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Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council 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 (New York, 14 April 2008)

I. Introduction

1. The special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (UNCTAD) was held on 14 April 2008. The overall theme of the meeting was “Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus, including new challenges and emerging issues”.

2. The 2008 meeting was preceded by extensive consultations within the Economic and Social Council, and between the President and members of the Bureau of the Council and the management of the Bretton Woods institutions, the World Trade Organization and UNCTAD, and meetings with members of the executive boards of the International Monetary Fund (IMF) and the World Bank and members of the UNCTAD Trade and Development Board. In the course of those consultations and meetings, the agenda and the format of the special high-level meeting were discussed and agreed upon.

3. The five sub-themes that had been selected to serve as the focus of substantive discussions in three parallel round tables and two consecutive thematic debates which were held during the meeting were: (a) new initiatives on financing for development; (b) supporting development efforts and enhancing the role of middle-

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income countries, including in the area of trade; (c) supporting development efforts of the least developed countries, including through trade capacity-building; (d) building and sustaining solid financial markets: challenges for international cooperation; and (e) financing of climate change mitigation and adaptation. The meeting had before it a note by the Secretary-General (E/2008/7) which provided background information and suggested possible questions on each of the five sub-themes.

4. The meeting featured a brief opening plenary, which included statements by the President of the Economic and Social Council, Léo Mérorès (Haiti); the Secretary-General of the United Nations, Ban Ki-moon; the President of the Trade and Development Board of UNCTAD, Petko Draganov; Ricardo Ochoa, speaking on behalf of the Chairman of the World Bank/IMF Development Committee; the Deputy Managing Director of IMF, Murilo Portugal; and the Director for External Relations of the World Trade Organization, Willy Alfaro. The opening plenary culminated with a presentation by Zia Qureshi, Senior Adviser to the Chief Economist of the World Bank and lead author of *Global Monitoring Report 2008*,[1] focusing on the current state and prospects for the attainment of the Millennium Development Goals by 2015.

5. The opening plenary was followed by the three round tables, which allowed for a free-flowing discussion among the participants. The co-chairs and lead discussants of the round tables were as follows:

Round table A: Marc Bichler, Director for Development Cooperation and Humanitarian Action, Ministry of Foreign Affairs (Luxembourg), and Chair, United Nations Advisers Group on Inclusive Financial Sectors, and Maria Luiza Ribeiro Viotti, Permanent Representative of Brazil to the United Nations, as co-chairs, with Philippe Douste-Blazy, Special Adviser to the Secretary-General on Innovative Financing for Development, and Chair, Executive Board, UNITAID, as lead discussant

Round table B: Marisol Argueta de Barillas, Minister for Foreign Affairs (El Salvador), and Juan Pablo de Laiglesia, Director, Spanish Agency for International Development Cooperation (Spain), as co-chairs, with Lakshmi Puri, Acting Deputy Secretary-General and Director, Division on International Trade in Goods and Services and Commodities, UNCTAD, as lead discussant

Round table C: Ismat Jahan, Permanent Representative of Bangladesh to the United Nations, and Håkon A. Gulbrandsen, State Secretary for International Development, Ministry of Foreign Affairs (Norway), as co-chairs, with Cheick Sidi Diarra, Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, United Nations, as lead discussant

6. The afternoon session featured, consecutively, the thematic debate on building and sustaining solid financial markets: challenges for international cooperation, and a special event on financing of climate change mitigation and adaptation. Each of the debates began with keynote presentations followed by an informal interactive dialogue among all participants.

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[1] *Global Monitoring Report 2008: MDGs and the Environment — Agenda for Inclusive and Sustainable Development* (Washington, D.C., World Bank, 2008).

7. Speakers during the thematic debate were Joaquín Almunia, European Commissioner for Economic and Monetary Affairs; Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs of the United Nations Secretariat; and Christopher Towe, Deputy Director, Monetary and Capital Markets Department, IMF. During the special event on financing of climate change mitigation and adaptation, the meeting heard presentations by Olav Kjørven, Assistant Administrator for Development Policy, UNDP; Tariq Banuri, Stockholm Environment Institute; and Lucio Monari, World Bank Vice-Presidency for Sustainable Development.

8. The 2008 meeting had a significant number of participating executive and alternate directors of the Boards of the World Bank and IMF. Other participants included ministers, vice-ministers and other high-level national officials in the areas of finance, foreign affairs and development cooperation, as well as senior representatives of United Nations organizations and other international organizations (see E/2008/INF/1). Representatives of non-governmental organizations and the business sector also participated actively in the plenary meetings, round tables and thematic debates.

9. The opening statements referred to several critical issues in the current juncture. Most countries and the international community were confronting unusual challenges. The economic and development outlook was worrying. Global financial instability had increased and world output growth was decelerating substantially. Food and energy prices in international markets had risen considerably. Policymakers in developed countries were trying to restore stability in financial markets and avoid a prolonged slowdown in an environment characterized by unusual uncertainty. In many developing countries, the rise in food prices was causing serious disturbances and even riots. The United Nations and the Bretton Woods institutions had an important role to play in assisting in solving such problems.

10. The present special high-level meeting was especially important since in seven months world leaders would meet in Doha to deal with the review of the Monterrey Consensus[2] and the themes chosen for this meeting were particularly relevant for the November-December 2008 conference. In the meantime, the twelfth session of UNCTAD would be held in Accra from 20 to 25 April 2008, addressing key development issues related to financing for development; States members of the United Nations and other stakeholders would meet in New York in July 2008, in the context of the Development Cooperation Forum, to address aid-related issues; and from 2 to 4 September 2008, countries and multilateral institutions would gather at the Third High-level Forum on Aid Effectiveness in Accra. The outcomes of these three events were expected to constitute substantive inputs to the Doha conference.

11. In the opening statements, it was also stressed that a positive outcome in the multilateral trade negotiations, a major policy objective in the Monterrey Consensus, could give a significant boost to the world economy at a critical moment. The success of the Doha Round was more important than ever: this was in fact the greatest challenge that the World Trade Organization had faced. The

[2] *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.

obstacles were more political than technical and with the necessary flexibility exhibited by all partners, agreement was within reach before the end of 2008.

12. Regarding the food crisis, as indicated in the concluding remarks at the meeting, the Bureau of the Economic and Social Council, the Council at large and the Secretary-General will explore what steps could be taken towards a prompt global response to this issue. What follows is a summary of the deliberations on each of the themes agreed for consideration at the special high-level meeting.

II. New initiatives on financing for development

13. Many representatives pointed out that new initiatives on financing for development were important as regards achieving the objectives of the Monterrey Consensus. Official development assistance (ODA) was hovering around $100 billion and only five Development Assistance Committee (DAC)/Organization for Economic Cooperation and Development (OECD) members — Denmark, Luxembourg, the Netherlands, Norway and Sweden — had met the United Nations aid target of 0.7 per cent of gross national income. It was uncertain whether the commitment of the Gleneagles Summit to reach $130 billion in 2010 would be attained. Yet, donor countries should fully honour the aid commitments made at Monterrey and Gleneagles. At present, the need for further resources was evident. The fulfilment of the internationally agreed development goals, including the Millennium Development Goals, as well as resources needed for adaptation to and mitigation of climate change and for facing the energy and food crisis simultaneously required vast additional flows.

14. According to some speakers, support for a number of “innovative sources of finance”, a tool suggested in the Monterrey Consensus, was gathering momentum. Several initiatives were being implemented and others continued to be explored or were at an initial stage. An air ticket levy and the International Finance Facility for Immunization had raised $300 million in 2007 and a total of $500 million was expected in 2008. The resources were being disbursed through multilateral institutions to fight pandemics among the poorest in developing countries. In the same vein, the project on Advanced Market Commitments for vaccines had also started.

15. Several participants welcomed the above developments, particularly since they viewed the funds involved as additional and often more predictable than ODA. The innovative sources had become an effective tool in development cooperation, and should be presented as such in the Doha conference. They were not a substitute for, nor should they be counted as, ODA. It was crucial to enhance the information channels regarding existing initiatives and new efforts, since this was central to encouraging new countries and other actors to enter the field. The United Nations should play a greater role in the information efforts. Many speakers noted that these new initiatives should not be burdensome for developing countries and that their impact should be thoroughly examined. It was important that efforts in this area not be scattered too widely and that the resources mobilized be distributed in a transparent fashion, preferably using traditional aid distribution mechanisms.

16. Many representatives referred to various new initiatives in the area of innovative sources of finance. The initiatives mentioned covered a vast range and included: the currency transactions tax; revenues from carbon emissions trading; use

of remittances for development purposes; repatriation of illicit funds; global lotteries; the financial transactions tax; issue of special drawing rights (SDRs); channelling resources from sovereign wealth funds to developing countries for development purposes; and the debt-for-equity initiative. At the local level, further development of microfinance with the support of donor countries, including through the European microfinance platform, also seemed particularly important. Some stressed the need for the principles of the Paris Declaration on Aid Effectiveness to be fully respected by all partners in the implementation of such initiatives.

17. It was noted that even a very low currency transaction tax (one half of 1 per cent of one basis point) would yield billions of dollars annually. Furthermore, it would help to mitigate volatility in international financial markets. In respect of remittances, France was introducing a "co-development policy" to make transfer of funds by migrants available for long-term economic purposes in Africa. The co-development strategy involved tax concessions and cooperation between receiving countries and the source country, including banks. Spain was developing a project along similar lines for the productive use of migrant resources in Latin America. Regarding SDRs, two proposals were advanced: issuing SDRs periodically to finance development and issuing SDRs for confronting severe liquidity problems in developing countries. With respect to sovereign wealth funds, several participants supported the initiative of the President of the World Bank in respect of creating equity investment platforms and benchmarks to secure the allocation of 1 per cent of the assets of sovereign wealth funds as investments in infrastructure in Africa.

III. Supporting development efforts and enhancing the role of middle-income countries, including in the area of trade

18. Many representatives stated that middle-income countries had common needs and that enhancing international cooperation efforts to support their development was essential. Middle-income countries needed to reduce their financial vulnerability and develop solid and inclusive domestic financial markets. They needed to accelerate technological development so as to be able to compete while paying higher wages than low-income countries. It was vital to strengthen their institutions and consolidate national capacities while improving physical infrastructure. It was important to enhance policymaking on the basis of improved statistical data. It was critical to ensure an effective and efficient tax system, one leading to an increase in revenues which would allow for strengthened policies for social protection and poverty reduction. Middle-income countries needed to prevent capital flight, and to counter abuse and evasion engaged in through transfer prices and tax havens.

19. A number of participants noted that, while middle-income countries had many needs in common, they were nonetheless heterogeneous and required customized solutions and instruments. For example, some of those countries were prone to macroeconomic instability and largely depended on commodity markets. A considerable number of them had substantial pockets of poverty. Several among them, albeit still a minority, had significant access to international financial markets. In the last 25 years, output growth and export performance of middle-income countries had been quite uneven. A large number, but not all, had experienced serious financial and debt crises. Some relied on tourism and exports of services

which made them vulnerable to income fluctuations in developed countries. Many of these countries were islands likely to be severely affected by climate change.

20. According to several speakers, international support for the development efforts of these countries was particularly important with respect to preventing regression and speeding up poverty eradication programmes. There were a number of areas in which the collaboration of multilateral institutions — in particular the United Nations, the Bretton Woods institutions and the World Trade Organization — and developed countries could be particularly effective. These areas included science and technology development, improved market access, enhancing infrastructure investments, aid for trade, investment promotion of small and medium-size enterprises, transfer of clean technology, energy conservation and investments in new energy sources, and enhancing South-South and triangular cooperation. Vigorous proactive cooperation policies in these areas would help middle-income countries to realize their potential.

21. Many representatives stated that it was important that developed countries and multilateral institutions consider innovative approaches to supporting development efforts of the middle-income countries, which received only small amounts of ODA. It seemed necessary not to focus exclusively on gross domestic product (GDP) when considering criteria for providing assistance to these countries. Additional ODA as well as flexible policies of donors and multilateral institutions could significantly enhance key development programmes and poverty eradication projects in the middle-income countries.

22. Some speakers underlined that not only efforts to eliminate corruption but good governance in all its dimensions was necessary for sustainable development. Two components were particularly important: public policies to achieve equitable distribution of benefits, and measures leading to the empowerment of women and their full participation in economic activity.

23. Several discussants pointed out that given the aggregate size of the population and the GDP of middle-income countries, their representation in international rule-making and standard- and norm-setting should be increased. It was noted that the voting power of these countries and of developing countries as a whole had been recently increased in IMF. Moreover, the members of the Fund had agreed to revise the quota every five years.

24. A number of speakers stressed the importance of remaining vigilant regarding trade barriers. The recent rise in protectionism was alarming. A breakthrough in the multilateral trade negotiations was essential, particularly as open investment and trade policies would lead to accelerating economic growth in middle-income countries. At the same time, risk mitigation and public/private partnerships could be instrumental in promoting investments, including in infrastructure. Still, at the domestic level, it was critical to enhance education, since upgrading technology so as to compete internationally required high-skilled people.

25. Some representatives stated that there was a need to revise economic models, since the market model alone might not be suitable for the development of middle-income countries. It was noted that promoting a code of conduct for transnational corporations was necessary, particularly in the case of extractive industries, so as to provide native people with a minimum income. Also, greater accountability of lenders and borrowers was required to avert new debt crises.

26. It was noted that an international forum within which to discuss issues related to middle-income countries and articulate a plan for collective action designed to support their development efforts was desirable. Numerous delegates expressed their belief in the need for a mandate within the United Nations to meet the challenges of the middle-income countries. These countries were partners in development. They could also be instrumental, through South-South and triangular cooperation, in assisting development in lower-income countries. It was stated that middle-income countries as a group should be better organized and that multilateral development institutions should pay more attention to their needs. Moreover, the creation of a United Nations agency or office charged with taking up issues and concerns of middle-income countries should be considered.

27. Several representatives called attention to the Namibia conference on the middle-income countries to be held possibly later in 2008. Initial preparations were already under way. The Namibia conference would offer an important opportunity to reaffirm and consolidate the progress made in the Intergovernmental Conference on Middle-Income Countries, sponsored by the Government of Spain and held in Madrid on 1 and 2 March 2007 (see A/62/71-E/2007/46, annex for a summary of the proceedings), and the Second International Conference on Development Cooperation with Middle-Income Countries, sponsored by the Government of El Salvador and held in that country on 3 and 4 October 2007 (see A/62/483-E/2007/90 for the Consensus of El Salvador and the executive summary). The Namibia conference would also solidify the recognition of the Madrid and El Salvador Conferences within the United Nations system and, through its own outcome, feed into the financing for development process leading towards the Doha conference.

IV. Supporting development efforts of the least developed countries, including through trade capacity-building

28. Many speakers underscored the fact that while the least developed countries had experienced progress in the current decade, the current economic juncture was particularly challenging for them. High food and energy prices made more difficult the efforts to address long-standing problems: inadequate economic structures, precarious social development and a fragile physical environment. Least Developed Countries were unlikely to attain the Millennium Development Goals. Moreover, it appeared improbable that the goals of the Programme of Action[3] for the Least Developed Countries for the Decade 2001-2010 would be met. Moreover, several of the least developed countries were post-conflict countries where strenuous domestic efforts as well as special assistance were required to restore social cohesion and the economic growth impetus.

29. In the view of a substantial number of participants, a new impetus for the development of agriculture was important, as well as increasing attention to the expansion of agribusiness in those countries. The support of donors and international institutions was necessary to enhance their food production as a matter of urgency. The response of the World Bank, which had considered short-term and long-term measures to cope with the current food problem, was a valuable step forward. In fact, the Bank was addressing not only immediate needs but also food

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

security in the long run and the requirements for effective safety nets in this difficult current period and beyond. In the short run, it was critical that food aid to many Least Developed Countries be increased as a matter of urgency.

30. Numerous representatives emphasized the role of international trade in economic growth and modernization. It was important that Least Developed Countries integrate trade policies into their national development strategies. The multilateral trading system had much to offer to Least Developed Countries, particularly if an adequate business environment prevailed in those countries. In such a climate, exports could expand and employment prospects would improve, with a positive impact on poverty alleviation. A friendly business environment would also attract foreign direct investment (FDI). It was the view of several representatives that, although Least Developed Countries had undergone a period of liberalization, this had not translated into much higher rates of economic growth. In the meantime, they had to confront substantial barriers protecting agricultural production in developed countries.

31. Various speakers called for duty-free and quota-free access for all exports of least developed countries to developed countries. Yet, market access was not enough. It was essential to expand the export capacity and competitiveness of these countries. Building adequate trade capacities required action on several fronts: policies to enhance the business environment, human resource development, adequate infrastructure, productive investment, and the requisite financing. Moreover, market access had to be predictable. Many representatives stressed that Aid for Trade was crucial and that it should be scaled up.

32. Several participants underlined the role of Aid for Trade and the Integrated Framework for Trade-related Assistance to Least Developed Countries — which included areas such as trade facilitation, environment and labour regulations — in respect of their taking full advantage of trade opportunities. This was even more important if the current multilateral trade negotiations led to an agreement that included full implementation of the Doha Development Agenda. Some stressed the vital role of physical infrastructure, in particular the provision of electricity, as an erratic electricity supply could cause severe disruption of many industrial activities. Together with improved transport and communications, reliable energy supplies were critical for a dynamic export sector. It was suggested that ODA could be redirected to these areas. Also, several participants underscored that developed countries were failing to deliver ODA for least developed countries at a level commensurate with long-standing aid commitments. It was stressed that resources for Aid for Trade should be additional and should not be linked to ongoing trade negotiations.

33. Most least developed countries were small economies. It was pointed out that regional economic integration would facilitate their taking advantage of economies of scale and would help these countries integrate into the world economy. It would provide the opportunity to diversify and enhance the manufacturing sector, which was a strategic objective in countries dependent on primary commodity exports. More generally, broad South-South cooperation — encompassing trade, monetary, financial and technical assistance and including triangular cooperation — could be particularly beneficial for these countries.

34. A number of representatives stressed the need to foster small and medium-sized enterprises in Africa. Governments, assisted by multilateral development

institutions, could promote the development of this sector. Such development was one of the foundations for the flourishing of the private sector and deserved attention. It was noted also that, for a substantial number of least developed countries, remittances from migrant workers played a significant role in the economy even if the bulk went to private consumption. It was important to consider exploring ways to orient such resources towards productive investments, including through the collaboration of the members of a country's professional diaspora. The World Bank could help in achieving that task. Some participants pointed out that, while it was appropriate to consider policies designed to enhance the development impact of remittances in receiving countries, the flow of remittances, inasmuch as they were basically international transfers of individual labour earnings, should not itself be a substitute for development assistance.

35. Several participants highlighted the fact that country ownership was indispensable for adequate implementation of policies and programmes. An explicit national development strategy could assist in strengthening ownership by identifying policy priorities, their sequencing and respective instruments — including financing. In particular, poverty reduction strategy papers should be negotiated locally with a wide range of stakeholders, and should include parliamentary oversight. For many least developed countries, public sector reform was particularly important, as was enhancing the tax system, in particular so as to curtail evasion. Gender equality and an active role of civil society were also highlighted by some speakers. According to several participants, measures to prevent corruption, reduce flight capital and eliminate illicit transfers were also necessary in a number of these countries, as were efforts to recover the illegally acquired funds deposited abroad. Regarding the latter, the launching of the joint United Nations Office on Drugs and Crime-World Bank Stolen Asset Recovery Initiative was a very important step. Also, it was noted that Norway had established a task force on curbing capital flight and illicit transfers.

36. Numerous speakers stressed that the key to effectively addressing the challenges described above lay in Governments' mustering the political will to reform and the international community's effective support of the reform efforts. The Doha conference in late 2008 would provide the opportunity for all relevant actors to show their commitment.

V. Building and sustaining solid financial markets: challenges for international cooperation

37. To a large extent, discussants focused their presentations on the current financial turmoil, which had originated in the United States of America but whose reverberations were being felt in all regions of the world. After years of relatively easy access to liquidity and virtually unconstrained leverage, the global financial system was now firmly in the grip of a de-leveraging process accompanied by considerable financial turbulence. Reasonable financial stability could be achieved only when investor confidence had been restored. In the meantime, the de-leveraging process was leading to enormous losses. The potential financial losses had been estimated to be close to $1 trillion and were not confined only to the sub-prime mortgage market. The turmoil was affecting other financial markets in the United States and virtually every other country. A global turmoil required a global

response. While instability had decreased somewhat after actions by large industrialized economies, longer-term stability remained a major challenge. The systemic nature of that challenge made this issue a key consideration on the road to Doha.

38. It was noted that countries in Eastern Europe were being adversely affected by the financial turbulence as spreads had increased significantly. Most developing countries had been largely insulated from the current turmoil. This did not imply decoupling from industrialized economies, since globalization remained strong and there would be some significant deceleration of the robust growth pace of previous years. Besides, many food- and energy-importing developing countries would face severe difficulties as a consequence of the escalation in the prices of those goods.

39. According to the discussants, there had been a convergence of views on the origins and causes of the crisis. The widespread loss of confidence in financial markets after the explosion of the price bubble in the housing market had been due to several factors: lack of market transparency; gaps in the prudential framework; inadequate risk management and risk measurement in key financial institutions; and concerns about the so-called non-organized markets and the role of credit agencies. The policy response to the turbulence in financial markets in the United States had focused on averting a credit crunch and had consisted mainly of strong support to inter-bank markets, enhanced bank disclosure, bank recapitalization and supervisory actions to deal with stressed institutions and the stocks of impaired assets. In October 2007, the European Union (EU) Finance Ministries had also identified four key actions to deal with the financial turmoil: improving financial transparency, particularly of banks; upgrading valuation standards, especially illiquid instruments; strengthening the prudential framework for the banking sector; and investigation of structural market issues, such as the role played by credit rating agencies and the risks involved in the new forms of securitization.

40. It was pointed out that at the recent Spring Meeting of the IMF International Monetary and Financial Committee, the approaches described above had been reaffirmed by the Finance Ministers. The Committee had also endorsed the recommendations for future actions contained in the report of the Financial Stability Forum. Indeed, in the medium term, the weaknesses of the financial system had to be addressed at a fundamental level and in this regard, the report provided guidelines for action in all key areas.

41. It was further noted that while every country had the right to tailor its policy response to its own specificities and institutional setting, a decision to "go at it alone" would be a mistake for various reasons: (a) it would imply ignoring the reality of globalized financial markets where differences in market regulation and oversight could create competitive distortions and the opportunity for inadequate regulatory arbitrage; (b) the country would miss the opportunity to learn from policymakers in other parts of the world, particularly with respect to how markets work and respond under stress; (c) financial markets reacted more favourably when authorities acted in concert. The current turmoil offered an opportunity to forge a new common approach; it was important not to let this opportunity to reform the international financial architecture slip by. Here was also an opportunity to strengthen IMF through that institution's playing a leadership role in the resolution of the confidence crisis.

42. There was a convergence of views among discussants with respect to the fact that a coordinated long-term response to global financial instability was essential. It was pointed out that emerging markets should be included in the collaborative approach to that response. Regarding future actions, the policy response should include, inter alia, reinforcing credit discipline, tightening regulation of and oversight over mortgage originators, stricter application of consolidated supervision, improvement of liquidity risk management and strengthening cross-border supervisory cooperation. Moreover, it was stressed that large and persistent global imbalances also involved serious risks for financial stability and should continue to be at the top of the international policy agenda.

43. It was pointed out that lessons from the past had shown that financial liberalization, and particularly an imprudent opening of the capital account by developing countries, undermined many policies designed to advance economic growth and avoid crises. Also, liberalization made macroeconomic management and the implementation of counter-cyclical policies more difficult. To effectively support economic growth in developing countries, a number of international cooperation policies related to the financing for development process seemed critical. These would entail: (a) strengthening crisis prevention; (b) enhancing crisis management mechanisms; (c) expanding development finance; (d) more equitable governance of international financial institutions; (e) effective ownership and adequate policy space; and (f) increased regional monetary and financial cooperation.

44. Numerous representatives stressed that a smooth functioning of the financial markets was a precondition for sustainable growth, higher standards of living and economic and social progress. Yet, the ongoing financial turmoil had uncovered serious weaknesses in the existing international financial architecture. Two considerations appeared particularly important in strengthening crisis prevention: (a) since constant financial innovation was presenting a major challenge in terms of translating risk analysis into policy action, it was necessary to enhance capital and disclosure requirements and promote stronger market discipline; (b) there was a need for increasing early warning capabilities, including a strengthening of the role of IMF in oversight of macrofinancial stability. Regarding regulatory cooperation, inter-country dialogues as well as meetings in international forums, such as the Basel Committee on Banking Supervision, could be improved by making them more consistent, cooperative and reactive. Regarding that issue, some participants noted the scant role played by IMF, an institution with broad membership. Most of the dialogue took place in, and most of the recommendations emerged from, meetings of a limited group of countries or institutions such as the Basel Committee which were hardly representative of the whole international community. It was also noted that IMF had warned of the looming financial crisis but did not have effective tools for influencing its members as regards reorienting their policies.

45. Many delegates stated that the reform of the international financial architecture was essential. A key issue was the legitimacy and credibility of the Bretton Woods institutions. The agreement reached in the Spring Meeting of the International Monetary and Financial Committee, which would increase the voting power of developing countries, had been a positive step in this direction. Also, it appeared crucial to support the IMF Medium-term Strategy which included an important and valuable role for the Fund in low-income countries.

46. Some participants stressed that the central challenge was to make the international financial system work for development. This required equitable representation of developing countries in economic decision-making bodies. The recent agreement in the International Monetary and Financial Committee regarding the voting power of developing in countries IMF was clearly insufficient. To build and sustain solid financial markets, it was imperative to address effectively the systemic issues that had contributed to the financial crisis. The growing importance of instruments such as hedge funds and private equity funds posed a significant threat to financial stability. Notwithstanding, the international financial system lacked supervisory bodies able to control complex instruments and most derivatives. Moreover, unregulated offshore centres and tax havens facilitated capital flight and tax evasion. It was necessary to combat capital flight and transfer of funds. One key measure would be to upgrade the United Nations Committee of Experts on International Cooperation in Tax Matters into an intergovernmental entity. Its agenda should contemplate the inclusion of measures devised to combat tax evasion and illicit capital flight. In the longer run, a world tax cooperation organization could be considered. Also, it was important to consider the creation of a committee on financing for development, or a similar body, with a view to enhancing the effectiveness of the dialogues of the United Nations, the Bretton Woods institutions and the World Trade Organization on an integrated review of the six areas of the Monterrey Consensus.

47. A number of speakers pointed out that financial liberalization should be a prudent and gradual process. Some were of the view that liberalization of capital flows had resulted in considerable gains for developing countries and had helped development. Still, enhancing supervision and prudential regulation were crucial to ensuring more permanent benefits. Indeed, both enhanced regulation and supervision were critical as developing countries moved further into securitization.

VI. Financing of climate change mitigation and adaptation

48. In the introductory remarks by discussants, it was pointed out that climate change posed an enormous challenge and that confronting that challenge was a major obligation of the international community. Its disproportionate impact on the world’s poorest citizen could erode gains that had accrued over generations. For the 2.6 billion people in the world who were living on less than $2 a day, representing some 40 per cent of the world’s population, climate change presented a significant threat and in this regard, inaction could endanger significantly the achievement of the internationally agreed development goals. Yet, confronting this severe problem could also offer an opportunity to address in a comprehensive manner long-standing developmental problems.

49. It was noted that some of the early impacts of global warming in several areas that were of relevance to human development had already become manifest. An increased exposure to drought, changed rainfall patterns and increased temperature could reduce productivity in agriculture and thereby affect the world’s food supply. Changes in climate would dramatically change patterns of water distribution and the sustainability of water systems. Climate variability and change might cause death and disease through natural disasters, such as heatwaves, floods and droughts. In addition, the courses of many important diseases were highly sensitive to changing temperatures and patterns of precipitation. Rising sea levels could displace millions

of poor people in developing countries and were of particular concern to small island States. The resilience capacity of many ecosystems was likely to be exceeded in the present century by an unprecedented combination of climate changes and their accompanying disturbances.

50. Many representatives stressed that it had been recognized that the distribution of causes and effects of climate change was highly uneven across developed and developing countries, as reflected by the principle of "common and differentiated responsibilities" in the United Nations Framework Convention on Climate Change[4] and the Kyoto Protocol thereto.[5] The Convention should serve as the main framework for the response to climate change; and a central issue was to ensure appropriate financial transfers from the industrialized to the developing countries to assist the latter in achieving both adaptation and mitigation.

51. It was noted that realistic targets for carbon dioxide (CO_2) reductions would be essential for both developed and developing countries. In order to achieve the target set by the Intergovernmental Panel on Climate Change (IPCC) for an 80 per cent reduction of carbon emissions by 2050, the international community would have to implement far-reaching policy measures. While the modification of the Panel targets would be a risky option, feasible economic instruments would have to be developed to enable developing countries to make up for their enormous shortfalls in energy supply, without endangering their economic growth paths and poverty reduction efforts. A considerable number of speakers stated that priorities with respect to needs and additional support should be identified by developing countries themselves. A coherent and integrated response at the global level to climate change should recognize ownership and alignment.

52. It was pointed out that the international carbon market had grown substantively over the last years. Emissions trading and other Kyoto-inspired market-based mechanisms, such as the Clean Development Mechanism, engaged the private sector, stimulated investment and gave emitters some flexibility in respect of how they could meet their emissions-reduction commitments. However, for the Clean Development Mechanism to be truly effective, it must specify clearer goals and would have to be scaled up substantially. It was further noted that the implementation of carbon taxes at the global level would be highly regressive, if carried out with a complete disregard for their distributional impact.

53. Numerous representatives referred to the importance of public and private investments in new technologies for mitigation of, and adaptation to, climate change. They stated that it would be important in this regard to focus on the development of new technologies in the public domain and not solely on proprietary technologies. Many recognized that financing mechanisms for international targets on climate change should be based on income, capacity and responsibility. Targets for conventional ODA directed towards the attainment of the Millennium Development Goals should be separated from financial targets for climate change mitigation and adaptation. The resource mobilization for climate change policies would have to be additional to current ODA levels, which would require substantial transfers from industrialized to developing countries through which to assist the latter with both mitigation and adaptation. A global sustainable development

[4] United Nations, *Treaty Series*, vol. 1771, No. 30822.

[5] FCCC/CP/1997/7/Add.1, decision 1/CP.3, annex.

strategy that mobilized new investments should reduce both greenhouse gases and poverty. The existing financing mechanisms should be utilized more effectively before new instruments were created.

54. Some speakers emphasized that the increased focus of the international community on climate change should not lead to a situation in which other important basic development needs would be sidelined. A long-term and integrated development perspective is needed, as climate change policies should not distract attention from issues such as poverty alleviation, employment-creation and infrastructure development. Also, some participants referred to an apparent contradiction in the approach to climate change. While the biofuels boom might have environmentally friendly implications, some observers argued that it had contributed to the food crisis affecting the world's most vulnerable populations.

55. Many delegates stressed that the most vulnerable economies, such as the least developed countries, small island developing States and a large number of low-income countries, would be hit the hardest by climate change and that the poorest people would often be the most adversely affected. Addressing this problem would require the scaling up of additional sources of finance for these nations. Small island States and low-line coastal countries, for instance, should not be obligated to take out loans in their efforts to adapt to rising sea levels, since the phenomenon was caused by the carbon footprints of other countries. Grants or highly concessional resources would be necessary. It was further noted that the most vulnerable countries did not have the capacity to cope with and recover from climate shocks. Since it could be expected that humanitarian disasters associated with extreme weather events such as droughts and floods would become more frequent, intense and disruptive, effective disaster management should be made available to these nations.

56. Many representatives emphasized the commitment of the World Bank to addressing mitigation and adaptation efforts and welcomed the Bank's contribution to the implementation of international efforts to deal with climate change. The proposed climate investment funds that would be provided by the World Bank for the deployment of existing and new climate-friendly technologies were acknowledged to be an important mechanism in the fight against climate change. It was noted, however, that the mechanism would need to be scaled up substantially and that its governance structures would need to be equitable. It was also noted that while the climate change policy framework of the World Bank constituted an important contribution to the global policy response to global warming, Bank initiatives as well as other international initiatives should make the principles and guidelines of the United Nations Framework Convention on Climate Change their basis for action.

57. A considerable number of participants called upon countries and key stakeholders to give the issue of climate change a prominent role in the Doha review conference. This should include deliberations on the need for appropriate sources of finance for the mitigation of, and adaptation to, climate change and on addressing the threats posed by global warming to the achievement of the Millennium Development Goals.