United Nations A/62/190

General Assembly

Distr.: General
3 August 2007

Original: English

Sixty-second session
Item 55 of the provisional agenda*
Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Follow-up to and implementation of the Monterrey Consensus of the International Conference on Financing for Development: the regional dimension

Report of the Secretary-General**

Summary

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. In its resolution 61/191, the General Assembly decided that the modalities of the 2007 High-level Dialogue would be the same as those of the 2005 High-level Dialogue.

The report, prepared by the five regional commissions, provides the regional dimension of the follow-up to the International Conference. It reflects progress in the relevant areas, including the mobilization of domestic and international resources, official development assistance, technical cooperation, foreign direct investment and private financial flows for development. It also analyses the regional dimension of relevant issues for improving the coherence of the international monetary, financial and trading systems in support of development.

* A/62/150.

** The present report was prepared by the five regional commissions (the Economic Commission for Europe, the Economic and Social Commission for Asia and the Pacific, the Economic Commission for Latin America and the Caribbean, the Economic Commission for Africa and the Economic and Social Commission for Western Asia) in response to General Assembly resolutions 59/293 and 61/191.

07-45017 (E) 270807

The report underlines that staying engaged with all major stakeholders, including at the regional level, through continued discussions of issues relevant to the follow-up process is critical. The regional commissions have been undertaking a leading role in organizing follow-up activities to the International Conference on Financing for Development, in cooperation with other relevant regional stakeholders. Regional activities have raised awareness of the aims of the Monterrey Consensus and of the need to adopt policies and regulations that promote development finance and strengthen cooperation to meet the objectives of the internationally agreed development goals including the Millennium Development Goals.

I. Introduction

1 The biennial High-level Dialogue of the General Assembly on Financing for Development (Monterrey Consensus) provides an opportunity to assess the progress made, recognize obstacles and constraints, and identify new challenges, opportunities and emerging issues of concern to developing countries.

2. Developing countries have, on average, registered in the last decade an improvement in their gross domestic product (GDP) per capita growth rates. Low income countries growth rates have expanded on average from 3 per cent to 4.6 per cent between the periods 1995-2001 and 2002-2006, respectively. Middle income countries recorded growth rates of 2.9 per cent and 4.6 per cent for the same periods. For their part, the least developed countries witnessed an increase in their per capita GDP growth rates from 2.4 per cent to 3.1 per cent.[1]

3. The increase in growth has contributed to reducing poverty levels in the developing world. The share of the population in developing countries living on less than one dollar per day, which fell from 32 per cent in 1990 to 19 per cent in 2004, is expected to fall further, to 10 per cent in 2015. Notwithstanding, the performance by region has been unequal. With the exception of Western Asia, which saw an increase in its poverty rates between 1999 and 2005, most Asian and Latin America countries are poised to reduce extreme poverty by half by the Millennium Development Goal target date. Contrarily, sub-Saharan African States have not experienced changes in their poverty rates. The Commonwealth of Independent States (CIS), which registered a significant rise in poverty during their transitional phase to market economies in the 1990s, have begun to reverse that trend.[2]

4. Pursuant to General Assembly resolution 60/188, the present report provides information on the implementation of the Monterrey Consensus of the International Conference on Financing for Development,[3] including concrete recommendations for follow-up actions. The report follows the structure of the Monterrey Consensus.

II. Mobilizing domestic financial resources for development

5. Overall, in the past two decades macroeconomic policy in developing countries has improved. Inflation has declined from 8.5 per cent to 7 per cent on average for low income countries between the periods 1995-2001 and 2002-2006, respectively. In the case of middle income countries, the reduction has been greater (6.7 per cent to 4.9 per cent for the same periods). At the regional level, Western Asia registered the most substantial reduction in its rate of inflation.[4] The regions of

[1] World Bank, *Global Monitoring Report 2006, Millennium Development Goals —strengthening aid, trade, and governance* (Washington, D.C.); *The Millennium Development Goals Report 2007* (United Nations publication, Sales No. E.07.I.15); World Bank, *World Development Indicators 2007* (Washington, D.C., 2007).

[2] *The Millennium Development Goals Report 2007* (United Nations publication, Sales No. E.07.I.15).

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

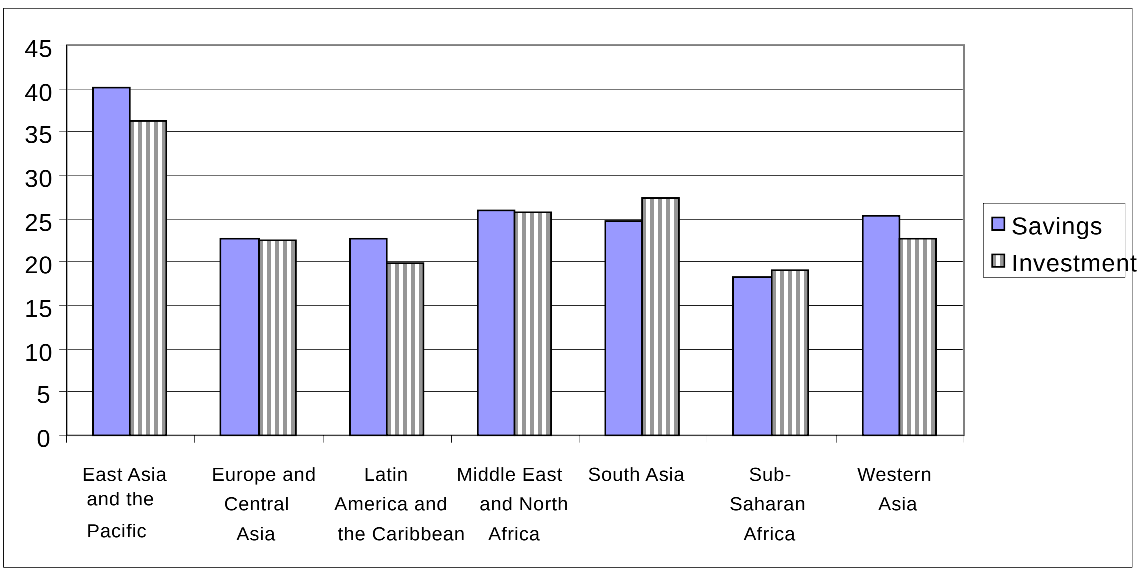
[4] This is explained mostly by the behaviour in the level of prices in the Gulf Cooperation Council States.

South Asia, sub-Saharan Africa, and East Asia and the Pacific recorded milder declines (7.6 per cent and 6.4 per cent; 6.2 per cent and 4.8 per cent; and 5.2 per cent and 4.5 per cent, respectively, for the same periods). The rate of inflation in the Latin America and Caribbean region remained stable, at around 6 per cent. The CIS economies continue to have inflation rates slightly above the world averages.[5]

6. The fiscal position of most developing economies has also improved. The low income countries' overall government deficit declined from -4.9 per cent to -1.8 per cent of GDP between the periods 1995-2001 and 2002-2006, respectively, and the middle income countries also managed to reduce their fiscal imbalance from -3.1 per cent to -1.5 per cent over the same period.[6]

7. In spite of the improved macroeconomic performance, low national savings rates and shallow financial markets have obstructed the mobilization of domestic resources for development purposes. National savings rates remain low in the post-Monterrey period. With the exception of some East Asian nations, saving rates are still below 25 per cent. Concomitantly, investment rates are also below the required levels to sustain poverty reducing rates of growth over time (see figure 1).

Figure 1
Gross domestic savings and investment as percentage of GDP by region 2002-2005 (averages)



Source: World Bank, *World Development Indicators* (2007).

8. The financial systems of developing countries are basically bank-based, short-term-oriented and inefficient. The levels of lending are low, as shown by the ratio of

[5] The sources for the data include the World Bank Development Indicators and the inputs provided by the regional commissions to this report.

[6] World Bank, *Global Monitoring Report 2006, Millennium Development Goals — strengthening aid, trade and governance* (Washington, D.C., 2006); World Bank, *World Development Indicators 2007* (Washington, D.C., 2007).

credit to GDP ratios, which remains below 0.5 for most regions, with the exception of East Asia (1.3). In turn, low levels of lending are partly related to intermediation costs. These are twice as high for developing countries on average (with the exception of East Asia) than they are for developed ones.

9. A key element for improving the mobilization of domestic resources is financial sector development, and a key need for the use of these resources is physical infrastructure. A solid infrastructure basis is an essential component of any strategy designed to create the business environment capable of mobilizing domestic resources for development.

10. For middle income countries, available data for the period 2000-2004 indicate that the greater majority of households living in urban and rural areas have access to basic infrastructure services, including electricity (84 per cent and 81 per cent), water (84 per cent and 89 per cent) and sanitation (70 per cent and 81 per cent) for lower and upper middle income countries, respectively.[6]

11. Contrarily, and in spite of the gains registered on socio-economic indicators (such as the primary school completion rate or measles immunization), access to infrastructure for households in low income countries is much more restricted. While 65 per cent of urban households in low income countries have access to electricity, the percentage drops to 17 per cent in rural areas. Similar differences are found in relation to access to water (83 per cent and 55 per cent) and sanitation (58 per cent and 28 per cent) in urban and rural areas, respectively.

12. Debt relief initiatives, together with better fiscal management and increased transparency and accountability of the public sector, have allowed the heavily indebted poor countries to increase poverty reduction expenditures (7 per cent of GDP in 1999 and over 9 per cent in 2005) under poverty reduction programmes. In 2006 poverty reduction expenditures expanded by roughly half a point of GDP. More precisely, these included expenditures in the social, infrastructure and agricultural sectors.

13. The 2005 review of the implementation of the poverty reduction strategy papers argues that the approach has focused mainly on poverty reduction and the need to address the constraints that are specific to each country. Five themes were found to be essential to improve the effectiveness of the poverty reduction strategy: strengthening the medium-term orientation of the strategy; using the strategy as an accountability framework; deepening the linkages between the strategy, the ministries of finance and the budget processes; sustaining meaningful participation; and tailoring the approach to conflict-affected and fragile States.[7]

III. Mobilizing international resources for development: foreign direct investment and other private flows[8]

14. The Monterrey Consensus asserted that national efforts must be complemented by long-term private capital flows, which have become the most important

[7] "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — status of implementation", prepared by the staffs of the International Development Association and the International Monetary Fund (IMF) (2006).

[8] This section uses data from official indicators and World Bank development indicators.

international source of finance for developing economies. The Consensus asserted that foreign direct investment (FDI) has the main benefit of contributing to financing development in the long term in a more stable and orderly fashion than portfolio investment. In addition, FDI is an important vehicle for the transfer of knowledge, skills and technology, and the creation of jobs, to increase productivity, enhance competitiveness and entrepreneurship, and reduce poverty.

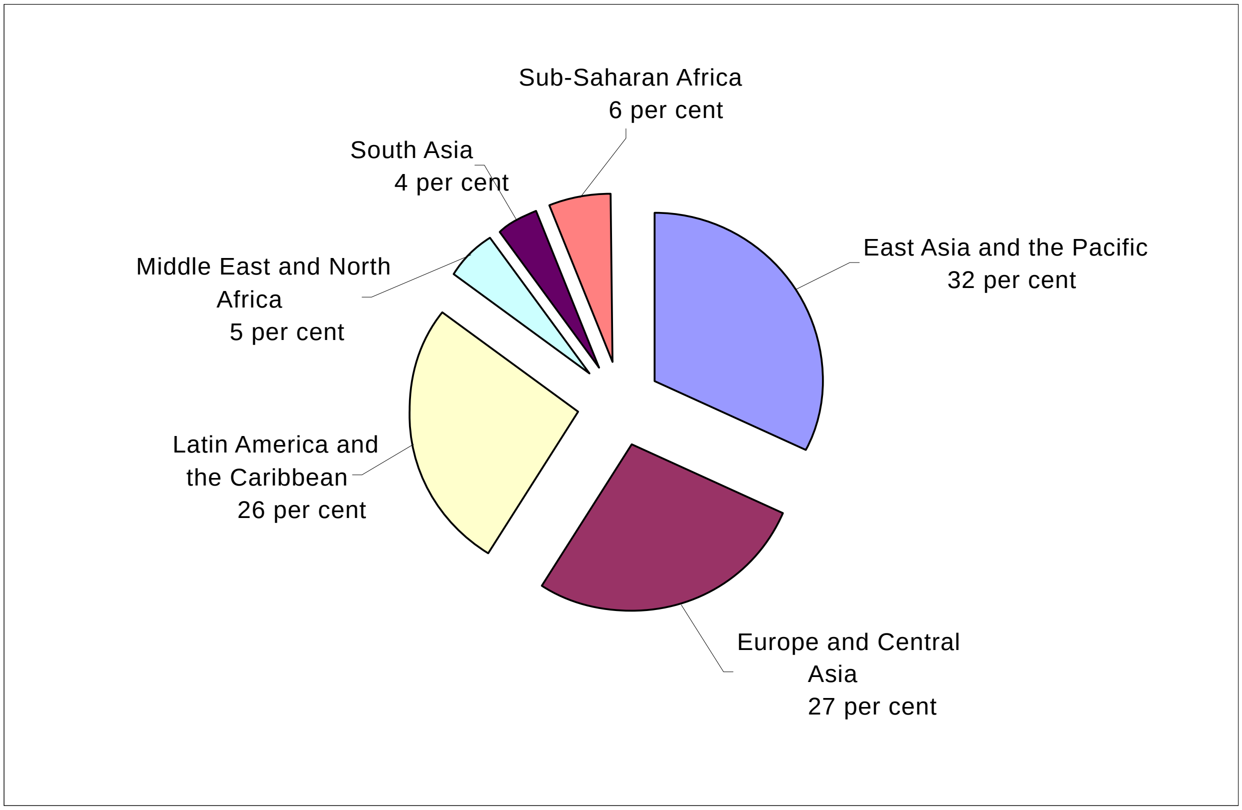
15. As a result, the Consensus argues that countries must step up efforts to attract foreign direct investment. As part of these efforts countries must concentrate on creating the adequate macroeconomic environment and the appropriate regulatory framework to allow foreign direct investment to operate efficiently. Long-term capital inflows should also be complemented with other types of flows; for example, remittances and official aid. In addition, international organizations should provide support through the provision of export credits, risk guarantees, co-financing, and leverage of aid resources and venture capital, as well as provision of information on investment opportunities.

16. For all developing regions, with the exception of sub-Saharan Africa, net private capital flows constitute the most important source of external finance, representing more than 80 per cent of total net financial flows. Net private capital flows increased significantly in the 1990s, up from $38 billion in 1990 to $212 billion in 1999, and have shown a renewed impulse from 2003 to 2005 ($219 billion and $562 billion, respectively). Both upper and lower middle income countries have registered the most significant increases in the past biennium.

17. Within this category, the most important contributor is FDI flows and, to a lesser extent, debt flows. In developing economies as a whole, the flow of FDI increased from 18 per cent to 44 per cent of total financial flows between 1970 and 2006, reaching $316 billion in 2006.

18. From a regional perspective, the regions of East Asia and the Pacific, Latin America and the Caribbean, and Europe and Central Asia are the main recipients of FDI, with 85 per cent of the total (see figure 2). South Asia receives 4 per cent of the total, while Africa is recipient to more than 10 per cent of the total. For its part, Western Asia receives 3 per cent of total FDI to developing countries. The regional distribution is mirrored by the distribution on an income level basis, which shows that middle income countries receive 92 per cent of total FDI (53 per cent and 39 per cent for upper and lower middle income countries, respectively).

Figure 2
Share of developing country foreign direct investment flows by region (2002-2006)

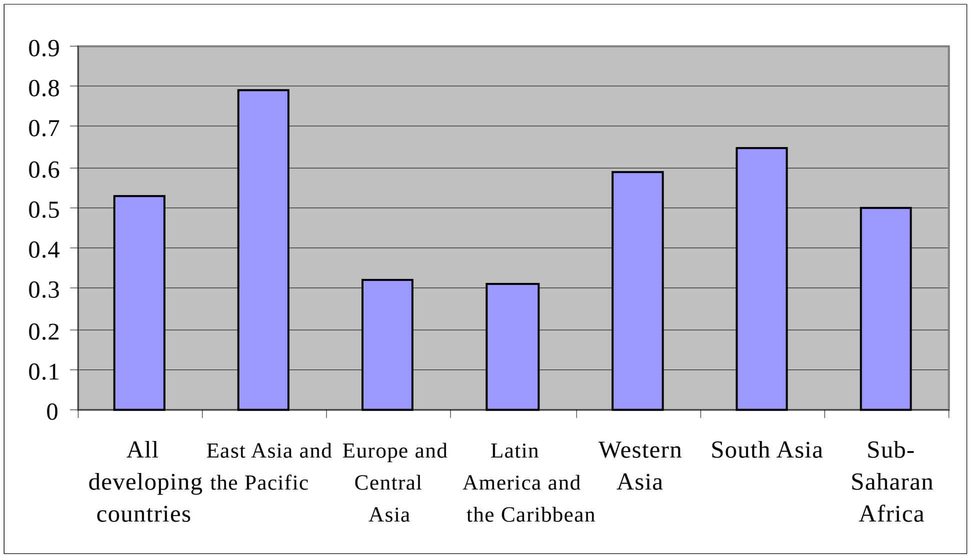


Source: *World Bank, World Development Indicators 2007.*

19. Within the regions not all countries have benefited equally from FDI. According to a computation of the Herfindahl-Hirschmann Index for FDI flows, East Asia and the Pacific and South Asia exhibit the highest degree of concentration of FDI flows (0.8 per cent and 0.7 per cent, respectively). For 2005, in the case of South Asia, India captured 66 per cent of the region's FDI, while in the case of East Asia, China had the lion's share (82 per cent of the total). The Latin American and Caribbean region exhibits the lowest levels of concentration (0.3 per cent). For its part, the Western Asia concentration index is above the average (see figure 3).[9]

[9] The Herfindahl-Hirschmann index is a measure of concentration that varies between 0 and 1.

Figure 3
Herfindahl-Hirschmann Index for foreign direct investment within developing regions 2002-2006



Source: On the basis of World Bank World Development Indicators and inputs received from United Nations regional commissions (2007).

20. Debt flows showed an increasing trend during the first half of 2000, reaching an overall high of $152 billion in 2006. This contrasts sharply with the sharp decline registered between 1996 and 2000.

21. The regional distribution indicates that the bulk of the increase (75 per cent) is explained by Europe and Central Asia, and in particular by the Russian Federation and Turkey. The rest of the regions showed either a decline, as in the case of Latin America and, to a lesser extent, East Asia and the Pacific and the Middle East and North Africa, or a moderate rise, as in the cases of sub-Saharan Africa and South Asia.

22. Portfolio equity flows also experienced a steep hike from 2001 to 2006, rising from $5 billion to $94 billion. This reflects mainly the performance of East Asia and the Pacific, which accounts for half of portfolio equity flows. To a much lesser extent a similar pattern of portfolio equity flows exists in the rest of the regions.

23. The increase in equity flows results in part in a perception of improved growth prospects and lower risk levels for most economies. The Emerging Market Bond Index shows a clear declining trend in interest rate spreads, reflecting less risk and higher equity prices for most developing regions, with the exception of the Middle East. Between January 2006 and June 2007, the Index basis points fell from 252 to 239 for Africa; 211 to 118 for Asia; 143 to 128 for Europe; and 261 to 168 for Latin America.

24. The rise in inward flows has been accompanied by an expansion of outward flows captured in part by profits repatriation and debt service. Profit repatriation has risen significantly in the last four years, reaching an overall high of $176 billion in

2006, representing 43 per cent of total FDI and portfolio flows. Europe and Central Asia, Latin America and the Caribbean, and East Asia and the Pacific are the regions that register the highest level of outward flows, accounting for 33 per cent, 25 per cent and 22 per cent of the total, respectively.

25. Remittances have also become an increasingly important source of finance, jointly with FDI. They are private unrequited transfers that represent the persistence of family relationships. They also highlight the degree to which labour markets (both formal and informal) are integrated across national boundaries.

26. In 2005, remittances accounted, on average, for 5 per cent and 4 per cent of GDP of heavily indebted poor countries and least developed countries, respectively. In the case of the middle income countries, unilateral transfer flows reached 4 per cent and 2 per cent of GDP for lower middle and upper middle income countries, respectively, for the same year (see table 1). These averages hide significant disparities among countries. Lower middle income countries registered the highest level of remittance flows, ranging from 31 per cent to 22 per cent of GDP for 2005.

27. Remittances are an important component of domestic income. The main challenge confronting countries is how to channel remittances so that these flows can constitute an important tool for financing productive activities. Nevertheless, remittances used for consumption purposes are often significant in addressing poverty in the short run. Additionally, as in the case of Western Asia, remittances are an important vehicle of redistribution of surplus capital from the oil-exporting countries to the labour-abundant lower income economies. Intra-regional worker remittances within Western Asia amounted to $9.9 billion in 2004.

Table 1
Workers' remittances and compensation of employees as percentage of GDP by income levels (1995-2005)

	1995-2005	*2003*	*2004*	*2005*
World	0.48	0.58	0.59	0.62
Heavily indebted poor countries (HIPC)	2.84	4.08	4.29	4.42
High income	0.21	0.21	0.22	0.21
Least developed countries: United Nations classification	4.52	5.64	5.59	5.40
Low and middle income	1.58	2.06	1.99	1.97
Low income	3.06	3.99	3.68	3.61
Lower middle income	1.62	2.16	2.12	2.04
Upper middle income	1.00	1.17	1.18	1.29

Source: World Bank Development Indicators (2007).

IV. International trade as an engine for development

28. The Monterrey Consensus and the United Nations Millennium Declaration[10] view trade as the handmaiden of growth and an engine for development. Nevertheless, developing economies still account for a small share of world trade, despite a significant increase over the last two and a half decades. High income countries, mainly European and North American, and Japan, accounted on average for 75 per cent of world exports between 2001 and 2005. The share of middle income countries stood at 23 per cent. Exports of least developed countries and low income countries accounted for less than 2 per cent of total world exports (see table 2). In order to reduce poverty and improve the welfare of their populations, developing countries must increase their participation in world trade.

29. Although the quantity of manufactured exports from the developing countries has increased rapidly, for many developing countries these exports have a low technological content. In 2003, the share in primary commodity exports and labour-intensive and resource-based manufactures represented 41.6 per cent of developing country exports. Manufactures with high skill and high technological intensity represented 34.2 per cent of the total. These, however, were concentrated mainly in East Asian economies, with the exception of the economies of a limited number of Latin American countries.[11] Although increasingly rapidly, in general, these manufactures exports do not contribute sufficiently to manufacturing value added of the exporting countries.

Table 2
Exports of goods and services as percentage of world total by income groups 1980-2005

	1980-1990	*1991-2000*	*2001-2005*	*2002*	*2003*	*2004*	*2005*
Heavily indebted poor countries	0.76	0.46	0.48	0.49	0.48	0.48	0.49
High income	80.85	80.41	74.88	76.09	75.29	74.04	72.11
Least developed countries: United Nations classification	0.54	0.47	0.60	0.58	0.57	0.59	0.70
Low income	2.25	1.81	2.25	2.25	2.34	…	…
Lower middle income	7.69	8.78	12.19	11.38	11.98	12.90	14.13
Upper middle income	9.26	8.89	10.80	10.40	10.57	10.97	11.69

Source: World Bank, *World Development Indicators* (2007).

30. In addition, in the case of many developing countries, especially those situated in the lower income brackets, the landlocked developing countries and small island developing States, the pattern of trade is characterized by a narrow export base (reflecting limited diversification) and low technological content. In the case of the

[10] General Assembly resolution 55/2.
[11] United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report, 2005* (United Nations publication, Sales No. E.05.II.D.13).

least developed countries, the most important export product is fuel (36 per cent of the total), followed by clothing (19 per cent) and agricultural products (17 per cent).

31. As a result, the performance of these economies is vulnerable to external shocks such as variations in the terms of trade or natural phenomena. This contributes to the volatility of income. Combined with high import growth, this leads to external imbalances and places significant restrictions on fiscal and monetary policy management. On the other hand, the recent improvements in prices of primary products, resulting mainly from the rapidly increasing demand of China, has put upward pressure on exchange rates. These terms of trade changes have forced some developing countries to deal with the “Dutch disease” phenomenon, whereby the export prospects of their non-resource products are weakened.

32. Moreover, developing countries still face severe market access restrictions. In 2005, higher tariffs were imposed on developing countries by developed countries (2 per cent) than were imposed on developed countries by other developed countries (1 per cent). In terms of labour-intensive manufactures, developing countries’ exports to developed countries faced an average tariff of 9 per cent. A lower tariff of 4 per cent was imposed on developed countries, and the use of non-tariff barriers has become more widespread. For instance, between 1994 and 2004 use of technical measures increased from 32 per cent to 59 per cent.[12]

33. By far, the majority of products, representing more than 60 per cent of the total, are exported to the United States and Europe under preferential trading arrangements. Still, the existing preferential trade agreements do not grant 100 per cent duty free access to all least developed countries’ imports. In the case of the United States, roughly 40 per cent of all least developed countries’ imports are subject to some type of duty. In the case of other less important trade partners from the developed world, such as Japan (4 per cent of the total), the percentage of imports that are subject to tariffs is higher (roughly 45 per cent).

34. In the particular case of the United States market, between 1997 and 2006, only 37 per cent of all least developed countries’ exports entered under the auspices of a special programme. In the case of high income countries, 21 per cent of all exports entered under the arrangements provided by a special programme (see table 3). This reflects to a significant degree the free trade agreement the United States has with its largest trading partner — Canada.

[12] UNCTAD, *Trade and Development Report, 2006* (United Nations publication, Sales No. E.06.II.D.6); the tariffs referred to are weighted tariffs.

Table 3
Percentage of imports by income group entering the United States under special programmes

	1997-2006	*2003*	*2004*	*2005*	*2006*
World	21.6	21.5	20.9	21	20.8
Least developed	37	52	53	59.4	56.7
High Income	20.6	19.7	19	19.3	19.9
Low income	20.3	23.9	37.6	38.1	30.1
Lower middle income	9.26	10.7	10.1	10.38	10.1
Upper middle income	41.8	42.6	40.4	38.2	38.3

Source: On the basis of United States International Trade Commission data (2007).

35. Moreover, the commitments to services liberalization under the General Agreement on Trade in Services (GATS) are of limited scope. In addition, large developed countries have maintained protected services areas such as audio-visual, maritime transport, professional services and cross-border trade in financial services, which could be of significant benefit to developing countries.[13]

36. In their services negotiations, developing countries should aim to protect the national space for the design and implementation of social policies in general, which are not directly related to international trade. This includes, among others, access of public services to drinking water, a sewage system, telecommunications and other general physical infrastructure. This can be achieved even if private sector operators are allowed to provide these services. In effect, in the context of trade agreements, the State can outline in what conditions the public sector wishes to participate in productive activities as a supplier, a regulator, or both. This is contemplated in the World Trade Organization agreements, where certain conditions, which are conducive to promoting trade and are non-discriminatory, under which these activities can be undertaken are prescribed, while specific roles for States are not.

37. The need for export diversification constitutes a fundamental reason to attract FDI and a basis to enhance economic growth. At the same time, export diversification and trade liberalization require finance and adequate transitional periods to carry out the necessary adjustment and restructuring. In the case of the more vulnerable economies, export diversification can be developed through special and differential treatment provisions applicable to sectors that have strong linkages with the rest of the economy, in particular with dynamic sectors such as certain natural resourced-based sectors, several segments of manufacturing activities, and the services sectors. This would allow special and differential treatment to be based on the production possibilities and the comparative advantage of developing economies.

38. Developed countries are called to assist in trade expansion efforts by taking the necessary steps to benefit least developed countries and support the New Partnership for African Development, the small island developing States, the

[13] World Trade Organization, *Services Liberalization in the New Generation of Preferential Trade Agreements (PTAs): How Much Further than GATS?*, Staff Working Paper No. ERSD-2006-07 (September 2006).

landlocked developing countries and transition developing economies. Multilateral help to stabilize the export revenues of countries that are to a greater extent dependent on commodity exports can complement these efforts. In turn, less developed and developing economies should increase and strengthen their participation in the multilateral trade negotiations. As a case in point, only four countries belonging to the European Commonwealth of Independent States are currently members of the World Trade Organization.

39. The sixth ministerial meeting of the World Trade Organization (Hong Kong, China, 2005) witnessed progress in a number of important areas, including domestic support, export subsidies, and non-agricultural market access framework negotiations.[14]

40. In the realm of agricultural products, member States of the World Trade Organization decided, among other things, to eliminate all export subsidies. In the period 1998-2002, subsidies represented more than 1 per cent of GDP and 7 per cent of Government expenditure in developed countries. In the case of developing countries, subsidies accounted for 0.5 per cent and 3 per cent of GDP and Government expenditure, respectively, for the same period.

41. Member States of the World Trade Organization recommended that countries widen market access for non-agricultural products. To this end, they opted for the "Swiss formula", with coefficients permitting to reduce trade barriers of all types and take into account the needs of developing countries, including a lower level of reciprocity in commitments.

42. The member States also affirmed their commitment to the work programme on small economies and urged States to adopt measures to facilitate the integration of small economies into the world trading system. The members States instructed the trade negotiations committee to monitor negotiations in the different bodies to be able to make progress on trade-related issues by December 2006.

43. The Hong Kong conference also noted that the issues of interest to least developed countries are actually being addressed in the different negotiating areas. The Conference informed that members "in a position do so" agreed to grant duty free and quota free market access for all products that originated in the least developed countries by 2008. Members facing difficulties would grant duty free and quota free market access for at least 97 per cent of the products that originate from the least developed countries by 2008. In addition, it was decided that the least developed countries could comply with multilateral obligations to the extent consistent with their individual development, financial or trade needs, or their administrative and institutional capacities.

44. In order to help countries build supply-side capacities to improve their integration into international markets and to mitigate the transitional adjustment costs towards more open economies, the members of the World Trade Organization emphasized the need for Aid for Trade. As part of that initiative, the World Trade Organization created in February 2006 a task force to operationalize Aid for Trade. Two of the most important recommendations of the task force included value-chain analysis to identify trade needs and the establishment of mechanisms to support and deepen cooperation among developing economies.

[14] World Trade Organization, Doha Work Programme, WT/MIN(05)/DEC (2005).

45. Member countries also created the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries at the 1996 Singapore Ministerial Conference as part of the World Trade Organization action plan for least developed countries, which seeks to combine deeper international integration with the reduction of poverty.

46. Following a period of stalemate in trade negotiations, member countries of the World Trade Organization fully resumed negotiations at the beginning of 2007. The targets are to achieve consensus on the application of full modalities in agriculture and non-agricultural market access and a similar level of progress in all other negotiating areas following the Doha declarations and the two following ministerial conferences. Most of the sensitive subjects include the elimination of subsidies, the opening up of agricultural markets, and improvement of the offers made regarding industrial products. The present difficulties in the World Trade Organization negotiations must be solved for developing countries to reap the full benefits of multilateral trade liberalization.

47. At the same time, that the developing countries pursue fuller integration into multilateral organizations, they must deepen their regional integration initiatives. Some initiatives, such as the Caribbean Community, are heading towards a single market economy or a monetary union, as in the case of the Gulf Cooperation Council member States of Western Asia, while others (regional trade integration in the European region) have been only partly successful.

V. Increasing international financial and technical cooperation for development

48. The Monterrey Consensus and the Millennium Development Goals provide good examples of the efforts made by the international community to reinforce its commitment and policies to promote economic and social development. While the Goals set specific targets and timetables for the struggle against poverty and hunger, the Monterrey Consensus defines new targets for official development assistance (ODA). The Consensus espouses the idea that financing for development requires a holistic and interconnected approach. It also emphasizes the need for the full participation of all stakeholders in order to achieve better harmonization and coordination of donor countries' policies, together with improvement of the coordination of ODA flows and the domestic policies of recipient countries.

49. ODA flows trended upward from 1980 to 2005, rising from $27 billion to $73 billion, on average. In 2005, ODA flows provided by the Development Assistance Committee (DAC) totalled $107 billion, but, according to initial estimations, declined to $104 billion in 2006. ODA flows reached an average of 0.33 per cent of the gross national income (GNI) of DAC member countries in 2005. While short of the 0.7 per cent target, this is nonetheless the highest figure since 1997 and similar to the level attained in 1992. ODA forecasts indicate that flows will taper off in 2007 and that by 2010 they will have reached no more than 0.36 per cent.[15]

[15] See www.oecd.org.

50. Differentials across countries are significant. Some countries' ODA disbursements exceed 0.80 per cent of their GNI, while others donate less than 0.25 per cent. The regional distribution of ODA by individual donor indicates that for the biennium 2004-2005, 16 out of the 22 donor countries channelled the majority of their gross aid disbursement to sub-Saharan Africa. Two donors, Australia and New Zealand, distributed their aid mainly to other countries in Asia and Oceania. Austria and the United States focused the bulk of their aid in North Africa and the Middle East, in particular Iraq.[16] Greece focused its efforts in Europe, Spain and in Latin America.

51. The available evidence shows a decline in DAC donors' ODA as percentage of GNI from 0.33 per cent in 2005 to 0.30 per cent in 2006. More than half of the DAC member countries reduced their ODA disbursements as a percentage of GNI with respect to 2005. The level of dispersion among DAC member countries' ODA commitments did not vary.

52. On the recipient side, ODA flows are mainly concentrated in the lower income group. Least developed countries and low income countries have been able to maintain, on average, overall ODA shares above 30 per cent and 17 per cent, respectively, since the 1980s (see table 4).[17] Middle income countries have also managed to maintain a share equivalent to roughly 49 per cent, on average, for the same period. Within this group, lower middle income countries have seen a gain in their share from 39 per cent to 44 per cent of the total between 1980 and 2005.[18] In contrast, upper middle income countries' ODA shares have shrunk (9 per cent and 3.6 per cent of the total, respectively, for the same period).

53. Recent proposals on ODA seek to strengthen the role of middle income countries by including them as potential donors. This stems partly from the fact that middle income economies possess knowledge and expertise that can be of benefit to countries with relatively lower income levels. This is a welcome initiative, since it will stimulate cooperation among developing countries. For example, the European Union is requiring its poorer new member States to become donors as their income increases.

54. A large share of the world's poor is concentrated in the middle income countries, indicating that even they lack a self-sustaining financial capacity to fund development efforts. As a result, they would also benefit from increased ODA flows and more efficient use of aid resources.

55. Current ODA levels will not suffice to finance achievement of the targets associated with the Millennium Development Goals. In view of the difficulties hampering increases in ODA, new proposals for innovative ways of financing development and supplementing ODA flows are being devised. In general, these

---

[16] In 2005 Iraq received $21.4 billion, or 32 per cent of registered official development assistance (ODA) (i.e. assigned ODA) for that year.

[17] Countries with a per capita gross national income (GNI) of $3,256 and $10,065 in 2004 classified as upper middle income countries. Countries with a per capita GNI of $826 and $3,255 were considered lower middle income countries. Countries with a per capita GNI of less than $825 were considered low income countries. The rest were least developed countries. The computations presented above are based on assigned bilateral ODA, and do not include the multilateral contributions to ODA flows or unassigned ODA flows by income levels.

[18] The share of lower middle income countries experienced a significant increase from 2004 to 2005 (39 per cent and 53 per cent of the total) due to the debt relief granted to Iraq and Nigeria.

new financing mechanisms comprise a wide variety of instruments ranging from the implementation of global taxes to global funds and private voluntary donations.[19]

56. One of the positive characteristics of these instruments is that they are double-dividend tools in the sense that, at the same time that they collect revenue, they also provide global public goods. The successful implementation of new financial instruments is premised on the fact that the bulk of the financing burden will be borne by developed countries. It also presupposes that developing countries should improve the effectiveness of their allocation and spending decisions. In this sense, aid monitoring and good governance are preconditions for the effectiveness of such assistance.

Table 4
Total ODA and its regional distribution by income grouping, 1980-2005
(Millions of United States dollars)

	1980-1985		*1986-1990*		*1991-1996*		*1996-2000*		*2001-2005*	
Total ODA[a] (1+2)	26 915.4		44 700.7		58 881.4		52 625.1		73 199.8	
1. Contribution to multilateral institutions	8 614		13 217		17 635		16 508		20 791	
2. Bilateral ODA (3+4)	18 301		31 484		41 247		36 116.9		52 409.3	
3. Unassigned	4 663		7 975		10 251		10 636		12 865	
4. Assigned by country income levels	13 638	100.0	23 509	100.0	30 996	100.0	25 481	100.0	39 544	100.0
Least developed countries	4 777	35.0	8 391	35.7	9 404	30.3	7 752	30.4	13 374	33.8
Other low-income countries	2 381	17.5	3 990	17.0	5 585	18.0	4 920	19.3	7 345	18.6
Middle-income countries[b]	6 480	47.5	11 128	47.3	16 007	51.6	12 810	50.3	18 825	47.6
Lower-middle-income countries	5 258	38.6	9 375	39.9	13 828	44.6	11 660	45.8	17 418	44.0
Upper-middle-income countries	1 222	9.0	1 752	7.5	2 180	7.0	1 149	4.5	1 407	3.6

Source: Organization for Economic Cooperation and Development (OECD), statistical database, 2007.
Notes: The disaggregation into lower- and upper-middle-income countries does not include Haiti, Nicaragua or, in some years, Honduras, as well as some of the non-independent territories.
The figures for 2005 reflect the unusually large increases in ODA to Iraq (classified as a lower-middle-income country) and Nigeria (classified as a low-income country). These increases are the result of Paris Club debt relief operations.
[a] Total ODA flows correspond to the amounts reported by donor countries. Bilateral ODA includes a portion that is not assigned by country income level. In some cases, this portion may represent more than 25 per cent of total bilateral ODA. All percentages are computed with respect to ODA flows that are assigned by income levels.
[b] Represents the sum of lower- and upper-middle-income countries.

[19] A good example of these proposals is provided by the 2004 Report of the Technical Group on Innovative Financing Mechanisms, “Action against hunger and poverty”.

57. The new instruments do not rely exclusively on the unrequited transfer of funds from developed-donor to developing-recipient countries; that is, on the traditional way of providing ODA. Global taxes, for example, entail the participation of both developed and developing countries in raising revenue. Developing countries will remain recipients, but under this new scheme, both developed and middle income developing countries become donors, which would put more emphasis not only on developed-developing country relationships, but also on developing-developing country cooperation. In this context, the task of securing the necessary funding to achieve internationally agreed goals and objectives, including those contained in the Millennium Declaration, is viewed as a shared responsibility of developed and developing economies.[20]

58. Nonetheless, countries have emphasized the need to improve the coordination of donor aid, donor harmonization on strategies and aid priorities. To this end, the DAC working party on effectiveness was set up in 2003. The working party on effectiveness established five themes related to aid effectiveness, including: monitoring the Paris Declaration, public financial management, managing for development results, procurement and aid untying. In 2005 the Paris Declaration on aid effectiveness established several indicators to monitor the progress towards the 2010 targets. The 2006 survey on monitoring the Paris Declaration identified six areas of attention for policymakers: (a) improve the engagement of countries in their development process; (b) improve the use of national budgets; (c) identify priority programmes of capacity development; (d) improve the efficiency of aid giving; (e) make better and greater usage of performance assessment frameworks; and (f) countries and donors should agree on a mutual action agenda.

59. Compliance with these recommendations includes focusing aid towards improving governance in the public and private sector, creating a better infrastructural basis, and recognition of the nexus between security and development.

VI. External debt

60. The excessive accumulation of debt has been shown to be detrimental to growth and welfare. The consequences include, among others, uncertainty, increases in the cost of finance, expectation of higher taxes, crowding out of public and private investment, and the effects of debt overhang on the rates of return.[21]

61. With this in mind, the Heavily Indebted Poor Countries Initiatives have focused on reducing the burden of debt service by forgiving debt and providing a longer time frame for the repayment of the remainder. A more recent proposal, the Multilateral Debt Relief Initiative, calls for the forgiveness of the debt disbursed before the end of December 2004 by the International Monetary Fund (IMF) and the African Development Bank and the end of December 2003 by the International Development Association (IDA) of the World Bank and still outstanding at the time of qualification to heavily indebted poor countries having reached the completion

[20] It is worth noting that some middle income developing economies, including China, India, the Republic of Korea and Turkey, and some oil-producing countries provide some ODA flows, albeit on a minor scale (4 per cent of the total for 2005).

[21] See R. Blavy, *Public Debt and Productivity: The Difficult Quest for Growth in Jamaica*, IMF Working Paper, WP/06/235 (October 2006).

point. Non-heavily indebted poor countries whose income per capita is below $380 should also qualify for IMF debt relief. All the countries that have entered the post-completion stage have qualified from relief of the Multilateral Debt Relief Initiative provided by IDA and the African Development Bank.

62. The Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative are expected to lower the debt stocks of the 29 post decision point heavily indebted poor countries by 90 per cent. It is also expected that their debt ratios will decline by more than half.

63. The available empirical evidence shows that in the periods 1990-1995 and 2001-2005 the debt stock declined from 150 per cent to 107 per cent of GDP for all heavily indebted poor countries. The debt burden of all heavily indebted poor countries declined by roughly 3 percentage points of GNI between 1990-1995 and 1996-2000 (the latter period covers the first four years following the launch of the first Heavily Indebted Poor Countries Initiative). Between 1999 and 2005, the enhanced Heavily Indebted Poor Countries Initiative lowered debt service by approximately 1 percentage point of GDP (see table 5).

64. In addition, the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative have widened the scope of the initiative including a greater number of beneficiary countries. Moreover, debt relief initiatives have become an important means to transfer resources to the poorer countries. The latest data available show that the transfer of resources through this channel increased from $9 billion to $18 billion between 1999 and 2004.[22]

65. Finally, developing countries have also joined in the debt relief initiative as donors. As things stand, there are currently 57 developing countries participating in non-Paris Club debt relief initiatives. These include 12 low income countries and 19 lower middle income countries. The rest belong mostly to the upper middle income group.

66. Among these, only six developing countries (upper middle income and high income countries) have fully delivered thus far on their debt relief commitments. Developing country debt relief initiatives are also concentrated on a few debtors (Nicaragua, Mauritania, Mozambique and the United Republic of Tanzania). These four countries account for 42 per cent, 4 per cent, 8 per cent and 6 per cent, respectively, of developing country debt relief initiatives. The rest is divided among 25 countries.

67. It should be pointed out, however, that the reductions in the debt burden have had a low impact, given the fact that the Heavily Indebted Poor Countries Initiative was initially applied to debt levels that were very high by international standards and extremely difficult, if not impossible, to repay. In addition, there is a wide disparity in the degree to which heavily indebted poor countries have managed to reduce their debt stock and debt service ratios.

[22] World Bank, IEG Reach, "Debt relief for the poorest: an evaluation update of the HIPC Initiative" (April 2006).

Table 5
Debt stock, debt service and grants as percentages of GNI, 1980-2005
Heavily Indebted Poor Countries
(Averages)

	1980-1989	*1990-1995*	*1996-2000*	*2001-2005*	*2005*
Debt stock	95.2	149.8	125.2	107.5	96.1
Debt service	6.2	8.3	5.3	4.0	3.0
Grants	6.1	14.0	9.3	11.4	10.7

Source: World Bank, *Global Development Finance* (GDF) database, 2007.

68. Finally, a distinction should be made between debt reduction and debt sustainability and to acknowledge that debt relief is not a sufficient condition for debt sustainability. Indeed, as things stand, the debt situation has deteriorated in 11 out of 13 post-completion countries and in 8 of these countries the debt ratios have exceeded heavily indebted poor countries thresholds.[6]

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

69. The characteristics of financial globalization include: (a) an increase in countries' external exposure (cross-border transactions in bonds and equities rose from 9 per cent in 1980 to 213 per cent in 1997 in the United States; from 8 per cent to 96 per cent in Japan; from 7 per cent to 253 per cent in Germany; and from 5 per cent to 313 per cent in France); (b) a blurred dividing line between financial intermediaries and financial products; (c) a shift in the focus of the international financial system from banking to markets (exponential growth of the derivatives market); (d) a significant increase in volume and average size of financial transactions, which has led to a surge in the volume of domestic and international payments; and (e) expanded scope of institutional investors.[23]

70. Financial globalization underscores the tighter real and financial linkages across countries and regions. These linkages can facilitate the transmission of information, knowledge and positive spillovers and contribute to increase productivity, welfare and growth. They can also become the linchpin for the transmission of shocks, contagion and co-movement.

71. Closer integration and the current world situation have thus changed the space for national policy actions and, at the same time, have highlighted the need to coordinate policy initiatives and enhance current regulatory mechanisms.

72. Among regulatory initiatives, countries have begun to implement preparations for a revised capital adequacy framework. The Basel II capital adequacy framework (November 2005) seeks to improve the regulatory capacity of national banking institutions and their capacity to manage risks. To this end, it seeks to provide a

[23] A. Lamfalussy, *Financial Crises in Emerging Markets* (New Haven, Yale University Press, 2000).

forward-looking framework and to align the regulatory capital requirements more closely to the underlying risks that banks face. It is expected that Basel II will be implemented by the end of 2007.

73. The IMF member countries also agreed in the 2006 spring meetings to establish a new process of multilateral consultations on issues of systemic importance. The first consultation, involving China, the countries of the euro area, Japan and the United States of America, focused on the issue of global imbalances that pose a significant challenge to the international management of macroeconomic and financial policy.

74. Progress has also been made in some areas regarding the inclusion of the voice and participation of developing countries in international decision-making institutions. Developing countries are present and active in the current Doha trade negotiating round. There are several different groups, including the Group of Twenty, the Group of Thirty-three, the group of developing countries known as NAMA 11, and the Least Developed Countries Group, reflecting the interests of developing countries.

75. As well, in September 2006, the IMF Board of Governors adopted a resolution on quota and voice reform. The two main goals of the reform are to ensure that the distribution of quotas reflects the economic weight and role of member States in the global economy, and to enhance the voice of low income countries. There is general agreement that the reform of IMF governance is of utmost importance, since the issue of voice and representation is at the heart of the Fund's credibility as an international institution overseeing stability of the global system. A redistribution of power within the IMF is also consistent with the changing mission of this organization. Lending, whereby donors might legitimately expect extra influence, is declining, and more general management and coordination of the international monetary system, whereby all countries should have an equal voice, is increasing.

76. Building effective regional institutions is key to ensure the coherence, coordination and cooperation of regional institutions in promoting sustainable and equitable economic policies. The strengthening and the independence and competence of regional and global institutions will serve to broaden governance on critical issues, rather than maintaining over-reliance on a narrow set of countries.

VIII. Staying engaged

77. In its resolution 2006/45, the Economic and Social Council requested, inter alia, the President of the Council, with the support of the Financing for Development Office of the Secretariat, to initiate consultations, including with all major institutional stakeholders, on how to enhance the impact of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development. The high-level meeting will address four topics, including: (a) good governance at all levels; (b) voice and participation of developing countries in international economic decision-making, including the Bretton Woods institutions; (c) realizing the Doha Development Agenda: effective use of trade and investment policies; and (d) aid effectiveness and innovative financing for development. It is very important to strengthen consultations on South-South cooperation, regional and subregional

financial cooperation, particularly regional reserve fund schemes, and development banks.

78. **Regional commissions have taken a leading role in organizing regional activities in follow-up to the International Conference on Financing for Development (Monterrey, 2002). These have increased awareness among member States of the purpose and importance of the aims promoted by the Monterrey Consensus and of the need to adopt policies and regulations for the sustainable development of the developing countries, including the promotion of development finance to meet the internationally agreed development goals, including the Millennium Development Goals.**