United Nations E/2006/48

Economic and Social Council

Distr.: General
27 March 2006

Original: English

Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development
New York, 24 April 2006

Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus and the 2005 World Summit Outcome

Note by the Secretary-General*

Summary

In the World Summit Outcome, Member States reaffirmed the Monterrey Consensus and recognized that mobilizing financial resources for development and the effective use of those resources in developing countries and in countries with economies in transition are central to a global partnership for development in support of the achievement of the internationally agreed development goals, including the Millennium Development Goals.

In its subsequent resolution 60/188, the General Assembly resolved to continue to make full use of the existing institutional arrangements for reviewing the implementation of the Monterrey Consensus, as set out in paragraph 69 of the Consensus and in line with its resolution 57/270 B, including the high-level dialogues convened by the General Assembly and the spring meetings of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development, and stressed the importance of the full involvement of all relevant stakeholders in the implementation of the Monterrey Consensus at all levels.

* The preparation of the present note benefited from extensive consultations with staff from the major institutional stakeholders involved in the financing for development process. Responsibility for the contents of the note rests, however, solely with the Secretariat.

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In response to that mandate, the Economic and Social Council will hold its ninth special high-level meeting with the international financial and trade institutions on 24 April 2006. The present note has been compiled to provide background information for discussions at the meeting, and should be read in conjunction with the recommendations contained in the World Summit Outcome on related issues. The sections of the note correspond to the four sub-themes selected by the Council as the focus of the upcoming meeting.

In addition to the four sub-themes, an informal note to the Economic and Social Council circulated by the Council bureau in February 2006 indicated that it expected that the representatives of the International Monetary Fund (IMF) and the World Bank would provide information to the special high-level meeting on the latest developments in the area of enhancing the voice and participation of developing countries and countries with economies in transition in economic decision-making and norm-setting. The note also recalled that the issue of voice and participation remained on the agenda of the International Monetary and Financial Committee and that the General Assembly, in its resolution 60/186, had underlined that the issue of enhancing the voice and participation of developing countries and countries with economies in transition in the Bretton Woods institutions was of vital importance, stressed the importance of enhancing ongoing work in that regard and invited the World Bank and IMF to continue to provide information on that issue, using existing cooperation forums. The meeting scheduled for 24 April 2006, coming straight after the Committee meeting, should provide a good opportunity for further exchange of information on the subject.

I. Sub-theme 1: implementation of and support for national development strategies towards the achievement of internationally agreed development goals, including the Millennium Development Goals

1. In the 2005 World Summit Outcome,[1] Member States resolved to adopt, by 2006, and implement comprehensive national development strategies to achieve the internationally agreed development goals and objectives, including the Millennium Development Goals. The main focus of those strategies should thus be to identify and implement specific measures and programmes aimed at achieving those goals and objectives, agreed to at the various United Nations conferences and summits dealing with development issues. The Millennium Development Goals are to be achieved by 2015, which is only 10 years away. The development strategies should not only indicate the programmes that will need to be implemented, they must also specify how the actions will allow the country to achieve the desired goals. They should include means for improving the mobilization of domestic resources and increasing employment opportunities. In addition, they will require costing and specification of sources of additional financing that might be required for the measures selected. National development strategies can thus bring together all the elements of the holistic approach of the financing for development process started at the International Conference on Financing for Development in 2002, and are crucially dependent on the fulfilment of the global partnership for development announced in the Monterrey Consensus.[2]

2. The adoption and implementation of comprehensive national development strategies implies agreement on a common national framework for prioritization, planning, resource allocation and, where appropriate, donor alignment, as determined by developing countries themselves. Many developing countries already use poverty reduction strategies as a framework for that purpose. The World Bank provides a sourcebook to assist Governments in designing their policies to reduce poverty within the poverty-reduction strategy process. For countries not involved in poverty-reduction strategies, national and sectoral medium-term plans should be reviewed to ensure their compatibility with the internationally agreed development goals, including the Millennium Development Goals.

3. While poverty reduction strategy papers are now being amended to give greater weight to the Millennium Development Goals, they need to adopt a more comprehensive approach so that countries can meet their development objectives in the framework of the holistic approach to the development partnership underlying the Monterrey Consensus process. For example, the approach of "Millennium Development Goal-based planning" works backwards from the Goal targets to define the policies and investments needed between 2005 and 2015, which differs from prevailing practice, whereby investment strategies are formulated independently of an assessment of the requirements for reaching the Goals. Implementation of Millennium Development Goal-based strategies must take into account the availability of resources, both domestic and international. This suggests that the planning process should start with an assessment of actual investment needs, followed by the design of a supportive macroeconomic framework, including a viable financing strategy with more development assistance, after careful assessment of alternative policy options on an economy-wide basis. In this way, the optimal combination and sequencing of policies and investment for scaling-up could be identified.

4. The above approach calls for a 10-year horizon, given that the target date for the achievement of the Millennium Development Goals is 2015. However, as indicated above, the achievement of the MDGs is only the first step towards the minimum initial investments in human capital and infrastructure necessary for countries to launch a successful and comprehensive development effort, since, for many countries, the horizon for their national development strategies and strategic plans should be longer than 10 years. In addition, true national ownership of development strategies requires discussion of alternative strategies and policy options for achieving the internationally agreed development goals to which countries have already committed, and a choice on which measures should be employed to reach those goals.

5. Technical assistance and capacity development are essential aspects of national development strategies. The United Nations Development Programme (UNDP), the World Bank, the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO) have programmes that are already in place to increase and improve the absorption capacity of developing countries in the areas crucial to the implementation of their development strategies. For example, as a follow-up to the 2005 World Summit, UNDP, in collaboration with the United Nations Millennium Project, has proposed an integrated package of services to support countries in developing policies and capacities to attain the Millennium Development Goals, including at the community and subnational levels, with linkages to national policy and strategic frameworks. The package offers an opportunity to bring greater cohesion and collaboration among UNDP, other organizations of the United Nations system and development cooperation partners to adapt the Millennium Development Goals to local circumstances.

6. The role of employment policy is particularly important in national development strategies. In the 2005 World Summit Outcome, the General Assembly highlighted the goal of full and productive employment and decent work for all, including for women and young people, as a central objective of those strategies. In a recent report[3] the International Labour Organization (ILO) noted that global unemployment had reached a record level of over 190 million, while of those employed, half a billion workers earn less than one dollar per day, and another 1.4 billion less than two dollars per day. Improving levels and conditions of employment is one of the most effective means of achieving the Millennium Development Goals.

7. The formulation of national development strategies that integrate the internationally agreed development goals, including the Millennium Development Goals, must be supported by an appropriate mix of grant and aid delivery instruments (including grants and loans) compatible with a debt structure that ensures that the strategies are viable on a long-term basis (see also sub-theme 3 below). As mentioned above, such activities would need to be complemented by increased domestic resource mobilization, as well as improved efficiency and effectiveness in resource use, given its significance for sustainability in the medium-term. In addition, measures in the area of trade, including aid for trade, will be crucial to the specification of the development strategies (see also sub-theme 2 below).

8. In the 2005 World Summit Outcome, the General Assembly reiterated the call made in the Monterrey Consensus for developed countries to achieve the target of 0.7 per cent of gross national product (GNP) for official development assistance by

2015 and at least 0.5 percent of GNP for official development assistance by 2010, as well as to reach, no later than 2010, the goal of 0.15 to 0.20 per cent for aid to least developed countries, pursuant to the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010,[4] and urged those developed countries that had not yet done so to make concrete efforts in that regard in accordance with their commitments. However, to meet the longer-term financing needs of national development strategies, aid flows will also have to be made over a longer term and be more predictable, requiring changes in donor policies, such as those currently under consideration by the European Commission to provide greater coordination and reduce conditionality.

9. The consideration of innovative sources of development finance has been gaining attention and support, on the grounds that those sources can provide for a more stable flow of resources and might therefore constitute a reliable source of financing for national development strategies. Building on the meeting of the Presidents of Brazil, Chile and France, at Geneva in January 2004, followed by the meeting of world leaders called by the President of Brazil in New York in September 2004, an international conference devoted to the topic was held in Paris, under the auspices of the French Government, on 28 February and 1 March 2006. The conference considered concrete proposals, such as an air ticket tax, the establishment of an international drug purchase facility and the launching of other pilot projects geared towards generating additional, and ensuring a more effective deployment of, resources for development, in particular for nutrition and health. The pilot projects under way or in advanced stages of planning include an international finance facility for immunization, the establishment of advanced market commitments to encourage the development of new vaccines and a proposal for a "Humanitarian lottery to free children from hunger", presented by the World Food Programme (WFP). At the Paris conference, a new "Leading group on solidarity levies to fund development" was formed, which 42 countries have joined, and a decision was taken by the participants to convene a forum on innovative financing for development in 2007.

10. Coherence in the conditions placed on official assistance by donors and multilateral institutions is of special importance for the success of national development strategies. In the past, different conditions have created conflicts that prevented the effective use of assistance. For example, a country or institution that provides funds to a Government to implement a particular programme may find that the actual expenditure of funds can conflict with a Government spending or domestic credit expansion target that has been agreed as part of a multilateral support programme or in a poverty reduction strategy. Enhanced country ownership, donor policy alignment and general inter-agency cooperation and coordination should help prevent such situations.

11. It is thus important to implement, as appropriate, the recommendations of the Paris Declaration on Aid Effectiveness, recently incorporated into the European Consensus of July 2005, through which, inter alia, aid funds may be made more effective when represented as part of the budget process in recipient countries. Funds represented in, and deliberated through, the national budget processes can best meet the corresponding standards on the ownership of policies by recipient countries, the alignment of donor funds with the planning and budgetary processes of recipient countries and the contributions to State-building and fiscal planning in developing countries.

12. Increased national budget control also has implications for the policy of donors on the selection of recipients of bilateral aid. The composition of aid between loans and grants and other means should be determined relative to the objectives of the national development strategies, and mechanisms should be created to ensure that sufficient funding is available to all countries meeting the condition of providing a viable development strategy.[5] Such decisions should also be coordinated with the debt sustainability framework applied to new sources of funding. In the spirit of the Monterrey Consensus, no country meeting the overall conditions of the Consensus should be unable to implement its development strategy due to lack of funds. The full financing of national development strategies will thus not only require a scaling-up of funding as called for in the 2005 World Summit Outcome, it will also require measures to ensure that the increased resources can be used effectively.

13. In addition, national development strategies will need to take into account the fact that the increasing interdependence of national economies has led to the emergence of rule-based regimes for international economic relations which can reduce the range of choice over national economic policy. As noted at the eleventh session of UNCTAD and in its São Paulo Consensus,[6] the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international discipline, commitments and global market considerations. Ownership of national development strategies means that each Government must evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space. It is particularly important for developing countries, bearing in mind development goals and objectives, that they take into account the need for appropriate balance between national policy space and international disciplines and commitments.

14. In respect of the global partnership for development, it is important to keep in mind that the 2005 World Summit Outcome also reaffirmed the commitment to sound policies, good governance at all levels and the rule of law. In its resolution 60/188, the General Assembly, inter alia, emphasized that corruption at all levels was a serious barrier to development and to effective resource mobilization and allocation and reaffirmed the commitment expressed in the Monterrey Consensus to make the fight against corruption at all levels a priority.

Possible questions for sub-theme 1:

1. **What practical measures can be taken to increase the amount of aid channelled through national budgets?**

2. **How can international coordination of aid flows be improved to prevent selectivity and herding?**

3. **What can be done to expand and support employment creation as part of national development strategies?**

4. **How can stakeholders better coordinate their support for countries in elaborating their national development strategies?**

5. **How can further innovation be encouraged in financing international cooperation and guarantee adequate follow-through and scaling-up of the pilot initiatives under way?**

II. Sub-theme 2: fulfilling the development dimension of the Doha work programme

15. In the 2005 World Summit Outcome, the General Assembly called on Member States to work expeditiously towards implementing the development dimensions of the Doha work programme. As noted above, trade policy and performance will play a crucial role when specifying a country's national development strategy. The Doha round has reached a critical stage for the 149 members of the World Trade Organization to deliver substantive outcomes and conclude, as scheduled, the negotiations by the end of 2006. In this light, it is crucial that the development dimensions of the round be fully maintained, as agreed upon at the ministerial meeting of the World Trade Organization in 2001.

16. The level of positive and constructive engagement shown by all countries during the sixth Ministerial Conference of the World Trade Organization held in Hong Kong, China, in December 2005 reflected an intention to maintain the overall level of ambition of the Doha round; development issues were addressed in all areas of the negotiations. The Conference moved the Doha negotiations forward, though in modest steps with the bulk of key negotiations left for 2006.

17. The Ministerial Conference also witnessed modest results in the areas of agriculture, cotton, non-agricultural market access and services. In agriculture, participants of the meeting secured a date for the elimination of export subsidies by 2013, with a substantial quota to be lifted by 2010. There was also agreement to achieve effective cuts in trade distorting domestic subsidies. Ministers also addressed two key demands from a group of developing countries: (a) that they would have the flexibility to use criteria of food security, livelihood security and rural development to designate a number of products for special treatment; and (b) that, in specific circumstances, they would be able to trigger a special safeguard to protect themselves against imports.

18. Conference participants agreed to eliminate all export subsidies on cotton by the end of 2006, although such subsidies constitute only a small portion of the subsidies granted to producers in developed countries. They also agreed that deeper and faster reductions needed to be made to trade-distorting domestic subsidies for cotton production than those agreed upon under the general formula, and to provide duty-free and quota-free market access for least developed countries.

19. Reform and liberalization of agriculture are particularly important to developing countries, since agriculture is one of the most important sources of export revenue, employment, income and livelihood for the great majority of them. The case of cotton is indicative. Some 60 million people in Africa depend on cotton production and exports for their economic and social well-being. Achieving fair trade in cotton is thus crucial for their development. At the same time, agricultural liberalization and reform may have an adverse impact, especially for developing countries that import more food than they export.

20. Despite the central role of agriculture for a number of countries, agricultural trade represents only about 6 per cent of world trade, while trade in manufactures accounts for some 74 per cent. With regard to non-agricultural market access, ministers reaffirmed the objective of reducing barriers to world trade in industrial products and agreed that the "Swiss formula" would be used to cut industrial tariffs. Liberalization in industrial products thus offers important opportunities for

developing countries. Although tariffs for industrial products are relatively low, there are some highly protected sectors where tariff peaks and escalation are prevalent — especially in sectors of export interest to developing countries — and non-tariff and other market-entry barriers are frequent and concentrated. Reducing or removing protection could lead to gains for developing countries. At the same time, non-tariff barriers need to be addressed in negotiations, as do anti-dumping measures and trade-distorting sanitary, phytosanitary, technical and environmental standards and regulations.

21. Improved market access conditions for products and services of export interest to developing countries, especially least developed countries, are an essential component of the development dimension. The focus on market access is consistent with the new geography of trade in which a number of developing countries (mainly in Asia) are emerging as important traders. At the same time, for many other developing countries (particularly in Africa), least developed countries and small, vulnerable economies have yet to fully benefit from international trade. Such differences in trade performance should be considered in negotiations and should have an effect on their outcome.

22. Services are a fundamental economic activity when building infrastructure, improving competitiveness, facilitating trade and promoting economic growth. They are also a way for developing countries to diversify, freeing themselves from commodity-dependence and towards generating development finance. The potential of services trade, especially mode 4 (temporary movement of natural persons), and also mode 1 (cross-border supply of services), is significant. The global gains from liberalization in mode 4 are expected to exceed $150 billion per year, with much of the gains coming from the liberalization of lower skill movement. Mode 1 is instrumental for growing outsourcing industry and information technology-enabled services. Mode 3 would be important in boosting efforts of developing countries to attract foreign direct investment. The pacing and sequencing of liberalization and regulatory reform are crucial in ensuring the expected development gains from services trade liberalization, and preventing any adverse impact on the access of the poor to essential services.

23. Over time, trade preferences have provided better market access conditions to developing countries. However, ongoing most-favoured nation tariff reduction erodes the value of existing preferential schemes. Consideration should therefore be given to improving existing preferential schemes and facilitating and promoting their better utilization, such as through enlarged product coverage and reformed rules of origin so as to reflect the actual production capacities of least developed countries.

24. Flexibility in implementing economic policy is important when countries pursue a strategic mix of trade and development policies that are tailored to their individual conditions. Adequate policy space would help developing countries to achieve a dynamic comparative advantage and supply capacity, while addressing public interest and poverty alleviation objectives, including food security, livelihood, rural development, access to essential services and public health. Such flexibility is mainly provided in the multilateral trading system through special and differential treatment, which is envisaged in World Trade Organization agreements to ensure fairer and more equitable treatment of States members with different trading capacities. However, progress under the specific work programme on special

and differential treatment has been limited. Even though members have yet to adopt the proposals that had been agreed to in principle some time ago, they did agree to adopt five outstanding proposals on special and differential treatment specific to least developed countries, including: agreement that developed and developing countries declaring themselves in a position to do so would provide duty-free and quota-free market access to at least 97 per cent of products from least developed countries. Members have also agreed to work progressively towards achieving 100 per cent tariff line coverage in the future. The finalization of the modalities of this decision will be important in determining the gains that will actually be made, since the currently excluded three per cent could amount to 330 tariff lines, representing a substantial share of total exports from particular least developed countries. Gains could be augmented by approving fast-track inclusion of the products of export interest to least developed countries and ensuring that applicable rules of origin are transparent, simple and contribute to facilitating market access.

25. In light of the above, all outstanding agreement-specific special and differential treatment proposals need to be addressed expeditiously. The proposals essentially constitute corrective actions to make agreed special and differential treatment measures that increase flexibility operational and mandatory. In the medium-term, special and differential treatment needs to be mainstreamed into the legal architecture of the World Trade Organization. Building on the results of the Sixth Ministerial Conference in the substantive areas of negotiations, it is important that those measures provide adequate flexibility and are an integral part of market access negotiations in agriculture, non-agricultural market access and services, as well as in rule-making negotiations. While some measures have already been introduced during these negotiations, their adequate coverage, design and implementation have yet to be agreed upon. The specific trade and development concerns of small and vulnerable economies, preference-dependent countries and commodities issues will also have to be addressed.

26. It is important to recall that over 50 developing countries depend on the exports of three or fewer commodities for more than half of their export earnings. In the 2005 World Summit Outcome, the General Assembly emphasized the need to address the impact of weak and volatile commodity prices and to support the efforts of commodity-dependent countries to restructure, diversify and strengthen the competitiveness of their commodity sectors. At the Ministerial Conference, it was agreed that the particular trade-related concerns of developing and least developed countries related to commodities would also be addressed during the Doha negotiations. In addition, the aid-for-trade initiative could help transform commodity dependence into an opportunity for growth and poverty reduction by supporting efforts to build national capacity to reduce the dependence on commodities and to diversify economic output.

27. In recognition of the greater difficulties that developing countries face in obtaining the full benefits of trade liberalization, the ministers at the Conference endorsed the “aid-for-trade” initiative and decided to invite the Director-General of the World Trade Organization to establish a task force on aid for trade, to address the issue, which is of vital importance to developing countries. Now established, the task force comprises 13 countries and is specifically targeted at helping developing countries. The Director-General recently noted that the benefits of globalization had not been shared equitably among all countries and that policies to reform globalization from within, by designing rules that provide benefits for all, would be

required to ensure development. In particular, meeting the costs of adjustment, in terms of loss of output, employment and resources, that arise from trade liberalization in developing countries should be an integral and additional part of international development cooperation. To deal with such issues, the Director-General called for a new "Geneva consensus": to provide for the creation of the necessary conditions for benefiting from external market access that ensures productive and export capacity-building and the equitable distribution of benefits. Indeed, experience shows that proper and appropriate design, pacing and sequencing of trade liberalization are crucial for ensuring developmental outcomes.

28. The challenge facing the members of the World Trade Organization and the international community is to carefully examine and ascertain the appropriate objectives, design and implementation of the aid-for-trade initiative, so that its development potential is fully realized and adequate. Different expectations on how to operationalize the initiative and how to mobilize additional funding on a grant basis or concessional terms have been voiced by different stakeholders. The initiative needs to prioritize cost-competitive supply capacity-building and trade facilitation infrastructure and meet product quality standards, as well as implementation and adjustment costs. It should be tailored to the needs of individual developing countries and ensure that assistance is predictable and additional to existing commitments. Effective implementation of the initiative will require specification of the roles of Governments, donors, international organizations and regional development banks and financial institutions.

Possible questions for sub-theme 2:

1. **Which market access and market entry issues are important to development?**
2. **How can supply capacity be strengthened for developing countries?**
3. **How can the trade norms and standards of the World Trade Organization be better used to promote development?**
4. **What is required to mainstream special and differential treatment into the architecture of the World Trade Organization?**
5. **How should the aid-for-trade initiative be operationalized to focus on development?**

III. Sub-theme 3: external debt: implementing and building on current initiatives to enhance debt sustainability

29. In the 2005 World Summit Outcome, the General Assembly emphasized that debt sustainability was essential to growth, and noted its vital role in efforts to achieve national development goals. Debt relief and restructuring for low and middle-income countries play a crucial role in ensuring debt sustainability and, therefore, in helping achieve the internationally agreed development goals, including the Millennium Development Goals.

30. While actions taken in preparation and as a follow-up to the 2005 World Summit have made significant progress towards improving debt sustainability, additional measures will be needed. In 2005, an agreement was reached on a

multilateral debt relief initiative to cancel an estimated $55 billion in debt owed to IMF, the World Bank and the African Development Bank, as well as to the International Development Association (IDA) and the African Development Fund by countries that have reached the completion point of the Heavily Indebted Poor Countries Debt Initiative. Similar relief should be available to other countries upon reaching the completion point of the debt initiative. Since the extension of the sunset clause for the Heavily Indebted Poor Countries Debt Initiative expires at the end of 2006, a timely decision should be taken to determine whether other countries will be included in the initiative, considering the implications this will have for the financing of any additional debt relief.

31. The relief provided under the above-mentioned initiative was intended to be in addition to official assistance available to other low-income countries and was to preserve the lending capacity of multilateral financial institutions. For relief on IDA and African Development Fund loans, the Group of Eight pledged in a letter to the President of the World Bank their commitment to cover the full cost to offset dollar for dollar the foregone principal and interest repayments of the debt cancelled for the duration of the cancelled loans. Compensation from donors for costs of providing that relief will take place via an additional contribution to the current replenishment. IMF will meet the costs of debt relief largely from its own resources, although, additional resources have been committed by bilateral donors to ensure the ongoing capacity of the Fund to provide financial support for its low-income members.

32. While it was agreed that there would be no new conditions applied to countries benefiting from relief, countries would be expected to maintain their existing commitments. On 28 March 2006, the Executive Directors of the World Bank approved financing and implementation for the contribution of the World Bank to the Multilateral Debt Relief Initiative. For heavily indebted poor completion-point countries, IDA relief will become effective on 1 July 2006 for debts in existence at the end of 2003.[7] For IMF and the African Development Fund, the implementation date was 1 January 2006 for debt in existence at the end of 2004.

33. Although the Multilateral Debt Relief Initiative makes a contribution to resolving the known difficulties in ensuring debt sustainability for poor countries emerging from the IMF debt initiative process, it leaves unresolved the severe debt-service burdens of other low and middle-income countries not eligible for the initiative.[8]. Although initial discussions in the Group of Eight had suggested that relief might be extended to low-income developing countries that are not part of the debt initiative, no formal action has been taken.

34. Since the Multilateral Debt Relief Initiative involves a limited number of multilateral lenders, it leaves open the possibility of extending the initiative to countries with debt outstanding to other multilateral and regional financial institutions, including the Inter-American Development Bank, the Caribbean Development Bank and the Asian Development Bank. This would provide more equitable treatment across countries with similar debt burdens. The debt relief initiative is only a first step towards implementing the call in the 2005 World Summit Outcome for cancellation of 100 per cent of the official and bilateral debt of heavily indebted poor countries and, where appropriate, on a case-by-case basis, to consider significant debt relief or restructuring for low and middle income countries with an unsustainable debt burden.

35. In the World Summit Outcome, note was taken of the importance of debt sustainability in the formulation of national development strategies that encompass the internationally agreed development goals, including the Millennium Development Goals. IMF and the World Bank have recently introduced a new framework for debt sustainability assessments to help low-income countries avoid future debt problems and to keep countries that have received debt relief under the IMF debt initiative on a sustainable track. If national development strategies encompassing the agreed development goals are to be financed without an unsustainable build-up of debt, substantial additional grant financing is likely to be required by a number of countries.

36. The consequences of the Multilateral Debt Relief Initiative for the proposed debt sustainability assessment framework are currently being evaluated. Many of the countries that will benefit from the initiative will have debt ratios below the policy-dependent thresholds used to identify the risk of debt distress in the new approach, indicating that they have additional space to borrow, including at non-concessional terms. It will be important to ensure that they can meet the objectives of the mutually agreed development goals without again accumulating excessive debt.

37. The 2005 World Summit Outcome also called for further consideration of debt for sustainable development swaps or multicreditor debt swap arrangements. Such relief could be greatly facilitated through the development of a standard framework within the Paris Club for debt swaps in support of the Millennium Development Goals. Existing programmes are on an ad hoc basis, usually involving a pledge of domestic currency financing of an amount equivalent to the interest or principal relief for directed Millennium Development Goals expenditures. It will be important to create a more formal structure for such swaps and to better coordinate them within national development strategies.

38. Debt relief for middle-income countries can also be improved by further refinement of the "Evian approach" within the Paris Club. It would also be helpful to explore possible multilateral financing mechanisms, including lending mechanisms to assist heavily indebted middle-income countries in achieving financial stability and growth while helping them to stay on track vis-à-vis the achievement of their development goals.

Possible questions for sub-theme 3:

1. **How can the United Nations system best support the call for 100 per cent debt relief to developing countries with unsustainable debt burdens?**

2. **What steps should be taken to extend the Multilateral Debt Relief Initiative to all multilateral and regional financial institutions?**

3. **What can be done to help middle-income developing countries reduce their debt burden, including by providing additional relief and restructuring?**

4. **What steps should be taken to provide a standard framework for implementing debt swap arrangements?**

5. **How can the role of debt sustainability within national development strategies be underlined?**

IV. Sub-theme 4: supporting the development efforts of middle-income developing countries

39. In the 2005 World Summit Outcome, the General Assembly recognized the imperative of exploring coherent international and regional measures aimed at supporting national development efforts of middle income countries, taking into account their specific development needs. Although economic and social conditions, resources and capacities in middle-income countries are, on the whole, more favourable than those in low-income countries, they face a continuing challenge in achieving the internationally agreed development goals. A measure of the magnitude of that challenge is evident in the fact that, in absolute terms, middle-income countries have more people below the international poverty levels than low-income ones. Thus, although social expenditure has increased and is better targeted, poverty continues to rise in a considerable number of those countries, as efforts to combat poverty have been impeded by volatile or subdued economic growth and persistent economic and social inequality. Many middle-income countries have started formulating and implementing development strategies based on their national development priorities. As recognized by the World Bank, such strategies can be the basis of dialogue with international development partners.[8]

Mitigating the effects of international financial volatility

40. Middle-income countries, because they are more highly integrated into international trade and financial markets, tend to be more susceptible than low-income countries to boom-bust cycles of international private capital flows, which have often resulted in financial crises, increased volatility of economic growth and lower long-term consumption and output levels. The dangers that major global imbalances pose today are of grave concern to these countries, as they are to all nations. At the domestic level, in addition to sound macroeconomic policies, some middle-income countries thus will need to develop and implement financing mechanisms and instruments that ensure the ability to continue to rely on sustained capital flows even when faced with external instability.[5] Such mechanisms could include: counter-cyclical guarantees issued by national or multilateral public financial institutions to mitigate investment risk and maintain an adequate flow of private capital under adverse financial conditions; bonds whose service obligations are indexed to the debtor country's capacity to pay (such as growth-linked bonds); and internationally traded and domestic local currency bonds that reduce exchange rate mismatches.[5]

41. Multilateral development banks have provided technical and financial support in national and regional efforts to develop local currency bond markets and could therefore play an active role in their continued development and that of the other financial mechanisms discussed.[8] The introduction of new debt instruments, such as growth-linked bonds, linking debt service to ability to pay can and should be part of that effort. At the same time, efforts at developing international standards of financial regulation and supervision, such as the New Basel Capital Accord, should be coherent with other international efforts in reducing the pro-cyclicality of private capital flows to middle-income and other developing countries. In that regard, enhanced and appropriate participation of developing countries in international standard-setting bodies is critical to ensuring adequate consideration of that concern.[5]

42. The volatility of debt-service obligations of middle-income countries and past experiences of financial crises resulting from the build-up of debt in those countries highlight the need for continued assessment and development of debt sustainability frameworks and technical assistance to debtor countries in the monitoring and management of debt service obligations and payments. Debt sustainability frameworks should assess a country's ability to generate the resources necessary for debt servicing while allowing the country to finance investments to meet its growth and development goals.[9] In that connection, the international community should give due consideration, on a case-by-case basis, to significant debt relief or restructuring for middle-income countries with unsustainable debt and explore innovative mechanisms to address their debt problems more comprehensively.

43. At the same time, official flows, through official development financing, international emergency financing and precautionary arrangements, could play a compensatory and precautionary role in countering the cycles of private capital flows.[5] Longer term official lending at concessional rates by multilateral development banks to middle-income countries in crisis could help maintain critical public investment and social services, as well as trade credit in order to sustain exports. The importance of enhancing such a form of official development lending in the aftermath of financial crises is clear.

44. Since the Asian financial crisis, there has been growing support for the creation of an IMF precautionary financing facility to prevent self-fulfilling liquidity crises. The contingent credit line established in 1999 was however never used, and expired in November 2003. Discussions since then on adapting existing IMF financing instruments to precautionary financing purposes have not yet produced any formal recommendations on the issue. In addition to a divergence of views on the feasibility of exceptional access in such arrangements, there is disagreement about the principle of ex ante open-ended commitment of IMF resources.[5] In the absence of an international insurance mechanism against reversal of private capital flows, emerging market developing countries have continued to accumulate foreign currency reserves as a form of insurance, but at the potential cost of lower development investment. This practice should be complemented and/or replaced by other forms of insurance relying on better risk-sharing, namely those afforded by instruments, such as growth-linked bonds, or by efforts by countries to reduce their exposure to short-term debt. Meanwhile, greater attention, especially in East and South-East Asia, has been paid to the development of regional financial arrangements, which can be an important complement to international mechanisms, as a first line of defence in a capital-account crisis. Recognizing the need for progress, the IMF Managing Director's report on the medium-term strategy of the Fund in September 2005 called for a second round of debate on this issue.[10]

Increasing infrastructure investment

45. In the Monterrey Consensus and at subsequent intergovernmental discussions on its implementation the importance of infrastructure, including information and communication technology, in fostering an enabling environment for private sector development and attaining the development goals of growth and poverty reduction have been noted. There is broad agreement that substantial efforts are needed to mobilize resources at the national and international levels for investment in infrastructure. The World Bank Development Committee has recently called for greater support in this area to respond to the needs of both low- and middle-income countries.[11]

46. Since the late 1990s, however, the investment performance of most middle-income countries has been in decline, and this has also been the case for infrastructure spending. To address the predicament, in 2003 the Rio Group proposed examining the adoption of flexible and innovative financial mechanisms to facilitate public and private investment. IMF is already working to provide a framework to help reduce constraints on public investment through better specification of fiscal targets in order to give public investment increased priority and protection during periods of fiscal adjustment.[12] In the same vein, IMF has suggested that public-private partnerships can be a means to increase infrastructure investment if they are appropriately structured in a well-developed institutional framework.

47. In this regard, it is important to provide proper disclosure and reporting by public-private partnerships, as well as recognition of the risk borne by the Government through the issue of guarantees, for example, through visibility in fiscal accounts. Similarly, it has been suggested that it is important to explore other options of increasing public and public-private investment in infrastructure in a fiscally responsible manner through the setting of appropriate budget targets and the use of a medium-term budget framework in support of longer term development goals. Efforts should also be made to ensure that such programmes are geared to the overall policy need of coordinating spending to provide economic stability.

48. Regional initiatives in support of cross-border infrastructure projects have become an important complement to the programmes of the World Bank in bolstering infrastructure investment in both middle-income and low-income countries. Given that the combined expenditure on regional public goods by regional development banks in 2002 was less than 2 per cent of their total commitments, more attention should be given to the financing of such goods. Regional and subregional development banks, along with other partners, have been actively involved in providing the attention and support that is not always sufficiently offered by international organizations. The results of those actions, such as those of the Asian Development Bank and the Andean Development Corporation, should stimulate further efforts in that direction. Additional support should be given to initiatives, such as the creation of an Asian investment bank to finance infrastructure in the regions,[13] the New Partnership for Africa's Development (NEPAD) and similar activities in the Latin American region (for example, the initiative for the integration of South American regional infrastructure or the Puebla-Panama plan).

Enhancing technology and skill transfer

49. Science and technology policies, including those concerning information and communication technology, are vital components of national development strategies and the achievement of internationally agreed development goals. The 2005 World Summit Outcome calls for promotion, facilitation and access to the development, transfer and diffusion of technologies to developing countries. In that context, national strategies for education in science and technology should be developed with the aim of providing autonomous national capacity for technology development. In this respect, the substantive patent law treaty now under consideration by the World Intellectual Property Organization should ensure sufficient flexibility in the design and application of national patent laws to support the efforts of middle-income countries in developing a domestic technology and research capacity.

50. In addition to developing national innovation systems, developing countries may draw on foreign direct investment as a source of technology and skills training. While an enabling investment environment is conducive to foreign investment, the level of human resources and entrepreneurial and technical capacity of the host country are significant factors in the transfer of technology. The markedly uneven experiences of developing countries in using foreign direct investment to support their development strategies highlight the need for policies in host countries to maximize the potential of foreign direct investment on technology transfer and economic growth. In that regard, individual countries should have the policy space to customize specific interventions that support their development objectives and address their concerns about such investment. Fiscal competition and the lowering of wages and labour and environmental standards to attract foreign direct investment have not been found to be effective, and have had an adverse effect on public revenues and social development.

51. Foreign direct investment by middle-income countries in other developing countries has increased significantly since the 1990s, driven by the search for access to technology, strong production and market networks and natural resources aimed at promoting enterprise competitiveness. Such investment from a number of middle-income countries has also increasingly gone to developed countries to enhance research and development and acquire strategic assets. In that connection, the Governments of some middle-income countries have been promoting foreign direct investment by providing institutional support and insurance and guarantee schemes, improving access to finance by export-import banks and deregulating such investment.[14]

52. Regional and bilateral trade and economic integration arrangements have provided additional impetus to foreign direct investment in middle-income countries as well as to such investment by middle-income countries themselves. International financial and technical assistance for such regional initiatives can help to boost foreign direct investment both in and by middle-income countries. Technical assistance to middle-income countries for capacity-building in the assessment and negotiation of investment treaties can be an important avenue for support by international organizations.

South-South cooperation

53. In the 2005 World Summit Outcome, the General Assembly also reaffirmed the importance of South-South cooperation as a complement to North-South cooperation in contributing to development. There is an increasing level of political commitment in recent years towards stronger and wider-ranging development cooperation among developing countries in the fields of trade, finance, technical cooperation and humanitarian assistance.

54. A number of partnerships and mechanisms have been recently formed to implement cooperation. For example, the Second South Summit held in Doha led to the creation of the South Fund for Development and Humanitarian Assistance, to help deal with the problems of hunger, poverty and human disasters in developing countries. The India-Brazil-South Africa dialogue forum is a mechanism for strengthening technical cooperation in specific economic and sectoral areas.[15] The Chiang Mai initiative, adopted by China, Japan and the Republic of Korea, focuses on regional financial cooperation. The World Solidarity Fund has been set up as a

UNDP trust. While the main form of South-South development cooperation is technical assistance, debt relief and grant assistance are also increasing, being granted, in particular by several oil-exporting developing countries. Nonetheless, although the scope of South-South cooperation has grown in recent years, there is ample room for further expansion, for example by improving the flow of foreign direct investment and its use by enhancing institutional capacity in developing countries and increasing cooperative efforts to reduce the cost of remittances and channelling them into the formal financial sector.

55. Some regional cooperation mechanisms, such as the new Asian-African strategic partnership forum, call for and encourage support from developed countries through triangular cooperation. Many developing countries have expanded their national South-South programmes thanks to increased regional integration, although national strategies should take advantage of regional and interregional arrangements, such as NEPAD and the above-mentioned strategic partnership. It is also important to promote increasing involvement by non-governmental organizations and the organizations of the United Nations system in South-South cooperation. In paragraph 12 of its resolution 60/212, the General Assembly urged all relevant United Nations organizations and multilateral institutions to intensify their efforts to effectively mainstream the use of South-South cooperation in the design, formulation and implementation of their regular programmes. In that context, existing United Nations system-wide South-South policy and coordination mechanisms, such as the High-level Committee on South-South Cooperation, should be supported and strengthened, given their value in helping to achieve greater synergy among development partners in this vital area.

Possible questions for sub-theme 4:

1. **What national and international measures can be taken to increase the stability of private capital flows to middle-income countries and to mitigate the impact of financial volatility on their economies?**

2. **How can the role of multilateral development banks be strengthened in supporting the needs of middle-income countries, including through counter-cyclical financing, development of domestic financial markets and innovative financial instruments and public-private partnerships?**

3. **What international measures can be taken to reduce the need for middle-income countries to accumulate foreign reserves for self-insurance against volatility in financial and trade flows?**

4. **How can public and public-private investment be increased using a medium-term fiscal framework consistent with macroeconomic stability and long-term development goals?**

5. **How can the growing efforts in South-South cooperation be designed and coordinated to effectively support national efforts to meet national and internationally agreed development goals, including the Millennium Development Goals?**

Notes

[1] General Assembly resolution 60/1.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.11.A.7), chap. I, resolution 1, annex.

[3] See http://www.ilo.org/public/english/globalizaton/report/highlight.htm.

[4] A/CONF.191/13, chap. II.

[5] See *World Economic and Social Survey, 2005: Financing for Development*, United Nations publication, Sales No. E.05.11.C.1.

[6] TD/412, part II.

[7] Mauritania will qualify for debt relief after it has implemented key public expenditure reforms.

[8] See World Bank, Global Monitoring Report 2005: Millennium Development Goals: From Consensus to Momentum.

[9] General Assembly resolution 60/1, para. 26.

[10] See http://www.imf.org.

[11] *Development Committee communiqué*, 25 September 2005 (http://worldbank.org).

[12] International Monetary Fund, Public Information Notice No. 05/68, 27 May 2005.

[13] See A/59/826, para. 16.

[14] TD/B/COM.3/EM.26/3, paras. 22-24.

[15] See http://www.dfa.gov.za/docs/2005/ibsa0311.htm.