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Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions and the World Trade Organization (New York, 26 April 2004)

I. Introduction

1. The special high-level meeting of the Economic and Social Council with the Bretton Woods institutions and the World Trade Organization was held on 26 April 2004. The overall theme of the meeting was “Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus”. The meeting had before it a note by the Secretary-General (E/2004/50) providing background information and raising a number of questions.

2. The 2004 meeting was preceded by extensive consultations within the Economic and Social Council, and between the members of the Bureau of the Council and the management of the Bretton Woods institutions and the World Trade Organization, as well as separate meetings with Executive Directors of the International Monetary Fund (IMF) and the Executive Board of the World Bank. The President of the Council also met with the Chairman of the General Council of the World Trade Organization and with the President of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD). In addition, the Bureau of the Council held a videoconference with the President of the Trade and Development Board. The agenda and the format of the special high-level meeting were discussed and mutually agreed upon at the above meetings. The consultations resulted in agreement on three sub-themes that were the focus of substantive discussions in the six round tables that took place during the meeting. The three sub-themes were: “Impact of private investment and trade-related issues

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on financing for development"; "Role of multilateral institutions in reaching the Millennium Development Goals"; and "Debt sustainability and debt relief". In addition, informal hearings and dialogue with members of civil society and the business sector were held from 22 to 24 March 2004. The outcome of those hearings was presented at the meeting of 26 April (see Add.1 and 2 to the present report).

3. The format of the meeting featured a brief opening plenary, followed by six parallel round tables, two for each of the three sub-themes mentioned above. The round tables consisted of interactive discussions on those three sub-themes. A resumed afternoon plenary was devoted to reporting on the discussions at the round tables and to further debate. The chairs, co-chairs and lead discussants of the round tables were: Mr. Gerrit Zalman, Minister of Finance of the Netherlands, and Mr. Rubbens Ricupero, Secretary-General, of UNCTAD, with Mr. Bruce Montador, Vice-President of the Canadian International Development Agency, as lead discussant, for round table A; Mr. Shaukat Aziz, Minister of Finance and Economic Affairs of Pakistan, and Mr. Francisco Thompson-Flores, Deputy Director-General of the World Trade Organization, with Dr. Eduardo Sojo, Coordinator of Public Policy, Mexico, as lead discussant, for round table B; Mr. Benjamin Radavidson Andriamparany, Minister of Economy, Finance and Budget of Madagascar, and Mr. Mark Malloch Brown, Administrator of the United Nations Development Programme (UNDP), with Mr. Ian Goldin, Vice-President of the World Bank, as lead discussant, for round table C; Ms. Hilde F. Jhonson, Minister of International Development of Norway, and Mr. Yahya Alyahya, Dean of the Board of the World Bank, with Mr. Pierre Duquesne, Executive Director, World Bank/IMF, as lead discussant, for round table D; Mr. Mario Alonso, Governor of the Central Bank of Nicaragua, and Mr. Willy Kiekens, Senior Executive Director of IMF, for round table E; and Mr. Anastas Anjeli, Minister of Economy of Albania, and Mr. José Antonio Ocampo, Under-Secretary-General, Department of Economic and Social Affairs, with Mr. Augustin Carstens, Deputy Managing Director, IMF, as lead discussant, for round table F.

4. The participation in this year's meeting was unique in many ways. It was the first time that a Head of State (Finland) participated in the meeting. The meeting was also attended by the President of the General Assembly and an unprecedented number of executive and alternate directors of the Boards of the World Bank and of IMF (19 from the World Bank and 8 from IMF), and the Deputy Director-General of the World Trade Organization. In addition, the President of the Trade and Development Board of UNCTAD participated for the first time, as mandated by the General Assembly. Representatives of the Chairs of the Development Committee and of the International Monetary and Financial Committee and senior officials of the United Nations, the World Bank, IMF, UNDP and other United Nations agencies also took part in the event, as well as representatives of other international bodies, including the Chairman of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Other participants included ministers of finance and of development cooperation, governors of central banks and heads of international organizations, as well as high-level officials in the areas of trade, finance, development cooperation and foreign affairs (see E/2004/INF/4). Representatives of non-governmental organizations (NGOs) and the private sector also participated in the plenary meetings and round tables.

5. A summary of the opening statements and the further deliberations, structured according to the three topics addressed in the six round tables, comprising main aspects of the exchange of views and statements made at the afternoon plenary session, is set out below.

II. Opening of the meeting

6. The meeting commenced with opening remarks by the President of the Council, who welcomed the commitment of the participants and reminded them of the direct mandate of the Council to the follow-up to and implementation of the outcome of the International Conference on Financing for Development, held at Monterrey, Mexico, in 2002. The Secretary-General, in his address to the meeting, referred to the need to keep the Monterrey follow-up process alive and strong and invited participants to reflect on how to enhance coherence, coordination and cooperation in the vital areas highlighted in his note before the Council (E/2004/50).

7. The President of the General Assembly stressed the importance of pursuing the partnership approach that was at the centre of the Monterrey Consensus in order to ensure a frank and open exchange of views on the progress made in various areas related to financing for development. In view of "the mixed report card" obtained so far, further efforts were needed to address the various issues of the Monterrey agenda in a more coherent fashion, in particular those related to trade, debt and official development assistance.

8. The representatives of the chairs of the Development Committee (Minister of Finance of Nigeria) and of the International Monetary and Financial Committee (Deputy Managing Director of IMF) highlighted the main aspects of the respective communiqués of the 2004 spring meetings of those committees, held on 24 and 25 April. The communiqué of the Development Committee focused primarily on achieving the Millennium Development Goals, based on the findings of the joint World Bank/IMF publication, *Global Monitoring Report 2004: Policies and Actions for Achieving the Millennium Development Goals and Related Outcomes*, as well as the issue of long-term debt sustainability in low-income countries. The Communiqué of the International Monitoring and Finance Committee focused on sustaining the recovery of the global economy and financial markets, enhancing IMF support to low-income member countries as well as crisis prevention and IMF surveillance across its membership.

9. The President of the Trade and Development Board emphasized that UNCTAD, as the focal point within the United Nations for the integrated treatment of trade and development and the interrelated issues in the areas of finance, technology, investment and sustainable development, was pre-eminently placed to examine those issues and to build consensus for reformulation of policies in a globalizing world from a development perspective. He also outlined UNCTAD's views on developments in the world economy and described the organization's ongoing work in the areas of investment, debt and trade.

10. The Chairman of the Group of 77 focused on what he described as the imbalances in the globalization process and on the need for the process to be of greater benefit to developing countries. In that context, he called for progress on various issues of particular interest to developing countries, such as enhancing their voice and participation in the decision-making processes of the Bretton Woods

institutions, preserving the development content of the Doha round of trade negotiations of the World Trade Organization and fostering multilateralism. In addition, he emphasized the link between market access in trade, debt sustainability and achieving the Millennium Development Goals.

11. The Presidency of the European Union stressed the importance of reinforcing coherence, coordination and cooperation between the relevant international organizations, including at the national level in integrating finance, trade and development policies within the context of achieving the Millennium Development Goals. The Presidency also highlighted the efforts of the European Union to fulfil the commitments on official development assistance made at the Monterrey Conference, as well as steps taken by its member States in areas such as trade and debt relief to help developing countries achieve the Millennium Development Goals.

12. The President of Finland, who addressed the heads of delegations at a luncheon hosted by the President of the Council, drew attention to the World Commission on the Social Dimension of Globalization, established by the International Labour Organization (ILO), and its recently published report, *A Fair Globalization: Creating Opportunities for All*. The speaker underscored the need for job creation, which would be in the interest of all countries, and called for employment to be made a universal development goal.

III. Impact of private investment and trade-related issues on financing for development

13. Several ministers and representatives emphasized the key role of good governance in both encouraging local investment and attracting overseas investment. A dynamic private sector was a critical factor in economic growth and poverty alleviation. For the private sector to thrive, sound legal and regulatory systems, transparency and accountability of both private and public institutions, macroeconomic stability, peace and security were necessary.

14. Support for enterprise development was important, including agricultural and rural enterprises. Institutional and physical infrastructure, in particular an efficient domestic capital market, were main elements in the creation and development of productive enterprises. Enhanced information on opportunities and legal requirements for the establishment of new activities in various sectors could assist potential investors. A number of participants mentioned that risk tended to inhibit investment and referred, in particular, to three types of risk: exchange rate risk, political risk and the possibility that government contracts might not be honoured. A new credit line had been created by some donors and the Multilateral Investment Guarantee Agency to mitigate the last two forms of risk for foreign investors in several African countries. Some representatives pointed out that enhancing institutional infrastructure as well as risk mitigation measures presented special problems for post-conflict countries, for which it would be necessary to explore modalities to provide assistance.

15. A number of speakers indicated that national public and private as well as foreign investors should recognize social responsibility and accept social accountability. There was a need to step up measures to avoid tax evasion by corporations through practices such as transfer pricing. More generally, according to

many speakers, corruption at the national and international levels had to be tackled effectively. The recent United Nations Convention against Corruption was a step in the right direction.

16. The key role of small and medium-size enterprises as an engine of growth was emphasized by various participants. There was a need to promote and nurture these enterprises with adequate legislation as well as to enhance their access to finance and technical expertise. In this context, the important contribution of women in support of, and as part of, private sector development was highlighted. Micro-credit could also play an important role. In more general terms, harnessing available human and domestic financial resources to support economic growth and development was critical for sustained progress in poverty eradication.

17. A number of representatives stressed that physical infrastructure was paramount to create and maintain an enabling environment for domestic and foreign investment and to strengthen international trade. Several participants indicated that enhancing public/private partnerships could be an important instrument to strengthen the infrastructure of developing countries. Other speakers noted the need to reconsider the way that spending on infrastructure is presented in fiscal accounts in order to ensure that essential infrastructure projects, which provide a high rate of return in the long run, are not adversely affected by rigid budget targets or fiscal tightening.

18. In some countries, workers' remittances were now larger than aid flows or foreign direct investment. At the global level, remittances were continuing to grow rapidly, largely exceeding total official development assistance. Several representatives pointed out that both host and recipient countries need to implement measures to enhance the flow of remittances and reduce related costs. At the same time, recipient countries should facilitate putting an increased share of these resources to productive use.

19. Most speakers highlighted the importance of effective progress in the multilateral trade negotiations with a view to promoting development worldwide and achieving the Millennium Development Goals. According to many representatives, international trade was the main engine for economic development. Thus, the opening of markets to the exports of developing countries was both a prerequisite for further growth and critical for export oriented domestic and foreign direct investment. Trade capacity-building was mentioned as a key factor in enhancing the gains of developing countries from trade negotiations.

20. Resource mobilization for development could be greatly enhanced by making decisive progress on the Doha development agenda. Several ministers and representatives pointed to the absence of real progress in trade negotiations. A breakthrough in agriculture was critical to moving forward in this area. Numerous analyses suggested very large gains from trade liberalization, not only for developing but also for developed countries. It was necessary to muster the required political will to make rapid progress. Other speakers reiterated the importance of placing development more prominently on the agenda of the World Trade Organization. It was noted that there was a need to reach agreement on the modalities for negotiating agriculture and market access for industrial goods as well as on preferential treatment and the so-called Singapore issues.

21. The outcome of trade negotiations implies some measure of liberalization for all parties involved. The decision of IMF, in April 2004, to create the Trade Integration Mechanism (TIM) should assist in easing the transition of many developing countries to freer trade policies. A number of representatives also emphasized the strengthening of regional trade ties among developing countries. About 40 per cent of trade of developing countries was with other developing countries, and there was still considerable potential for such trade to increase at a fast pace. Some speakers referred to the particular situations of the least developed countries, land-locked developing countries and small-island developing States, which had greater difficulty in attracting foreign investment and forging dynamic regional trade agreements among themselves. It was suggested that their special circumstances should be taken into account in the multilateral trade negotiations and that there should be special provisions tailored to their development needs.

22. In commodity-dependent developing countries, declining or high instability in commodity prices acts as a disincentive to foreign capital investment. In many of such countries, in particular African countries, debt servicing capacity and the evolution of domestic savings are closely related to the performance of the commodity sector. It is regrettable that discussion of how developing countries can improve their earnings from commodity exports has not been given more attention at the multilateral level.

IV. Role of multilateral institutions in reaching the Millennium Development Goals

23. In the view of many ministers and representatives, the development goals set out in the Millennium Declaration and the policies contained in the Monterrey Consensus provided the main orientation for multilateral organizations focused on development issues. Each institution, from the perspective of its unique mandate, was called on to make a contribution towards the common goal: the elimination of poverty. Despite the fact that the Millennium Development Goals have become the core business of several international organizations, many speakers expressed concern about insufficient coordination of their activities and lack of clarity in the division of labour, a problem that was often compounded by weak coordination with bilateral donors. At the field level, ownership and efficiency required that the partner country coordinate the bilateral and multilateral donors, not the other way around.

24. With respect to monitoring the Millennium Development Goals, some representatives felt that the division of labour between the United Nations and the Bretton Woods institutions was clear: the former would monitor targets and indicators while the latter would focus on policies and actions. Others noted that, because monitoring and assessment should clearly bring out interrelations, the approach was not satisfactory. It was important to establish the link between policies and actions and changes in indicators and then to assess progress made. Moreover, owing to the wide diversity of situations and the way policies interact in different countries, it is particularly difficult to apply a “one size fits all” approach. Several representatives stressed that monitoring should address the performance of main partners: donor countries and multilateral institutions. Some donor countries, in launching national self-assessment reports on their progress regarding their

international development commitments, had made an important contribution to the monitoring process. In the case of many recipient countries, there were major gaps in crucial information. This required special efforts by the countries themselves, particularly in improving education and health statistics, as well as specific support by development partners to upgrade national statistical systems.

25. A number of representatives pointed out that the monitoring of results was also important because it provided useful information for potential domestic and foreign investors. Moreover, successful experience could be disseminated, achieving a much broader effect. Dialogue on policies at the regional level, through the comparison of policies in similar countries, such as the peer reviews in the New Partnership for Africa's Development, can be useful in improving policy formulation and implementation. One speaker pointed out the drastic reduction in poverty since the early 1980s in East Asia. Countries in East Asia provided important lessons for other developing countries. Priority for development, building the human, institutional and physical infrastructure, and the expansion of productive investment and trade were common elements of the success. Some representatives also pointed to the crucial role that the private sector could play in achieving the Millennium Development Goals. The recent report *Unleashing Entrepreneurship: Making Business Work for the Poor*, issued by the Commission on the Private Sector and Development, under the leadership of Paul Martin, Prime Minister of Canada, and Ernesto Zedillo, former President of Mexico, was a key contribution in that direction.

26. The above-mentioned *Global Monitoring Report 2004: Policies and Actions for Achieving the Millennium Development Goals and Related Outcomes*, reported on progress as well as gaps in achieving the Millennium Development Goals. By and large, developing countries were abiding by the commitments made at Monterrey while the performance of developed countries had been uneven. One major aspect highlighted in the report was the critical need for more and better aid. Many representatives stressed that mutual accountability among donors and recipients was critical and that the volume and effectiveness of aid needed to be increased as a supplement to the mobilization of domestic resources. Aid was particularly important if countries in Sub-Saharan Africa were to achieve the Millennium Development Goals. Given the large gap in resources, several speakers called for innovative measures, such as the establishment of the International Finance Facility or taxes and levies on the utilization of global commons.

27. According to a number of ministers and representatives, coherence in national and international policies as well as in development cooperation was critical. Enhancing development required more equitable trade and simultaneous advances in the supply of foreign financial flows and access to markets. It also required enhanced international governance. In this context, several representatives stressed the importance of more equitable representation of developing countries in international economic decision-making processes, in particular in the Bretton Woods institutions.

28. Several representatives stated that the poverty reduction strategy papers of the World Bank were a useful tool to align the Millennium Development Goals and the various policies and interventions at the national level, in particular when they were aligned with national conditions and priorities. There was a need to further adapt the papers to the specific circumstances of individual countries and to integrate them

into the national budget. Likewise, a stronger link to the achievement of the Millennium Development Goals was also necessary. The poverty reduction strategy papers process worked better when it was fully operated by the individual country and adequate technical assistance was provided for preparation. A coherent result was possible when all stakeholders, including domestic and international partners, contributed to the preparation of a country's poverty reduction strategy paper.

29. While poverty reduction strategy papers are generally for low-income countries participating in the assistance programmes run by the Bretton Woods institutions, many middle-income countries face challenges in formulating national development strategies to attain the Millennium Development Goals. In this regard, members of the Rio Group were exploring ways to increase investments in physical and social infrastructure through innovative modalities of public and private financing to reduce poverty and strengthen democratic governance.

V. Debt sustainability and debt relief

30. Many ministers and representatives stressed that economic growth was the key challenge facing emerging economies and low-income countries. Economic growth was a main determinant of debt-servicing capacity. Debt crises were usually the result of mistakes on all sides. Several representatives acknowledged that many debtor developing countries needed to improve management to avoid debt crises but that an improved international trade and financial environment was also required. It was seen as a crucial issue of coherence of international trade, financial and development policies.

31. Considerable attention was given to the Heavily Indebted Poor Countries (HIPC) initiative. It was noted that significant progress was being made in implementing the initiative, with 13 countries having reached the completion point and 14 having reached the decision point and on the road to the completion point. Eleven more countries were eligible but had not yet reached the decision point.

32. The HIPC initiative is due to expire at the end of 2004 unless the executive boards of IMF and the World Bank decide to extend it. Many speakers expressed their support for allowing those countries that have not reached the decision point to benefit from the initiative. There was also support for topping up HIPC debt relief, as necessary, and increasing the flexibility of the HIPC process, which, in the view of some representatives, could potentially be made available to additional countries.

33. It was important, according to several participants, that the debt sustainability framework take into account the imperative of reaching the Millennium Development Goals. This concern could be addressed by linking poverty reduction strategies or the poverty reduction strategy paper process with national budgets and, through the budgets, with macroeconomic programmes and debt sustainability analyses. The results of such analysis for some of the low-income countries might indicate that debt sustainability requires a large share of concessional financing. When low-income countries reach the edge of debt sustainability and cannot safely absorb new credits, even on highly concessional terms, they should receive the resources they need to achieve the Millennium Development Goals in the form of grants. It was noted that this required an appropriate response from donor countries.

34. The main objective of the new debt sustainability framework was to better design borrowing policies. The framework was not yet finalized and needed to be further developed. Some speakers pointed out that the external debt of both the public and private sectors must be considered. Others argued that it was not acceptable to strive for debt sustainability in countries with very low income levels and high incidence of poverty. It was also suggested that debt sustainability be discussed broadly and decisions reached after consultation with legislature and civil society in the respective countries.

35. A number of speakers welcomed the initiative of the Bretton Woods institutions to develop a new framework for debt sustainability analysis for low-income countries. The focus on the consequences of alternative futures and capacity to respond to shocks were important aspects of the analysis, which must go beyond heavily indebted poor countries to include middle-income countries. There had been some progress in addressing debt sustainability through crisis prevention measures. In this regard, several developments were mentioned: observance of standards and codes; improvements in debt management; accumulation of foreign currency; introduction of more flexible exchange rate regimes; and development of local financial markets. Nevertheless, in the view of one representative, there was a need for a comprehensive financial crises prevention strategy, which should include consistent fiscal, monetary, exchange rate and financial policies, ensure adequate local financing and overcome inefficiencies in information systems.

36. According to some representatives, when debt problems occur, it is important to ensure that there are neutral forums, not dominated by creditors, to implement debt restructuring policies. In many cases, crises cannot simply be solved by providing liquidity; policies to expand growth are also required. In this regard, the critical importance of counter-cyclical policies, and the need to establish the conditions to implement such policies, were stressed. One representative noted that, in some cases, debt crises could be triggered by massive fraud, made possible by taking advantage of lax or inadequate banking or financial system regulations. More effective supervision was critical to avoid such situations.