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Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus: achieving the internationally agreed development goals, including those contained in the Millennium Declaration

Note by the Secretary-General*

Executive summary

The present note provides background information and appends a number of points for reflection to inform discussion at the 2005 special high-level meeting of the Economic and Social Council with the multilateral financial institutions, the World Trade Organization and the United Nations Conference on Trade and Development (UNCTAD) in relation to the three sub-themes selected for this year's interactive dialogue: (a) policies and strategies, (b) trade, investment and private flows and (c) official development assistance (ODA), innovative sources of financing and debt.

The first sub-theme covers the policies introduced by developing countries to ensure the appropriate national environment within which to mobilize domestic resources, as well as the actions taken by developed countries and multilateral institutional stakeholders to ensure an international environment in support of the domestic efforts of developing countries.

* The present note has benefited from consultations with staff of the major institutional stakeholders in the financing for development follow-up process. Responsibility for the contents of the note rests, however, solely with the United Nations Secretariat. The note was submitted for processing on 6 April 2005 because the decision on the specific issues for discussion at the meeting was taken by the Economic and Social Council only on 31 March 2005; therefore, there is no assurance that the document will be available, in all official languages, by the time the meeting convenes on 18 April 2005.

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The second sub-theme deals with the actions taken in the areas of multilateral trade negotiations to ensure greater market access, and in investment and private financial flows, to increase the capacity of developing countries to take advantage of their insertion into an open, rules-based, international system of trade and finance.

The third sub-theme addresses the issue of the adequacy of official assistance flows to meet the commitments of the United Nations Millennium Declaration, and the issue of additional and innovative sources of financing that might be accessed to supplement those flows, as well as policies to ensure that increased flows remain consistent with debt sustainability in the recipient countries.

Introduction

1. In paragraph 32 of his report to the General Assembly in preparation for the 2005 review of the Millennium Declaration, entitled "In larger freedom: towards development, security and human rights for all" (A/59/2005), the Secretary-General noted that the global partnership between rich and poor countries reached at the International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, lay at the heart of the success in achieving the commitments of the United Nations Millennium Declaration[1] and, in particular, Millennium Development Goal 8. In the historic Monterrey Consensus of the International Conference on Financing for Development,[2] which was achieved at Monterrey, each developing country accepted primary responsibility for its own development — strengthening governance, combating corruption and putting in place the policies and investments required to drive private sector-led growth and maximize domestic resources available to fund national development strategies. Developed countries, on their part, undertook to ensure that developing countries that had adopted transparent, credible and properly costed development strategies would receive the full support they needed, in the form of increased development assistance, a more development-oriented trade system and wider and deeper debt relief. The major institutional stakeholders agreed to facilitate the Monterrey Consensus through increased coherence, coordination and cooperation in the implementation of international development policies. However, in the words of the Secretary-General: "All of this has been promised but not delivered" (A/59/2005, para. 32). As stipulated in the Monterrey Consensus, the special high-level meeting brings together all parties to the Consensus to discuss how the commitments made at Monterrey can be achieved in order to allow, inter alia, the realization of the Millennium Development Goals.

2. The present note has been provided as a background for discussion, and should be read in conjunction with the Secretary-General's recommendations on related issues to be found in the report contained in document A/59/2005.

I. Sub-theme 1: Policies and strategies

Mobilizing domestic resources

3. Three years after the Monterrey Conference, domestic policy stances and institutional transformations in most countries have moved in the direction of the policy orientations and actions reflected in the Monterrey Consensus. While not every country has moved at the same pace, the majority of developing and transition economy countries have taken noteworthy initiatives. However, only a few have made progress over the whole spectrum of policies geared to increase the mobilization of domestic financial resources for development. Enhanced domestic policy measures and institutional change have been facilitated by the recovery of international trade and higher primary commodity prices. A critical challenge for the

[1] See General Assembly resolution 55/2.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

majority of countries is thus to sustain the momentum of policy and institutional reform, in some cases widening the reforms to areas as yet untouched, and for several countries to start the reform process in earnest.

4. Despite progress in managing domestic economic policies, developing countries remain vulnerable to external factors such as reversals in the terms of trade, a sudden escalation of international interest rates and the outflow of capital that might result from the growing macroeconomic imbalances that characterize the global economic situation. Hence, the need to deepen the reforms as well as to take preventive actions — internationally and nationally — to lessen the pro-cyclical nature of private flows, improve debt management, address the problem of price fluctuations of main commodity imports and exports, and guarantee adequate levels of social protection — especially for the most vulnerable.

5. The Monterrey Consensus points to other significant factors that are important in ensuring a domestic environment for sustained development. They include good governance, solid democratic institutions responsive to the needs of the people, improved infrastructure, peace and security, respect for human rights and gender equality. It also highlights the key role of appropriate policy and regulatory frameworks in encouraging private initiative in a dynamic and well-functioning business sector.[3]

6. While there are different views on the most appropriate enabling environment for business,[4] five important features can be identified: appropriate and enforceable regulations and laws, availability of finance, infrastructure, information, and an enabling domestic and international policy environment. Since laws and regulations applied in industrialized countries have responded to changing social, political and cultural conditions, they tend to vary across countries and no simple configuration can be termed ideal. At the same time, inasmuch as laws and regulations often fail to meet the intended social objectives, they may harm the business environment through imposing unnecessary costs, increasing uncertainty and risks and erecting barriers to competition. There may thus be substantial scope for reforming certain aspects of the regulatory and legal environment in developing countries without compromising broader social goals.

7. There are several key areas where the legal and regulatory framework could have a strong impact on the business environment. The World Bank has suggested that the legal requirements for starting a business in many countries are excessive and time-consuming and that there exist laws and regulations that restrict the ability of enterprises to restructure or shut down. The fact that in many developing countries a large part of landed property is not formally registered thus creates an obstacle to financing business initiative. Since land can be used as loan collateral, this is especially important for small enterprises. Improvement of transparency and information can facilitate contract enforcement by enabling firms to know their potential partners' business history and credit information. Employment regulations

[3] See Commission on the Private Sector and Development, report to the Secretary-General entitled *Unleashing Entrepreneurship: Making Business Work for the Poor* (New York, United Nations Development Programme, 2004).

[4] A forthcoming report on "Strengthening the role of the private sector and entrepreneurship in development", to be submitted to the General Assembly pursuant to Economic and Social Council resolution 2004/64 of 16 September 2004, will contain a more complete discussion of these issues.

are especially important in economies that do not have established social security systems: they are generally designed to protect workers from the arbitrary actions of employers. However, in some countries, employers may be hindered by unnecessary reporting and excessively detailed regulations that stifle the growth of private businesses and, by association, new job creation. Or they may contribute to the expansion of the informal sector where workers most usually have no protection. Where labour law reform is being implemented, all efforts should be made to ensure that appropriate health and safety standards are maintained and that workers receive the necessary social protection. The benefits of appropriate contract laws and regulations are only as good as the legal system that enforces them. This calls for a strengthening of the administrative infrastructure and the courts and a tackling of the problem of corruption.

8. As stressed in the United Nations Millennium Declaration and the aforementioned recent report of the Secretary-General, enhancing people's capacities is a central national task and Governments bear a responsibility for ensuring sustained improvements in education and health. The Secretary-General has proposed that by 2006 the poorest countries should adopt and implement a national development strategy bold enough to meet the targets of the Millennium Development Goals for 2015. Strategies should be built on practical scaling up of public investments, capacity-building, domestic resource mobilization and, where needed, official development assistance (ODA). Linking actions directly to the needs derived from ambitious and monitorable targets would mean a breakthrough towards greater boldness and accountability in the fight against poverty. Such an approach would not require the creation of any new instruments, only a different approach to design and implementation of policy. Countries that already have poverty reduction strategy papers (PRSPs) — nationally owned and developed three-year spending frameworks agreed with the World Bank and other international development partners — should align them with a 10-year framework of policies and investments consistent with the achievement of the Millennium Development Goals. In middle-income countries and others where the goals are already within reach, Governments should adopt a "Millennium Development Goals plus" strategy, with more ambitious targets.

9. In this context, it is important to remember that rapid economic growth and high and sustained levels of employment facilitate poverty reduction and are critical to attaining poverty eradication objectives. A national development strategy, in which the main country objectives — such as attaining potential economic growth with high levels of employment and policies to address sectoral imbalances in the composition of domestic production and exports — are explicit, is an important tool with which to mobilize domestic actors as well as to enhance international economic cooperation and mobilize private resources from abroad. The formulation of a national development strategy assists in setting priorities and the appropriate sequencing of government actions.

10. Often, market-led growth impulses emerge spontaneously in one or several economic sectors or areas, and it is partly the task of the Government to create conditions conducive to the widening of those impulses and to their production of sustained economic expansion. An important function of government national development strategies is to assist sustained productivity increases (for example, through quality infrastructure, education and training, and technological research and development) in areas that have proved promising. These policies are key to

generating high-quality employment. In successful countries, export promotion as part of the national development strategy has also played a key role in rapid development. When, despite an improved macroeconomic environment and progress towards more open policies, growth impulses remain weak or lethargic, the national development strategy and productive sector policies assume particular importance.

International and systemic aspects

11. As recognized in the Monterrey Consensus, domestic efforts can succeed only if supported by an enabling international environment for growth and development. Developed countries and multilateral financial institutions can act to ensure the coherence and consistency of the international monetary, financial and trading systems through strong coordination of macroeconomic policies among the leading industrialized countries so as to achieve greater global stability and reduced exchange-rate volatility. It is also important for international financial institutions, including the International Monetary Fund (IMF), to have a suitable array of financial facilities and resources with which to respond in a timely and appropriate manner so as to help prevent financial crisis. Regarding medium- to long-term financial flows, the Monterrey Consensus recognized that multilateral and regional development banks play a vital role in financing for development and should contribute to providing an adequate supply of finance to countries challenged by poverty that follow sound economic policies but may lack access to capital markets. They should also mitigate the impact of the excessive volatility of financial markets.

12. Given the large global imbalances, effective macroeconomic coordination among leading countries (both developed and developing) appears critical for a smooth resolution of the major current-account and fiscal deficits. That the three-year decline of the dollar has not been accompanied by a reduction of external imbalances to a sustainable level suggests that additional internationally coordinated measures will be required to ensure that any reduction of growth in the United States of America that might accompany correction of its fiscal deficit and an improvement in its private savings rate is counterbalanced by expansionary measures elsewhere.

13. IMF has continued to adjust and adapt its various lending programmes to changes in the global economy and the needs of those countries seeking its support. However, the Contingent Credit Line has been allowed to lapse without any alternative through which to assist countries with sound policies in coping with potential capital-account crises stemming from sudden outflows of capital. There has been a continued increase in the costly build-up of precautionary reserves as a form of self-insurance against volatility in international capital flows.[5] Thus, there remains a critical need for effective progress in this area.

14. The Monterrey Consensus called for a search for pragmatic and innovative ways to further enhance the participation of developing countries and countries with economies in transition in all international economic decision-making and norm-setting institutions. Here also, progress has been uneven and slower than anticipated. The issue has become part of the agenda of the International Monetary

[5] See report of the Secretary-General entitled “International financial system and development” (A/59/218 and Corr.1), paras. 3-7.

and Finance Committee and the Development Committee and some initial steps have been taken, such as the establishment of an Analytical Trust Fund to support the African Chairs at the Bank. Technical work on the issue has continued in the Bretton Woods institutions[6] and further consideration of this issue is envisaged. However, as recent World Bank reports recognize, this issue needs to be resolved as a matter of urgency. After all the technical efforts and discussions at the ministerial level, it is becoming increasingly clear that unless the necessary political will is mobilized to find pragmatic and innovative ways — as indicated in the Monterrey Consensus — to approach the issue, progress will remain, at most, marginal.

15. In other institutions, progress has also been uneven. The World Trade Organization has taken formal and informal steps to make the negotiation processes more inclusive and transparent; but in other international bodies that have a major influence in setting financial standards and norms, such as the Basel Committee on Banking Supervision and the Financial Stability Forum, systemic exclusion continues. Although modalities for ad hoc participation and consultation in these latter bodies have widened, no formal steps have been taken to achieve effective participation of developing countries.

16. Recognizing the call in the Monterrey Consensus for "strengthening international tax cooperation through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and regional organizations", on 11 November 2004, the Economic and Social Council adopted resolution 2004/69, in which the Council decided that the Ad Hoc Group of Experts on International Cooperation in Tax Matters should be renamed the Committee of Experts on International Cooperation in Tax Matters, which should comprise 25 members drawn from the fields of tax policy and tax administration and representing different tax systems. The Committee should provide a new framework for productive dialogue with a view to promoting and facilitating international cooperation among governmental tax authorities. The Committee, to be constituted by May 2005, will hold its first meeting from 5 to 9 December 2005 in Geneva.

Possible questions to be addressed under sub-theme 1:

1. Is there a more direct role, apart from technical assistance, that regional multilateral development banks can play in order to increase the supply and reduce the cost of finance to small business in developing countries?

2. The increased efforts by Governments to achieve the Millennium Development Goals are often accompanied by higher public expenditures, particularly in education and health. How can it be ensured that outcomes are commensurate with the increased expenditures?

3. How can World Trade Organization commitments, evolving Bretton Woods conditionalities and other measures applied to developing countries be made more coherent and supportive of national development strategies?

[6] See, for example, IMF, "Quotas: Updated Calculations", 27 August 2004, and IMF, "Report of the Executive Board to the International Monetary and Finance Committee (IMFC) on Quotas, Voice, and Representation", 24 September 2004.

4. How can better international surveillance and coordination of macroeconomic policies of developed and developing countries contribute to the ordered elimination of the existing global imbalances?

5. How can the financial facilities and resources of international financial institutions, including IMF, be improved to respond in a timely and appropriate manner so as to prevent financial crisis?

6. What political measures would be most effective in furthering the increased voice and participation of developing countries in all international decision-making bodies whose decisions have an impact on developing countries?

7. What are the priority areas that should be addressed by the new Committee of Experts on International Cooperation in Tax Matters? Could it focus, for example, on contributing to the objective of minimizing and eliminating tax evasion?

II. Sub-theme 2: Trade, investment and private flows

Trade

17. From the beginning of the rules-based trading system that grew out of chapter IV of the Final Act of the International Conference on Trade and Employment (Havana, 1948), certain exports of importance to developing countries have not been subject to the same rules applied to industrial products and were exempted from multilateral negotiation. Even today, developing countries are often denied a level playing field on which to compete in global trade because developed countries use a variety of tariffs, quotas and subsidies to restrict access to their own preferred markets and shelter their own producers, especially in agricultural products, despite the Agreement on Agriculture negotiated in the Uruguay Round of multilateral trade negotiations. The Doha Work Programme thus sought to emphasize the development potential of further liberalization of markets for manufactured goods and services in developing countries and for agricultural goods in developed countries.

18. In response to the call of the Fifth Ministerial Conference of the World Trade Organization, held in Cancún, Mexico, from 10 to 14 September 2003, to move towards a successful and timely conclusion of the negotiations, members of the World Trade Organization in July 2004 adopted a framework for agriculture negotiations including a decision to eliminate export subsidies by a date to be determined through negotiations, commitments to reduce or otherwise discipline trade-distorting domestic support, agreement (in the area of market access) that tariff reductions were to be effected through a tiered formula with deeper cuts to be made to higher tariffs, and agreement that the issue of cotton would be dealt with in the agriculture negotiations. A framework was also adopted for the negotiations on non-agricultural market access; and members of the World Trade Organization have agreed guidelines on the scope and approach to be taken in these negotiations and while work is continuing on the specifics, there is now an important template for the reduction and elimination of tariffs and non-tariff barriers. Negotiations were launched on trade facilitation and members of the World Trade Organization agreed that other, so-called Singapore issues, namely, investment, competition policy and

transparency in government procurement, would not be negotiated in the Doha Round; recommendations were adopted to advance the services negotiations. In addition, special consideration will be given in the negotiations to trade and development-related concerns of developing countries, including capacity constraints. Prominence is also given to the mandate of making existing special and differential treatment more precise, effective and operational.

19. To ensure "development-friendly liberalization" under the Doha negotiations, actions should be taken in the following areas: (a) enhanced and predictable market access for developing countries in industrial products, agricultural goods, and in Modes 1 and 4 of trade in services, complemented by the removal of non-tariff barriers, and effectively addressing market entry barriers and concentration of market power; (b) improving market access for commodities, promoting commodity diversification, providing adequate commodity financing and effectively dealing with long-term decline and fluctuations of commodity prices; (c) responding effectively to resolve supply-side constraints; (d) providing concrete and operational special and differential treatment for developing countries in trade agreements; (e) specific measures to address the erosion of trade preference and revenue losses from trade liberalization; (f) full and rapid achievement of quota-free, duty-free market access by developed countries for all exports of least developed countries; (g) provision of adequate assistance to meet adjustment and capacity-building requirements arising from trade agreements, and to strengthen supply capacity and competitiveness, including through the establishment of an aid-for-trade fund to complement aid for development; (h) exploring opportunities for developing countries emerging from the Clean Development Mechanism following the entry into force of the Kyoto Protocol[7] to the United Nations Framework Convention on Climate Change[8] on 16 February 2005; and (i) ensuring development compatibility and coherence between the multilateral trading system and regional trade agreements, as well as between the trading system and international monetary and financial systems.

20. The Director-General of the World Trade Organization has recently noted that many difficult elements remain far from resolution and has cautioned that greater progress is needed across the very large agenda of World Trade Organization negotiations so as to ensure an ambitious outcome at the Sixth Ministerial Conference to be held in Hong Kong Special Administrative Region of China from 13 to 18 December 2005. The Secretary-General has also urged members of the World Trade Organization to complete the Doha Round of multilateral trade negotiations in such a way as to fulfil its development promise no later than 2006 and, as a first step, has called upon Member States to provide duty-free and quota-free market access for all exports from the least developed countries (A/59/2005, para. 55).

21. While the most rapid benefits to developing countries from more open trade will come in the areas of agricultural products where developed countries have the highest subsidies, developing countries can also benefit from reducing their own tariffs on manufactures through the new round of negotiations under the Global System of Trade Preferences among developing countries announced at the eleventh session of UNCTAD, held in São Paulo, Brazil, from 13 to 18 June 2004.

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[7] FCCC/CP/1997/7/Add.1, decision 1/CP.3, annex.

[8] United Nations, *Treaty Series*, vol. 1771, No. 30822.

22. Over the last two decades, developing countries have stabilized their export earnings by increasing the share of manufacturing exports in their total exports to about 70 per cent. However, significant differences remain among developing regions. In Africa, the share of manufacturing exports of about 30 per cent in 2000 represented an increase of only 10 percentage points compared with the 1980 share, while the continent's share of world merchandise exports fell from 6.3 per cent in 1980 to 2.5 per cent in 2000 in value terms. Not only has Africa remained commodity-dependent, but it has fallen behind other developing regions of the world in exports of non-fuel primary commodities.[9] Since most African countries depend on from two to three main primary commodity exports for the bulk of their foreign exchange earnings, their external performance and external indebtedness are directly influenced by short-term instability of primary commodity prices. Further, studies suggest that owing to concentration in the structure of international commodity markets, commodity producers are less likely to benefit from increases in international commodity prices at the wholesale and retail levels.[10] Since many African countries depend on import and export taxes, fiscal earnings as well as their ability to finance social expenditures are highly vulnerable to changes in the value of commodity export earnings. Direct and indirect measures to reduce dependence on commodity exports and to reduce the impact of commodity price instability are thus crucial if Africa is to meet the Millennium Development Goals.[11]

Investment and private flows

23. Private capital flows have come to play the dominant role in development finance, eclipsing both official bilateral and multilateral flows. However, these flows tend to be more volatile than official flows and pro-cyclical. This can be seen in the behaviour of private flows over the years since Monterrey. While the net private financial flows of $59.6 billion received by developing countries in 2004 represented a decline from 2003, they were substantially higher than the average levels recorded for 1998-2002. Net financial flows to countries with economies in transition turned negative in 2004. Even net direct investment flows that have become the most important source of external finance for developing countries have declined since 2000 and have yet to return to the steady increases seen earlier in the early 1990s.

24. Legislative and regulatory changes, as well as extensive privatization of State-owned assets in a number of emerging market economies and economies in transition in the 1990s, and foreign acquisitions of distressed corporations after financial crises, supported the growth in foreign direct investment (FDI). However, privatization of many public services and provision of social infrastructure has had

[9] See UNCTAD, *Economic Development in Africa: Trade Performance and Commodity Dependence* (United Nations publication, Sales No. E.03.II.D.34).

[10] J. Morisset ("Unfair trade? the increasing gap between world and domestic price in commodity markets over the past 25 years", *World Bank Economic Review*, vol. 12, No. 3 (1998), pp. 503-526) notes that since the 1970s, commodity prices have fallen in international markets at the same time that consumer prices have risen. For example, the price of coffee declined 18 per cent on world markets between 1975 and 1993, but its consumer price increased 240 per cent.

[11] The continuing importance of action to improve the contribution of commodity exports to the development process is recalled in the summary by the President of the General Assembly on the discussions of the open-ended panel of the Assembly on commodities (A/58/615, annex).

mixed results, leading to the proposal of increased use of public-private partnerships in these areas.

25. The overall outcome of the various financial flows saw a seventh consecutive year of increasing net transfers of financial resources from developing to developed countries. Some of the increase in net transfers reflected strong growth in export revenues that had led to current-account surpluses in some countries. However, these countries mostly chose to use them as a means to improve their self-insurance against possible balance-of-payments difficulties, either by increasing their foreign exchange reserves or by reducing their foreign debt. The perceived need for such self-insurance should be seen as a major deficiency of the international financial system. Referring to the current pattern of negative net resource flows, a member of the Board of Governors of the United States Federal Reserve Board noted that: "In the longer term … the current pattern of international capital flows — should it persist — could prove counterproductive … Basic economic logic thus suggests that, in the longer term, the industrialized countries as a group should be running current-account surpluses and lending on net to the developing world, not the other way around."[12]

26. In recent years, private inflows have grown by an increase in workers' remittances. The issue was in the agenda of the June 2004 Group of Eight (G8) meeting at Sea Island, Georgia, and the spring 2004 meeting of the IMF/World Bank Development Committee whose 25 April 2004 communiqué noted "the growing importance of … workers' remittances and called for further work to improve understanding of their determinants and to create a supportive environment to enhance their development impact" (para. 5). According to estimates by the World Bank, remittances reached $72 billion in 2001 and $93 billion in 2003. However, available evidence suggests that the prime use of remittances is to finance consumption expenditures. Further, they are concentrated in a relatively small number of countries such as India, Mexico, the Philippines and Turkey: sub-Saharan Africa receipts were of the order of only $1 billion. However, even if most remittances fund consumption, they may still make a valuable contribution towards satisfying basic needs and relieving poverty. Recent work has tended to stress the developmental dimension of remittance flows, highlighting its role in developing human capital through education and, to a lesser extent, physical investment in farms or housing. In addition, as will be referred to in the section dealing with innovative sources of finance below, some are suggesting the need for a set of internationally agreed guidelines on this subject.

Possible questions to be addressed under sub-theme 2:

1. What continue to be the most important aspects of the development dimension of the Doha Round, particularly for achieving the Millennium Development Goals?

2. How can this development dimension be given higher priority in the completion of the negotiations?

3. How can the need for large foreign exchange reserves experienced by emerging-market developing countries to provide self-insurance against

[12] Remarks by Federal Reserve Governor Ben S. Bernanke at the Sandridge Lecture entitled "The Global Saving Glut and the U.S. Current Account Deficit", Virginia Association of Economics, Richmond, Virginia, 10 March 2005.

volatility in international trade and financial flows, and the cost of those reserves, be reduced?

4. How can measures to increase commodity price stability and returns from commodity exports contribute to achieving the Millennium Development Goals?

5. What national and international efforts can be made to increase the stability of private capital flows to developing countries and to maximize their development impact?

6. How effective have public/private partnerships really been as a mechanism for the provision of public infrastructure investment in developing economies? How can they be improved?

7. How can international cooperation in financial and trade regulation promote more effective use of worker remittances for developing purposes? What sort of internationally agreed guidelines might be needed in this regard?

III. Sub-theme 3: Official development assistance, innovative sources of finance and debt

Official development assistance

27. Pledges of increased assistance made by developed countries at the Monterrey Conference reversed the declining trend of official assistance to developing countries. As a result of these pledges, ODA in 2003 increased to 0.25 per cent of developed-country national income from 0.23 per cent in the previous year. However, this figure is still below the 0.33 per cent recorded for the period 1980-1992 and still farther below the internationally agreed target of 0.7 per cent of gross national incomes dedicated to official assistance. On the basis of the $69 billion of ODA recorded by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) for 2003 and the longer-term commitments made by several DAC member countries, ODA is expected to reach $88.4 billion by 2006,[13] and could reach $100 billion[14] by 2010.[15]

28. Notwithstanding the recent trend increase in official assistance, current levels still fall far short of all estimates, including those in the Millennium Project, of the amount deemed necessary to achieve the Millennium Development Goals. Further, while the nominal figures for increases in ODA are encouraging, they have to be interpreted with some caution. Adjusted for depreciation of the United States dollar and price inflation, the 18.4 per cent annual increase of ODA reported for 2003 relative to 2002 falls to about a quarter of that figure. In addition, it is normally expected that ODA should provide new cash resources that make it possible for recipient countries to increase development spending. However, an increasing

[13] The DAC Journal, *Development Co-operation Report*, 2004, vol. 6, No. 1, p. 19 (Paris, OECD, 2005).

[14] The forecast figures refer to 2003 dollars.

[15] The DAC Journal, *Development Co-operation Report*, 2004, vol. 6, No. 1, p. 22 (Paris, OECD, 2005).

portion of the recent increases in ODA has taken the form of expenditures on emergency relief in countries that donors have deemed critical for security reasons. For example, when corrected for these items reported by DAC for Afghanistan and Iraq alone, ODA in 2003 barely increased in real terms, suggesting that the increase in resources available to meet the Millennium Development Goals has been quite modest. Furthermore, when grants and concessional bilateral flows are used to clear arrears with multilateral institutions, this further reduces the resources available for development.

29. Denmark, Luxembourg, the Netherlands, Norway and Sweden already meet or exceed the 0.7 target of their national incomes dedicated to official assistance, while a number of other European countries, including Belgium, Finland, France and Ireland, have set precise target dates for meeting the target, and Spain and the United Kingdom of Great Britain and Northern Ireland have indicated their intention to do so by 2012 and 2013, respectively.[16] The Secretary-General recently urged developed countries that had not already done so to establish fixed timetables that would involve significant increases starting no later than 2006 and reaching 0.5 per cent by 2009 in order to achieve the 0.7 per cent target of gross national income for ODA by 2015 (A/59/2005, para. 49).

30. In addition to increasing nominal ODA levels, efforts have been made to enhance aid effectiveness through better harmonization of aid procedures and improved coordination of donor policies and procedures. Some progress in streamlining conditionality of aid flows is emerging. For example, the Government of the United Kingdom launched a new policy early in 2005 that eliminates specific policy conditions on aid, including sensitive areas like privatization and trade liberalization.

31. Bilateral donors and multilateral agencies significantly increased their aid commitments for trade-related technical assistance and capacity-building in 2003. Commitments to activities aimed at supporting beneficiary countries in the area of trade policy and regulations increased by 48 per cent to reach almost $1 billion in 2003, while the volume of aid committed to trade development rose by 34 per cent, to almost $1.8 billion. In addition to these activities, donors and agencies committed over $8 billion to support economic infrastructure — transport, energy and telecommunications — which is essential for international trade.

32. The commitments undertaken at the 2003 Rome High-level Forum on Harmonization have been reinforced by the Paris Declaration on Aid Effectiveness issued at the second High-level Forum on Harmonization and Alignment and Managing for Development Results, held in Paris from 28 February to 2 March 2005. The Secretary-General has noted the urgency in implementing these commitments to increase the quality, transparency and accountability of ODA, with greater attention given to local needs identified in countries' national strategies and to the achievement of the Millennium Development Goals rather than the domestic commercial interests of donor countries. The Secretary-General recommended that, as a follow-up to the Paris High-level Forum, donor countries should set, by September 2005, timetables and monitorable targets for aligning their aid delivery mechanisms with partner countries' Millennium Development Goals-based national strategies, including commitments to Millennium Development Goals-based

[16] Ibid.

investment plans, predictable multi-year funding, dramatically simplified procedures and direct budget support for countries with appropriate mechanisms in place (A/59/2005, para. 53).

33. The relative role of loans and grants in development assistance has long been debated. A number of major donors believe that the discipline of loan repayment sharpens the focus on the costs/benefits of prospective projects, and provides an incentive to ensure that funds are used effectively. However, for poorer countries with urgent needs for infrastructure that cannot be met from domestic resources or international borrowing, grants for capital projects can play a relatively important role. Since many of these countries face severe challenges and persistent unsustainable debt burdens, it is noteworthy that the terms of financing in the fourteenth replenishment of the International Development Association (IDA14) will reflect each IDA-only country's risk of debt distress, so that nearly 40 countries are expected to receive 100 per cent grant funding.

34. The United States of America has also increased its grants-based aid with the creation of the Millennium Challenge Account (MCA) which will raise ODA by $5 billion per year through 2006, to be disbursed through the newly established Millennium Challenge Corporation (MCC). In March 2005, the MCC Board of Directors approved its first Millennium Challenge Compact, with a grant of nearly $110 million over four years, with Madagascar to reduce poverty through economic growth with a focus on property rights, financial sector, and agricultural business investment. Under the Millennium Challenge Account, attainment of performance criteria by countries receiving grants replaces the debt service of traditional bilateral loan assistance.

35. The capacity of developing countries to manage the maturity structure and currency composition of debt needs further improvement. An integrated asset-liability structure is needed that also encompasses domestic debt and off-balance sheet items. In this context, IMF has been advising developing countries to develop domestic bond markets to raise funds through long-term fixed-interest securities denominated in the local currency as an alternative to borrowing from abroad. While this may be a solution in some middle-income countries, there are serious structural constraints in many low-income countries, largely because of the limited depth and liquidity of their financial sectors as regards reducing their reliance on external financing, particularly ODA.

Innovative sources of financing

36. Achieving the Millennium Development Goals by 2015 will require not only changes in policies and priorities, but also a major effort by developing and developed countries and the international community to mobilize additional financial resources. Paragraph 44 of the Monterrey Consensus calls upon Member States and the United Nations to pursue the consideration of innovative sources of finance. There have been a number of responses to this call. In 2001, the Secretary-General prepared technical notes on this subject, among others, at the request of the Preparatory Committee for the International Conference on Financing for Development (see A/AC.257/27 and addenda); and in response to General Assembly resolution S-24/2 the Department of Economic and Social Affairs of the United Nations Secretariat commissioned the World Institute for Development Economics

Research of the United Nations University (UNU-WIDER) to undertake a new, in-depth study of new and innovative sources of development finance. As indicated in paragraph 3 of the Secretary-General's note (A/59/272) transmitting a policy-focused summary of the study to the Assembly at its fifty-ninth session, the purpose of the study was to consider in greater detail some of the better-known existing proposals, focusing on the implications for their design and implementation.

37. More recently, the Secretary-General has called upon the international community to undertake in 2005 to launch an International Finance Facility (IFF), originally proposed by the United Kingdom, underpinned by scaled-up commitments to achieving the 0.7 per cent ODA target no later than 2015 (A/59/2005, para. 51). The Facility would be designed to provide a rapid increase in official assistance through innovative financing arrangements that would allow Governments' future aid commitments to be expended before they are budgeted. The overall objective is to help achieve the Millennium Development Goals by 2015. Although its impact would be greater if all donors were to participate, it was indicated that this would not be necessary for its implementation. It has also been noted that longer-term support through the development of other innovative sources of finance for development should be considered to supplement the Facility.

38. In November 2003, a group of independent experts was formed at the request of the President of France to seek means by which the increased prosperity produced by globalization might be channelled into new financial contributions to create more and better funding for development purposes. The report of the group,[17] which appeared in late 2004, surveyed a wide range of alternatives and provided a technical analysis of their feasibility.

39. In January 2004, the Presidents of Brazil, Chile and France, with the support of the Secretary-General, had launched the Action against Hunger and Poverty initiative, later endorsed also by the Governments of Spain and Germany, which included the formation of a Technical Group to explore innovative financing mechanisms and contribute to multilateral efforts to mobilize additional resources for development. A Summit of World Leaders for Action against Hunger and Poverty, convened by the President of Brazil and held at United Nations Headquarters in September 2004, concluded with a declaration, supported by 112 countries, that stressed the need to raise and improve development assistance levels by giving further attention to innovative mechanisms of financing, both private and public, compulsory and voluntary. Since then, the Technical Group on Innovative Financial Mechanisms, composed of the five aforementioned countries, has continued to meet regularly and, at a meeting held in Brasilia on 10 and 11 February 2005, issued a joint statement containing a "menu of options" on innovative sources of financing, as well as a separate document on remittances which called for, inter alia, considering the possibility of arriving at a set of internationally agreed guidelines on this subject.[18] The most recent meeting of the Technical Group was held in Santiago, Chile, on 22 and 23 March 2005.

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[17] Rapport au Président de la République, *Les nouvelles contributions financières internationales*, Groupe de travail présidé par Jean-Pierre Landau (Paris, la documentation française, September 2004).

[18] These documents have been distributed, at the request of the five Governments, as United Nations documents in connection with relevant items in the agendas of both the General Assembly and the Economic and Social Council (see A/59/719-E/2005/12, annexes I and II).

40. At its annual meeting on 2 October 2004, the Development Committee reviewed proposals to complement increased aid flows and commitments with innovative mechanisms and welcomed the World Bank and IMF analysis of these options, notably the International Finance Facility, global taxes and voluntary contributions, including the analysis of their technical feasibility. It also took note of the September 2004 international Summit of World Leaders for Action against Hunger and Poverty, and asked the Bank and the Fund to continue their work and report at the next meeting on how to take such options forward. In this light, an additional staff report will be presented for consideration by the Development Committee at its 17 April 2005 meeting.[19]

41. Among the additional sources of innovative financing for development mechanisms studied in the various reports cited were: global environmental taxes; taxes on international financial transactions, on aviation fuel or ticket prices and on arms sales (all of which would be applied nationally but would need to be coordinated internationally); use of special drawing rights (SDRs) for development purposes; combating tax evasion; mobilizing emigrant remittances for development; private donations and other types of voluntary contributions for international development, including affinity credit cards; a global lottery; and global premium bonds. Most of the technical reports conclude that, among the non-voluntary sources, financial transactions taxes and environmental taxes might provide the largest amounts of additional resources in the long term. However, it is cautioned that realizing the potential of such sources would normally require the full agreement of, and compliance by, most countries and this might not be easy — or possible — to achieve. Therefore, it might be necessary to have a “differentiated” and incremental approach and concentrate first on the sources that can be mobilized on a regional or other non-universal basis, while consensus is developed on the others. In the same vein, conscious that concerns have been raised that these initiatives might reduce commitments to traditional development assistance, all reports stress that the proposals should be seen as strictly additional to existing ODA commitments and targets.

42. As a result of the continuing interest and deliberations of the General Assembly on this topic, the Assembly, in its resolution 59/225 of 22 December 2004, decided to give further consideration to the subject of possible innovative and additional sources of financing for development from all sources, public and private, domestic and external, taking into account international efforts, contributions and discussions, within the overall inclusive framework of the follow-up to the International Conference on Financing for Development.

Debt

43. Additional progress has been made in reducing the unsustainable debt burdens impeding the ability of developing countries to meet the Millennium Goals. By the end of February 2005, 15 countries had reached their “completion point”, another 12 had reached their “decision point”, and the decision had been taken to extend the Heavily Indebted Poor Countries (HIPC) Initiative for an additional two years. Total debt relief accorded to the 27 countries that have reached either the decision point or the completion point, together with other debt-relief measures, represents a two-

[19] See *IMF Survey*, vol. 33, No. 18 (11 October 2004); pp. 287-288.

thirds reduction in these countries' overall debt stock. The ratio of debt service to exports for these countries has declined to an average of 10 per cent.

44. However, the Secretary-General noted that even though the evidence was persuasive that the HIPC process had unlocked resources that were critical for the achievement of the Millennium Development Goals, it still fell far short of what was needed (A/59/2005, para. 54). To move forward, the Secretary-General proposed that debt sustainability should be redefined as the level of debt that allowed a country to achieve the Millennium Development Goals and reach 2015 without an increase in its debt ratios. For most HIPC countries, this would require exclusively grant-based finance and 100 per cent debt cancellation. At the 2005 spring meetings, the Managing Director of IMF will make proposals, including gold sales, to finance additional debt relief for HIPC countries without reducing the resources available to other developing countries, and without jeopardizing the long-term financial viability of international financial institutions.[20] For many heavily indebted non-HIPC and middle-income countries, debt sustainability will require significantly more debt reduction or restructuring than has yet been proposed.

45. Debt sustainability is also affected by vulnerability to external shocks. For a number of heavily indebted poor countries, shocks from collapses in principal exports, droughts and other natural disasters, and civil strife have led to unsustainable debt levels. Moreover, 8 of the 11 countries that have not yet reached the decision points are in conflict or post-conflict situations. They have also accumulated large protracted arrears with the international financial institutions. In addition, if donor flows have to be "sterilized" in order to meet monetary policy targets, this may create additional debt-servicing costs. This therefore calls for careful consideration and implementation of measures for streamlining the inflow of aid flows and avoiding harmful surges of flows.

46. However, the emphasis placed on achieving debt sustainability for those countries facing the greatest difficulty in meeting the Millennium Development Goals should not divert attention from the fact that many low- and middle-income countries that are not eligible for debt relief under the HIPC Initiative face debt problems of similar magnitude for which a satisfactory solution still remains to be found. Some progress has been made in the new Evian approach,[21] but greater transparency and flexibility are needed. Because many of these countries carry a sizeable amount of debt owed to private creditors, efforts need to be continued to find an internationally agreed mechanism that could help prevent financial crises in the future and lead to more equitable burden-sharing between debtors and creditors in crisis situations. In the absence of a statutory mechanism modelled on national bankruptcy legislation in developed countries, the inclusion of collective action clauses (CACs) in bond contracts can play a positive role in orderly debt workouts, but they can be fully effective only when they are included in all outstanding securities. Some sovereign debtors and private creditors have been attempting to develop voluntary "Principles of stable capital flows and fair debt restructuring in emerging markets", but progress has been slow. Whether voluntary efforts, such as

[20] See the G7 Finance Ministers' Conclusions on Development, London, 4-5 February 2005, para. 7.

[21] See report of the Secretary-General entitled "External debt crisis and development" (A/59/219), paras. 16-17.

development of these principles, can provide a sufficiently strong basis for an effective crisis resolution mechanism has thus yet to be determined through testing.

Possible questions to be addressed under sub-theme 3:

1. How can multilateral and bilateral development cooperation policies ensure the sustained official assistance necessary to attain the Millennium Development Goals, especially for the most vulnerable countries?

2. How can the international community ensure that reconstruction and rebuilding relief is additional to regular development assistance?

3. How can the international debate on the formulation and implementation of new and innovative sources of financing be further facilitated? What are the options that have the most possibilities of success, in the short, medium and long terms?

4. How soon can agreement on the proposed International Finance Facility be reached by the necessary minimum number of donors?

5. How can the Secretary-General's proposed definition of debt sustainability be made operational?

6. How can the resolution of debt sustainability problems facing middle-income countries be facilitated?

7. How can existing debt and crisis management mechanisms for low-income countries be adapted or new mechanisms formulated, to meet the needs of all developing countries?