluded. Many participants stressed the importance of an open, fair and equitable multilateral trading system that would offer opportunities for developing countries to participate and generate resources for financing their development. Therefore, it was seen as crucial to prevent abuses such as anti-dumping measures. Trade constituted by far the most important source of foreign exchange. It was also noted that an export-led growth strategy and proper sequencing of trade liberalization was essential for trade-related long-term development.

126. Many participants underscored the importance of reducing trade barriers and increasing market access for the full range of developing country exports, including agricultural commodities, manufactured goods and services, and not excluding technologically intensive high-value-added goods. They urged all main trading partners of developing countries to honour their trade liberalization commitments and respect the judgements of established dispute settlement mechanisms. Some speakers were of the view that major economies had a moral responsibility to ensure that their policies assisted the participation of developing countries in the trading system. It was noted that successful developing countries had used their policy

space effectively to become competitive and integrate their economy into the global production chains.

127. A number of speakers pointed out that technical assistance was needed by many developing countries, particularly least developed countries, small island developing States and low-income landlocked developing countries, to participate meaningfully in international trade negotiations. They also called on World Trade Organization members to ensure accession of those least developed countries seeking to do so by fulfilling only those commitments commensurate with their level of development, as agreed in the Programme of Action for the Least Developed Countries for the Decade 2001-2010. In the case of commodity dependent countries it was considered important to develop financial services for commodity producers and direct ODA towards the commodity sector, in particular agricultural development.

128. Numerous participants stated that the needs of least developed countries and other vulnerable countries should be taken into account to ensure that they would be integrated into the international trading system. In that regard, the importance of implementation of duty-free and quota-free access for exports of least developed countries was reiterated. Some participants welcomed such access implementation by an increasing number of developing countries and encouraged other countries, particularly emerging economies, to follow quickly. Some also called for all developed countries to provide such access on a lasting basis to all products originating in least developed countries by the end of 2008. Small economies, particularly small island developing States, in different regions shared their experience and progress in regional integration to overcome the disadvantage of small size and lack of capacity, which had been part of a wider process of integrating into the world economy. At the same time, a number of participants expressed concern about the erosion of preferential treatment and called for preserving those preferences that were aligned with their development priorities.

129. Some participants cautioned that increasing import restrictions based on environmental or labour standards or providing special incentives for imports that met specified standards risked undesired restrictions on export opportunities for developing countries. Such measures needed to be carefully examined.

130. Many participants underscored that a global approach to trade reform would be important for ensuring food security. Well-functioning local, national and regional markets and improved market access for developed countries were identified as prerequisites for enhancing agriculture-based growth and increasing rural incomes. The introduction of export restrictions on food commodities had aggravated the world food situation and should be removed. Increased agricultural investment was also essential.

131. Many participants emphasized that developing countries needed enhanced access to technology and know-how for investment and innovation. They saw the current international intellectual property regime as mostly favouring producers and holders of international property rights that were mostly located in developed countries.

132. A number of participants underscored the importance of regional and bilateral trade agreements in promoting trade; they cited the success of countries in Asia and Latin America in regional integration. At the same time, many cautioned that those

agreements needed to be designed in such a way as to advance development and promote and support regional integration in developing countries in conformity with World Trade Organization rules. The transparency of their provisions should be enhanced to ensure that they became building blocks in the continued evolution of the multilateral trading system. Increased efforts should be made to meet the challenge of adequately involving least developed countries in these arrangements to effectively counter possible fallout from erosion of preferential trade treatment. It was also noted that it was important to discuss the actual impact of the proliferation of regional trade agreements.

133. Many speakers emphasized the need to remove barriers to South-South trade and the importance of policies to promote it. In that regard, the third round of negotiations under the GSTP needed an early conclusion and the participation of all developing countries. They welcomed the agreement at UNCTAD XII to continue negotiations on the GSTP and looked to their early conclusion in November 2008.

134. Many participants noted that aid for trade recognized the need to help developing countries to benefit fully from their participation in international trade through technical cooperation and investment in infrastructure and productive capacity-building. They reiterated the premise of aid for trade that harnessing trade to finance development began with developing countries themselves, who should put trade integration, increasing productive capacity and competitiveness at the centre of their development strategies. Political leadership, supporting policies and regulatory frameworks that fostered an enabling environment and appropriate incentives for private investment and production, innovation and entrepreneurship would also be needed. Governments and business had to enhance efforts to establish market channels for potential exports. In addition, public-private partnerships should be strengthened to address market failures. Growth in South-South aid for trade was welcomed as a source of financial resources and also of shared experience. The advantages of involving private businesses as important stakeholders in aid for trade were also highlighted.

135. Several speakers also pointed to the need for aid for trade, particularly by least developed countries and other vulnerable countries, to mitigate the short-term adjustment costs arising from possible shocks from trade liberalization and the erosion of trade preferences. Costs could arise, for example, owing to the loss of preferences in textile and clothing exports and the potential increase in agricultural prices if agricultural subsidies were abolished.

136. A number of participants also underscored the need for international support for middle-income countries in trade. In this regard, they called for international financial institutions, including regional and subregional institutions, to adopt development cooperation schemes suited to the needs of middle-income countries in trade adjustment and capacity-building, particularly aimed at strengthening the export sector.

137. Numerous participants reviewed the progress made to better define and operationalize aid for trade. Some focused on the need to align aid for trade with the priorities and development strategy of countries, stressing country ownership and reducing conditionalities. Some also called on developing countries to participate fully in needs assessment and the prioritization of activities to strengthen the integration of trade-related policies into national development strategies. Some participants pointed out the often poor coordination between donors and recipients

and the lack of evidence of implementation of commitments on aid effectiveness. There was a need for greater transparency and incentives to improve effectiveness; the Organization for Economic Cooperation and Development (OECD) had set up a task force on aid for trade to monitor its effectiveness at all levels. Many participants emphasized that developing countries should be placed at the centre of the process of designing and monitoring the implementation of aid for trade. Calls were made for strengthening UNCTAD's role regarding multilateral cooperation with developing countries.

138. Some participants pointed to the importance of promoting fair trade at the national level to allow small and medium-sized enterprises and the most vulnerable segments of the population to benefit from trade. Improving facilities to store perishable goods produced by low-income groups and transport them to markets was highlighted as a crucial consideration. A number of speakers also noted that some developed countries had been working with developing country partners to focus efforts on boosting trade benefits for the weakest groups, empowering women and strengthening their participation in trade and supporting environmental sustainability and trade. A number of participants pointed out the need for greater coherence between trade, labour and social policies at the national level to maximize the benefits of trade and ensure their equitable distribution. Increased competition resulting from trade liberalization highlighted the importance of policies to promote decent work for all. Those participants noted that that link had been highlighted through the Monterrey review process and was particularly crucial in an era of rapid globalization. In that regard, the Monterrey Consensus provided a solid platform for improved international and national policy coherence.

3. Successful conclusion of the Doha Development Round and achieving development goals

139. A number of participants noted that the Doha Development Round was larger and deeper than earlier multilateral trade negotiations. It provided a clear linkage between trade and development by working towards increasing market access for developing countries, including least developed countries, and striving to achieve a fairer and more equitable multilateral trading system that considered the needs and interests of all countries. There were calls for all parties to exercise flexibility and constructive engagement in order to move the negotiations forward. Some speakers indicated that if the Doha Development Round was not concluded shortly, their expectation was that a clear and unequivocal commitment to its speedy and successful conclusion should be an outcome of the Monterrey Review Conference. It was stressed that the success of the Round could only be measured in terms of actual market opening in agriculture, industrial goods and services, resulting in measurable new trade flows.

140. There was broad consensus regarding the need for a successful and balanced early conclusion of the Doha Development Round. Some participants emphasized that its outcome should be pro-development. It would be critical to fulfilling the commitment to trade as an engine of development in the Monterrey Consensus. They cautioned that without meaningful market opening commitments by emerging economies the full development potential of the Doha Development Round would not be achieved. Many participants stressed that the real content for development of the Doha Development Round should include the provision of policy space and the removal of conditions, which hampered the promotion of forward and backward

linkages. It should also include special and differential treatment for developing countries, in particular for least developed countries, small island developing States, landlocked developing countries, transit States and low-income countries in Africa. It was noted that the scant regard for special and differential treatment had heightened the risk of marginalizing this group of countries.

141. It was emphasized that a successful conclusion of the Doha Development Round could increase market access for agricultural commodities from developing countries and reduce levels of distorting agricultural subsidies, especially in developed countries. Those changes could remove impediments to investment and productivity growth in agriculture in developing countries and support agriculture-based development that could bolster food security and rural incomes. It was also important to review possible arrangements for commodity price stabilization.

142. A number of speakers stressed the need for the outcome of the Doha Development Round to increase market access for developing countries in non-agricultural manufactured goods and services as well, including technology, and skill-intensive high-value-added exports. Some called upon developed countries to liberalize their markets for the movement of labour from developing countries under mode IV, on the movement of natural persons, of the General Agreement on Trade in Services. It was also important to weigh the benefits against the costs of any new trade agreement.

143. Some participants also emphasized the need for international agreements that could correct the imbalance in the international intellectual property regime, including the Agreement on Trade-Related Aspects of Intellectual Property Rights and the Agreement on Trade-Related Investment Measures. This could help to narrow the knowledge gap between developed and developing countries and establish an international property regime that would truly assist developing countries in achieving their development goals.

144. Many participants noted that aid for trade was a necessary complement to a successful Doha Development Round in increasing developing country trade and productive capacity and addressing constraints to their competitiveness in international markets. But it could not be a substitute for an ambitious outcome in trade liberalization. Numerous participants stated that in addition to aid for trade, the Enhanced Integrated Framework for least developed countries was the concrete mechanism available to respond to their development imperatives. It was designed to assist least developed countries in integrating trade policy into national development strategies, mapping trade and productive capacity-building needs and matching needs with the supply of donor assistance. A number of participants urged development partners to provide adequate resources so that all least developed countries could join the Enhanced Integrated Framework.

145. Numerous speakers underscored the importance of commitments to provide additional resources to fully finance aid for trade and ensuring that those commitments did not divert ODA from other sectors, such as health and education. It was noted that donors needed to increase aid for trade by eight billion dollars of new ODA a year to meet their 2010 target of $30 billion. A boost to the effectiveness of aid for trade was also needed. There was a suggestion that the World Bank could be an important actor in supporting the integration of trade assistance in the overall development assistance framework. Some participants underscored that a favourable outcome to the Doha Development Round,

complemented by additional commitments to aid for trade, would be an appropriate way to exploit the synergies of the Monterrey Consensus and the Doha Development Round in contributing to the achievement of international development goals.

VI. Review session on increasing international financial and technical cooperation for development, held on 15 and 16 April 2008

146. Panel presentations were made by Eckhard Deutscher, Chair, Development Assistance Committee, OECD; Richard Morford, Managing Director, Millennium Challenge Corporation, United States; Hilde Johnson, Deputy Executive Director, United Nations Children's Fund (UNICEF); Sanjay Reddy, Assistant Professor of Economics, Columbia University; and Irfan ul Haque, Special Adviser on Financing for Development, South Centre. An overview of the information presented by the panellists is provided in paragraphs 147 to 163 below.

A. Panel presentations

1. Development assistance and lessons learned

147. The Monterrey Consensus was a milestone, where donors and recipients were brought together on an equal footing for the first time to form a global development partnership. There have been some positive developments since then: debt relief measures have helped; there has been a revival of growth in Africa, mostly resulting from its own efforts; the approach of donors has become less heavy-handed and ODA virtually doubled between 2002 and 2005, reaching a level slightly above $100 billion. Also, there have been commitments of substantial increases in aid.

148. In Gleneagles, the United Kingdom, in 2005, heads of State of the Group of Eight countries set targets for increasing ODA to $130 billion by 2010. Yet, aid declined in 2006 and 2007. The rate of growth of ODA will have to increase markedly to meet the 2010 target of financing for achieving the Millennium Development Goals. The current international economic and social landscape, in particular the growing food crisis and the increasing need for mitigation of and adaptation to climate change, call for more aid resources. Such resources are particularly needed, on both counts, in the most vulnerable poor countries.

149. However, debt relief is paid out of aid flows and only one third of ODA should really be regarded as development aid. Moreover, performance has varied considerably among donor countries, with large increases from some and increases promised by others. OECD has just completed a new and comprehensive survey of donor spending plans to 2010. This forward-looking information is critical for finance ministers in aid-dependent developing countries for proper budget management and investment planning to meet the Millennium Development Goals. Long-term predictability of aid is critical for effective financing for development.

150. Foreign aid is heavily concentrated in a few countries. Many developing countries are not receiving enough assistance even after efforts to put in place appropriate policies. Still, aid has to be carefully measured and assessed as it can be counterproductive. The connection between aid flows and development has to be

evaluated using a reasonable time horizon, since its impact is seldom immediate. For example, in education (a priority for many developing countries) the time horizon for results to be effectively measured is very long. Still, despite the long gestation period aid to this sector should not be delayed. Also, when measuring effectiveness it is important to differentiate between types of aid, such as development-oriented infrastructure assistance versus politically oriented assistance. One crucial additional consideration is to effectively assess the need for aid in the recipient country. All domestic financial resources (tax and other revenues) should be exhausted before aid is disbursed. Effective mobilization of domestic resources will help developing countries move away from aid dependency.

151. There has been a substantial increase in the number of donors from countries that are not part of the OECD Development Assistance Committee as well as private donors and non-governmental organizations, which is a welcome development. Therefore, there is a need for dialogue among donors to increase the efficiency of cooperation as a whole. South-South cooperation and regional cooperation are becoming increasingly important. Thus, their role in development cooperation and how they fit into aid delivery need to be considered.

152. ODA is important since it goes to sectors that private flows do not reach, but it is only one element of financing for development. FDI and non-concessional bilateral and multilateral flows are also key elements in fostering development. The principles and policy commitments in the Monterrey Consensus form the basis of successful development assistance, in particular policies aimed at creating a business friendly environment in the medium term and focused on results within a framework of donor and recipient country partnership. The Consensus is also about efforts in other areas: enhancing country ownership and effective democratic participation in policy formulation; coordination and harmonization among donors; and aid for infrastructure and education, which are important strategic investments whose benefits are essential for sustained development.

153. The Millennium Challenge Corporation is based on these principles, focusing on results and rewarding countries with pro-development policies. It targets a single mission: reducing poverty through growth. Assistance provided by the Corporation is only a catalyst to leverage other sources of financing for development, especially from the private sector. The Corporation uses 16 indicators that are highly correlated to development to assess results. These indicators have changed over time and include areas such as education of girls, water and sanitation and environmental indicators.

154. Past experience shows that country ownership takes time and commitment. Countries must set their own priorities through participatory, meaningful and timely consultations and build support for successful action. Capacity for taking ownership grows through learning by doing. In general, donors have not done enough to support recipient country ownership by streamlining conditionality. Aid needs to be made available with enough policy space for flexibility and alignment with national development priorities. Regarding the latter, the views of non-governmental actors are important.

155. Donor and recipient countries are making major efforts to improve the quality and effectiveness of ODA. Transparency and accountability in aid delivery at the national and international levels are important. Enhanced effectiveness is necessary not only in achieving development goals but also to maintain public support in

donor countries to ensure delivery on the promised aid increases. Peer and partner review mechanisms can help donor and recipient countries to share experiences. It is a good opportunity to review whether best practices and policies are being implemented. Sustained economic growth is a good indicator of positive results of aid, but the focus should not be only on growth. In fragile and post-conflict countries, growth cannot be expected but they still need aid for rehabilitation and humanitarian purposes, especially aid for children.

156. The Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability is crucial since it targets donor and recipient countries to enhance aid effectiveness. Some progress has been made in harmonization and ownership, but more effort is necessary. Mutual accountability on the part of donors and recipients is an important factor in achieving the Millennium Development Goals. The third High-Level Forum on Aid Effectiveness, held in Accra, can provide a good opportunity for an assessment of progress. It will be very important to reach agreement on accelerating progress on aid predictability and other aid management issues that affect the ability to increase the trend in the rate of growth of ODA to support achievement of the Millennium Development Goals.

157. Within the current aid architecture, there is a clear asymmetry in development cooperation relations. Recipient countries often do not have much voice in forums that set development cooperation guidelines and civil society and parliamentarians are not well represented. Thus, the Development Cooperation Forum has a critical role to play, in both the operational and normative areas, as well as in helping aid dependent countries to formulate exit strategies. The Forum should coexist with the OECD Development Assistance Committee but not replace it. The role of the United Nations and the role of emerging donors in aid delivery should be discussed in the Doha Review Conference.

158. Innovative sources of finance for development are important in mobilizing resources and their predictability and additionality are important features. Discussion of innovative sources of finance should make the distinction between taxes and voluntary contributions. Indeed, commitments to increase ODA have to be met regardless of progress in innovative sources of finance.

159. Transfer of knowledge constitutes a key strategic element in development cooperation, especially in South-South cooperation and the United Nations has a key role to play in this area. In the spirit of the Monterrey Consensus, UNICEF has organized South-South conferences in knowledge-sharing.

2. Development cooperation policies

160. Work on ownership has begun but still needs to be further developed. Aid resources need to be made available in a manner that leaves room for experimentation by the recipient country. Open-mindedness and willingness to experiment with policies can be important in identifying effective ways of utilizing aid for development and yielding unexpected positive consequences. Developing countries have to learn from each other and from past experience. Education should be a priority target of aid and investment in education is indeed a priority for many recipient countries, in addition to infrastructure, agriculture and health care.

161. South-South cooperation is motivated by a cooperative spirit and is very important in knowledge transfer and technical assistance, but it does not yet generate much in terms of financial flows. Outside funding and assistance, such as in the form of triangular cooperation, is still very important.

162. The cost of mitigation of and adaptation to climate change has to be borne mainly by industrialized countries since they have the resources to respond to the effects of climate change and are responsible for it. With the need to address the effects of climate change on development, the concept of aid has to be redefined. The United Nations Framework Convention on Climate Change should be the main framework for tackling financing issues for climate change.

163. Aid should be increased substantially. Efforts by donors to increase ODA should be commensurate with the targets set by the international community. There should be more public engagement for development cooperation in developed countries to foster support for increased aid to developing countries. Peer and partner review mechanisms can be helpful for public debate; the definition of aid should be taken up in these forums. It is important that the international community be more receptive to budding efforts in new aid modalities.

B. Policy deliberations

1. Evolution, new developments and emerging issues in overseas development assistance

164. Many participants stated that ODA could facilitate, but was not the source of, economic growth. It had a key role in leveraging other resources. ODA was necessary in combination with the other five leading actions of the Monterrey Consensus. Participants further stressed that increased aid was needed to start the virtuous cycle of economic growth, development and poverty reduction. ODA was effective when accompanied by an active business sector, civil society and an independent media.

165. Numerous participants noted that ODA trends since the adoption of the Monterrey Consensus showed an increase between 2002 and 2005 but consecutive years of decline in 2006 and 2007. A significant part of the increase comprised growing debt relief, which constituted 30 per cent of ODA in 2005. A significant portion was also used for emergency relief for natural disasters in Asia. In fact, there was a high degree of uncertainty regarding the level of aid flows in the near future. It was also noted that the developing countries were fulfilling their commitments as agreed in the Monterrey Consensus; they had increased their absorptive capacity for ODA.

166. A number of speakers underlined that for some country groups, like the least developed countries and small island developing States, ODA provided the bulk of external development finance. They pointed out, however, that ODA to least developed countries equalled only 0.08 per cent of donor gross national income (GNI), well short of the agreed target of 0.15 per cent. It was noted that despite ODA volumes, developing countries as a whole had been recording net outflows of resources. Many participants also warned that the slow growth in ODA would make it difficult to reach the amount of $130 billion agreed in Gleneagles. Moreover, they said that increasing food and energy prices were complicating the achievement of

the international development goals. It was stressed that it would be important for the ODA situation to be addressed in the Doha Review Conference. They reiterated that debt relief and humanitarian and emergency assistance were as important as other types of international cooperation.

167. Several speakers referred to the changing aid landscape, with the advent of new players, including emerging donors, private foundations and vertical funds. The arrival of new creditors and donors, both private and public, was a welcome development. A positive effect of increased aid as a result of the emergence of new players was that there would be more resources for social and environmental protection schemes in the event of exogenous shocks. They also pointed out that, in the past 30 years, there had been a considerable shift from ODA to private finance. The relative importance of private flows as a share of total financial flows from developed to developing countries had grown substantially.

168. Many participants mentioned that South-South cooperation, including triangular cooperation, was an important aspect of development cooperation. South-South cooperation had features that distinguished it from North-South cooperation. Emerging donors could contribute to lessons learned from their own development experience.

169. A number of participants stated that there had been significant progress in the area of development of new and innovative sources of finance, including air ticket levies, the International Finance Facility for Immunization pilot programme and a first advance market commitment. Some participants stressed the need to put in place a process to build on successful examples of these mechanisms. They also noted that the Leading Group on Solidarity Levies to Fund Development helped to bring different groups together.

170. Many speakers emphasized that the needs of middle-income countries, least developed countries and other vulnerable countries must be accommodated in the context of their efforts to achieve the Millennium Development Goals. They said that the approaches to implementing international cooperation, however, must be tailored to suit the specific development needs of each country. With respect to mitigating and adapting to the effects of climate change, it was noted that a large amount of additional resources, in the range of $100 billion a year, would be needed and that they should be additional to traditional ODA.

2. Aid quality and effectiveness

171. Numerous participants reaffirmed the concern of the Monterrey Consensus with aid quality and effectiveness along with aid volume. In this regard, many participants stressed that aid quality and effectiveness depended significantly on national ownership, the quality of domestic policies and regulatory frameworks and the alignment of ODA with national policy objectives. They raised concerns about restrictions such as tying of aid and burdensome conditionalities and the lack of harmonization among donors, including multilateral institutions that compromised aid effectiveness. A number of participants reiterated that there was general agreement that most conditionalities did not work.

172. Many delegates emphasized that scaling-up of aid to meet commitments necessitated more efficient and effective delivery. They reaffirmed their commitment to implementation of the Paris Declaration on Aid Effectiveness, which

formalized the commitment by development partners to take action to adopt best practices in the delivery and management of aid resources, as called for in paragraph 43 of the Monterrey Consensus. They welcomed the High-Level Forum on Aid Effectiveness to be held in Accra in September 2008 as a crucial political opportunity to agree on decisive action needed to meet the Paris Declaration targets. Some underscored the need for early coordination and information-sharing between the Accra Forum and the Doha Review Conference.

173. A number of participants stressed that good governance should be exercised over the use of development resources. Some underscored that aid should be targeted to countries that specifically demonstrated commitment to governing justly, investing in their people and promoting economic opportunity and entrepreneurship. At the same time, donors should help build capacity in governance. In addition, it was noted that aid effectiveness should focus on related issues such as human resource development, gender equality and environmental protection.

174. Many participants also expressed concern about the limited role of recipient countries in the Paris Declaration process, which was seen as essentially OECD and donor driven. The Paris Declaration was perceived by some as reducing the policy space of recipients and accentuating asymmetries in power between donor and recipient countries, notwithstanding gains in efficiency and cost reductions in aid delivery. In that regard, some speakers noted that there was no one-size-fits-all formula and questioned the appropriateness of automatic application of all 12 Paris Declaration indicators as the gauge for achieving effective assistance.

175. Some representatives of Member States shared the results of their efforts to untie aid from the perspective of donors, as called for in the Monterrey Consensus. Some also underscored changes in the way that they delivered assistance, based on a results-oriented focus that mandated priority should be given to the effective use of aid resources. Others affirmed their increasing support for country ownership, promoting best practices to improve effectiveness and leveraging private resources.

176. Many participants welcomed the contribution of emerging public and private donors to development cooperation. Their resources complemented financing from traditional donors. Moreover, donors that were not members of the OECD Development Assistance Committee brought unique perspectives to development policies based on their own experience. In the view of several speakers, aid coordination and harmonization efforts needed to encompass the increasing role of those donors. South-South and triangular cooperation were becoming a key dimension of overall efforts and should be part of the deliberations on enhancing the aid architecture. Also, a number of participants added that improving effectiveness of the operational development activities of the United Nations system was an important part of the global aid effectiveness agenda. They reiterated their support for the United Nations reform process to bring system-wide coherence, including improvement of effectiveness and coherence at the country level through the “One United Nations” approach.

177. Many speakers asserted that aid flows should be predictable over time as well as countercyclical to minimize adverse effects on recipient country economies. Conditionalities should be eliminated in order to allow flexibility in use of resources and autonomy in formulation and implementation of public policies. In addition, they recalled that experience had shown that aid delivered as direct budgetary support could deliver good results. Some participants also noted the need for

increased transparency on the part of donor and recipient Governments in both aid flows and aid negotiations to improve accountability and promote democratic ownership.

178. The importance of increasing the cost-effectiveness of technical assistance and the clear need for capacity-building in developing countries was recognized by many participants. One example of capacity-building assistance that should be supported was in enhancing the economic and social databases and policy evaluation skills, which could contribute to improved policy development.

3. Enhancing international financial and technical cooperation for development

179. Many participants pointed out that the slow pace of progress in meeting aid commitments was a main cause for concern. It also reinforced the need for redoubling efforts in this area. Some participants also stressed the importance of economic growth in reducing poverty and to achieve the Millennium Development Goals. Because of this, they placed great importance on cooperation to enhance productive activities, in particular aid for trade.

180. Some participants emphasized the importance for major donor countries to set strict deadlines to fulfil the ODA obligations and the establishment of an intergovernmental monitoring mechanism to keep track of aid quantity, quality and effectiveness. They were of the view that the Doha Review Conference should seek to increase the certainty of donor countries meeting their agreed ODA commitments. This could be achieved through an arrangement with the United Nations similar to that with the international financial institutions, such as the International Development Association.

181. Many participants underscored the importance of making ODA more countercyclical and equitable, with least developed countries receiving aid flows commensurate with their development financing requirements, and meeting the major challenge of channelling more ODA to Africa, especially in the agriculture sector. In addition, the current highly deficient allocation of ODA to the agriculture, trade and manufacturing sectors needed to be addressed to enhance ODA effectiveness. Numerous speakers underlined that cooperation efforts in mitigation and adaptation to climate change should be made within the United Nations Framework Convention on Climate Change. Many stressed that existing financing mechanisms should be used where possible for that purpose.

182. It was noted that the stress on enhanced donor coordination of aid allocation was rather new and had not yet yielded substantial results. However, the Code of Conduct on Complementarity and Division of Labour in Development Policy agreed upon in the European Union represented efforts in the right direction. This was based on the recognition that total transparency in effective aid allocation, including its underlying criteria, was an indispensable first step.

183. A number of participants stressed that, given the large volumes of private capital flows into developing countries, it was important to use ODA to catalyse private funding by promoting the development of social and economic infrastructure. In addition, public sector involvement in trade and investment insurance to mitigate risk and public-private partnerships in financing for infrastructure should play a crucial role. It was noted that the delivery of assistance was undergoing change, as in the case of the Millennium Challenge Corporation in

the United States, which was based on a results-oriented framework taking into account individual country conditions and needs.

184. Some participants emphasized that assistance in a peacebuilding context required seamless transition from humanitarian assistance in a conflict situation, followed by rehabilitation and nation-building and then assistance for enhancing governance and improving social and economic infrastructure. More work was also needed to make aid to fragile States more effective.

185. A number of participants stressed that the use of ODA for the empowerment of women could yield a high rate of economic and social return. Policy targets such as increasing the share of ODA for gender equality to 10 per cent by 2010 and to 20 per cent by 2050 were important. It was reiterated that all actors preparing for the Doha Review Conference should pay due attention to gender issues.

186. Regarding the evaluation of aid effectiveness, many participants noted the importance of making the process inclusive and reducing ex ante conditionalities. Many participants were of the view that the framework of the Paris Declaration on Aid Effectiveness needed to be adjusted to the new aid landscape and dialogue between traditional and new donors should be promoted. While many participants expected the third High-Level Forum on Aid Effectiveness to be held in Accra would discuss the implementation of important principles of aid effectiveness, they underscored the need for an effective and more universally inclusive intergovernmental mechanism to monitor and evaluate aid commitments. The annual ministerial review and the Development Cooperation Forum of the Economic and Social Council could play a key role in these functions. The 2008 meeting of the Development Cooperation Forum should provide impetus for the Doha Review Conference. Many indicated that the Conference could also seek to provide for a reporting system on performance by donor and recipient countries, which could be based on a peer review system, possibly on a regional basis, that would allow for assessment of end results and performance relative to commitments as well as learning from each other.

187. A number of participants underscored the importance of continuing international support of the middle-income countries, including landlocked developing countries, in their development and poverty reduction efforts. In that connection, the international community had been invited to consider new and more effective criteria for assistance as the basis for developing innovative mechanisms that would provide more targeted cooperation. At the same time, the middle-income countries were committed to implementing the outcome of the Intergovernmental Conference on Middle-Income Countries, held in Madrid in March 2007 and the Consensus of El Salvador on Development Cooperation with Middle-Income Countries of October 2007.

188. Many participants recognized the important role of multilateral and regional development banks in assisting the development efforts of developing countries, including middle-income countries and emphasized the need to strengthen these financial institutions to allow them to provide flexible financial support to fulfil their mandate. Core funding of these institutions should be bolstered to enhance their capacity for technical and financial assistance. Some speakers pointed out that the multilateral and regional development banks had ample funds to disburse but needed bankable projects. A potential portfolio of projects should include

infrastructure in areas such as water, roads, sanitation and other areas where ODA had demonstrated its effectiveness.

189. Participants noted the growth in the diversity of sources of development assistance to developing countries, extending to countries not members of the OECD Development Assistance Committee, private corporations, international non-governmental organizations and foundations. As a result, it was important to monitor and coordinate the coherence of these contributions. The United Nations system could play a substantial role in that regard.

190. Innovative sources of financing were recognized by many speakers as a supplement to existing sources. Some participants called for the implementation of the proposal made at Monterrey to use special drawing right allocations for development financing. Initiatives on innovative sources of financing that were already operational should also be considered by other countries and new initiatives should be explored. There was reiteration of the proposal for a global currency transaction tax, which would be national but would require international coordination to administer and would generate very substantial resources. Some participants cautioned that innovative sources of financing should not impose any additional burden on already resource-constrained countries. They called for the disbursement of resources generated by innovative financing through existing multilateral institutions, especially through organizations of the United Nations system. They were also of the view that innovative sources of financing should be a topic actively discussed at the Doha Review Conference.

191. It was pointed out that deliberations at the Doha Review Conference should also include discussion on the follow-up process of the Monterrey Consensus. Valuable lessons had been learned regarding that process and it was important to review existing follow-up mechanisms to determine whether enhancements were necessary and, if so, along what lines.

VII. Review session on external debt, held on 10 and 11 March 2008

192. Panel presentations were made by Thomas Courbe, Secretary-General, Paris Club, France; Deepak Nayyar, Professor of Economics, Jawaharlal Nehru University, India; Martine Guerguil, Chief of Official Financing Division, Policy Development and Review Department, International Monetary Fund (IMF); Hitoshi Shoji, Adviser, Development Assistance Strategy Department, Japan Bank for International Cooperation; and Léonce Ndikumana, Chief, Macroeconomic Analysis, Economic Commission for Africa. An overview of the information presented by the panellists is provided in paragraphs 193 to 219 below.

A. Panel presentations

1. External debt of developing countries and related policies since 2002

193. The Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative operate under an equal burden-sharing arrangement. Preventing debt crises is a shared responsibility of creditors and debtors. The Monterrey Consensus follows the principle of “the logic of collective action” in debt relief, that

is, welfare of the parties concerned improves with coordinated action, not through unilateral action. Yet, coordinated action has seldom been put into practice up to now.

194. A Paris Club debt relief programme for the heavily indebted poor countries has been in operation since the Monterrey Conference. In 2007, Paris Club debt treatments for the 23 post-completion point countries totalled $7.6 billion. Total debt relief under the Multilateral Debt Relief Initiative reached $37.6 billion. Debt service for the 32 post-decision point heavily indebted poor countries fell considerably as a percentage of exports: from 16.6 per cent in 2000 to 5 per cent in 2007. Poverty-reducing expenditures in post-decision point countries, as a percentage of GDP, also rose during the same period, from 6.8 per cent to 9.4 per cent. Six countries have benefited from "topping up" schemes, which provided additional funds to completion point heavily indebted poor countries to help them deal with external shocks.

195. Nine debt distressed countries received the Evian approach, which includes poor countries that are not heavily indebted. The Evian approach groups developing country debtors into two classes, those whose debts are sustainable and those with unsustainable debt. For countries with the most serious debt problems, the most generous implementation of existing terms is applied. Treatment under unsustainable debt situations is delivered with a strong focus on the link between economic performance, under an IMF-sponsored programme, and public debt management. Debt relief terms are determined on a case-by-case basis. Under the Evian approach, Nigeria's debt stock fell sharply from 2000 to 2007. Countries that had been granted a goodwill clause under the Evian approach did not have to use it.

196. Early repayment of official loans of about $70 billion was made possible by the improvement in the economic situation of some developing countries. The Paris Club supports this if it is an integral part of a country's long-term debt management strategy under two arrangements: early repayment at par and buyback at the market rate.

197. Challenges to resolving the debt problem entail fully implementing debt relief efforts, including the full delivery by all non-Paris Club bilateral creditors and private creditors of their share in debt relief. This requires increased inter-creditor coordination, taking into particular account the increasing role of private creditors and emerging bilateral creditors, such as China and India.

198. The problem of creditors aggressively litigating against some developing countries, including heavily indebted poor countries, has to be addressed. Efforts needed to deal with this problem include moral suasion, debt buybacks and Paris Club creditors not reselling claims in secondary markets. Technical assistance to heavily indebted poor countries to build capacity in debt management and sound legal expertise to respond to litigators is also important.

199. Notwithstanding overall progress, the debt picture is still mixed. In Africa, debt levels have declined but private debt remains high and is rising. In some cases, the volume of debt relief provided has been too little and too late. While debt relief has provided more fiscal space for poverty reduction expenditure, the impact is limited. A key issue has been sidelined: often debt relief has not taken into account financing needs for productive and infrastructure investment.

200. The problematic political, economic and security situation of many of the remaining heavily indebted poor countries hinders restoration of debt sustainability. Conflict and post-conflict countries need debt relief beyond what is provided in existing programmes.

201. Since the international financial system does not provide insurance for future economic shocks, international reserves are being accumulated by numerous developing countries as self-insurance against a potential debt crisis. This diverts financial resources from financing investment in development. Proper management of reserves and their productive use are equally important for development financing.

2. New challenges and the way forward

202. Low-income countries have huge needs for investment in infrastructure and the social sector, but face problems of unchanged economic structure and low domestic saving. In general, they have scant access to international financial markets and limited grant financing. At the current juncture, volatility in commodity and energy prices could undermine the debt sustainability of these countries. Financial shocks that raise international interest rates could also derail efforts to reduce the financial pressures arising from debt relief, maintaining debt sustainability and achieving development goals.

203. Borrowing to finance development must take into account sound macroeconomic principles and take into consideration that it can be sustainable where credit is used for investment with a rate of return greater than the interest rate of the loan. If the loan is taken in another country, the country needs to transform domestic resources into external resources to meet the liability. As returns on investment in the social sector are generally intangible and occur after some time, financing from domestic public debt or increased tax revenues is more appropriate for this sector.

204. Debt treatment for heavily indebted poor countries is based on policy conditionalities ensuring repayment, not development aims. Overly strict application of conditionalities have often resulted in compressed public spending to balance the budget, squeezing much-needed infrastructure investment and social sector spending. Streamlining conditionalities or shifting to outcome-based conditionalities to revive economic growth by taking into account development needs is, therefore, desirable.

205. With the private sector in middle-income countries becoming a major debtor, new risks are emerging and the need for risk mitigation measures is increasing. The vulnerabilities of middle-income countries to external debt are often triggered by liquidity problems as a result of the level, currency denomination and maturity composition of their debt. To access international financial markets, these countries are obliged to maintain high interest rates to provide attractive returns and a strong exchange rate to inspire confidence; but these macroeconomic policies undermine competitiveness and stifle economic growth. Greater policy space is needed to allow a focus on debt-crisis prevention as well as remedy, considering that sustained higher growth generally tends to reduce debt pressures.

206. As middle-income countries and some low-income countries are not part of the Heavily Indebted Poor Countries Initiative, other options to reduce debt and help

achieve development goals should be used more extensively, including debt swaps and bilateral debt relief agreements.

207. The way forward in restoring and maintaining debt sustainability involves a commitment or recommitment to the following principles: joint responsibility of creditors and debtors; development needs rather than financial needs as the foundation of debt reduction and cancellation; responsible lending practices in extending new loans to countries emerging from debt crisis; transparent national and international financial institutions, particularly banks; additionality of debt relief to ODA; and application of the Paris Declaration principles of ownership, management for development results, mutual accountability, alignment and harmonization to achieving debt sustainability.

208. With an increasing number of emerging economies holding large accumulations of foreign exchange reserves, they can provide financing for distressed indebted countries. This creates competition to financing by the international financial institutions, which is a good thing, as it can help make them more responsive to the needs of developing countries.

209. Some post-debt relief low-income countries are vulnerable to a medium or high risk of debt distress. There needs to be a focus on preventing a relapse into unsustainable debt by making available grants or concessional loans. Access to additional lending in large volumes or on unfavourable terms should be very cautious and gradual.

210. Net financial transfers related to debt in many developing countries, including some African countries, are negative owing to high debt service costs. Illicit capital flows also contribute to net negative financial transfers. In most African countries, domestic public debt is a concern, because it crowds out private sector borrowing. Middle-income countries without access to financial markets similarly have to depend on domestic credit, leading to a credit squeeze in private sectors.

211. Capital flight needs to be stemmed through improved investment conditions, a deep financial system, anti-corruption measures and accountability on the part of all domestic and external parties. There is also a need for international mechanisms for repatriation of assets: the Task Force on Illicit Financial Flows initiated by the Leading Group on Solidarity Levies to Fund Development should be supported by countries and multilateral organizations. Additional research on the volumes and mechanisms of illicit financial flows is needed.

212. Development partners should go beyond establishing emergency global funds for low-income countries to set up growth-supporting global funds for investment in infrastructure, energy and skills development to boost growth as a means of poverty reduction.

213. More resources are needed to finance debt relief for heavily indebted poor countries that are in conflict or post-conflict situations, as their political, security and economic situations are challenging and have long-standing arrears with multilateral institutions. Selling more IMF gold to finance debt relief for those countries could be an important option to consider, subject to member country agreement.

214. With the increasing role of private creditors and emerging bilateral creditors, there is a need for greater creditor coordination. For example, the Paris Club has

regular contacts with private sector representatives but enhanced dialogue with emerging lenders is needed.

215. Noting the limited membership of the Paris Club and the issue of representation and legitimacy, there were calls for more cooperation among all creditors. One possible avenue is to broaden the membership of the Paris Club to include non-member creditors and commercial creditors. Another is the establishment of more universal guidelines outside the Paris Club framework, covering all creditors, with developing countries playing a leading role.

216. The OECD Working Party on Export Credits and Credit Guarantees has developed sustainable lending principles with regard to credit for low-income countries. On a global basis, there is a need for universal guidelines, with the participation of non-OECD countries, for enhanced cooperation between debtors and creditors to avoid another round of unsustainable lending.

3. Assessing debt sustainability

217. The Debt Sustainability Framework in Low-Income Countries of IMF and the World Bank has been used to monitor debt relief outcomes, construct the path of debt under different borrowing and macroeconomic scenarios and identify policies needed to maintain debt sustainability. A complementary framework for low-income countries that are more vulnerable to shocks and have weaker institutional settings incorporates these considerations and the need for joint creditor-debtor responsibility. Good governance is included as a key factor in sustainable public debt.

218. The Debt Sustainability Framework is effective only if it is used by both creditors and debtors. It is a valuable instrument to develop a medium-term strategy to meet development financing needs at a level and in a composition that is sustainable. It is also a tool to improve policy advice from the Bretton Woods institutions and regional development banks. An IMF capacity-building programme in debt management has been stepped up to support debtors. Outreach to creditors by IMF has also been increased through information-sharing in debt sustainability analysis for countries and awareness-raising on the need for enhanced cooperation.

219. The Debt Sustainability Framework needs improvement in terms of transparency and information-sharing in the choice of scenarios and construction of indicators. Indicators should be based on an adequate examination of the domestic debt situation. Priority should be placed on achieving development goals in maintaining debt sustainability instead of improving debt service scenarios. In this regard, monitoring the impact of debt relief should include its development impact.

B. Policy deliberations

1. Progress and setbacks in the implementation of the Monterrey Consensus

220. A considerable number of participants expressed their satisfaction that, as a whole, the debt indicators of developing countries had improved markedly since 2002. Most developing countries now had debt management programmes in place and had built up reserves, thus reducing their vulnerability. The widespread introduction of collective action clauses in debt contracts had also been a positive development.

221. Furthermore, it was pointed out that the implementation of the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative had contributed to a significant reduction of the debt burden of the 23 countries reaching their Paris Club completion point. The debt relief granted under both initiatives had been of the order of $110 billion. In the meantime, largely as a consequence of this, poverty reduction expenditure as a share of GDP had increased significantly.

222. With regard to developing countries which were not part of the Heavily Indebted Poor Countries Initiative, it was noted that the Evian approach of the Paris Club had also contributed to reducing debt burdens. Middle-income countries had seen their credit ratings improve and the interest spread on their borrowing decline markedly since 2002. However, many participants stressed that a considerable number of countries, including least developed countries and numerous low-income and middle-income countries, still faced very high or unsustainable debt servicing burdens.

223. Some noted that there was a considerable transfer of resources from the South to the North, partly because of debt servicing. In that regard, it was stressed that high levels of debt service hampered development. This was also true for some heavily indebted least developed countries. In the view of some participants, total debt cancellation was necessary, particularly for least developed countries and post-conflict countries.

224. Many participants indicated that the pace of the Heavily Indebted Poor Countries Initiative had been slow and that the attached conditionalities had significantly narrowed policy space in beneficiary countries. It was noted that half of the heavily indebted poor countries that had reached their completion point had slipped back into unsustainability and a number of them were facing lawsuits or litigation from commercial creditors and vulture funds. Moreover, in certain cases, debt relief had constrained access to new credit.

225. Many participants expressed the view that there had been virtually no progress in setting up an innovative mechanism to comprehensively address debt problems of developing countries, including middle-income countries which, to a large extent, had been put aside. Many participants stated that debt relief should not be counted as ODA or tied to political or excessive conditionalities. Some noted that debt relief has been unfair to countries with large development needs but low levels of debt.

2. Lessons learned and debt issues at the current juncture and in the long term

226. In the view of some participants, sound macroeconomic policies and structural policies could help countries to overcome debt problems through increased economic growth. In the long term a more robust, well-functioning domestic financial system was critical.

227. A large number of speakers expressed the view that responsible borrowing and lending was essential for maintaining debt sustainability in the long run. It was pointed out that this should be coupled with a transparent process and that it was important to pay attention to the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries developed by OECD.

228. With respect to grants, it was noted that these were particularly important for over-indebted low-income countries. Indeed, the International Development

Association had increased its share of grants significantly since 2002. It was suggested that an institutional framework should be designed to ensure an adequate use of resources obtained through grants from the Association and other forms of concessional financing. Some participants stated that there should be a minimum degree of conditionalities attached to any further debt relief so as to ensure that debt relief delivered poverty reduction. It was also stated that additional social expenditure as a result of debt reduction should take especially into account the gender perspective.

229. Some speakers warned that the switch from official to commercial borrowing and from external to domestic public debt was creating new vulnerabilities and risks. It was pointed out that to address that matter, there was a need to improve collection of data on the composition of both external and domestic public debt. The need to address the issue of “free riders” in the Heavily Indebted Poor Countries Initiative and Paris Club processes was also noted.

230. With regard to the international financial system, many speakers warned of the impact and increased uncertainties derived from the subprime mortgage crisis and the risk of higher interest rates. Furthermore, with respect to debt it was noted that the international financial system would remain insecure and incomplete without a sovereign debt workout mechanism.

231. Related to the international financial system, it was pointed out that with more liberalized capital markets and floating exchange rates, the risk of substantial changes in the exchange rate of developing countries had increased, complicating matters because volatility of exchange rates might increase the debt burden abruptly. It was suggested that creditor nations and international financial institutions should pay more attention to that issue and develop a new mechanism for loans in domestic currencies. There was a need to strengthen the domestic financial system through renewed instruments such as bonds in domestic currency. In addition, international financial institutions should explore preventive mechanisms and support regional initiatives such as pooling of reserves. Another topic brought up by many speakers was the need for an increased voice for and participation of developing countries in institutions that set international financial policies and deal with issues related to external debt.

232. Some speakers mentioned that the effective functioning of the global financial system would benefit from the establishment of an international debt commission to look for a multilateral approach to solving external debt problems. In that context, there was also a call for further consideration of the proposal to establish an independent debt arbitration mechanism to assess, adjudicate and pass judgement on debt reduction options.

233. In the view of various participants, a debt resolution mechanism, aimed at guaranteeing fair burden-sharing among debtors and creditors, whether dealing with official creditor debts or commercial debts, should also be considered.

234. With respect to credit ratings, many speakers expressed their dissatisfaction with the present system. It was suggested that developing countries should have an input when the criteria to be used by rating agencies were being designed. In addition, it was important to explore the possibilities of a multilateral approach to the credit rating process.

235. Many participants referred to the need to build national capacities for debt management and debt sustainability analysis and a call for bilateral and multilateral support for implementation of debt management programmes, since sound financing and debt strategies were especially important. It was proposed that UNCTAD, the World Bank and IMF should step up efforts in that area.

236. With respect to debt relief, a number of participants pointed out that additional resources were needed and that debt relief programmes should not constrain policy space. This was particularly important in the case of the small island developing States, whose vulnerability made them prone to debt servicing difficulties. It was pointed out that the Bretton Woods institutions should be more flexible when considering small island developing States for inclusion in debt relief programmes such as the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. It was further noted that for those countries, technical assistance on debt management was critical. A similar suggestion regarding flexibility for the provision of debt relief and technical assistance was advanced for post-conflict countries.

237. The case of middle-income countries was mentioned by various participants. There was a need for an effective consideration of their debt problems. One possibility mentioned was the adoption of debt swap mechanisms, such as swapping debt for Millennium Development Goal programmes. The income level of middle-income countries often masked the true impact of the debt burden on their populations and their prospects of achieving the Millennium Development Goals.

3. External debt sustainability frameworks

238. A number of participants stressed that creditors should fully consider the debt sustainability of borrowers in order to prevent the occurrence of heavy indebtedness. All donors, including emerging donors, should cooperate to enhance debt sustainability in borrowing countries. There was concern about emerging donors providing loans that might not be sustainable to countries that were benefiting or had benefited from debt relief.

239. It was noted that the Debt Sustainability Framework for Low-Income Countries was an early warning system to be used by lenders and borrowers. Domestic debt was increasing and becoming substantial in several countries; thus, such debt should be included in debt sustainability analysis and debt management enhancement programmes. Some participants pointed out that debt incurred to build physical and financial assets, in particular infrastructure and productive investments, was likely to be more sustainable than debt used to finance current expenditure, hence debt sustainability analysis should focus on both liabilities and assets. Some speakers suggested that recipient countries should participate actively in the process of debt sustainability analysis.

240. Many participants highlighted that a review of the current debt sustainability frameworks in IMF and the World Bank was warranted. Debt sustainability frameworks should have development as an objective, including in particular, the achievement of the Millennium Development Goals and other internationally agreed development goals. It was further noted that for those countries, technical assistance for debt management was critical. A similar suggestion regarding flexibility for the provision of debt relief and technical assistance was advanced for post-conflict countries.

VIII. Review session on addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development, held on 11 and 12 March 2008

241. Panel presentations were made by Gerald Anderson, Deputy Assistant Secretary, Bureau of International Organization Affairs, Department of State, United States; Eduardo Galvez, Ambassador, Multilateral Affairs Director, Ministry of Foreign Affairs, Chile; Masood Ahmed, Director, External Relations Department, IMF; Mojmir Mrak, Professor of International Finance, University of Ljubljana, Slovenia; and Jiayi Zou, Executive Director for China, World Bank. An overview of the information presented by the panellists is provided in paragraphs 242 to 277 below.

A. Panel presentations

1. Main goals, current trends and new challenges

242. Systemic issues addressed in the Monterrey Consensus are primarily about enhancing the coherence and consistency of international monetary, financial and trading systems in support of development, as well as about global economic leadership and governance. In this regard, the systemic agenda should include two major broad issues: (a) specific policies and actions to further the development perspective in the monetary, financial and trading systems; and (b) strengthening the voice and participation of developing countries and countries with economies in transition in international economic decision-making and setting of norms.

243. Strong economic growth and dynamic institutional change are essential for development. The world has seen significant progress in this respect since the adoption of the Monterrey Consensus. At the same time, trends are emerging leading to new challenges that call for novel policy approaches and innovative measures.

244. Closer economic linkages have brought about significant economic benefits to many countries and peoples. Rapid globalization, however, has also led to conflicts of interest and to increased protectionist pressures. This implies new demands on and new challenges to the global economic governance system. More attention should be paid not only to promoting consistency of the macroeconomic policies of developed countries but also to the interaction of developing countries and developed country policies. There is also a need for effective transfer of resources to support achievement of the Millennium Development Goals, a more stable financial environment for developing countries and a sufficient supply of global public goods.

245. New trends in the international economic landscape include the increased role of emerging economies; substantial global current account imbalances; a large accumulation of foreign reserve holdings by a number of developing countries; the emergence of a new type of financial crisis; a build-up of excessive global liquidity; and increasing marginalization of some international financial institutions, including the Bretton Woods institutions.

246. The share of developing countries in the global economy has increased to over 50 per cent in terms of purchasing power parity. In recent years, emerging

economies have been growing much faster than developed economies. Consequently, they strongly influence global demand and developments in the international financial market. The exports of emerging economies to other developing countries are growing faster than those to developed countries. There has been some decoupling of emerging economies from developed ones. However, decoupling does not mean disconnecting from globalization; it is essentially the result of structural adjustment.

247. Emerging economies as a group are running a current account surplus. Those countries, however, are not a homogenous group. There are countries with surpluses and deficits in their current accounts. Unlike many emerging economies, most developing economies have less than adequate savings.

248. In recent years, current account imbalances have increased substantially both in nominal terms and as a percentage of GDP. The large current account deficit of the United States has been accompanied by surpluses in Japan, the emerging Asian economies and several countries that export energy and other commodities. Meanwhile, the balance-of-payments adjustment process remains strongly asymmetrical. There is no real pressure to adjust in the country with the largest current account deficit and debt, nor is there effective pressure to adjust in countries with current account surpluses.

249. Global imbalances are largely the result of the globalization process where capital is chasing the supply of cheap labour. This is unsustainable in the long run. A sizeable adjustment seems necessary to correct this, since continuous devaluation in the largest economy might not be adequate or desirable. China and East Asia are called upon to lower their savings rate by stimulating domestic demand and encouraging consumption; the United States should contemplate lowering consumption and increasing its savings rate; and the Bretton Woods institutions should support a more balanced world development and corresponding structural adjustment.

250. The financial crises in the 1980s and the 1990s originated in emerging economies. Today, the epicentre of financial crises is in developed countries. In addition, in the 1980s and 1990s the financial crises were geographically concentrated. Now, crises tend to spread globally causing considerable global slowdown. In the past, the Bretton Woods institutions played a rather important role in managing crises. Nowadays, the central banks of developed countries are key players as their focus is on financial institutions within their borders. The role of the Bretton Woods institutions in dealing with crises originating in developed countries is not clear.

251. The origins of excessive liquidity lie to a large extent in the current international monetary system. The use of national currencies as an international reserve currency, most prominently the United States dollar, can be a source of inflationary pressure. There is a need for an international reserve currency. Indeed, in this regard it would be important to reconsider the role of the special drawing right.

252. The Bretton Woods institutions have been increasingly marginalized, as many members have prepaid their obligations to these institutions and new financial commitments to middle-income countries have declined. There has also been marginalization on the policy side, as fewer countries have IMF programmes in

place. The Bretton Woods institutions have partly lost their relevance for all but low-income countries. Their role in managing crisis situations today is considerably smaller than it was a decade ago.

253. Although the Bretton Woods institutions have notable governance, financial and legitimacy problems, it is important that their credibility be fully restored and that they continue to play a substantial role both in achieving macroeconomic and financial stability and in fostering development. In addition to financing, the Bretton Woods institutions should provide the basic forum for key aspects of financial regulation and economic policy coordination.

254. Exchange rate instability still represents an important challenge. Coordination of exchange rate policies has been recognized as helpful, but in practice it has not been working as well as desired. Being aware of this fact, the IMF Executive Board has recently adopted a new decision on exchange rate surveillance, which formally opens the way for the Fund to play a more productive role. For this new multilateral exchange rate surveillance procedure to work effectively, full political commitment and support from the IMF membership will be needed. There are some indications, however, that achieving such political commitment still remains difficult.

255. Another major challenge is to ensure the integrity and transparency of financial markets. While financial flows are increasingly global, their regulation remains largely under national jurisdiction. There is thus an urgent need to improve cooperation among national regulators and to encourage them to adopt common standards in various areas, including bank liquidity, valuation of complex debt structures and activities of credit rating agencies. An international regulatory mechanism should also be considered.

2. Global economic governance

256. Strengthening global economic governance is a logical and crucial response to development challenges in the context of globalization. There is a need for a balanced, effective, democratic and participatory global governance system to coordinate the interests of different countries and enhance common interests.

257. The United Nations and the United Nations system have an important role to play in systemic issues as these issues are essentially of a political nature. The Monterrey Consensus calls for strengthening of the United Nations leadership and coordinating role in promoting development and for achieving an integrated view of monetary, financial and trade systems. Nevertheless, needed reforms in the United Nations often proceed more slowly than in the Bretton Woods institutions.

258. There should be a clearly defined division of labour between the United Nations and the Bretton Woods institutions. The United Nations should be an intellectual leader and political consensus builder, while the Bretton Woods institutions are mostly involved in implementation. The Bretton Woods institutions are also involved in achieving macroeconomic stability and fostering development. In addition, they provide a forum for financial and macroeconomic policy coordination. While recognizing that each institution should play its respective role, the Monterrey Consensus calls for stronger links between the United Nations, the Bretton Woods institutions and the World Trade Organization.

259. The Bretton Woods institutions remain important pillars of global economic governance in terms of the aid and international financial architecture. Cooperation

on issues related to low-income countries between IMF, the World Bank and United Nations system agencies has been strengthened. In many developing countries, there are pilot projects with joint involvement of the Bretton Woods institutions and United Nations agencies. Nevertheless, there is an urgent need to further strengthen cooperation, including between United Nations development agencies and the World Trade Organization and between organizations dealing with debt issues. In addition, there should be better coordination of the United Nations capacity-building function.

260. There has been progress in strengthening the voice and representation of developing countries in IMF. The second round of quota increases based on a new quota formula should be decided at the 2008 annual meeting of IMF. The share of basic votes will also be increased. Yet, countries have very different views on what indicators to use for a new quota formula and on how to measure them. This is a difficult issue, both technically and politically. In addition to the above, it has been proposed that there should be no veto power for any individual member State and that the number of developing country constituencies should be increased vis-à-vis the European Union member State constituencies.

261. The World Bank is also considering steps to reform its own governance mechanism and is closely watching the progress at IMF on the issue. There is an understanding that a simple reallocation of votes will not be enough. The voting power of developing countries as a group should be enhanced.

262. The governance reform should not be limited to the Bretton Woods institutions. It should also include other international financial, regulatory and standard-setting bodies, as well as the World Trade Organization.

263. The ownership of the aid effectiveness agenda also needs to be addressed. This issue will be discussed not only at the OECD Development Assistance Committee meeting in Accra in September, but also of the Development Cooperation Forum. The establishment of that Forum is, thus, a step in the right direction and provides an excellent opportunity to increase coherence of operations among United Nations funds and programmes as well as with other agencies.

264. The nature and focus of the annual meetings of the Economic and Social Council and the Bretton Woods institutions need to be reconsidered carefully. A standing agenda that focuses on the reports of the Bretton Woods institutions or a multi-year programme following the structure of the Monterrey Consensus could be adopted. There is also a view that the meetings should precede, rather than follow, the spring meetings of the Bretton Woods institutions.

265. There has been some important progress in cooperation in tax matters. Still, a stronger intergovernmental entity dealing with these issues may be called for. In this regard, United Nations Member States should consider converting the Committee of Experts on International Cooperation in Tax Matters into a full intergovernmental subsidiary body to the Economic and Social Council.

266. Overall, the follow-up to the Monterrey Conference — and to the Doha Review Conference — requires more attention. Better, more effective mechanisms are needed to assess progress on issues and policies and to decide on the corresponding necessary actions. Relevant stakeholders should be part of the follow-up process and take advantage of the outcome. The follow-up should include

bodies and institutions dealing with trade, finance and development assistance with adequate participation of civil society and the private sector.

267. At the Doha Review Conference, the international community could decide to create some sort of support structure for effective coordination and global economic governance. A follow-up mechanism after the Doha Conference may take the form, for example, of an integrated multi-stakeholder council or committee on financing for development, including the Bretton Woods institutions, the World Trade Organization, the United Nations specialized agencies, civil society and the private sector. The principal objective of such a body will be to change the nature of the existing follow-up dialogues at the United Nations, which do not produce any agreed outcome to an integrated review of the financing for development agenda, and make viable recommendations to expedite the implementation of that agenda.

3. Policies and instruments

268. As noted above, systemic issues involve more than the technical aspects of economic and financial issues; they also have an important political dimension, which has a substantial bearing on development. It is, thus, critical that the United Nations play a substantial role in impending reforms and implementation of new ideas. Another key consideration is that as the nature of the problems and crises has changed, the instruments to solve or to manage them must also change.

269. IMF should focus more on overall systemic issues, including addressing the need for new forms of global regulation. It needs to strengthen multilateral surveillance and pay more attention to the consistency of macroeconomic policies of developed countries. It should promote the reform of the international monetary system, including better management of external shocks, macroeconomic policy coordination, efficient multilateral liquidity provision and consideration of a debt workout mechanism. Obviously, the Fund can only play a greater role on all those issues if the membership decides that it should.

270. In fact, IMF has initiated discussions between member States on macroeconomic imbalances, with the goal of narrowing them while maintaining growth. It is working on improving its facilities to provide liquidity during crises and, together with the Bank for International Settlements, the Financial Stability Forum and national supervisors, is working to determine how a new model of securitization is having an impact on financial flows and what it means for risk. In addition to regulatory issues, the recent financial turmoil has highlighted the macroeconomic dimensions of the problem. The Fund has also been asked to help sovereign wealth funds identify and begin to implement a set of good practices. More information on those funds appears necessary to counter protectionist pressures.

271. IMF programmes in low-income countries are also evolving. Maintaining debt sustainability after debt relief is now a key concern. As a number of low-income countries are increasingly drawing upon market sources of finance, the Fund is helping them to learn from the market access experience of middle-income countries. In addition, it is helping commodity exporting low-income countries to ensure that current high revenues are managed and used effectively.

272. It is important for IMF to identify priority areas in assessing systemic risks. A first step would be looking at hedge funds. In general, the assessment of risks is not

an easy task; still, enhanced financial information and transparency would go a long way in improving risk assessment. Nonetheless, in the case of individual countries there are often risks, mostly of a political nature, that are very difficult to evaluate.

273. The World Bank is changing its way of doing business, from a more supply-driven approach to supporting the borrowing country's agenda. The major function of the Bank should be to mobilize development resources, including the development and introduction of innovative financial products, as well as the facilitation of North-South, South-South, triangular and regional cooperation. In today's world, the design of mechanisms to recycle global surpluses to productive investment is essential. In this regard, the Bank is introducing schemes to help channel liquidity from middle-income countries to investment in low-income countries. The Bank should also consider providing more loans without a sovereign guarantee.

274. A new strategic theme, "inclusive and sustainable globalization", has been proposed by the Bank's President. The theme's main focus is on poverty in Africa; post-conflict countries; development strategies for middle-income countries; a more active role in the provision of regional and global public goods (climate change, diseases, labour mobility, technology transfer); support for development opportunities in the Arab world; and fostering the development knowledge and learning agenda across the World Bank Group.

275. The United Nations should focus more on assistance to fragile States. Dealing with these States is one of the serious gaps in the implementation of the Monterrey Consensus. Also, the United Nations should continue to promote capacity-building aimed at attracting private flows to developing countries; one of the important emerging areas of cooperation is the promotion of entrepreneurship. All countries should sign, ratify and implement the United Nations Convention against Corruption, which addresses central issues of capital flight.

276. It is important to further explore innovative sources of financing. The Leading Group on Solidarity Levies to Fund Development is considering many initiatives, including fighting tax evasion and stemming illicit capital flows, possible taxes on currency transactions and implementing a digital solidarity contribution among others. Also, it appears important that the proposal to use special drawing right allocations for development purposes or to finance liquidity needs of developing countries is paid increasing attention.

277. The Development Cooperation Forum provides an opportunity to discuss a wide array of issues related to aid. It should consider the possibility of becoming the harmonizer of the development assistance provided by international institutions. Also, country-level coordination is important for improved coherence. Good examples of effective coordination and coherent action are the work of the International Trade Centre of UNCTAD and the World Trade Organization, the UNCTAD entrepreneurship training programme "EMPRETEC", activities by the United Nations Development Programme to support the private sector, the UNCTAD Debt Management and Financial Analysis System, and the Bretton Woods institutions and United Nations Millennium Development Goal Africa Steering Group.

B. Policy deliberations

1. Review of progress and emerging issues

278. Many speakers noted that since the Monterrey Conference a number of challenges had intensified owing to the rapid pace of globalization and interlinked markets. Among other things, those challenges included unsustainable trade and current account imbalances; large and volatile capital flows and their potential contagion effect; and marked exchange rate instability. It was in that context that the latest financial crisis (which, it was noted, originated in the country issuing the global reserve currency) was taking place.

279. A considerable number of participants stated that the ongoing efforts to reform the international financial architecture lacked tempo and depth. The pace of reforms within the World Bank and IMF was too slow. The fundamental issues of increasing the voice and participation of developing countries in the Bretton Woods institutions had not been addressed decisively. The compartmentalization of the reform effort in the two institutions would make it virtually impossible to achieve, in any coherent manner, one of the stated major objectives of the reform, namely, to enhance financing for development and poverty reduction.

280. Many participants pointed to the lack of a clear set of international principles for the management and resolution of financial crises, while the Group of Eight continued to recommend and decide on measures to manage the international financial system without broader international representation. The current crisis originating from the failure of the subprime mortgage market demonstrated the continued shortcomings of the system. The crisis also suggested that the current international financial institutions did not have the capacity to address such situations effectively.

281. Numerous speakers expressed concern about high exchange rate volatility and economic instability, at a time when multilateral institutions like IMF and the World Bank did not have the resources required to buffer countries from a crisis. Thus, while the Monterrey Consensus stressed the need for creating liquidity facilities that could help affected countries to fight financial crises and contagion, many countries were resorting to holding increased reserve levels as self-insurance. Moreover, the flow of resources from the Bretton Woods institutions had become a negative one: the net outflow from developing countries to those institutions had been over $25 billion in 2006, indicating diminished reliance by many borrowing members on those institutions.

282. A large number of participants referred to positive developments after the Monterrey Conference, including the economic dynamism of developing countries and recovery from the turmoil of the late 1990s, as strengthened policy reform in developing countries and improved surveillance since the early 2000s had been supportive of development. They highlighted that most of the multilateral institutions had taken steps towards reform and had embarked on new policy approaches. They pointed to the fact that the United Nations system was exploring means to further improve its coherence and that the Bretton Woods institutions had launched initiatives to reinforce inclusiveness of developing countries. Regarding the participation of developing countries in international economic decision-making, according to various speakers their involvement had increased: more active participation of developing countries in the Doha Development Round, in the Group

of 20 meetings, as well as in consultations in the financial standards setting process through a liaison group made up of countries that are not members of the Basel Committee on Banking Supervision and through ad hoc invitations to selected countries to attend Group of Eight summits. An enlargement process was also taking place in OECD.

283. Many participants pointed to the fact that the global context had changed considerably since the Monterrey Conference. The economic and financial system had evolved, countries with emerging economies had gained in importance in the global economy and in international forums and new issues had emerged regarding environmental sustainability and evolving social conditions. With respect to the current juncture, several of them referred to the statement of the Group of Seven finance ministers and central bank governors issued in Tokyo on 9 February 2008. It had candidly admitted that the world was facing a more challenging and uncertain environment than it had the previous year in October, but had also stated that the fundamentals of the global economy as a whole remained solid.

284. Various participants observed that stronger coordination of macroeconomic polices among industrial countries was proving difficult. The problem of the increasing number of unregulated or poorly regulated activities in the international financial markets, such as hedge funds and financial derivatives as well as the lack of transparency and independence of credit rating agencies, were also a cause for concern. Several participants pointed to the fact that the limited progress made in enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development made the task of achieving the Millennium Development Goals much harder.

285. In the view of several speakers, sovereign wealth funds had become an important feature in the international financial landscape. They recognized the potential benefits for national economies open to investments by such funds, but also saw merit in identifying best practices for both investors and recipients. Others stressed that the current efforts to regulate sovereign wealth funds should consider an agreed framework built on broad representation.

2. Global economic governance and the Monterrey Consensus follow-up process

286. Many participants called on the Doha Review Conference to decide on a clear and time-bound process to implement recommendations to improve the global economic, financial and monetary governance structures and strengthen the follow-up mechanism to the Monterrey and Doha Review Conferences and the leadership role of the United Nations in those areas. In that regard, they stressed that it would be worthwhile to analyse various proposed options and alternatives for strengthening the institutional follow-up mechanism. They also stressed that an enhanced mechanism needed to be effective, inclusive and transparent in view of the need for an effective follow-up to the Monterrey Consensus and any agreements reached at the Doha Review Conference. It was also pointed out that it should ensure a multisector approach, taking into account international financial, trade, technological and investment trends that affected the development prospects of the developing countries.

287. Numerous participants referred to the positive developments in the United Nations system to strengthen the General Assembly and the Economic and Social Council. The latter had been tasked to continue strengthening its role in system-

wide coordination and the follow-up to the outcomes of the major United Nations conferences in the economic, social and related fields, to enhance collaboration between the United Nations and the other major institutional stakeholders of the financing for development process and to provide a universal forum where both donors and recipients could discuss matters relating to aid and aid effectiveness.

288. Many speakers recognized that governance reforms were essential to the continued effectiveness, legitimacy and credibility of the Bretton Woods institutions, indicating that the two main goals were, firstly, to ensure that the distribution of quotas and shares adequately reflected the economic weight and role in the global economy and financial system of member countries; and secondly, the importance of strengthening the voice of low-income countries in those institutions through a substantial increase of basic votes.

289. A significant number of participants stressed that the governance regime of the Bretton Woods institutions needed a major overhaul. In that regard, they called for fundamental reform of the voting systems and accountability structure of those institutions, where significant redistribution of voting power in favour of developing countries (including the least developed countries) should be the overarching objective of the reform. They also highlighted the fact that the Singapore resolution of IMF and the World Bank of 2006 called for at least a doubling of basic votes. However, this last measure would not affect to any significant extent the prevailing distribution of power in the governance system of the Bretton Woods institutions. They pointed to the proposal of a double-majority voting system (one country, one vote and a weighted vote) for decision-making as one issue that deserved serious consideration. Numerous speakers welcomed the agreement reached at the annual meeting of IMF in October 2007, which emphasized the importance of agreeing as soon as possible on a credible reform package with specific deadlines concerning the quotas and voice of all member States of the Fund.

290. Many participants noted that developing countries were acquiring a growing weight in the international trade arena and in the World Trade Organization; this was a welcome development. They also stressed the importance of supporting World Trade Organization initiatives designed to help developing countries build the necessary capacity to participate in that organization and in other international trade negotiations. Various speakers expressed support for efforts in the World Trade Organization to assist developing countries in strengthening capacity to handle trade finance instruments and build adequate trade finance institutions.

291. Many speakers highlighted the large number of global standards and codes intended to address global financial regulation, indicating that they were mostly being formulated outside the multilateral system. They called for effective representation of developing countries in standard- and norm-setting bodies which would lead to a fairer, more widely accepted and truly universal regulation of the system and which could in turn contribute to a more stable financial system with welfare-enhancing effects for all. Indeed, the Monterrey Consensus pointed to the importance of ensuring effective and equitable participation of developing countries and countries with economies in transition in the formulation of financial standards and codes and their implementation, on a voluntary and progressive basis. However, the challenge to involve all parties concerned, including the private sector and relevant civil society groups, still remained. Another challenge that was highlighted was to ensure that standards and codes were mutually consistent and, at the same

time, flexible enough to be effectively applied in countries with advanced and less advanced financial systems.

292. A large number of participants called on the Doha Review Conference to recommend the establishment of a time-bound, independent process to examine more closely concepts such as systemic risks and systemic crises and the role of individual countries and international financial movements. It was crucial to enhance regulatory and supervisory frameworks and to establish an inclusive process for devising measures aimed at increasing the accountability and transparency of private credit rating agencies.

293. A significant number of speakers highlighted the vital role of regional development banks in the respective regional governance structures. They pointed to the fact that several regional development banks were collaborating closely with regional integration schemes on issues such as financial stability and trade integration.

294. A significant number of speakers recognized OECD's contribution to collecting data, identifying good practices and setting standards in various fields, including development issues and economic rules. They welcomed the opening of discussions in OECD with a view to future enlargement of membership and its enhanced dialogue with emerging economies, as well as its increased involvement in the North-South dialogue.

295. Many participants asked for an examination of the overall arrangements for follow-up, as set out in chapter III of the Monterrey Consensus, entitled staying engaged, as there was a need for a fundamental discussion on the adequacy of the current arrangements. It was important to explore all possible avenues to ensure that in the future the objectives could be met on a timely and effective basis. Several participants questioned, for example, whether the impact of and attendance at the Spring meetings of the Economic and Social Council with major stakeholders were adequate and whether the timing and nature of the outcome were the most appropriate. In a similar vein, various participants suggested that the biennial High-level Dialogue of the General Assembly on Financing for Development should provide an agreed outcome.

296. In that context, a large number of speakers called for monitoring the effectiveness and comparative advantage of the new mechanisms under the Economic and Social Council and further strengthening of both the General Assembly and the Council in the follow-up of recent decisions on economic and social development, including financing for development. While some participants were of the view that existing arrangements were adequate, many indicated that the time was ripe for a considerable strengthening of the financing for development intergovernmental follow-up process and said that proposals that had been advanced in that regard should be reviewed carefully, with a view to taking the most appropriate decisions.

3. Enhancing institutions and policies

297. A number of speakers stressed that all countries shared responsibility for promoting the prosperity and sustainability of the world economy. They emphasized that this was especially true in the light of new realities, such as the increasing flows of private capital, the growing power of emerging economies and the fact that global

imbalances were fundamentally a multilateral challenge. The work of the international financial institutions to address global imbalances had to be underpinned by domestic efforts: by well-regulated banking and broader financial services; by appropriate exchange rate policy, savings and investment; by an adequate tax system and trade policies; and by other complementary domestic economic policies. Also, many participants underlined that the Bretton Woods institutions needed to be representative, financially stable and transparent, as those elements were central to the two institutions being able to maintain their relevance and legitimacy in an evolving global context.

298. Many participants highlighted the importance of multilateral surveillance and the associated process of policy coordination. In that regard, they underscored the need for IMF to further strengthen its surveillance activities for all economies. They stressed that the focus of surveillance in that regard should be on the stability of the system as a whole, in particular on the spillover impact of macroeconomic and financial policies of the larger economies on other countries. They also indicated that that would require more rigorous surveillance over systemically important countries issuing major reserve currencies. Several participants welcomed the efforts undertaken by IMF to sharpen tools designed to help promote international financial stability and enhance crisis prevention, in particular the consultations to address global imbalances in a manner that sustained economic growth.

299. A considerable number of participants stressed the importance of formulating a strategy oriented at reducing the volatility of exchange rate markets as well as enhancing the transparency of their operations. More transparency was also necessary in the regulatory frameworks and interventions carried out by monetary authorities in that area.

300. Several speakers stated that IMF should consider paying more attention to analysing the repercussions of developments in the financial sector on the real economy. They also referred to the large reserves accumulated by developing countries as self-insurance. The opportunity cost of such large reserves was often quite high. It was important to devise ways by which developing countries with surplus funds could find an outlet to use such reserves in their own development or for financing development in other developing countries.

301. Many participants emphasized the importance of establishing appropriate, clear and transparent criteria for private sector activities, which exerted a strong influence on the policies and situation of developing countries, including credit rating agencies. They also stressed in that regard that developing countries should have sufficient policy space to put into effect their development strategies and to improve their capacity to implement counter-cyclical policies to respond to the downward phase of the economic cycle.

302. In that regard, a considerable number of speakers called for both multilateral and bilateral partners to refrain from imposing conditionalities that ran counter to the national development strategies of developing countries. Cooperation based on partnership should lead to a flexible approach reflecting the sovereign power of each country to set its own priorities, as well as the responsibility and commitment of the international community to provide support.

303. Some delegations also highlighted the importance of regional frameworks, in particular financial arrangements that could complement the international financial

system, make individual economies more resilient and serve as a mechanism in any effort to prevent financial crises. In that regard, a special reference was made to the role of the Chiang Mai Initiative.

304. Some speakers emphasized that the World Bank Group, IMF, regional development banks and other development-oriented financial institutions should strongly support and provide leadership around the principles of the Paris Declaration (ownership, alignment, harmonization, management for development, results and mutual accountability) and to work closely together in support of nationally owned poverty eradication programmes and other development programmes.

305. Many delegations called for the international financial institutions, in particular the Bretton Woods institutions, to increase their support for the implementation of the Millennium Development Goals through enhanced delivery of technical assistance and concessional lending. They stressed in that regard that, for least developed countries, the International Development Association should shift to an all-grant facility without any conditionality. A large number of participants also called on the international financial institutions to strengthen their commitment to middle-income countries, taking into account their specific needs and as a way to reinforce their national development strategies.

306. Many participants expressed concern about capital flight, illicit financial activities and transfers, tax evasion and corruption and called for sustained international cooperation to fight those ills. They emphasized that international oversight institutions should continue to strengthen existing mechanisms, such as the United Nations Convention against Corruption. They stated that ratification by all States and full observance of the Convention should be further promoted.

307. Many speakers called for upgrading the existing Committee of Experts on International Cooperation in Tax Matters to an intergovernmental commission with appropriate representation to reflect all interests. They stressed in that regard the special importance of addressing the concerns of small, vulnerable developing countries. They pointed out that the agenda of existing institutions, which addressed international tax matters outside the United Nations, was still largely lacking a development dimension, besides not being universally representative.

308. Many speakers expressed the need to bring the gender perspective into the mainstream of development policies. They acknowledged that while significant advances had been made in the area of gender responsive efforts, further efforts were needed to ensure the shift from analysis to implementation. The Commission on the Status of Women had considered various ways to strengthen the advancement of women through the financing for development process. In addition, it was pointed out that multilateral institutions, in particular the World Bank, should pay increased attention to core labour standards and the agenda on decent work.

309. A number of participants addressed the specific vulnerabilities of small island developing economies. Several of them pointed out that many of those economies were based on agriculture and were particularly vulnerable to price fluctuations in the international commodities market. It was important to develop a workable mechanism to help to mitigate the impact of such market events.

310. Various speakers stressed that the process of enabling all countries to participate in the global market required commitment from all players to support

effective regional transport and communications infrastructure to integrate markets into the international trading system. In that regard, they called on all donor countries and multilateral financial and development institutions to continue their efforts to ensure effective implementation of the Monterrey Consensus, in particular paragraphs 41 to 43, with the aim of providing landlocked and transit developing countries with the appropriate financial and technical assistance to achieve the needs identified in the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries. The midterm review of the Programme of Action would take place soon after the Doha Review Conference and, to that effect, it was important to pursue an integrated process building on the platform provided by the Monterrey Consensus.