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

# The Monterrey Consensus: status of implementation and tasks ahead

## Report of the Secretary-General*

*Summary*

**Confronting the challenges of Financing for Development: The Monterrey Consensus as a framework for international cooperation for development**

The Monterrey Consensus provides a broad-based partnership for development in support of the objectives set forth in the Millennium Declaration.

**Mobilizing domestic financial resources for development**

Primary responsibility for mobilizing domestic resources lies with developing countries. The following actions are proposed:

- Countries with extreme poverty adopt and begin to implement, no later than 2006, a national development strategy bold enough to meet the Millennium Development Goals by 2015

* As requested by the General Assembly, this report has benefited from consultations and close collaboration with the major institutional stakeholders in the financing for development follow-up process such as the World Bank, the International Monetary Fund and the World Trade Organization, as well other entities within the United Nations system such as the United Nations Conference on Trade and Development and the United Nations Development Programme. Final responsibility for the contents of the report rests, however, with the United Nations Secretariat. The document was submitted for processing on 1 June 2005 because resolution 59/293 was adopted by the General Assembly only on 27 May 2005.

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- Make national development strategies operational and translate long-term objectives into well-sequenced and prioritized medium-term policies linking priority actions to available and expected increases in domestic and foreign resources through an annual budget and medium-term expenditure planning process
- Invest in human resources and implement medium-term employment policies in the context of national development strategies to ensure their effective utilization
- Ensure that developing countries adopting effective national strategies can count on a sufficient increase in aid, of sufficient quality, arriving with sufficient speed and predictability

**Mobilizing international resources for development: foreign direct investment and other private flows**

A higher proportion of foreign direct investment should be directed to low-income countries and foreign direct investment's positive contribution to their development should be ensured. The following actions are proposed:

- Bolster the development impact of foreign direct investment through policies that identify strategic areas for foreign investment and stimulate linkages between foreign affiliates and developing country firms
- Introduce mechanisms to better manage and mitigate investment risk
- Encourage and facilitate contributions by transnational corporations to development
- Encourage the application of initiatives on transparency-related codes of conduct in the extractive industries
- Ensure adequate regulation and supervision of all financial institutions before financial market liberalization
- Reduce the risk of financial crises through the investment of foreign funds in a diversified portfolio of domestic-currency denominated debt of developing countries or through a broader use of gross domestic product and commodity-price linked bonds in international markets
- Implement capital account regulations where appropriate to provide space for more active counter-cyclical policies to smooth spending and improve external debt profiles of developing countries
- Design measures to reinforce financial institutions' capital during cyclical upswings to provide increased protection in downturns
- Encourage best risk management practices by banks
- Implement stronger regional cooperation to enhance regional financial stability
- Encourage financial intermediaries in host and home countries to continue to reduce transaction costs of remittances
- Improve the development impact of remittances
- Investigate the possibility of a United Nations framework guideline on improving the development impact of remittances

**International trade as an engine for development**

Recognizing the links between trade, development and finance, a more open, equitable, rule-based, predictable, non-discriminatory and equitable multilateral trading system is critical to exploiting the potential of trade to act as a source of financing for development. The following actions are proposed:

- Implement the Secretary-General's request to complete the Doha round of multilateral trade negotiations in a way that fulfils its development promise no later than 2006
- Agree on an "end-game document" at the sixth World Trade Organization Ministerial Conference in December 2005 to ensure that negotiations can be completed in 2006
- Reach agreement on elimination of export and trade-distorting domestic subsidies in agriculture, reduction of tariff peaks and escalation, market entry barriers such as product standards and regulations, liberalization of temporary supply of labour services and cross-border supply of services via outsourcing and offshoring
- Introduce meaningful rules for special and differential treatment
- Provide immediate duty-free and quota-free access for all exports from the least developed countries
- Provide special support to commodity-dependent countries to diversify their exports
- Strengthen the Global System of Trade Preferences among Developing Countries
- Ensure that interregional, regional and bilateral free trade agreements are coherent and compatible with the multilateral trading system

**Increasing international financial and technical cooperation for development**

Official development assistance is increasing in nominal terms but more needs to be done to increase assistance to ensure the financing required to attain the Millennium Development Goals. The following actions are proposed:

- Establish fixed timetables for developed countries to achieve the 0.7 per cent target by 2015 at the latest, with an intermediate target of roughly doubling aid to 0.5 per cent for 2009, and direct more aid to the least developed countries
- Ensure that official development assistance provides real increases in financial resources to support the Millennium Development Goals reflected in the budgets of recipient countries
- Make concrete commitments to improve aid quality by the time of the High-level Plenary Meeting of the General Assembly in September 2005
- Launch an International Finance Facility (IFF) in 2005
- Implement pilot projects on innovative finances for development
- Encourage multilateral and regional development banks to take a more active role in promoting innovations in development financing
- Ensure the increased predictability of official funding of multilateral programmes, including those of the United Nations system.

**External debt**

Despite the success of the Heavily Indebted Poor Countries Initiative, many low- and middle-income countries still face unsustainable debt burdens. The following actions are proposed:

- Consider debt to be sustainable if it allows a country to achieve the Millennium Development Goals by 2015 without an increase in its debt ratios, if necessary by granting 100 per cent debt cancellation and 100 per cent grant-based finance
- Urge creditors to reach agreement on a common approach to further debt relief for Heavily Indebted Poor Countries and non-Heavily Indebted Poor Countries, International Development Association only countries by the time of the High-level Plenary Meeting of the General Assembly in September 2005
- Strengthen developing countries' debt management capacity
- Mainstream debt sustainability in overall development strategies
- Continue to pursue agreement and implementation of a debt workout mechanism aimed at efficient and equitable burden-sharing

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

An appropriate international environment is essential to developing countries' efforts to implement reforms to mobilize domestic resources. The following actions are proposed:

- Ensure that the unwinding of the large and increasing imbalances across regions is achieved without jeopardizing national development strategies
- Encourage countries to recognize the impact of their macroeconomic policies on all participants in the international economy
- Include counter-cyclical macroeconomic management in assessments of international policy coherence
- Provide appropriate facilities for liquidity provision to cover volatility in export earnings when developing countries face external shocks and have limited ability to exercise counter-cyclical macroeconomic policies
- Create the political will to enhance developing countries' sense of responsibility and domestic ownership of their own development by providing them with a more equitable voice and participation in the institutions that take the decisions that affect their development prospects
- Streamline conditionality associated with international financial cooperation and make it consistent with the principle of ownership
- Further enhance the coherence and consistency of the international monetary, financial and trading systems

**Staying engaged**

The following action is recommended:

- Establish an executive committee in the Economic and Social Council to facilitate cooperation with multilateral institutions dealing with trade and finance

# I. Confronting the challenges of financing for development: the Monterrey Consensus as a framework for international cooperation for development

1. The Monterrey Consensus provides a broad-based partnership for development in support of the objectives set forth in the Millennium Declaration. The report of the Secretary-General "In larger freedom: towards development, security and human rights for all" (A/59/2005) notes that the specific Millennium Development Goals are, in turn, part of a larger development agenda that also encompasses, inter alia, the needs of the middle-income developing countries, the impact of growing inequality and the wider dimensions of human development. The Monterrey Consensus designated the former high-level dialogue on strengthening international cooperation for development through partnership of the General Assembly to become the intergovernmental focal point for general follow-up to the International Conference on Financing for Development and renamed it the High-level Dialogue on Financing for Development. This year, that mandate will be complemented by an assessment of how the broad-based Monterrey framework has helped provide for the achievement of the goals and objectives of the Millennium Declaration.

# II. Leading actions

## A. Mobilizing domestic financial resources for development

2. The Monterrey Consensus reaffirms the primary responsibility of developing countries to mobilize their domestic resources by strengthening governance, combating corruption, redirecting government revenues, increasing domestic savings and supporting entrepreneurship and private sector investment. The institutions and policies that foster domestic private sector savings and investment are thus crucial for rapid economic growth, though there is no unique or dominant configuration to guarantee these objectives.[1] Private sector development should be accompanied, in turn, by strong fiscal systems that provide adequate tax receipts for government investments in health, education, social protection and infrastructure. Since human resources are the most underutilized domestic resource, policies to encourage investment in human capital and medium-term policies to ensure employment should be a priority of macroeconomic and structural reform policies.

3. To facilitate domestic mobilization of resources, each country must elaborate its own national development strategy that responds to its specific needs, circumstances and priorities. The report of the Secretary-General, "In larger freedom", calls for every developing country with extreme poverty to adopt and begin to implement, no later than 2006, a national development strategy that is bold enough to meet the Millennium Development Goals by 2015. These strategies should be anchored in 10-year horizons and a comprehensive assessment of each country's unique requirements in the areas of human capital formation, infrastructure, environmental management and private sector development. In the

[1] A report entitled "Strengthening the role of the private sector and entreneurship in financing for development" containing a more complete discussion of these issues, will be submitted to the General Assembly in compliance with Economic and Social Council resolution 2004/64 of 16 September 2004.

case of middle-income countries, the appropriate objectives may go beyond the Millennium Development Goals and encompass more ambitious goals, including those adopted at other United Nations conferences.

4. These strategies must be operational and translate long-term objectives into well-sequenced and prioritized medium-term policies. To be credible, they must link the priority actions to the available and expected increases in domestic and foreign resources through an annual budget and medium-term expenditure planning process. Placing the Millennium Development Goals at the centre of national strategies requires a fundamental shift in approach. Instead of targeting incremental improvements, given binding and often unchanging resource constraints, strategy should identify obstacles, financial or otherwise, to achieving the Millennium Development Goals and propose a sequence of policies and investments necessary for a given country to overcome them. This requires identifying the full set of investments and policies needed to achieve the Millennium Development Goals by 2015, as exemplified in the Millennium Project. The broader-based improvements in institutions and policies necessary in order to absorb and utilize resources effectively to accelerate progress towards meeting the Millennium Development Goals must also be spelled out.

5. The effective mobilization of financial resources to support investment requires the development of domestic financial sectors and institutions. This includes, inter alia, policies that promote strong banking regulation and supervision, long-term financing and domestic bond markets in the domestic currency of developing countries as well as better access of households and enterprises to basic financial services (savings, credit, payments and insurance). As part of the International Year of Microcredit, 2005, efforts are under way to help countries build inclusive financial sectors, including the preparation of a “blue book” to contribute to domestic policy dialogues and action plans, an international effort to develop comprehensive and coherent data on access to financial services in developing and transition economies and a cooperative examination of the special regulatory and supervisory needs of financial institutions that focus their activities on the provision of inclusive financial services.

6. At mid-decade, most developing countries and countries with economies in transition have made significant progress in improving resource mobilization. As these efforts continue, it is important to assure developing countries that are adopting sound national development strategies and that require additional financial support that they will be able to count on a sufficient increase in aid of sufficient quality, arriving with sufficient speed and sufficient predictability. However, countries in which progress towards improving policy frameworks and enhancing institutions are lagging cannot be overlooked, and special efforts will be required to reinforce their efforts and to ensure financing. In many instances, such as in post-conflict countries, national efforts will require even stronger international support. For most low-income countries and nearly all of the least developed countries, even full domestic resource mobilization will fall well short of what is required to reach even the Millennium Development Goals. These countries will require substantial official assistance in the form of grants and concessional lending in a predictable and timely fashion.

## B. Mobilizing international resources for development: foreign direct investment and other private flows

7. Private capital flows play an increasingly important role in supplementing developing countries' domestic resources. Currently direct investment provides the largest source of private flows, but concentration in the best-performing emerging market countries limits overall effectiveness. Increased efforts are required to direct foreign direct investment (FDI) to low-income countries and ensure its contribution to development. In addition to finance, FDI can support domestic enterprise through technology transfer and providing market access. Since neither FDI nor its benefits are automatic, their development impact can be bolstered through policies that identify strategic areas for foreign investment and stimulate linkages between foreign affiliates and developing country firms, especially to promote technology transfer.

8. In a number of developing countries, especially the least developed countries, the perception of a high degree of risk deters foreign investors. For developing countries, disputes in the context of international investment agreements pose increasing risks and challenges to building the underlying capacity to deal with this problem. Mechanisms to better manage and mitigate investment risk are required. This should be a major area for multi-stakeholder dialogue in the context of the Monterrey process.

9. Encouraging and facilitating the development contributions that transnational corporations can make is an essential ingredient of the development and investment interface. This could be achieved through further examining the contribution of corporations to the economic and social development of host developing countries and disseminating best practices. The application of initiatives on transparency-related codes of conduct in the extractive industries, such as the Extractive Industries Transparency Initiative, should be encouraged and the feasibility of their application to other sectors examined.

10. The increasing magnitude of private flows to developing countries has been accompanied by increased volatility. This has been a major factor in recent currency and financial crises, with serious negative impacts on macroeconomic stability that has reduced flexibility for macroeconomic policies and produced adverse effects on capital accumulation and growth. The pro-cyclical boom-bust cycles of private capital inflows and outflows underscore the need for developing market institutions and instruments that encourage more stable capital flows.

11. The lessons learned from recent financial crises in emerging market economies suggest that liberalization of private capital flows should be orderly, well-sequenced and based on development and economic stability objectives. A prudential approach to the regulation of private capital flows requires that the regulation and supervision of all financial institutions, as well as a strengthening of the capacity to manage external debt profiles, precede liberalization.

12. Borrowing in domestic currency avoids the risks associated with currency mismatches and pro-cyclical foreign capital flows. However, since the dynamics of domestic currency bond markets are linked to external bond markets, they are not immune to external volatility, and recent experience calls into question the effectiveness of local capital markets as a buffer against external volatility, particularly for a country considered as a high credit risk. Another possibility is the

development of foreign investment funds investing in a diversified portfolio of domestic currency denominated debt of developing countries, which provide, through diversification, risk-adjusted rates of return that are attractive to foreign investors. The broader use of gross domestic product (GDP) and commodity-price linked bonds in international markets would serve the same purpose.

13. Capital account regulations can provide space for more active counter-cyclical policies to smooth spending and improve external debt profiles of developing countries. When adopted in appropriate circumstances, capital account regulations may facilitate the operation of sensible counter-cyclical macroeconomic policies, but do not provide a substitute for them.

14. Appropriate regulation of developing country banking can also mitigate some of the problems of private capital flows. Measures can be designed to reinforce financial institutions' capital during cyclical upswings to provide increased protection in downturns. At the same time, regulators could encourage banks to adopt risk management practices that take better account of changes in risk over the business cycle and result in less short-term, pro-cyclical lending strategies.

15. In addition, stronger regional cooperation, including macropolicy dialogue, regional economic and financial monitoring mechanisms or reserve funds and an arrangement for effective currency swaps in times of crisis, can play a useful role in ensuring regional financial stability.

16. Remittance flows have become an increasing source of foreign exchange for many developing countries and a potential source of development finance. Their persistent growth and stability distinguish these flows from other private financial flows. While most remittances are savings from migrants' earnings that provide financial support for families in home countries, recent initiatives seek to leverage the impact of remittances on development. These include channelling remittances to finance investment projects in the migrants' communities of origin and organizing remittance-backed housing purchases by recipient families.

17. High transaction costs reduce the funds received by recipient families and deter the use of formal channels for remittances, keeping these funds outside the formal financial system. Financial intermediaries in host and home countries should be encouraged to continue to reduce costs and diversify their services by offering savings account, microcredit and various types of insurance to migrants' families and, more generally, "bank" both migrants and the recipient families. Because of the multiplicity of policy initiatives, some have suggested the need for a set of internationally agreed guidelines on these measures, which could be arrived at and coordinated within the framework of the United Nations.

## C. International trade as an engine for development

18. The Monterrey Consensus emphasized the links between trade, development and finance, and the critical role in this regard of a more open, equitable, rule-based, predictable and non-discriminatory multilateral trading system. For the least developed countries, landlocked developing countries and small, vulnerable States, particularly in Africa, a development-oriented global trading system is even more important. To address this priority, the Secretary-General has urged that the Doha round of multilateral trade negotiations should fulfil its development promise and be

completed no later than 2006 to provide support for the Millennium Development Goals.[2] An agreement on an "end-game document" for the sixth World Trade Organization Ministerial Conference to be held in December 2005, would help ensure that negotiations can be completed in 2006.

19. This requires reaching agreement on the rapid elimination of export and trade-distorting domestic subsidies in agriculture as well as a substantial advance in reducing tariff peaks and escalation in manufactures of interest to developing countries. In addition to providing full, enhanced and stable market access for developing countries' agricultural and industrial exports, concrete steps are required to deal with market entry barriers such as product standards and regulations and sanitary and phytosanitary measures. Rapid progress must also be made to improve the development potential of trade in services by liberalizing the temporary supply of labour services (mode 4 of the General Agreement on Trade in Services) and cross-border supply of services via outsourcing and offshoring (mode 1).

20. To increase the immediate development impact of the round, the Secretary-General has proposed immediate duty-free and quota-free access for least developed countries' exports. Such preferential treatment should cover all exported products of least developed countries, without exception, and be bound under the World Trade Organization schedules; operational conditions should include simplified rules of origin.

21. Commodity-dependent countries, particularly in Africa, will require an integrated approach, including special support to diversify their exports, add value to their commodity exports, build the associated supply capacity, manage commodity price volatility and develop a new generation of commodity financing schemes.[3]

22. As noted by the Secretary-General, at present developing countries are often denied a level playing field to compete in global trade. World Trade Organization agreements should introduce measures to offset inherent and continued asymmetries between developing and developed countries, such as differential supply capacity, economic size and ability to subsidize economic sectors through provision of operational and commercially meaningful rules for special and differential treatment. These rules should provide adequate policy space for complementary policies (trade, production, technology and financial policies) that are considered essential to strengthen supply capacities, develop competitive networks of enterprises, innovate and improve the technology content of exports.

23. Developing countries can further the beneficial impact of trade by exploiting the opportunities provided by South-South trade. The strengthening of the Global System of Trade Preferences among Developing Countries (GSTP) could substantially increase and expand inter-developing country trade and its predictability. The current round of GSTP negotiations should deliver substantial trade liberalization gains by 2006. At the same time, the proliferation of interregional, regional and bilateral free trade agreements and negotiations on a North-North, South-South and North-South basis needs to be constantly monitored

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[2] See A/59/2005, para. 55.

[3] The International Task Force on Commodities proposed at the eleventh session of the United Nations Conference on Trade and Development in São Paulo has been supported in "Our Common Interest", the report of the Commission for Africa.

to ensure development coherence and compatibility with the multilateral trading system.

## D. Increasing international financial and technical cooperation for development

24. Official development assistance (ODA) continues to play a crucial role in supplementing the resources of developing countries, particularly the poorest. From a peak of over 0.5 per cent of developed country gross national income (GNI) in the 1960s, ODA declined until it reached a historical low of 0.21 per cent as Heads of State and Government were approving the Millennium Declaration. To counter this trend, developed countries reaffirmed at Monterrey the 0.7 per cent target, and many announced increased contributions or pledged to meet fixed dates for reaching the target. These commitments reversed the decline, and ODA rose to 0.25 per cent of developed countries' GNI in 2003 and 2004. However, the current and projected levels of ODA still fall far short of the estimates of what will be required to attain the Millennium Development Goals by 2015. Furthermore, when corrected for price and exchange rate changes, the recent recovery of aid has barely brought assistance in relation to GNI back to the levels of 1990.

25. In order to provide the required resources, the Secretary-General has requested all developed countries to establish fixed timetables to achieve the 0.7 per cent target by 2015 at the latest, with an intermediate target of roughly doubling aid to 0.5 per cent for 2009. Currently only Denmark, Luxembourg, the Netherlands, Norway and Sweden meet or exceed the 0.7 per cent target. European Union (EU) member States have recently set a target date of 2015 for reaching the 0.7 per cent goal, with an intermediate target of 0.51 per cent by 2010. Members joining EU after 2002 have committed themselves to strive for a target of 0.33 per cent by 2015, with an intermediate target of 0.17 per cent by 2010.

26. Not only does ODA have to increase substantially, it is essential to direct more aid to the least developed countries. At the second United Nations Conference on the least developed countries, developed countries agreed that at least 0.15 to 0.20 per cent of the 0.7 per cent target would be directed to these countries. While ODA flows to the least developed countries declined to about half that ratio during the 1990s, the recovery since Monterrey has been more positive, and ODA to the least developed countries has increased sharply in recent years.[4]

27. Despite the reversal of trend, the changing composition of aid flows has made their contribution to meeting the Millennium Development Goals less efficient. Over the 1990s, the shares of debt relief, emergency aid and technical assistance in total aid flows have all been increasing. Although these flows have important objectives, emergency aid does not assist long-term development, and debt relief provides little fresh money to debtor countries. Technical cooperation provides a variety of benefits, but its impact on meeting financial needs is limited. Consequently, despite the recovery in recorded donor contributions, ODA has been a declining source of budgetary resources for developing countries, limiting their

[4] In 2003, eight countries exceeded the minimum of the target range: Belgium (0.35%), Denmark (0.32%), France (0.17%), Ireland (0.21%), Luxembourg (0.27%), the Netherlands (0.26%), Norway (0.36%) and Sweden (0.27%).

efforts to pursue the Millennium Development Goals. The call to increase ODA must thus be qualified so that it refers to real increases in financial resources to support the Millennium Development Goals channelled through the budgets of recipient countries.

28. In the absence of an immediate increase of aid, the Secretary-General has called on the international community to launch an International Finance Facility in 2005, first proposed by the United Kingdom of Great Britain and Northern Ireland. Since the International Finance Facility would build on commitments to reach the 0.7 per cent ODA target no later than 2015, it would be a complement to traditional commitments. Its unique feature would be to front-load aid flows through the issuance of bonds guaranteed by participating Governments that will allow aid commitments to be spent before they are budgeted.

29. A number of countries have followed up on the call in the Monterrey Consensus to investigate innovative financing mechanisms to guarantee more and greater predictability of development financing. These initiatives include: the study undertaken by the United Nations University-World Institute for Development Economics Research at the request of the General Assembly; the group of experts appointed by the President of France to study innovative financing mechanisms; the initiative to combat hunger and poverty launched in January 2004 by the Presidents of Brazil, Chile and France with the support of the Secretary-General and later joined by the Governments of Spain, Germany and Algeria; the meeting on this subject held in New York, at the invitation of the President of Brazil, in September 2004, which produced a declaration supported by more than 100 countries; and the discussion of this issue in the last two sessions of the Development Committee and the International Monetary and Financial Committee. The proposals discussed include: nationally applied and internationally coordinated levies; the allocation of special drawing rights for development purposes; encouraging private global solidarity; an international lottery; and facilitating remittances.[5] The group of six countries referred to above concluded that "solidarity levies" would be a good instrument to generate additional and predictable resources. It would also complement the International Finance Facility. They are also convinced that universal participation would be preferred, but not required, for many of these initiatives. In this regard, European finance ministers have reached an agreement to propose a voluntary tax on airline tickets to increase development aid. Another pilot project is the creation of an International Finance Facility for immunization. Several proposals on the subject of innovative sources of finance are therefore now on the table and deserve serious consideration by the international community. Political decisions should be made to implement those proposals that receive early support.

30. Donors have been increasingly concerned with the effectiveness of their aid. The Rome High-level Forum on Joint Progress Toward Enhanced Aid Effectiveness, held in 2003, called for action plans to harmonize donor policies, procedures and practices with their developing country partners. The second High-level Forum, held in Paris in 2005, agreed on more than 50 commitments to improve aid quality in the five key areas: (a) ownership of development strategies by partner countries; (b) alignment of donor support to those strategies; (c) harmonization of donor actions; (d) managing for results; and (e) mutual accountability of donors and partners. It also agreed to monitor progress against 12 indicators of aid effectiveness

[5] See E/2005/50, paras. 36 to 42.

and to set targets for them by the September 2005 High-level Plenary Meeting of the General Assembly. For five of these indicators, targets were tentatively agreed in Paris: (a) partner countries should have operational development strategies; (b) aid flows should be reported in partners' national budgets; (c) aid flows should be released on schedule; (d) a significant proportion of aid should be provided as "programme-based approaches"; and (e) partner countries should have results-oriented frameworks. Agreement is to be reached on another six indicators before the High-level Plenary Meeting of the General Assembly in September. These include: (a) reliable recipient country systems; (b) coordinated donor capacity support; (c) donor country use of partner procurement or public financial management systems; (d) avoiding parallel implementation structures; (e) donor sharing of analytical work; and (f) mutual accountability. A decision was made to track progress against untying aid without setting a specific target. Discussions are currently under way in the Organization for Economic Cooperation and Development-Development Assistance Committee to confirm or revise the five targets suggested in Paris and reach agreement on targets for the other six indicators in time for the September High-level Plenary Meeting of the General Assembly.

31. In addition to official government assistance, developing countries receive assistance from multilateral and regional development banks. In addition to direct lending, they provide multiple financial and other services. A more active role could be taken by these institutions in promoting innovations in development financing, including promoting public-private partnerships and lending in domestic currencies of developing countries, as well as in commodity or gross domestic product-linked lending. The securitization of such lending can serve as the basis upon which to "make" an international market for these assets of developing countries.

32. The revealed success of regional and subregional development banks makes this a promising area of cooperation among developing countries. Some operate with good credit ratings without capital from industrial countries, and most support regional integration processes. Furthermore, different conditionality approaches make these institutions attractive to borrowing countries. This should become a priority for South-South cooperation.

33. The increase in, and predictability of, ODA must also extend to the funding of multilateral programmes, in particular those that are part of the United Nations system. The introduction of multi-year funding commitments for core funding for the United Nations and the use of the United Nations country-based results matrix for the prioritization of non-core funding would also go a long way in addressing the inefficiencies caused by the recent increase in the proportion of funds earmarked for specific projects and renewed on a year-by-year, project-by-project basis.

## E. External debt

34. While progress has been made in reducing unsustainable debt burdens for many developing countries, much remains to be done. The Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996 and enhanced in 1999, has recently been extended by two years to allow those countries to fulfil the criteria to benefit from debt relief under the Initiative. To date, 27 heavily indebted poor countries have received debt relief, with 18 having reached the completion point and nine at the decision point. Although the Initiative has already reached its initial expiry date,

it is still not fully funded. This commitment must be met if the Initiative's objectives are to be met.

35. Despite the extension of the HIPC Initiative and its success in increasing social spending, it has been noted that, in some countries in which new commitments have exceeded the savings on debt service, they have been financed by additional borrowing. It is now recognized that some of the assumptions built into the HIPC programmes were over-optimistic in terms of GDP and the evolution of commodity prices, among other variables. Furthermore, most of the debt reduction that has taken place in the HIPC countries has taken the form of writing off bilateral debts already rescheduled or in arrears, thus freeing up a smaller amount of real resources for poverty reduction spending than had been originally foreseen.

36. Even though the evidence is persuasive that the HIPC process has unlocked resources, it is widely recognized that it still falls far short of what is needed. To move forward, the Secretary-General has proposed that debt sustainability be redefined as the level of debt that allows a country to achieve the Millennium Development Goals by 2015 without an increase in its debt ratios. For most HIPC countries, this will require exclusively 100 per cent debt cancellation and 100 per cent grant-based finance. For many heavily indebted non-HIPC and middle-income countries, debt sustainability will require significantly more debt reduction than has yet been proposed.

37. A number of proposals are currently under discussion for additional reduction in debt stocks or in debt service for HIPC and non-HIPC, International Development Association (IDA)-only countries. Donors are urged to reach agreement on a common approach and to implement it by the time of the High-level Plenary Meeting of the General Assembly in September 2005. In the period ahead, proposals will be considered for further multilateral debt relief and its financing options, including the possible use of the resources of the International Monetary Fund (IMF), within the context of this wider international effort.

38. Irrespective of the approach chosen for fuller debt relief, it is important that it be additional to currently envisaged assistance to low-income countries; that it promote equity in the current system of assistance; that it ensure the financial soundness of multilateral institutions; that it be comprehensive, enhance aid efficiency and be simple to implement; and that it be definitive and thus break the cycle of repeated rounds of renegotiation.

39. Strengthening developing countries' debt management capacity should also be an integral part of the national debt policy and be consistent with the broad macroeconomic and sectoral policies of a country. The long-term sustainability of debt also depends on the growth and export prospects of debtor countries. It follows that debt sustainability should be part of the overall development strategy of a country, which treats debt, trade and finance in a coherent framework.[6]

40. Finally, it is important to recognize the contribution that efficient and equitable burden-sharing between debtors and creditors can make to alleviating unsustainable

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[6] The International Monetary Fund and the World Bank have been working towards a revised, more forward-looking approach to debt sustainability; see "Operational Framework for Debt Sustainability Assessments in Low-Income Countries", paper prepared by the staffs of the International Monetary Fund and the World Bank, Washington, D.C., 28 March 2005.

debt burdens. It is thus essential that the explorations of debt workout mechanisms, including voluntary codes and international mediation or arbitration mechanisms, continue with full support of all stakeholders.

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

41. In addition to increased financial support, the Monterrey Consensus notes the importance of an appropriate international environment to support developing countries' efforts to implement reforms to mobilize domestic resources. Currently the global economy is characterized by large and increasing imbalances across regions. The risks associated with various ways in which the imbalances might be adjusted will have direct implications for the prospects for further progress in many developing countries.

42. Even if the imbalances were sustainable, or could be adjusted in a smooth manner, the magnitude and skewed distribution of the imbalances suggest a less than efficient and equitable allocation of global resources between developed and developing countries. Basic economic logic suggests that, in the longer term, the industrial countries as a group should be running current account surpluses and lending on net to the developing world, not the other way around. It is thus necessary that major countries recognize the impact of their macroeconomic policies on all participants in the international economy and promote international cooperation to ensure an orderly winding down of existing global imbalances. IMF should play the central role in ensuring consistency and coherence of the domestic economic policy of major economies.

43. Assessing national policies highlights the importance of appropriate counter-cyclical macroeconomic management as a central criterion of international policy coherence. Given the recurrent shocks that developing countries face and their limited room to manoeuvre in adopting counter-cyclical macroeconomic policies, surveillance and financial support by the IMF and the multilateral development banks can help facilitate an appropriate implementation of such policies, including appropriate facilities for liquidity provision to cover volatility in export earnings, in particular those caused by fluctuations in commodity prices, capital flow volatility and natural disasters.

44. While developing countries are urged to accept responsibility for their own development and to promulgate their domestically formulated and "owned" development strategies, this sense of responsibility and domestic ownership would be greatly enhanced if developing countries sat on a more equitable basis with developed countries in the institutions that have the primary responsibility for taking the decisions that affect their development prospects. The Monterrey Consensus calls 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. Discussions on ways to improve the voice and participation of developing countries in the Bretton Woods institutions have already started, and it is important that the political will be present to take and implement decisions in this regard. However, the Monterrey Consensus goes beyond the Bretton Woods institutions and highlights

the need to extend the discussion of voice and participation to other policymaking bodies, including informal and ad hoc groups.[7] It is time to initiate discussions regarding these institutions.

45. Bearing in mind the impact that international policies and processes can have in narrowing the scope for implementing national development strategies, it is essential to strike an adequate balance between national policy space and international disciplines and commitments. It is also important that the conditionality associated with international financial cooperation be streamlined and made consistent with the principle of ownership of macroeconomic and development policies by recipient countries.

46. The importance of improving governance mechanisms and enhancing the coherence and consistency of the international monetary, financial and trading systems has been stressed by the Monterrey Consensus. The World Trade Organization Doha Ministerial Declaration reiterated the importance of ensuring coherence of international trade and financial policies in order to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least developed countries and to safeguard the multilateral trading system from the effects of financial and monetary instability. There is a continuing need to improve the systemic coherence between trade, debt and finance.

## III. Staying engaged

47. In the section dealing with strengthening the United Nations of his report “In larger freedom: towards security, development and human rights for all”, the Secretary-General has suggested that the Economic and Social Council needs an effective, efficient and representative intergovernmental mechanism for engaging its counterparts in the institutions dealing with finance and trade. It proposes that this be achieved by expanding the Council’s Bureau or by establishing an executive committee with a regionally balanced composition.[8] In view of the importance that Member States attach to strengthening the Council’s capacity to engage with its counterparts in the institutions dealing with finance and trade, including on such key issues as the follow-up to the Monterrey Consensus, and taking into account the experience gained in recent years, it is recommended that such a Committee be agreed upon in the context of the actions to be taken this year by the General Assembly on this subject.

[7] Examples include the Bank for International Settlements, the Financial Stability Forum, the Basel Committee on Bank Supervision, the International Association of Insurance Supervisors, the International Accounting Standards Board, the International Standardization Organization and the International Federation of Stock Exchanges.

[8] Recommendations on this subject, within the financing for development context, were also made in the Secretary-General’s report on the implementation of the Monterey Consensus to the fifty-eighth session of the General Assembly (see A/58/216, para. 182).