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

Summary by the President of the General Assembly of the High-level Dialogue on Financing for Development (New York, 23-25 October 2007)

I. Introduction

1. The General Assembly held its third High-level Dialogue on Financing for Development from 23 to 25 October 2007 at Headquarters. The overall theme of the meeting was "The Monterrey Consensus: status of implementation and tasks ahead".

2. The President of the General Assembly, Srgjan Kerim, opened the meeting. Statements were made by the Secretary-General, Ban Ki-moon, and the President of the Economic and Social Council, Dalius Čekuolis. Twenty ministers, 15 vice-ministers and many high-level officials from more than 100 Governments made statements to the plenary. Representatives of major institutional stakeholders, the World Bank, the International Monetary Fund (IMF), the World Trade Organization, the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP) also spoke. The second day was devoted to six interactive multi-stakeholder round tables on the six chapters of the Monterrey Consensus, followed by an informal interactive dialogue. Participants at those informal meetings included ministers and other high-level representatives of Governments, representatives of 27 international organizations and 39 civil society organizations and senior representatives from the private sector.

3. The titles of the round tables, the co-chairs and lead discussants were as follows:

- Round table 1: "Mobilizing domestic financial resources for development", co-chaired by Kwadwo Baah Wiredu, Minister of Finance and Economic Planning of Ghana and Peter Moors, Director-General for Development Cooperation of Belgium, with Carlos Braga, Senior Advisor, Poverty Reduction and Economic Management, World Bank, as lead discussant
- Round table 2: "Mobilizing international resources for development: foreign direct investment and other private flows", co-chaired by Hina Rabbani Khar,

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State Minister for Economic Affairs of Pakistan and Láslóo Várkonyi, State Secretary, Ministry of Foreign Affairs of Hungary, with Khalil Hamdani, Director, Division on Investment, Technology and Enterprise Development, UNCTAD, as lead discussant

- Round table 3: "International trade as an engine for development", co-chaired by Ol'ga Algayerová, State Secretary, Ministry of Foreign Affairs of Slovakia and Patricia Orantes, Secretary for Planning and Programming of Guatemala, with Valentine Rugwabiza, Deputy Director-General, World Trade Organization, as lead discussant

- Round table 4: "Increasing international financial and technical cooperation for development", co-chaired by A. B. Mirza Md. Azizul Islam, Honourable Adviser for Finance of Bangladesh and Marjatta Rasi, Under-Secretary of State of Finland, with Jeffrey Sachs, Special Adviser to the Secretary-General on the Millennium Development Goals and Director, United Nations Millennium Project, UNDP, as lead discussant

- Round table 5: "External debt", co-chaired by Tjikero Tweya, Deputy Minister of Finance of Namibia and Salvador de Lara, Director-General of Regional Economic and Multilateral Organizations, Ministry of Foreign Affairs of Mexico, with Mark Plant, Deputy Director, Policy Development and Review Department, IMF, as lead discussant

- Round table 6: "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development", co-chaired by Eduardo Gálvez, Multilateral Policy Director, Ministry of Foreign Affairs of Chile and Andreas Mavroyiannis, Permanent Representative of Cyprus to the United Nations, with Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs, as lead discussant.

4. The meeting also considered the report of the Secretary-General on the follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/62/217). Extensive reference was made to the issues discussed during the "hearings" with the business sector on 11 October 2007 and with civil society on 22 October 2007. The discussions held in the plenary, round tables and interactive dialogue meetings are summarized below.

II. Mobilizing domestic financial resources for development

5. In the view of several speakers, despite the progress made in various areas, there were two serious issues that needed to be addressed. First, a considerable number of countries would not achieve all of the Millennium Development Goals by 2015. Second, income inequality had worsened both between and within countries. Confronting those problems required the complete fulfilment of the commitments made by all partners in the Monterrey Consensus.

6. Several representatives stressed that good governance was the most important requirement for vigorous economic growth and sustainable development. That implied a strong, transparent, accountable State and sound, democratic government institutions. It also implied protection of human rights and the environment, equal opportunities for all and gender equity. It was noted that other key elements of good

governance included an active policy towards entrepreneurship, space for private initiative, the provision of decent work, adequate infrastructure, the protection of workers' rights and a just and effective tax system to finance effective public services.

7. Many participants pointed out that developing countries were making significant efforts to fulfil the Monterrey Consensus compact. A large number of developing countries had introduced policy reforms that had helped to improve domestic macroeconomic fundamentals, lowering inflation and increasing rates of economic growth. Africa, Asia and Latin America had witnessed an unusual period of expansion in the last four to five years. It was important to sustain that trend and to draw in those countries that were lagging behind.

8. In the economic sphere, according to a number of participants, sound macroeconomic policies were vital. Such policies to a large extent determined the investment climate and overall stability in developing countries and countries with economies in transition. It was also noted that sound macroeconomic policies in large industrial countries were crucial for an enabling international environment. Several speakers underlined that with globalization having an increasing impact on domestic economic conditions, careful fiscal and monetary management was becoming more important. In this context, these speakers suggested that two aspects were important: the design of medium-term fiscal and debt frameworks, and policy space — particularly for the implementation of anti-cyclical policies. It was also noted that one of the key objectives of macroeconomic policies had to be full employment.

9. A number of representatives noted that a large number of developing countries had liberalized their trading regimes and enhanced their business climate, unlocking substantial new private sources of financing for development. They emphasized the importance of a business-friendly environment for a dynamic private sector. Improved market confidence not only promoted domestic investments but also attracted foreign flows and helped to prevent capital flight.

10. The diversity of success stories, in the view of several participants, showed that the notion that "one size fits all" was misleading. National development strategies had to be formulated endogenously by each country, paying particular attention to its own circumstances. In that context, some representatives pointed out that in their own countries a major effort in human resource development and a successful export strategy had been main factors in a rapid and sustained expansion.

11. A substantial number of speakers stressed that human development was the basis for economic and social progress, and the single most important factor in eradicating poverty. However, in many countries domestic investments by themselves were insufficient to make rapid progress in education, health and nutrition and increased international financial cooperation was critical in order to supplement domestic resources. Better human resource development was needed to strengthen professional (particularly managerial) capacities, including through technical assistance. Several participants noted that the "brain drain" and the related pull and push factors were issues that the international community should address. It was also noted that the potential contribution that diasporas could make to their countries of origin was increasingly being recognized.

12. Many speakers pointed out that women constituted over half the global population, and that their advancement was central to achieving the Millennium Development Goals and other development goals. The promotion of gender equality was not only a moral issue, as it benefited families, communities and the country at large. Women were key agents for change and empowering women could greatly increase the potential for development in a country.

13. An effective and just tax system was, in the view of several participants, critical to the mobilization of domestic resources. An adequate provision of social services, including social protection and basic social services for the poor, required a well-functioning tax system and an effective tax administration. The national tax base in many developing countries was quite low and could be improved. Strengthening the tax system and making it more progressive seemed necessary in many countries. An enhanced tax administration was also the key to combating tax evasion and increase fiscal revenues.

14. A large number of delegates stressed the crucial importance of developing the domestic financial sector — a central operational principle in the Monterrey Consensus. Strengthening and deepening the local financial sector implied reinforcing institutions, in some cases building new institutions, improving financial regulations and enhancing supervision. There was much to be done in that regard in most developing countries and countries with economies in transition, particularly to facilitate and expand access to long-term capital, provide appropriate financing to small and medium-size enterprises and facilitate financial access to microenterprises, women, the rural sector and the urban poor. Technical assistance was essential to develop the domestic financial system, particularly long-term capital markets. International cooperation to that end, particularly through multilateral financial institutions, should be strengthened.

15. Many representatives underlined the importance of an inclusive financial sector and emphasized the role of microfinance in developing countries. Widespread access to financial services was critical for microenterprises and small and medium-size enterprises, usually a very dynamic part of the private sector providing a significant share of total employment. Inadequate access to financing often inhibited the potential for growth. Several participants said that increasing women's access to financial services was crucial to their empowerment. It was also noted that microfinance had had a major impact since the adoption of the Monterrey Consensus. It had proved to be a key instrument for providing financial services for the poor. It was, therefore, important to enhance national and international efforts to strengthen microfinance and expand it to all developing countries.

16. Various participants said that important lessons had been learned in the functioning of national development banks. Such banks could provide long-term capital for investments, including for infrastructure, and reach productive activities that were underfinanced, such as agriculture. They could also perform other functions such as risk mitigation and the provision of technical assistance to enterprises.

17. Some representatives added that new financial instruments were being created, predominantly bonds, by public and private entities in foreign currency but increasingly in national currency. These opportunities were also open to small-size economies, particularly by joining efforts and creating regional bond markets.

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

18. A substantial number of participants underscored the favourable trends in foreign direct investment (FDI) and other private financial flows to developing countries since the early 2000s. Yet, most of those flows remained concentrated in a small number of countries. The key challenge was to find ways to sustain the favourable trends so that all developing countries could benefit. It was noted that there had been a surge in outward FDI from developing countries, reaching 15 per cent of world FDI in 2007, but it came mainly from a few large emerging economies. However, FDI from developing countries was increasingly providing an important source of investment for low-income countries.

19. Many representatives stated that although FDI flows to developing countries had approached $400 billion in 2006, addressing the scarcity of such flows in Africa, least developed countries, landlocked developing countries and small island developing States was a central task in mobilizing international resources for development and a key priority for the Doha Conference. However, to a considerable extent scarcity was a result of inappropriate policies, particularly of a domestic nature. Some participants underlined that FDI was attracted when there was a significant potential to exploit natural resources or a healthy business environment.

20. Many speakers noted that countries could do much to improve their business environment through sound macroeconomic and market-friendly policies. To that end, Governments should try to provide enabling regulatory and legal frameworks that were stable, transparent and simple; fight corruption; and provide the appropriate infrastructure for transport, communications and electricity. It was noted that public-private partnerships and improved information on potential recipient countries could also assist in mobilizing FDI.

21. In the view of several participants, expanding FDI was important, particularly when investments introduced new, modern technologies. FDI could be instrumental in technology transfer, increasing employment and advancing the decent work agenda, forging links with domestic enterprises and developing technical skills and management capacities. Several speakers pointed out the importance of socially responsible investments: foreign investments should respect workers' rights and assist in eradicating poverty and promoting economic growth and sustainable development. In that context, a number of participants underlined the relevance of the work being done by the Global Compact and the United Nations Fund for International Partnerships. Given the large and increasing capital flows in the various regions, there was also a call to the Secretariat to compile better data on FDI flows from and to developing countries, both official and private, as well as domestic FDI policies.

22. Some participants pointed out that closer international cooperation could facilitate additional foreign investment. Multilateral financial institutions could strengthen their programmes in infrastructure, facilitate risk mitigation and provide guarantees and technical assistance. Aid programmes could consider their links to potential FDI. Risk mitigation could also be achieved by having impartial international forums to resolve disputes. Moreover, noting the increase in FDI from developing countries, several representatives called for further efforts to promote

this trend within the framework of South-South cooperation, including triangular cooperation.

23. FDI also depended on the international environment according to some speakers. A fragile balance of payment and barriers to trade inhibited FDI in many developing countries. For FDI to reach any significant level it was crucial for a number of middle-income countries to resolve debt overhang and for market access to developed countries to be improved.

24. As a large proportion of FDI had been flowing into extractive industries in developing countries, concerns were expressed regarding the development impact of investments in that sector. Several delegates called for the channelling of revenues from such investments to development purposes and for initiatives to encourage transparency in the use of such revenues. It was noted that UNDP was developing technical assistance programmes to help countries in that regard. It was also noted that the value added arising from FDI in extractive industries could be enhanced by attracting investments in complementary secondary industries, such as mineral processing.

25. In the view of several participants, the recent events in the sub-prime mortgage market had shown that volatility was still a feature of international financial markets. The accompanying uncertainty had caused sudden credit tightening in developed and developing countries. While it was difficult to assess the ultimate impact of such events, it was clear that the international financial architecture was not functioning well. Besides addressing the systemic challenges posed by recent developments, one of the crucial tasks was to review the institutional set-up, methodology and transparency of existing risk-rating arrangements.

26. Some representatives stressed the link between the enhancement of the domestic financial market and international private flows. Debt market development could have a considerable impact in attracting both foreign and domestic capital and channelling them towards critical sectors of the economy such as infrastructure. The operations of venture capital could also help to boost economic development by creating businesses opportunities with relatively low levels of finance.

27. A number of participants underscored that diasporas could make an important contribution to economic growth in their countries of origin by helping to create and develop business links between home and host countries. For this to succeed, the existence of an enabling business environment was necessary. Also, several representatives underlined the need for greater multilateral cooperation to enhance the impact of remittances on development. It was necessary to continue efforts aimed at reducing the cost of transfers; to design modalities with the recipients to encourage the utilization of remittances for education, the creation of microenterprises and the provision of basic services for local communities; and to develop local financial systems.

IV. International trade as an engine for development

28. It was noted that no country had reduced poverty in the last three decades without also increasing trade. A timely completion of the present multilateral trade negotiations leading to the full realization of the development dimensions of the Doha Round was essential to boost development, provide additional employment

and alleviate poverty. Many speakers highlighted that the continuous expansion of international trade was providing an important impetus for economic growth and helping many countries to lift a substantial number of people from poverty. Several representatives highlighted that the emergence of some developing countries as regional or global engines for growth had changed the geography of international trade.

29. There were widespread expressions of concern about the impasse in the Doha Round of trade negotiations. This was casting a shadow on the credibility of the multilateral trading system and the multilateral trade negotiations process. Nevertheless, a number of representatives said that negotiations had progressed more than people generally thought. A balanced, equitable and development-oriented outcome was still within reach if key members showed a spirit of compromise and constructiveness. Many delegates stated that making the principles of special and preferential treatment and less than full reciprocity operational in key areas of the Doha Round negotiations was critical.

30. Several representatives pointed out that despite the overall trade vitality, trade remained weak in a large number of developing countries, particularly in many African countries, least developed countries, landlocked developing countries and small island developing States. Facilitating the economic transformation in such countries required the full implementation of the Doha development agenda and considerable international assistance to expand their exports. For least developed countries, it was necessary that developed countries and developing countries in a position to do so provide duty-free and quota-free market access for all their products without restriction. Also, some participants called for the liberalization by developed countries of their markets for all categories of service providers for least developed countries under mode 4 of the General Agreement on Trade in Services.

31. In the view of many participants, a key issue for many developing States was setting up the conditions in their own countries to take advantage of trade opportunities, including the additional potential that a favourable outcome in the Doha Round might provide. Improved trade negotiating capacity, enhanced trade facilitation, improving human capital and removing supply constraints — particularly transport and communication infrastructure — were all important. Aid for trade, including building capacities for the export of services, was therefore necessary. It was also emphasized that it was important to integrate trade in goods and services in national development strategies, particularly since trade had a bearing on the industrialization process, employment, structural adjustment and fiscal policy.

32. A considerable number of countries stressed that aid for trade was increasing significantly and that this trend should be maintained. For instance, the European Union was intending to raise its collective expenditures in trade-related assistance to two billion euros annually from 2010. On the side of recipient countries, especially low-income countries whose trade capacities were weaker, it was important to focus aid for trade on two or three national priorities that could have the most impact on trade growth. It was noted that aid for trade would succeed only if the respective country programmes were driven by on-the-ground business experience and needs. It was therefore necessary to consult the private sector when designing such programmes.

33. Many representatives underlined that increased trade in agriculture was critical for a substantial number of countries. For several African countries, expanded trade in their agriculture products would have significantly positive repercussions in rural development, employment and women's income. There was also much to be gained by agricultural producers in other developing regions. It was thus crucial to eliminate export subsidies and other trade-distorting subsidies to agricultural products. Tariffs for some agricultural products exported by developing countries were also unusually high and had to be reduced substantially. Negotiations on agriculture were a crucial aspect of the Doha Round.

34. It was noted that widespread trade liberalization in manufactures would open many opportunities for all partners. Increased trade in labour-intensive products would benefit a substantial number of developing countries. Yet, a decline was likely in non-competitive industries. It was important to introduce equity considerations in the structural adjustment policies to compensate those who were most vulnerable in declining industries. The provision of flexibility in the liberalization process was also necessary to allow sufficient policy space to maintain an adequate balance in developing countries between international commitments and national development policies.

35. Several speakers said that while multilateral trade negotiations were going on, recent decisions by countries or groups of countries tended to undermine the multilateral system. In some developed countries new barriers to trade — such as environmental, labour and health-related standards — had emerged. Moreover, the proliferation of regional and bilateral free trade agreements was, in practice, eroding the most favoured nation principle and reducing the coherence of the international trading system. In the view of various participants a successful completion of the Doha Round would help to stop the erosion of multilateral trade rules and restore the coherence of the international trading system.

36. Some representatives reiterated the need to maintain the current positive trend in growth in many developing countries. Economic development and trade in those countries was stimulating South-South cooperation and creating more favourable economic prospects for other developing countries. To encourage the continued dynamism of the South it was therefore necessary to enhance South-South trade cooperation, including through a successful outcome of the Doha Round.

V. Increasing international financial and technical cooperation for development

37. Many representatives recognized the significant increases in ODA (official development assistance) since the adoption of the Monterrey Consensus. ODA had reached \$106.8 billion in 2005, then fallen to \$104.1 billion in 2006. The ratio of ODA to gross national income (GNI) had also risen significantly across the member countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD): from 0.23 per cent in 2002 to 0.31 per cent in 2006. However, a large number of participants stressed that those levels remained inadequate in relation to requirements, particularly the need to achieve the internationally agreed development goals, including the Millennium Development Goals, in all regions by 2015. It was also noted that those figures remained below the internationally agreed target of 0.7 per cent ODA/GNI.

38. Some representatives stated that their countries were committed to substantial increases in aid and that this was crucial given that the mid-point to achieve the Millennium Development Goals by 2015 had been passed. The members of the European Union had established intermediate collective targets for ODA/GNI of 0.56 per cent by 2010 and 0.7 per cent by 2015. Some speakers encouraged the European Union to continue to make Africa a priority region for ODA investments. Some participants underlined current efforts by African countries to deliver their own commitments in the Monterrey Consensus and the New Partnership for Africa's Development, which also served as a framework for further actions.

39. A substantial number of participants agreed on the crucial need to increase ODA markedly, particularly for the least developed countries. Developing countries were making significant efforts to deliver their Monterrey commitments and it was important to reinforce those efforts. Increased ODA could lead to a virtuous circle of economic growth, social development and poverty eradication. Moreover, new needs had emerged in relation to national efforts to cope with climate change in many countries. It was noted that ODA was less than one tenth of the amount spent globally on arms.

40. Several speakers referred to the international conference on development cooperation with middle-income countries held in Madrid in March 2007 and the second conference on the same subject convened in Salinitas, El Salvador, in October 2007, and welcomed their conclusions. These speakers noted that ODA to middle-income countries was decreasing despite the claim that 41 per cent of the world's poor lived in such countries. Aid disbursements had been linked too rigidly to gross domestic product levels. Not only the poorest developing countries, but also many middle-income countries had considerable needs in education and health. They suggested that strengthened international financial cooperation was necessary for rapid progress in these areas as well as in targeted programmes for poverty alleviation. There was a call to revise the criteria for aid to these countries, including from multilateral partners, and to consider new mechanisms to support their poverty eradication and broader development efforts. Some participants welcomed the attempts in that direction by the World Bank. A number of speakers noted the need to ensure adequate levels of resources for the International Development Association and regional development banks and to raise the capital base of these institutions.

41. Many representatives stressed that the quality of aid was as crucial as its quantity. There was still much to be done to ensure that aid flows were predictable and long-term. Also, a substantially higher proportion of aid should be untied and fully aligned with recipient priorities. In that context it was noted that in a significant number of countries, aid provided as budget support had performed quite satisfactorily.

42. A substantial number of speakers underscored the relevance of the Paris Declaration on Aid Effectiveness. The Declaration established clear commitments for both donor and recipient partners in terms of national ownership, donor coordination and harmonization, result-oriented outcomes and mutual accountability. Its implementation would lead to more effective aid and reduced transaction costs. A high-level forum on aid effectiveness would be held in Accra in September 2008, mainly to assess progress in the Paris Declaration with the full

participation of recipient partners. The results of that forum would be a key input for Doha.

43. Several participants referred to the need to redefine ODA, noting that debt relief, humanitarian aid and emergency assistance should not be considered as development aid. In that regard, it was suggested that a representative forum to review aid effectiveness and ODA levels was required. It was noted that there were some disadvantages in changing the present ODA definition, as it would undermine progress towards targets which donors had committed themselves to reaching. It was stated that the OECD Development Assistance Committee was going to continue reporting the breakdown of ODA to include debt relief and humanitarian assistance. Many speakers called for the recently created Development Cooperation Forum to play a major role in assessing aid accountability, effectiveness and progress to fulfil commitments.

44. Various speakers said that donor selectivity was leading to the existence of “aid orphan countries” and “aid orphan sectors”, i.e. a number of developing countries or sectors did not receive appropriate levels of support relative to other countries or sectors. A more balanced approach was necessary to effectively reach more countries. ODA flows to agriculture were deficient, and a global fund for African agricultural development should be considered. Several representatives stressed that education and particularly programmes to empower and facilitate the advancement of women should receive much more attention. Others emphasized the need to enhance management capacities and private sector development. A number of participants called for due consideration to be given to the development needs of post-conflict countries. It was important that support for post-conflict countries move quickly, on a case-by-case basis, from emergency relief to development.

45. Many representatives welcomed progress in the area of innovative sources of finance, particularly the Action against Hunger and Poverty initiative and the work of the Leading Group on Solidarity Levies to Fund Development. It was important to strengthen current efforts and to continue exploring new initiatives. It was suggested that part of the additional resources stemming from these innovative flows be made available to developing countries for purposes going beyond existing specific objectives, for example, for development-related investments or to support efforts to adapt to climate change. Several participants noted the increasing significance of (a) the air ticket levy whose proceeds financed the new International Drug Purchase Facility; (b) the International Financial Facility for Immunization; and (c) the advanced market commitments programme for the development of future vaccines. The latter two combined market-based financing tools with public interventions to provide funding. There was a call for additional countries to join these initiatives. Some speakers stressed that these additional sources of development finance should complement and not substitute for ODA.

46. Various participants suggested some new sources of development finance: effectively combating tax evasion; ploughing back to the country of origin a share of the resources collected by the respective consulates of developed countries when charging for visa applications; and a currency transaction tax. A miniscule transaction tax assessed on dealers of major currencies in the foreign exchange markets could yield very large annual revenues.

47. Many participants underscored that South-South cooperation was growing in several key fields. Monetary and financial cooperation at the regional as well as

interregional level was gaining traction. Oil-exporting countries were becoming particularly active as aid donors. Some Asian and Arab countries, as well as countries in other developing regions, were cooperating more closely with African countries. In South America, the Banco del Sur had been established recently. Technical assistance was also on the increase. South-South technical assistance presented several advantages: cultural affinity and geographic proximity; lower cost; greater sense of ownership; and cooperation among partners facing similar development problems, which led to responses that could be more easily adapted to the beneficiary country's needs. It was important to strengthen such cooperation, including through bilateral and multilateral support. Some speakers underlined that the United Nations system should play a more substantial role in support of such triangular cooperation.

48. Several participants referred to the emergence of new donors. Besides the increasing flows from several developing countries, several emerging economies were also becoming significant donors. In addition, private foundations and philanthropists providing larger amounts than in the past were cooperating directly with developing countries or through civil society organizations.

49. Climate change had brought new dimensions to the consideration of development cooperation issues according to a number of speakers. There were crucial links between development finance and climate change, including technology transfers, objectives and priorities for development aid, agricultural and industrial strategies and the availability of clean energy. Many recognized that it was important to channel additional aid to developing countries to support efforts to adapt to climate change. This was critical in the case of the more vulnerable developing countries, where the negative impact of climate change would be greatest.

VI. External debt

50. A considerable number of representatives stressed that significant progress had been achieved in solving some of the more serious debt problems. The heavily indebted poor countries (HIPC) initiative had made notable advances and provided $45 billion in debt relief to 31 countries. The Multilateral Debt Relief Initiative had provided nearly $42 billion in debt forgiveness and lowered the debt stock of 31 countries by about 90 per cent. As a result, social expenditures in those countries as a share of gross domestic product had increased substantially. Despite that progress, some creditors had still not granted relief to countries eligible for the HIPC initiative.

51. Several speakers said that serious debt problems persisted in a significant number of non-HIPC low-income countries, including some least developed countries. It was important to address this situation by developing new debt relief initiatives. Some suggested that 100 per cent official debt cancellation should be considered for all least developed countries to free resources for the achievement of the Millennium Development Goals. Some representatives pointed out that debt-servicing costs were very high in a considerable number of middle-income countries, particularly where the ratio of external debt to gross domestic product exceeded 100 per cent. This situation reduced resources available for social spending, as could be seen in many Caribbean countries. In that regard, some stated

that it was necessary to explore multilateral initiatives to address the special situations in middle-income countries, especially the heavily indebted ones on the lower end of the income scale.

52. According to many participants, debt sustainability remained a challenge for a large number of developing countries, in particular low-income countries. Both creditors as well as debtor countries had a responsibility in ensuring debt sustainability. It was essential for borrowing countries to develop and apply comprehensive debt management strategies. This would mitigate the risk of recurrent debt problems. It was also important that official and private creditors consider debt sustainability and the implications for their lending policies. The debt sustainability framework of the Bretton Woods institutions was a valuable instrument to assess external debt-related risks. It also provided the opportunity to look at external debt with a long-term perspective and assess macroeconomic and fiscal policies.

53. Many speakers stressed that the debt sustainability analysis was a critical instrument in decisions regarding debt relief. It was of crucial importance to link debt sustainability to the capacity to achieve national development goals, including the internationally agreed development goals. Some speakers stated that the debt sustainability framework should be reviewed, considering factors such as the country-specific character of sustainability; greater flexibility in the setting and implementation of thresholds; the testing of debt scenarios that included possible external shocks; and the avoidance of subjective governance indicators. For countries with considerable amounts of domestic public debt, local debt dynamics should be introduced in their debt sustainability analysis.

54. Various participants pointed out that with the liberalization of capital markets it was extremely difficult for middle-income countries to control capital flows. A large share of such flows was of a cyclical nature and prone to instability. Often in such cases domestic public debt was also substantial. Both circumstances contributed to instability and increased the importance of effective public debt management, including an improved IMF debt sustainability framework to better identify potential solvency and liquidity problems. They also suggested greater prudence on the part of creditors and a better functioning system of credit rating agencies, as the present economic conditions could change leading to the possibility of serious problems in the future. It was also necessary that IMF raise awareness of risks both for creditors and debtors of private capital.

55. Several participants noted the importance of avoiding the currency risks associated with excessive accumulation of foreign currency-denominated debt. In this regard, participants underlined the importance of targeted risk mitigation instruments on the basis of bilateral or multilateral support, as well as the need to improve the ratings of debt issuance to investment grade by securitization and other mechanisms.

56. Many speakers reiterated the importance of adequate debt management. They indicated that technical assistance in this area was crucial, and essential in the case of low-income countries. Some representatives pointed out that several developing countries had arrears in one or more international financial institutions and modalities should be explored to regularize their situation. Also, it was vital that sovereign creditors abstain from selling claims on heavily indebted poor countries, as this diverted resources from fighting poverty.

57. A number of participants noted the need for a sovereign debt workout mechanism that would be effective, timely and involve all creditors. It was suggested that IMF continue to explore an international debt restructuring mechanism with those features. It was noted that debt arbitration along the lines of chapter IX of the United States Bankruptcy Code could also be considered as an appropriate instrument to deal with sovereign debt problems. One representative proposed the establishment of an international debt commission overseen by the United Nations through the Economic and Social Council to deal with external debt issues of developing countries. Other speakers referred to this proposal.

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

58. Many speakers expressed the view that the international financial architecture required reform. Instability remained a feature of the global financial system. Large global imbalances persisted. At the aggregate level, substantial net financial transfers were flowing from the South to the North and an excessive build-up of international reserves was taking place in a significant number of developing countries. Several representatives said that there was a need for enhanced macroeconomic stability in major economies, higher transparency in the operations of financial institutions, particularly in the case of new financial instruments, and stronger financial regulations, including for hedge funds.

59. Several representatives stressed that systemic issues, together with actions to mobilize domestic and international financial resources, were fundamental when considering financing for development and should be addressed in the Doha conference. These included issues concerning the governance of the global economy, in other words, who established and supervised the rules of the game; the existence of entities that would have the greatest possible legitimacy; the effective participation of developing countries in building the international financial architecture; the contribution of regional and subregional organizations to their own region and the effective partnership of such organizations with global institutions; enhancing the role of the United Nations and the major institutional stakeholders of the financing for development process, taking into account the rapid evolution towards the global integration of economic activities.

60. A substantial number of representatives said that developing countries were marginalized in key international financial discussions that had significant impact on their economies. It was critical that developing countries have an effective voice in all relevant forums whose decisions had an impact on them, including institutions that set norms and standards, since inadequate representation of developing countries affected their legitimacy, credibility and effectiveness. In this regard, the boards of the Bretton Woods institutions were considering the issue of voice and voting power of developing countries and countries with economies in transition. It was essential that these considerations should lead promptly to a significant increase in voting power and effective participation for these countries, including through a doubling of their basic votes.

61. It was noted that the prevention and management of financial crisis remained a very important dimension of the responsibilities of IMF. Several participants

emphasized the necessity of providing it with adequate instruments, in particular, suitable financial facilities with adequate resources to allow for quick responses to developing countries' financial crises. Some speakers stressed the important role that regional monetary and financial arrangements could play, particularly as a first barrier to contain crises.

62. Several participants emphasized the importance of enhancing coherence among and within the United Nations system, the international financial institutions and the World Trade Organization. Coherence in policy formulation in these institutions should be accompanied by coherence and coordination of development partners in operational activities at the country level. It was noted that the United Nations had a key role in evaluating the current development paradigm. Climate change posed a new challenge, and the United Nations should play a leading role. An integrated view was important, and the United Nations had the universality required to evaluate the development paradigm, but to maintain its legitimacy it needed to improve its overall development effectiveness. The United Nations should therefore provide general guidance while the technical policy aspects were worked out in the appropriate forums.

63. Many representatives underlined the importance of enhancing international cooperation in tax matters. Some progress had been achieved since the Monterrey Conference by the establishment of the new Committee of Experts on International Cooperation in Tax Matters, a subsidiary body of the Economic and Social Council. Yet, it was necessary to intensify and broaden the work in this area. The aspects that required special attention included strengthened cooperation to reduce transborder opportunities for tax avoidance and tax evasion, and increased transparency in international financial transactions to reduce capital flight and curtail money-laundering and terrorist financing. An additional task should be to devise mechanisms to return the proceeds of corruption invested abroad to the country of origin. Some participants proposed upgrading the Committee of Experts to an intergovernmental body or setting up a new international tax organization.

VIII. Staying engaged

64. Many representatives highlighted the importance of all stakeholders remaining fully engaged in the preparations for the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held in Doha in 2008. There was a convergence of views that the financing for development process should be seen in the context of the evolving world economic and political situation and take into account new strategic challenges and emerging issues. However, the delivery of all existing commitments agreed at Monterrey remained a priority. In this regard, several Member States suggested strengthening the institutional arrangements for intergovernmental follow-up of the financing for development process.