United Nations A/59/826

General Assembly

Distr.: General
7 June 2005

Original: English

Fifty-ninth session
Agenda item 84
Follow-up to and implementation of the International Conference on Financing for Development

Implementation of the Monterrey Consensus: a regional perspective

Note by the Secretary-General

In its resolution 59/293, the General Assembly, inter alia, requested the Secretary-General to seek from the regional commissions their inputs on the regional and interregional aspects of the follow-up to the International Conference on Financing for Development and to report thereon to the High-level Dialogue on Financing for Development.

The report, which is contained in the annex to the present note, was prepared by the five regional commissions and is submitted in compliance with the aforementioned request.

05-37601 (E) 220605
0537601

Annex

Report on the regional and interregional aspects of the follow-up to the International Conference on Financing for Development, prepared by the regional commissions in compliance with General Assembly resolution 59/293

Summary

The General Assembly, in its resolution 58/230, inter alia, invited the regional commissions, together with other relevant partners, to use the opportunity of their regular intergovernmental sessions to hold special meetings to address the regional and interregional aspects of the follow-up to the International Conference on Financing for Development. Such meetings could help to bridge any gaps between the national, regional and international dimensions of the implementation of the Monterrey Consensus and could serve as inputs to the High-level Dialogue of the General Assembly on Financing for Development.

Since the last High-level Dialogue on Financing for Development in 2003, the regional commissions, in cooperation with their relevant partners, have undertaken a wide variety of follow-up activities in their respective regions. Indeed, regional implementation of the Monterrey Consensus forms an integral part of the commissions' respective programmes of work. In particular, the Economic Commission for Europe, on the eve of its sixtieth session, held in February 2005, organized its policy seminar on financing for development, while the theme topic for the sixty-first session of the Economic and Social Commission for Asia and the Pacific, held in May 2005, was "Implementing the Monterrey Consensus in the Asian and Pacific region: achieving coherence and consistency". Although under its biennial calendar of meetings the Economic Commission for Latin America and the Caribbean did not have a Commission session in 2005, it organized several policy-oriented studies and events on financing for development, which included seminars at United Nations Headquarters in New York. For its part, the meetings of African Ministers of Finance, Planning and Economic Development, held by the Economic Commission for Africa in Kampala in May 2004 and in Abuja in May 2005, each adopted a ministerial statement underlining the critical importance of positively resolving debt, trade and aid issues for the sustainable development of Africa and for the achievement of the Millennium Development Goals. The Economic and Social Commission for Western Asia organized an Ad hoc Expert Group Meeting on regional implementation of financing for development, held in Beirut on 6 and 7 June 2005, which will be followed by a meeting of Ministers of Finance of Commission members on 8 June.

The present report draws on the policy-oriented deliberations at the recent regional intergovernmental events as well as the relevant analyses undertaken by the regional commissions in follow-up to resolution 58/230 and is submitted in compliance with resolution 59/293.

I. Regional dimension in the implementation of the Monterrey Consensus

1. The Monterrey Consensus stresses the importance of staying fully engaged, nationally, regionally and internationally, in order to ensure proper follow-up to the agreements and commitments reached at the International Conference on Financing for Development and to continue to build bridges between development, finance and trade organizations and initiatives, within the framework of the holistic agenda of the Conference. The Consensus confirmed the significance of new partnership between developed and developing countries, with emphasis on the primary responsibility of the latter to implement sound economic policies, good governance and the rule of law. It also recognized the essential role played by developed countries in supporting the efforts of developing countries, including through official development assistance, which remains crucial for achieving internationally agreed development goals in many countries. Since then, regional follow-up to the "leading actions" identified in the Conference has involved the various stakeholders, including the regional development banks, with the regional commissions playing a catalytic role in their respective regions. The regional follow-up, being carried out in the context of diversities between and within regions, serves as a forum for the exchange of good practices and the promotion of partnerships, while also evaluating regional policies.

2. The economies of the developing countries have been growing, on average, more rapidly than those of the developed countries and per capita incomes in developing countries have been rising, particularly in China and India. However, their performances display wide disparity, including, in particular, in the Asia-Pacific region. In Latin America and the Caribbean, economic growth remained low and volatile, although there was a recovery in 2004 and the outlook for 2005 looks positive. While Eastern Europe and the Commonwealth of Independent States are the fastest growing region, some of the economies of Eastern Europe and Central Asia have not yet fully recovered since the collapse of communism. Other than in oil-producing countries, development in West Asian countries has been disappointing. Despite real growth in gross domestic product, most least developed countries have fallen even further behind. Broad subregions, in particular, sub-Saharan Africa, are off track in meeting the Millennium Development Goals. The number of people living in absolute poverty in Africa actually rose from 227 million in 1990 to more than 313 million in 2001.

3. Rapid globalization, since the beginning of the 1990s, brought to the fore various new instruments for financing for development, while opening up borders for the movement of goods, capital and labour. These developments have had an impact, in varying degrees, in all regions on a range of issues from trade liberalization to capital market development.

4. The analysis undertaken by the regional commissions as well as the assessments emanating from the follow-up at the regional level confirm that improvements in domestic business environments through structural reforms of finance, labour and trade; sound, macroeconomic policies focused on development; well targeted investment in economic and social infrastructures; and adherence to the principles of good governance are essential for successful development. In most developing countries, the availability of resources to finance investments in infrastructures has been among the critical factors influencing prospects and

capacities for harnessing potentials. Moreover, the experiences of many countries, especially in Latin America and the Caribbean region, Asia and the Pacific region and the transition countries, testify to the importance of a safeguard against economic and financial volatilities, without which the hard-earned gains of the developing countries can get eroded almost overnight.

5. The regional analyses also confirm that trade, investment and resources flows, including debt servicing, must be mutually supportive in order to lead to a critical breakthrough towards sustained development. A massive scaling up of public investments, capacity-building, systematic promotion of World Trade Organization-compliant trade opportunities, resource mobilization and official development assistance are therefore urgent for low-income developing countries. In trade, at issue is also the question of how to overcome the adverse affects of the proliferation of bilateral agreements, including marginalizing the disadvantaged countries even more. The experience with the regional follow-up to the Monterrey Consensus also underlines the essential need for forging regional and subregional partnerships and initiatives to accelerate development and increase the coherence of economic, trade and financial policies aiming to reduce volatility. The regional commissions’ work and the regional forums they provide would continue to facilitate regional and interregional cooperation as well as the exchange of experience and good practices.

II. Policies and measures to fulfil the commitments

Domestic resource mobilization

6. Private domestic capital formation is the largest source of new investment in developing communities. On average, it is five times the level of foreign investment. The Asia-Pacific region has the highest savings rate in the world, although intercountry variations in savings rates have been noticed. To mobilize private savings, which is a central goal of the Monterrey Consensus, it is necessary to pursue policies aimed at raising confidence in the financial sector and to diversify investment opportunities by developing capital markets, including privately funded pension and provident funds. Likewise, it is essential to develop long-term capital markets and, particularly, to enhance financing for small and medium-scale enterprises.

7. In most countries, households contribute a major share of domestic saving which, in some countries, is as high as 80 per cent. Most countries have introduced some form of forced savings (such as compulsory contribution to pension and provident funds) and provide tax incentives to stimulate long-term household savings. Some Latin American and Caribbean countries have gained considerable experience in developing innovative pension and provident fund schemes. Household savings are also encouraged by efficient capital markets, prudent fiscal and monetary policies, a strong legal system and good governance. A necessary complement to this is an environment conducive to channelling the savings to productive investments.

8. In many developing regions, stock markets are assuming a larger role in resource mobilization, although the practice is not yet widespread. This trend has been facilitated by deregulation and liberalization measures as well as specific policies to foster development. The emergence of institutional investors, such as pension funds and insurance companies, can encourage the development of stock

markets, being an important source of demand for financial assets. Some developing countries, especially in Africa, are late starters and their markets are relatively underdeveloped. The Economic Commission for Africa (ECA) undertakes regular training and orientation activities to encourage the establishment of active stock markets.

9. Likewise, the development of bond markets has been gaining attention in a growing number of developing countries in all regions, though in many places bond markets are relatively new. Local bond markets provide alternative sources of financing for companies and Governments, which avoid exchange rate risks inherent to foreign financing. The participation of foreign investors in these markets means that the risks of sudden reversals of foreign capital inflows is not eliminated. However, the ability to tap into domestic savings and issue bonds in national currency reduces exposure to abrupt changes in foreign investors' confidence. Contagion effects, which may not reflect a deterioration of fundamentals but just a common investors base, can be damaging to countries that are highly dependent on foreign financing. Many countries therefore view the development of local currency bond markets to be an important policy priority that reduces vulnerability to external shocks. Some of the Asia-Pacific and Latin American and Caribbean countries have begun to issue long-term, local-currency bonds to promote investments. For the first time ever, in 2004, the Inter-American Development Bank issued bonds that are denominated in the currencies of the countries in the region. In addition to providing more stability, bond markets are expected to stimulate domestic savings and investment. Countries with more advanced financial infrastructure have reformed traditional institutional arrangements to develop and supervise bond markets more effectively, for instance, by vesting authority in independent securities commissions. Countries with proven infrastructure and greater experience have started to move towards the establishment of secondary markets and the provision of means to hedge risks.

10. **In some regions, Asia-Pacific in particular, and also in the region of the Economic and Social Commission for Western Asia (ESCWA), considerations are under way for the establishment of regional bond markets in an effort to harness more effectively the regionally available resources in order to answer the rising demands for investment capital in their countries. Regional bond markets can also make important contributions to the building and strengthening of regional infrastructures that are necessary for development, especially for the promotion of trade and investment.** The members of the Association of Southeast Asian Nations and China, Japan and the Republic of Korea (ASEAN + 3) and the Asia Cooperation Dialogue are considering developing the Asian bond market.

11. Many Governments in all regions are paying serious attention to the significance of the capital market in the economic development process. However, domestic capital market development requires wide-ranging reform and achieving coherence between the policies is not easy. A good regulatory framework, including enforcement measures, needs to be established in order to develop a capital market. In general, in addition to efficient overseeing institutions, a good regulatory framework should promote self-regulation and self-monitoring by financial institutions, leaving sufficient room for market participants to act in a flexible manner, while including measures that encourage good practices. **Transparency of information and the adoption of international accounting standards also need**

to be promoted. As information technology continues to improve, regulatory bodies should review disclosure guidelines. In each country, Government and regulatory bodies should review and enhance the effectiveness of the trading and settlement systems. This would reduce transaction costs and trading risks. It may be worth the effort to explore the possibility of establishing common subregional trading platforms under which local exchanges join forces to develop a trading and clearing system that allows investors to trade securities on a regional basis.

Microfinance and microcredit

12. The use of microfinance and microcredit institutions is spreading in all developing regions, though in varying degrees, with Asia-Pacific countries leading the process, to redress the problem of poverty at the grass-roots level. The Microcredit Summit Campaign estimates that of the 179 validated microfinance institutions in Asia, 144 are in South Asia. Microfinance institutions in South Asia have experimented with various microfinance schemes, such as provision of credit and savings programmes targeting poor women, mobilization of voluntary savings, promotion of self-help groups and involvement of private investment in microfinance. The experience of Asia in microfinance institutions is being replicated not only in its different subregions, but also in other regions. Nevertheless, many challenges remain for enhancing the contribution of microfinance initiatives, especially for the sustainability of microfinance and for the qualitative and quantitative assessment of the impact of microfinance on poverty. Concerns also exist regarding the limited role of microfinance institutions to address the problem of the poorest of the poor inasmuch as the availability of credit seems to help mostly those with the spirit of entrepreneurship. Moreover, **it has been observed that for microfinance institutions to be successful, an enabling atmosphere is needed which can best be guaranteed by a sound macroeconomic policy framework that avoids crises originating domestically and abroad. Predictable donor support would also be helpful**.

Foreign direct investment

13. In a globalizing world, competition for foreign direct investment focuses on the establishment of a good business environment and investment incentives, consistent with national development objectives. The challenge for the developing countries is to respond to this new reality so as to attract foreign direct investment and maximize its contribution to development. Foreign direct investment flows have generally been influenced by policies that do not discriminate between foreign and domestic investors. Broadly based improvements in the investment climate expand the pool of potential investors, increasing incentives of informal firms to become part of the formal economy. This has special significance for most developing countries, where hundreds of millions of people operate in the informal economy, accounting for more than half of the economy in some cases. In addition, fostering linkages between foreign and domestic companies is a crucial component of a policy that aims to maximize the beneficial effects of foreign direct investment. According to the United Nations Conference on Trade and Development (UNCTAD), liberalization of foreign direct investment regimes may have been a factor that helped to reverse the downward trend in new foreign direct investment inflows to developing countries. In all developing regions, however, foreign direct investment

remained geographically concentrated. The region of the Economic Commission for Latin America and the Caribbean (ECLAC) has suffered steady declines in recent years in its share of global foreign direct investment and it is showing signs of weakness in competing for newer and higher quality investments. While an estimated $1.5 trillion of Arab funds are invested abroad, the inflow of foreign direct investment to the Arab region in 2002 was only $4.5 billion, a mere 0.7 per cent of the world's total foreign direct investment. Foreign direct investment inflows to Africa increased from $12 billion in 2002 to $15 billion in 2003 and are likely to reach $20 billion in 2004. However, they remain largely concentrated subregionally in North Africa and sectorally in extractive industries.

14. Foreign direct investment from developing countries to other developing countries seems to be growing more rapidly than that from developed to developing countries. Some estimates indicate that by the end of the past decade, more than a third of the foreign direct investment going to developing countries came from their peers. Developing Asia-Pacific countries have been the largest and fastest growing outward investors; the total stock of outward foreign direct investment through 2003 amounted to $635 billion, which was three quarters of total outward foreign direct investment from all developing economies. The expansion of regional free trade agreements, particularly in East, North-East and South-East Asia, together with regional integration efforts, is considered among the leading factors driving their growing outward foreign direct investment. Access to natural resources and strong export orientation are among the factors that have often motivated multinational enterprises from developing countries to invest in other developing regions. China, India, Brazil, Malaysia and South Africa have been among the leading developing countries in making foreign direct investments. In emerging Europe and the Commonwealth of Independent States, some large national companies have been carrying out regional expansion strategies. Multinational enterprises from developing countries often do better in other developing countries than their developed country counterparts for several reasons: (a) their overhead costs are lower; (b) their technology, though often less advanced, is better suited to the countries in which they operate; (c) they are generally closer to the host country, both geographically and culturally; and (d) they tend to be better versed in the risks of investing in other developing countries.

15. Nevertheless, the largest part of outbound investment resources from developing countries move out to either developed countries or to tax shelters — mainly to escape the high cost of doing business and high taxes. With respect to a rationalization of tax regimes, some interesting examples have been set recently by several transition economies of Eastern Europe. Estonia, Lithuania and Latvia (European Union States since May 2004), later joined by Russia and a few other transition economies, have introduced "flat taxes" on personal incomes which apparently increased their tax revenue and reduced the cost of collection. However, such flat taxes may significantly reduce the progressive impact of taxation. **Regional commissions can contribute to the work of the Committee of Experts on International Cooperation in Tax Matters recently established by the Economic and Social Council in its resolution 2004/69.**

16. **Additional policy initiatives are needed to redress the weaknesses in the investment situation in developing countries, including better access to international financial markets. The experience of the European Investment Bank for promoting infrastructure and regional integration is also worth**

studying. In light of the magnitude of the infrastructure investment and financing requirements of developing countries in the Asia-Pacific region and encouraged by the European Investment Bank's contributions, the Economic and Social Commission for Asia and the Pacific (ESCAP) will explore the possibility of setting up an Asian investment bank which can raise capital from financial markets and other sources and help to direct capital towards infrastructure development and investment projects of participating developing countries in collaboration with other regional funds and development banks so as to galvanize synergies for regional development. Another interesting example is provided by the European Bank for Reconstruction and Development, which focuses explicitly on the development of the viable private sector and supports the evolution of democratic institutions in transition economies.

17. In addition, although net direct investment flows have become for developing countries the most stable external source of finance for productive investment, they have shown pro-cyclical behaviour in recent years.

Trade

18. The Monterrey Consensus identifies trade as the single most important external source of development financing. Yet, the participation of many developing countries in global trade has been marginal. Africa's share of global exports even declined and is now about one third of what it used to be in 1980. In 2002, the share in world trade of the 50 least developed countries was only 0.6 per cent. Of the 191 States Members of the United Nations, 44 are not yet members of the World Trade Organization (WTO), among which 19 are least developed countries. Only 11 of the 22 members of the Arab League belong to WTO. **Better integration of the developing countries and low-income transition economies into the global trading system could be facilitated by the regional commissions, which actively provide relevant technical assistance and offer forums for international discussions to enhance the prospects for regional and interregional cooperation. Experience since the Tokyo Round of multilateral trade negotiations shows that their integration cannot be achieved without better market access based on the principle of special and differential treatment on a non-reciprocal basis.** Successive rounds of multilateral trade negotiations and the continued plight of the poorest developing countries in their aftermath also underline both the importance of and the urgency about a genuine breakthrough in the Doha Round of negotiations in favour of developing countries, starting with agricultural protection and subsidies. An issue of particular importance from the standpoint of developing countries is the elimination of tariff escalation, which discourages the process of adding value through industrialization.

19. In order to utilize international trade as a powerful driver of economic growth and poverty reduction in the developing countries, the two overarching issues that need to be effectively addressed are: (a) improving market access and terms of trade for the developing countries, with special attention to the needs of the poorest among them; and (b) improving the supply-side competitiveness for low-income countries' exports through increased investments in infrastructure development, trade facilitation and human resources development.

20. The agricultural sector suffers from the biggest and costliest aberration in the global trading system, largely from the subsidy of some $300 billion that the rich

countries provide for their farm producers. As agreed in the Doha Development Agenda Framework Agreement of 1 August 2004, export subsidies should be totally and effectively eliminated. Despite this significant agreement, no road map or end-date was given for achieving this goal. The focus of negotiations on agricultural trade liberalization should also be broadened so as to stress the reduction in tariffs as well as in domestic support. It is essential to bear in mind that the vast majority of the populations in the developing countries, in fact an overwhelming proportion of them in the poorest countries, depend on the agricultural sector for their livelihood. Opportunities for sustained growth in those countries therefore crucially depend on securing a more dynamic agricultural sector, which also requires that the developing countries undertake the necessary reforms.

21. The Framework Agreement sets out five core areas that include, in addition to agriculture, market access on non-agricultural products, services, development issues and trade facilitation. Regrettably, the original deadline of January 2005 for completion of the Doha Round has passed and not much progress has been achieved since the Framework Agreement. **If the Round is to be completed by 2006, which is widely recognized as the only narrow window available, further progress will now hinge on the outcome of the 6th WTO Ministerial Conference, to be held in Hong Kong, China, in December 2005.**

22. Globalization has increased the vulnerability of the developing and transition economies to adverse external shocks. Even for those countries recently benefiting from the recovery of commodity prices, there exist significant structural weaknesses emanating from high dependence on exports of natural resources and low value-added products, implying a high vulnerability to external shocks. In some of them, the erosion of competitiveness associated with real exchange rate appreciation (the "Dutch disease") is becoming a burden to producers and is choking off economic growth.

23. Realizing that trade is vital to harnessing their development potential and reducing poverty, the developing countries generally have pursued a course of trade liberalization in recent years. Yet, not all of them, especially not the least developed countries in Africa, have reaped potential benefits from trade, though in some of them liberalization in the services sector (e.g. telecommunications and electricity) improved foreign direct investment inflows and even stimulated the development of microenterprises in some instances (e.g. mobile telephones in Bangladesh). This is because effective trade liberalization has been mostly limited to the import sector, while only a few policy measures were implemented to reduce supply constraints on the export sector. Similarly, trade policies often ignored the informal sector, which constitutes a substantial segment of the economy of many developing countries. Notably, with progressive liberalization, resources from international trade taxes, on which many poorer countries are highly dependent, dropped. According to WTO, in the mid-1990s, tariff revenue accounted for over 30 per cent of general tax revenue in more than 25 developing countries. **It is therefore important to continue trade liberalization while pursuing domestic policies that improve the supply-side responsiveness of developing economies without public revenue losses.**

24. The capacity of trade to raise incomes, boost long-term growth and increase financial flows for development has yet to be reflected in South-South trade, even though from 1990 to 2001 merchandise trade among developing countries expanded twice as rapidly as world trade and trade in services grew even faster. The trade

performance of the regions has also been widely divergent. The ESCAP analysis shows that of the total intradeveloping country trade, more than two thirds originated from, and had its destination in, developing Asia, whose intraregional trade and trade with other developing regions grew faster than South-South trade in general. Moreover, in the developing Asia-Pacific region, manufactured goods were the most dynamic component of intradeveloping country merchandise exports, with an average annual growth rate of 12 per cent, accounting for almost two thirds of intradeveloping country trade in 2001. Notable also is the fact that intraregional trade and intraregional investment in the developing Asia-Pacific region often acted in a mutually complementary manner. This can be attributed, in part, to the sound macroeconomic policies as well as the open trade and investment policies in the major developing economies of the region.

25. Among the reasons cited for the other regions not being as dynamic as the developing Asia-Pacific region in harnessing more of the benefits of South-South trade have been their inadequate infrastructure, including for trade and transport facilitation, as well as high tariff and non-tariff barriers. World Bank data indicate that tariffs imposed by developing countries on exports from other developing countries are often set at above-average levels. Both in Africa and the Arab region, intraregional trade remained mostly stagnant for decades representing some 10 per cent and 8 per cent, respectively, of their trade volume. ECLAC analyses show that the wave of regionalism experienced in its member countries during the 1990s sparked intraregional trade for some time and stimulated gross domestic product growth, but now needs new momentum. Moreover, with the proliferation of agreements, both within the developing regions and with developed countries, there is an increased segmentation of regional markets (owing to the network of multilateral, subregional and bilateral agreements), which increases the cost of administering and coordinating regional policies. The proliferation of agreements also marginalizes the vulnerable countries even more and are very costly to negotiate, especially for smaller countries.

26. At issue, especially in Africa, is also how countries can rationalize the composition and functions of the regional economic communities to ensure that they improve trade and investment opportunities. Collaborative efforts are underway between the African Union and ECA, under the guidelines of the New Partnership for Africa’s Development, to provide a framework for such rationalization. In some of the regions that agreed to enter into trade cooperation arrangements, the modalities for implementation remain to be decided. Optimal regional approaches can build regional public goods, such as key infrastructures, through public-private partnerships and reinforce good practices within and across countries.

27. **From a regional perspective, the unfolding patchwork of overlapping bilateral, subregional, regional and cross-continental initiatives needs to be rationalized so that they evolve in a manner supportive of the multilateral trading system. Given the dynamics of development, future global initiatives in this regard will have to focus a great deal more on regional levels. The regional commissions can work with WTO and UNCTAD in this regard to promote a set of common and cohesive principles, practices and operational procedures for regional economic integration consistent with the WTO principles. Those organizations need also to work together to provide technical assistance to the disadvantaged developing countries that are negotiating WTO membership so**

that they can deal better with the complex rules and arrangements of the global trading system.

Official development assistance

28. In spite of the growing importance of foreign private flows to the developing countries, official development assistance continues to retain critical importance as a source of development finance for many of them, especially the countries of sub-Saharan Africa, the least developed countries, the landlocked developing countries and the small island developing States. Moreover, at least five countries in the ECLAC region and seven more with transition economies in the region of the Economic Commission for Europe (ECE) have been identified by the respective commissions as deserving of special consideration for official development assistance grants because of the persistent economic difficulties that they face on top of their very low levels of per capita income. There is widespread concern that those countries will otherwise miss out on achieving the Millennium Development Goals.

29. The sectoral composition of global official development assistance is changing. The share of social infrastructure and services in total official development assistance increased from 25 per cent in 1990 to 34 per cent in 2002, while the share of the economic infrastructure and production sectors fell during those years. Cross-cutting projects, such as environmental protection and promoting women in development, have received a growing share of global official development assistance. Support for non-governmental organizations also increased from less than 1 per cent of total official development assistance in 1990 to 4.7 per cent in 2002. At the same time, donors' administrative costs, which are counted as official development assistance, also rose to 5 per cent of total official development assistance in 2002. Moreover, an increasing portion of recent increases in official development assistance has been directed to emergency relief, particularly to countries deemed critical for security reasons in the perception of donors. Against this backdrop, **it is essential that not only the Monterrey pledges of increased official development assistance are realized, but also that increased official development assistance means a real increase in financial resources in support of the achievement of the Millennium Development Goals**.

30. **In addition to the quantity of aid, at issue is its quality as well as the monitoring arrangement. The Paris Declaration on Aid Effectiveness, adopted in March 2005, is a positive development in this respect. In Africa, ECA and the Organization for Economic Cooperation and Development are cooperating to put into effect a mutual accountability framework, which they have reciprocally developed over the period 2002-2004, that will keep track of commitments of both the donors and the recipient countries.**

Remittances

31. For developing countries as a whole, workers' remittances are the second largest source of private financial inflows after foreign direct investment. Latin America and the Caribbean region received the largest flows of remittances in nominal terms in 2004, but for the region as a whole, they represent a higher proportion of gross domestic product in the Middle East and North Africa. Furthermore, in several small economies of Central America, the Caribbean and the

Pacific islands, as well as in the poorest countries of the ECE region, remittances amounted to 8 per cent of gross domestic product or more in recent years. In some larger economies, remittances became a significant source of foreign exchange. In general, remittances tend to benefit poor segments of the population in recipient countries. Unlike capital flows, which vary according to the economic environment, remittances tend to stay stable and are less volatile over time. The flow of remittances that circulate through formal channels depends on the degree of financial development. In turn, remittances can spur this development. Some changes in the flow of remittances are expected since South-South migration is likely to increase more rapidly than South-North migration. This is because fast-growing, newly industrialized countries are likely to attract more migrant workers as their own workers move into higher value-added economic activities.

32. **Despite the importance of remittances in some economies in the developing regions, there has been a dearth of systematic efforts to utilize those resources for development purposes and to generate investments. In this regard, there is considerable scope for the beneficiary developing countries to benefit from one another's experiences, which the regional commissions can encourage.**

Debt sustainability and debt relief

33. Of the 42 countries qualified as potentially eligible for debt relief in September 2004, 27 had received debt service relief of $32 billion. Despite the positive contributions of heavily indebted poor countries initiatives, including cancellation of 100 per cent of bilateral debt by certain donors, from a sustainability perspective, the relief to some of the debtor developing countries has been relatively short-lived insofar as they slid back into an unsustainable debt burden afterwards. While this points to the need to anchor the heavily indebted poor countries initiative to a comprehensive development strategy, tailored to suit the needs of each country, it has also been observed that the initiative places too much importance on the role of exports and does not adequately reflect the true burden of debt on social spending. Moreover, the results of the initiative have been somewhat slower in coming than expected, with excessive conditionality and restrictions over eligibility criteria preventing some of the needy countries from benefiting from this unique facility.

34. While the extension of the heavily indebted poor countries debt initiative until the end of 2006 is welcome, **full cancellation of the heavily indebted poor countries' external debt might be needed to break the vicious cycle of poverty faced by them**. From 1970 to 2002, sub-Saharan African countries received $294 billion in total disbursements from the developed countries and paid back $268 billion in debt servicing alone. There are also middle-income, high-debt developing countries that need a reprieve from the debt burden they face. The ECLAC region's debt to export ratio is higher than that of any other developing region. In the majority of the seven low-income Commonwealth of Independent States countries (Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Uzbekistan and Tajikistan), debt sustainability remains an important policy concern and it is so also for several ESCWA members, including Yemen, that region's only least developed country.

35. The Asian and other financial crises brought to the fore some new dimensions to the debt problems of developing countries, particularly for the middle-income,

highly indebted countries. The issue was not only the aggregate level of debt; it was also a question of balance between private and public sector debt, their maturity structure, the level of contingent liabilities, reserve management and pursuit of macroeconomic policies consistent with development objectives. A significant contributory factor underlying the financial crises was the premature liberalization of capital accounts in many countries. They underscore the importance of the regulation and supervision of all financial institutions preceding liberalization, as well as a sound and coherent policy framework for managing and monitoring capital flows, in general, and debt management, in particular. In recent years, domestic public debt has increased significantly in a large number of countries in most regions, reflecting increased fiscal deficits and rising contingent liabilities, despite the large privatization programmes undertaken since the 1990s. An increase in fiscal deficits and public debt places negative pressure on financial systems and growth prospects, eroding country creditworthiness.

36. **There is a greater need for the countries to try to make debt finance a positive source of financing for development. However, this requires action at the country, bilateral, regional and global levels. At the regional level, the steps should: (a) improve the existing framework and arrangements to provide support for countries facing difficulties in raising capital on international markets; (b) enhance the development of regional bond markets through increased standardization of issuance and settlement procedures; (c) improve regional cooperation through more organized arrangements to enhance debt management capacities, share experiences in debt management and risk management; (d) create an organized resource centre, as needed; (e) actively explore ways to use the region's foreign exchange reserves more effectively; and (f) establish counter-cyclical mechanisms.**

Governance and systemic issues

37. **Consistent with objectives of the Monterrey Consensus at the regional level, there is a need for regional initiatives and cooperation to increase the coherence and consistency of monetary, financial and trading systems and to reduce the vulnerability in the event of financial crisis.** With increasing recognition of the causal relationship between finance and growth, in all regions, liberalization of the domestic financial sector has proceeded, in varying degrees. In that regard, analyses of volatility experienced in the past by some countries, e.g. in Latin America and the Caribbean region, show that while domestic liberalization was accompanied by international liberalization, macroeconomic stability has suffered several episodes of crisis led by volatility in capital flows. In addition, prudential regulations have lagged behind. That combination helped to promote twin banking and currency crises in that region in the 1990s, which were extremely expensive to resolve in terms of lost output and employment. Their adverse consequences had lingered even after the crises were resolved.

38. The Asian financial crisis illustrated how easily a crisis can spread from country to country as economies and markets become more integrated by trade and investment links. Since the crisis, the Asia-Pacific countries have looked more closely at developing greater financial cooperation to prevent a contagion and to assist the affected countries. **A regional surveillance mechanism, acting as an early warning system, was deemed to be desirable to prevent future crises** and several initiatives have emerged in the East Asian region, including the Manila

Framework Group and the ASEAN and ASEAN + 3 Surveillance Process, established to complement existing international surveillance mechanisms used by the Bretton Woods institutions and others. The Chiang Mai Initiative agreed by the Finance Ministers of ASEAN + 3 countries in May 2000 enabled emergency liquidity to be made readily accessible by member countries in times of crisis. The Chiang Mai Initiative aims to help affected countries to cope with disrupted capital flows and maintain exchange rate stability by creating a network of bilateral swap agreements and repurchase agreement facilities among the ASEAN + 3 countries. **As shown by experience, a regional multilateral approach might ensure that any conditionality associated with the financial assistance provided is consistent from one country to another.**

39. Weak financial systems have often been a catalyst for broader economic crisis. Financial and other macroeconomic restructuring initiatives therefore need to go hand in hand with measures to protect the economy from future shocks. An interesting experience relating to financial liberalization and crisis and their impact on the banking sector is found in Latin America and the Caribbean region which, overall, has the highest share of foreign ownership in the developing world. There, more than in any other region, the process occurred, although often in a complicated sequence. As part of the liberalization sequence itself, State-owned banks were sold to the private sector, both domestic and foreign. In times of crisis, however, Governments there were often forced to re-nationalize many banks, followed by another round of privatization. The second trend — towards foreign ownership — came about in both stages. While ownership of bank assets by foreign institutions offers potential opportunities, excessive foreign ownership of bank assets has also, at times, constrained lending to the domestic private sectors and small and medium-scale enterprises. **From these experiences, ECLAC analyses suggest that a variety of ownership models can contribute to economic success. Nonetheless, the experience of European transition economies suggests that the control of domestic banks by experienced Western banks based on full ownership can result in the emergence of a healthy and rapidly expanding banking sector.**

III. Interregional aspects of the follow-up to the Monterrey Consensus

40. **The diversity of experiences in development at the regional, subregional and country levels in all substantive areas of the Monterrey Consensus, as well as the variations in the levels of income, resource endowment and policy orientation of developing countries, create ideal opportunities for interregional cooperation among those countries, enabling them to learn from one another and to replicate good practices. Because of their locational advantage, proximity to countries as well as long-standing cooperation with integration groupings and regional financial and development institutions, the regional commissions are uniquely suited to promote interregional cooperation and to use such cooperation to strengthen the capacity-building efforts of the developing countries.**

41. In recent years, for this purpose, the regional commissions have increasingly been taking advantage of the resources under the United Nations Development Account to undertake joint implementation of capacity-building projects, in

cooperation with other relevant global and regional partners within and outside the United Nations system. The ongoing and planned interregional projects in this regard cover: improving national capacities for developing interregional land and land-cum-sea transport linkages; increasing the competitiveness of companies in the Mediterranean region in regional and global markets by simplifying and harmonizing trade procedures throughout the transaction chain; providing landlocked and transit developing countries with sustainable capacity to plan and implement regional trade and transport facilitation initiatives by creating local trade and transport facilitation clusters and encouraging partnerships; strengthening competitiveness and the negotiating capacity of developing countries by sharing knowledge of problems and best practices in various countries and regions on trade promotion and implementation of trade policies; and strengthening the capacity of the developing member countries to formulate and negotiate effective trade and environment policies, taking into account their linkages, implications for market access, their relationship and multilateral environmental agreements. Furthermore, in July 2004, with the sponsorship of the Department of Economic and Social Affairs and ECLAC, the regional commissions organized a policy seminar in New York on regional financial arrangements.

42. **There is also considerable scope for increasing interregional cooperation, through the regional commissions, to exchange experiences and good practices in free trade areas, domestic resource mobilization, innovative sources of financing as well as to promote coherence and consistency between trade, financial and monetary policies with development.**