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Follow-up to and implementation of the outcome of the 2002 International Conference on Financing for Development and the preparation of the 2008 Review Conference

The latest developments related to the review process on financing for development and the implementation of the Monterrey Consensus

Report of the Secretary-General**

Summary

Pursuant to General Assembly resolution 62/187, the present document presents the latest developments related to the review process on financing for development and the implementation of the Monterrey Consensus.

The report outlines the main recent developments under each of the six thematic chapter headings of the Monterrey Consensus document: Mobilizing domestic financial resources for development; Mobilizing international resources for development: foreign direct investment and other private flows; International trade as an engine for development; Increasing international financial and technical cooperation for development; External debt; Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development. The report also presents developments under the heading Staying engaged.

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** Submission of the present document was delayed because of the need for further consultations with the major institutional stakeholders in the financing for development process. The report was prepared following consultations with staff of the major institutional stakeholders involved in the financing for development process. However, responsibility for its contents rests solely with the United Nations Secretariat.

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I. Introduction

1. The present report has been prepared at a time when the performance of the global economy is deteriorating. Growth is slowing down; the troubles and uncertainties in financial markets persist; and higher energy and food prices threaten higher inflation rates. Sound macroeconomic policies are needed to contain inflationary pressures, as well as well-targeted support for poor households most affected by rising food and fuel prices, and appropriate use of countercyclical fiscal policy.

2. Against this backdrop, sustaining the development effort, locking in the gains in poverty reduction of recent years and finding new ways to generate external and domestic resources necessary to augment financing for development now pose significant challenges for the international community.

II. Mobilizing domestic financial resources for development

3. The ongoing international food, fuel and financial crises highlight the continuing challenges the international community must confront in sustaining adequate levels of productive investment in the common pursuit of growth, poverty eradication, and sustainable development. Recent financial events have also highlighted the important role of sound economic management, including effective countercyclical domestic policies, in mobilizing savings and investment. This is an essential element of the Monterrey Consensus. For example, in response to the financial crisis, the International Monetary Fund (IMF) has been making the case for expanding the space for appropriate macroeconomic policies, particularly fiscal policy.

4. There are growing indications that the coming years will be associated with higher global interest rates and reduced international liquidity in comparison to the period since 2002 characterized by strong demand for developing country exports, high commodity prices and abundant credit. Macroeconomic policy responses in the forthcoming period are bound to differ among countries, among those that have built up significant reserves, those that have built up debt through large current deficits, those that have benefited greatly from high commodity prices and those that have not participated in the recent growth. At the spring meetings of the Bretton Woods institutions, held on 12 and 13 April 2008 in Washington, D.C., expanding domestic policy space, including fiscal policy space consistent with medium- and long-term fiscal sustainability, and obtaining international cooperation to do so, was considered critical to ensuring that countries are able to respond appropriately. At the same meeting, it was emphasized that all countries face the challenges of higher energy and food prices and a slowing global economy, in the short term.

5. The importance of transparency and good governance as key ingredients in the development effort was emphasized by many speakers during the review session on chapter I of the Monterrey Consensus, “Mobilizing domestic financial resources for development”, held on 14 February 2008 in New York. The discussions drew lessons from past efforts to improve governance which indicated that such policies should be linked to a national development strategy, eschewing a generalized approach of copying other models and standards. The focus, particularly in addressing corruption and improving risk-sharing mechanisms between the public

and the private sectors, should be strengthened and would have to reflect individual country circumstances.

6. The potential financial losses from the ongoing international financial turmoil, estimated in the order of almost $1 trillion, underline the importance of good governance and transparency in financial markets. At 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, held on 14 April 2008, discussants noted the loss of confidence in financial markets after the sharp decline in prices in the housing market due to the lack of market transparency; gaps in the prudential framework; inadequate risk management and risk measurement in key financial institutions; concerns about the so-called non-organized markets and the role of credit agencies (A/63/80-E/2008/67, para. 39).

7. There has been renewed interest in addressing the negative impact of illicit capital flows on domestic resource mobilization. In a special event hosted by the Government of Norway at United Nations Headquarters on 14 February 2008, it was estimated that at least two thirds of the illegal international transfers of funds were motivated by tax evasion and the other third by efforts to conceal the proceeds of illegal activities, such as proceeds from the drug trade or terrorism financing. At the Technical Group meeting of the Initiative against Hunger and Poverty, held in Madrid on 23 May 2008, the importance of an agreement to consider tax evasion as a corrupt practice among countries signatory to the United Nations Convention against Corruption was also highlighted. A working group led by Norway on the development impact of illicit capital flows identified the need to expand cooperation in tax evasion in the same way the international community had coalesced on efforts against other criminal activities.

8. In discussing the importance of enhanced international cooperation on tax matters, some have referred to the work of the United Nations Committee of Experts on International Cooperation in Tax Matters and to a proposal to upgrade it to a full intergovernmental body.

9. In the long run, a sustained increase in the revenue capability of the public sector and diversification of the tax base is critical for mobilizing resources for development and meeting the internationally agreed development goals, including the Millennium Development Goals. It has been noted that there is scope in most developing countries to increase tax revenue through more effective tax collection, modernization of tax legislation and broadening the tax base. A meeting with the theme “Revenue’s role in the quest for inclusive development: What works and what can work better? South-South sharing of successful tax practices”, held on 22 and 23 May 2008 at New York University and attended by senior officials from several developing countries, emphasized the need to enhance the perceived accountability of national and local governments by linking tax collection with service delivery.

10. Increasing inclusive finance to ensure that the poor participate in and benefit from domestic resource mobilization was highlighted during 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, held on 14 April 2008 in New York. The Accra Accord adopted by the United Nations Conference on Trade and Development at its twelfth session highlighted the importance of efforts to promote full and productive employment

and decent work at the national level, including through use of the International Labour Organization (ILO) toolkit for mainstreaming employment and decent work.

11. Attention continues to be drawn to the persistence of gender inequalities in labour markets, credit markets and assets distribution. The Commission on the Status of Women, at its fifty-second session, held from 25 February to 7 March 2008 in New York, called for greater strengthening of the Monterrey Consensus regarding gender equality issues, giving more specificity in undertaking financing for gender equality. There is a widespread view that there needs to be a better understanding of the role of women in development, moving beyond their roles as caregivers and labourers. Macroeconomic policies should be more coherent with other policies to achieve gender equality; for example, policies should go beyond gender budgeting and take into account tax issues, business cycles, employment and the unpaid “care economy”.

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

12. Over the last five years, buoyed by strong economic growth and improved macroeconomic fundamentals, as well as improvements in the investment climate in many developing countries, global flows of private investment have grown significantly. During the review session on chapter II of the Monterrey Consensus, “Mobilizing international resources for development: foreign direct investment and other private flows”, held on 15 February 2008, it was noted that while there had been a rising overall trend since 1970, private flows to developing countries had been characterized by boom-bust cycles, with busts following years of growth in 1984, 1997 and 2002. UNCTAD data show that foreign direct investment (FDI) inflows remain the single largest component of private resource flows to developing countries and amounted to almost $500 billion in 2007. A significant part of these flows involve “South-South” investment among developing countries. The sizeable increase in net flows of FDI to developing countries as well as to transition economies in 2007 does not appear to have been noticeably affected by the ongoing financial and credit crisis so far. However, continuing weakness in global financial markets could have a negative impact on foreign investment flows.

13. The increase in FDI flows in 2007 was also fuelled by a sharp increase in cross-border mergers and acquisitions, which have started to decline with the recent turmoil in developed countries’ financial markets. At the same time, emerging market countries are enhancing their share of global merger and acquisition activities, with firms, particularly from East and South Asia, investing actively in other developing countries, especially in extractive industries, telecommunications and financial services. Cross-border merger and acquisition purchases by companies in emerging economies, including by sovereign wealth funds, of companies in developed markets are also on the rise.

14. In a scenario of ever-increasing competition for investment and for global opportunities, the development of a healthy competitive business climate, suitable infrastructure and strong human resource development is essential both to attract investments in higher-value-added activities and to support the performance of local companies in the global market. This has also been highlighted by, among others,

the Economic Commission for Latin America and the Caribbean (ECLAC), in its report, *Foreign Investment in Latin America and the Caribbean 2007*.

15. Making progress in infrastructure and human resource investment is necessary to improve the business climate as well as to meet various social objectives. In their *Global Monitoring Report 2006*, the Bretton Woods institutions noted that, while most Governments focused on the short-term effects of expenditure reduction when setting fiscal targets, such a perspective neglected the fact that investment in infrastructure could lead to higher tax revenues in the longer term by increasing future output. Foreign direct investment contributes to higher productivity and economic growth when the host country has a sufficient capability, both physical and human, to absorb advanced technologies. It has therefore been recommended that Governments improve their business environments by increasing public investment in infrastructure and human resource development. It is also important to consider innovative ways to better leverage the involvement of transnational corporations in the development and management of infrastructure in developing countries.

16. The upward spiral in commodity prices and the reform of policy frameworks for FDI, in particular with respect to natural resource exploitation, have contributed to the recent surge of inflows to Africa, accounting in some host countries for more than three quarters of Africa's inward FDI. Developing country Governments should ensure that, through appropriate policies and regulations, foreign investment in extractive industries is consistent with broader long-term development objectives. The UNCTAD *World Investment Report 2007* emphasized that FDI in natural resource exploitation did not automatically translate into durable development gains; considerable public sector involvement was often indispensable in order to overcome economic, environmental and social obstacles to harnessing broader developmental impacts. The share of manufacturing in FDI flows into African manufacturing has continued to decline. Despite the privatization programmes in many of those countries, progress in meeting basic infrastructure needs, such as in water and electricity, has been limited.

17. For UNCTAD one of the important challenges in Africa is increased public sector involvement to channel increased revenues from commodity exports into productivity improvements and for industrialization in general. The World Bank advocates a renewed focus on investment in agriculture to increase yields and generate marketable surpluses that can be used to purchase higher-quality inputs for production as well as consumer goods. It has also been emphasized that public-private partnerships, at all levels, can facilitate promoting innovation and technological development, provided that fiscal risks related to such partnerships are well managed. Multilateral and bilateral aid organizations can help in this regard by providing resources and technical assistance to better enable countries to facilitate investment in infrastructure, absorb new technology and support appropriate production sector development strategies.

18. Through risk mitigation and capacity-building, multilateral development banks and bilateral donors can help broaden FDI flows to a wider range of countries, including least developed countries, landlocked developing countries and small island developing States. Relevant multilateral, regional and national institutions can review functions and instruments that allow them to better mitigate the risks facing foreign investors in developing country infrastructure projects. The review

session on chapter II of the Monterrey Consensus acknowledged the importance of mechanisms to mitigate regulatory risk, to increase the role of multilateral and regional development banks in risk mitigation by increasing leverage for their guarantees, and to strengthen local currency lending.

19. As indicated above, South-South investment flows are becoming increasingly significant. To a large extent, the expansion of South-South investment flows reflects the increasing integration of developing countries into the world economy. Total South-South flows increased from $2 billion in 1985 to $60 billion in 2004, constituting 25 per cent of all FDI inflows to developing countries. South-South flows are particularly important in inward FDI to many least developed countries. In the General Assembly review session on this subject, it was acknowledged that South-South flows should be facilitated, especially as investors from the South possessed certain advantages when operating in other developing countries. The possibilities for supporting these flows should also be explored in the context of South-South-North triangular cooperation and collaboration among developing country institutions.

20. Recently, some developing countries have also become increasingly important investors in developed economies. Given the recent turmoil in developed country credit markets, public investments from emerging economies have played an important stabilizing role in ensuring that contagion has not spread to government bond markets in developed countries. Moreover, due to the unprecedented build-up of international official reserves, emerging market Governments have increasingly taken long-term equity positions in developed countries' financial markets through sovereign wealth funds. While policymakers in some developed countries have raised questions about the influx of investment by companies controlled by foreign Governments, linking it to national security concerns, substantial investments by these funds have proven to be crucial stabilizers for distressed financial institutions in developed countries. With regard to their potential impact on developing countries, the World Bank stresses the increasing importance of sovereign wealth funds and has recently floated the idea for such funds to invest at least 1 per cent of their portfolio in Africa.

21. Recently published data covering issuance in internationally syndicated loans, bond and equity markets by issuers domiciled in emerging market economies suggest that conditions have shifted significantly since the onset of financial turbulence in August 2007. Comparing the period from September 2007 through February 2008 with the same period a year earlier, equity issuance went down about 30 per cent, while syndicated bank lending fell by 24 per cent and bond issuance dropped by 53 per cent. A moderation in net private capital flows may follow the global economic slowdown in 2008.

22. There is consensus among countries in the Leading Group of Solidarity Levies to Fund Development that while remittances per se do not represent additional financing, the development impact of overseas workers' remittances through institutional, legal and economic measures can be expanded through international cooperation. The positive impact on the livelihoods of countless families in many developing countries is now widely recognized and should continue to be facilitated through appropriate measures in all countries.

IV. International trade as an engine for development

23. The role that trade can play in fostering economic development is well established. Trade can generate gains for developing countries, in most cases more than any other area of international economic cooperation. The ongoing World Trade Organization (WTO) trade negotiations under the Doha Development Agenda seek to establish a fairer and more equitable trading system for all WTO members by addressing inequities in current multilateral trading rules.

24. The collapse of the WTO Ministerial talks in Geneva in July 2008 signalled a significant hiatus in the Doha negotiations. While all parties have indicated their interest in pursuing the Doha Round, further progress is unlikely unless a more effective consensus of what constitutes a development-oriented result emerges. WTO reports that trade growth slid to 5.5 per cent in 2007 from 8.5 per cent in 2006; and it projects 4.5 per cent growth in 2008. Likely protectionist surges in response to the current economic slowdown around the world highlight the importance of actions to ensure that the global trading system will remain open to support the development efforts of all countries, particularly the world's poorer countries.

25. The ongoing crisis in food prices generated intense policy discussions at the 2008 spring meetings of the Bretton Woods institutions and at the twelfth session of UNCTAD. Many of the same issues were discussed in the General Assembly's review session on trade, held on 19 and 20 May 2008 in New York, and debated at the United Nations High-level Conference on World Food Security, held from 3 to 5 June 2008 in Rome.

26. Some consider the global food crisis as having its roots in decades of trade-distorting policies, among other things, that have encouraged inefficient agricultural production in developed countries and discouraged efficient production in developing countries. It has awakened the international community to the indispensability of a global trading system that sustains widely dispersed and sustainable agricultural investment throughout the developing world. Increased domestic investment in small farm production and an elevated level of public investment in infrastructure have been identified as the crucial response to doubling food prices at the Tokyo International Conference on African Development, held from 28 to 30 May 2008 in Yokohama, Japan, and the High-level Conference on World Food Security, held from 3 to 5 June 2008 in Rome. With about 850 million people already suffering from hunger and about 100 million more people becoming hungry because of higher prices, investments in the order of $15-$20 billion a year are required to ensure that global food supply can rise by 50 per cent by the year 2030 to meet projected demand.

27. The ongoing food crisis has been seen as the consequence of transitory as well as more deep-rooted problems. Agricultural export subsidies and trade-distorting supports to domestic food producers, as well as high tariffs on many agricultural products in many developed and developing countries, have discouraged production and exports in many developing countries with agricultural potential. In addition, as noted in previous reports, many developing countries have been requested or advised to eliminate subsidies, withdraw government support and reduce tariffs in this sector, undermining food security. The impact of biofuel production on food

prices and the longer-term impact on investment in agriculture in developing countries of trade-distorting subsidies have emerged as urgent multilateral issues.

28. There is growing agreement that a key part of a long-term solution to meeting the increased global demand for food will involve trade (as a vehicle for better connecting supply to demand and ensuring that trade rules do not undermine food security) and financing policies that will encourage a sustainable revival of smallholder agriculture. This will require not only nurturing and promoting household investments in rural areas, but also securing adequate technological and productivity growth in other sectors of the economy. Since women participate heavily in this type of agriculture, there is also an important gender dimension to the development of smallholder farming. The outcome of the Doha trade negotiations, in particular in agriculture, will have a profound impact on the access to food of people living in poverty throughout the world. The World Bank has estimated that as much as seven years of progress in achieving the Millennium Development Goals hunger targets could be wiped out by the current level of food prices.

29. In this context, it is also important to note that, after a period of trade surpluses for most developing countries, higher food and energy prices are exerting new pressures for imports to outstrip export earnings in many fuel and food-importing countries and could lead them to new external borrowings. High prices also threaten growth in the industrial economies on whose markets developing countries depend heavily.

30. Questions of multilateral oversight over commodity prices and their impact on development were discussed extensively at the twelfth session of UNCTAD. In the Accra Accord, member countries identified the need to address the impact of commodity dependence, including the volatility of prices, the pro-poor and transparent allocation of revenues as well as the diversification of production structures in economies dependent on a few commodities. African countries, in particular, requested upgrading UNCTAD work in commodities by transforming the existing Commodities Branch into an autonomous unit reporting directly to the Secretary-General of UNCTAD.

31. The Accra Accord recognized the new geography of the global economy, referring to the quantitative increase in trade and finance linkages among developing countries, as having the potential to broaden the spectrum of multilateral cooperation and to promote the integration of developing countries in the long term. South-South economic cooperation complements rather than substitutes North-South cooperation, and can contribute to balanced global growth and development. The UNCTAD *Trade and Development Report 2007* highlights the importance of strengthening regional cooperation among developing countries, while also recognizing the need for caution with regard to North-South bilateral or regional preferential trade agreements which may limit national policy space. Many concurred that such agreements ought to go beyond gains in terms of market access in merchandise trade to include trade in agriculture and services, investment, labour mobility and intellectual property, as well as sensible rules of origin. Moreover, it was indicated that developing countries, including least developed countries, should be encouraged to make trade competitiveness a pillar of their national development strategies.

32. In the General Assembly review session on trade, it was acknowledged that more open trade is, by itself, not a guarantee of development and poverty reduction. Many participants stressed that developing countries needed time to develop their productive capabilities to take advantage of the opportunities from increased market access and to minimize the costs of adjustment entailed by trade reforms and losses in preferential access. In this regard, developing countries also need access to technology at an affordable price, infrastructure investment and human resource development, an enabling domestic environment for private investment and innovation, and appropriate social safety nets. Many participants noted that developing countries needed adequate policy space to manage their trade, financial and development policies in line with their national development priorities and strategies.

33. Donors at the High-level Pledging Conference for the Enhanced Integrated Framework, held at Stockholm on 26 September 2007, and at the WTO Global Aid for Trade Review, held in November 2007, reconfirmed pledges, initially made at the sixth WTO Ministerial Conference, held in Hong Kong, China, in 2005, to increase Aid for Trade by 2010. These pledges today stand at over $4 billion. As the UNCTAD Accra Accord noted, “Aid for Trade cannot be a substitute for the development benefits resulting from a successful and balanced outcome of the Doha Round but will be a valuable complement to them.” Within this context, the approval of the WTO 2008 Aid for Trade roadmap with a focus on measuring trade capacity, implementation and involving developing countries more actively in the process, is welcome.

V. Increasing international financial and technical cooperation for development

34. Both the General Assembly review session from 14 to 16 April 2008 in New York and the first Economic and Social Council Development Cooperation Forum on 1 July 2008, also in New York, deliberated on the mixed progress in international development cooperation since 2002. While some donors are meeting (some, indeed, surpassing) their commitments in delivering aid, aggregate aid flows from Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC) countries as a whole have fallen significantly short of overall targets. On the other hand, new sources of aid money have proliferated, notably from the assistance programmes of other developing countries and private foundations, although data from non-traditional donors (bilateral and private) are imprecise. It is estimated that new sources now contribute roughly one fourth of global aid flows.

35. The OECD/DAC *Development Cooperation Report 2008*, released on 14 February 2008 in Paris, noted that the total 2007 ODA of $103.7 billion represented 0.28 per cent of the OECD members’ aggregate gross national product (GNP), down from 0.31 per cent in 2006 and clearly off trend to meet the 0.70 per cent target. For many OECD donors, the growth of ODA will have to increase at double-digit annual rates if they are to achieve the 2010 aid target. Debt relief and humanitarian assistance have constituted as much as 30 per cent of ODA in recent years, underlining the political stresses attending efforts to increase ODA in many developed countries.

36. The importance of providing public resources programmable for developmental purposes was also highlighted in the General Assembly review session. Since ODA provides the resources that would otherwise not be forthcoming from the private sector, the fall-off in resources for development constitutes both a political challenge and a developmental threat. Development-oriented assistance normally requires many years of predictable funding, preferably through budget support based on strategies identified by national policymakers. The discussions in the review session and the Development Cooperation Forum noted that the Monterrey Consensus brought together donors and recipients to form a global development cooperation partnership for the first time.

37. Notable progress has been made by signatories to the 2005 Paris Declaration on Aid Effectiveness and the principles of ownership, alignment, harmonization, managing for results and mutual accountability, which is another significant milestone in implementing principles enunciated in the Monterrey Consensus. The Second Annual Plenary of the OECD Global Forum on Development, held in Paris on 20 May 2008, on the theme of "Strengthening country ownership", identified many hurdles to enhancing country ownership and proposed ways to overcome them. Achievement of this principle requires giving countries the flexibility to design and implement their chosen development path and streamlining agreed policy reform programmes to support more predictable disbursement and to improve coherence and complementarity among donors.

38. The present system has a variety of aid instruments, agreements and associated policy reform conditions, with a large number of donors, with some of the funding coming through the budget or projects. However, as has also been highlighted on previous occasions, the resulting number of donor missions in each recipient country can be burdensome, leaving little time, space and human resources for appropriate analysis, constructive country dialogue among domestic constituencies and informed policymaking.

39. As indicated earlier, the first Economic and Social Council Development Cooperation Forum highlighted the emergence of new donors, a development that also presages realignment away from the traditional donor community frameworks. Thus there seems to be an unambiguous trend to reform the aid architecture, as underscored by several of the keynote speakers and panellists at the session. There also seems to be a widespread opinion that this new Economic and Social Council initiative has the potential to serve as an effective international forum to address development cooperation issues in a more inclusive forum and that member States intend to use it accordingly.

40. Building on the laudable efforts to recast the aid machinery will also require addressing what has been called an important democratic deficit. The developing countries that are signatories to, or are affected by, the principles of the Paris Declaration are not all members of OECD or even the DAC Working Party on Aid Effectiveness. Ownership is closely linked to representation. There is an imbalance in development cooperation if recipients are not genuine partners in influencing cooperation guidelines, including in international financial institutions. In the General Assembly review session on aid, there was a discussion on the establishment of a peer review process to evaluate aid programmes in order to help address that imbalance. A peer review mechanism can also play an important role in

setting guidelines on the appropriate use of conditionality to ensure aid effectiveness.

41. There was also renewed discussion on whether indicators currently in use to monitor aid delivery were adequate as indicators of genuine aid effectiveness, which must assess the real development impact of programmes. The Third High-level Forum on Aid Effectiveness, to be held in Accra from 2 to 4 September 2008, is expected to generate further ideas and initiate multilateral processes that not only have a value in themselves, but should also be an input to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus and to the subsequent processes, including in the Development Cooperation Forum.

42. The April 2008 Economic and Social Council special high-level meeting acknowledged the gathering momentum in the number of proposals and in the number of countries supporting innovative sources of finance (see A/63/80-E/2008/67). The International Health Partnership meeting of the Leading Group on Solidarity Levies to Fund Development, held in Madrid in May 2008, provided the occasion to review ongoing work in a growing list of potential innovative sources of financing, among them: the International Finance Facility for Immunization, advance market commitments, the airline ticket solidarity levy, a currency transaction development levy, a levy on carbon emission trading, a development levy on sales of information technology products, combating tax evasion, and special drawing rights for developmental purposes (the last of which would require amendment of the IMF articles of incorporation).

43. There was a sense among the leading countries that participated in the Plenary Meeting of the Leading Group on Solidarity Levies to Fund Development, held on 22 and 23 April 2008 in Dakar, that progress has been made in conceptualizing the key principles animating the effort in the following areas: providing predictable, long-term funding, overcoming market failures (as in the case of frontloading of research funds for tropical diseases), promoting a strengthened partnership between developed and developing countries and private citizens, civil society and the private sector in the aspect of revenue raising, and reducing extreme concentrations of aid flows to just a few countries. The Leading Group has a secretariat in Paris, and a rotating presidency currently being held by Guinea, following the presidencies of France, Norway, the Republic of Korea, and Senegal. Mr. Philippe Douste-Blazy was appointed the Secretary-General’s Special Adviser on Innovative Financing for Development. A world conference of non-governmental donors, with a particular focus on innovative financing for development provided by citizens, local and regional authorities, foundations, non-governmental organizations, faith groups and the private sector, is being planned by those groups for 2009.

44. Participants in the April 2008 Economic and Social Council special high-level meeting underlined the importance of appropriate international assistance for least developed countries as well as cooperation with middle-income countries. Aid for trade was particularly important for least developed countries, in order for them to take advantage of market access by improving their supply capabilities. The need to make aid more effective by addressing the specific needs of post-conflict countries and fragile States was also highlighted. Ideally, the start of assistance in a peacebuilding context could provide a smooth transition from humanitarian assistance, followed by rehabilitation and nation-building and then support for

enhancing governance and improvement of social and economic infrastructure, and long-term development programmes.

45. Climate change, though affecting all countries, is bound to have a disproportionate impact on the world's poorest. 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 inaction could endanger significantly the achievement of the internationally agreed development goals (see A/63/80-E/2008/67, para. 48). In the burgeoning discussion on the international community's financing responses to climate change, it has been emphasized, inter alia, that this challenge should not lead to the sidelining of other basic development needs. Estimates of the amount of financing required to deal with the global climate risk range from 0.3 to 1.0 per cent of global income. Discussion on this subject figured prominently at the opening of the High-level Segment of the Economic and Social Council, held in New York on 30 June 2008.

46. Many have pointed out that equity considerations, both from the point of view of current disparities in income and the historical responsibility for the Earth's accumulation of greenhouse gases, suggest that developed countries should bear a significant proportion of the costs. The climate change financing discussion must therefore address the central question of appropriate financial transfers from the industrialized countries (the so-called Annex 1 countries) to non-Annex 1 countries. The series of meetings under way as mandated by the United Nations Climate Change Conference, held in Bali from 3 to 14 December 2007, is expected to bolster the United Nations Framework Convention on Climate Change as the universal approach to financing.

VI. External debt

47. The notable progress achieved in many aspects concerning external debt, covered by chapter V of the Monterrey Consensus, provided the starting point for the General Assembly review session held on 10 and 11 March 2008 in New York. Since the adoption of the Monterrey Consensus, overall debt indicators have improved markedly, aided by a confluence of factors, notably the most recent years of low international interest rates and rapid growth in developing countries underpinned by strong export growth. Most developing countries have debt management programmes in place and have built up reserves, thus reducing vulnerability. The prepayment of debt by many developing countries, as well as debt relief for many low-income countries and sizeable debt reductions in countries such as Iraq and Nigeria, contributes to a stable scenario and points towards the possibilities for establishing a positive developmental role for external debt.

48. Debt relief committed to the 23 post-completion-point heavily indebted poor countries is expected to reduce their external debt stock by more than 90 per cent in end-2007 net present value terms. Most of this reduction (76 per cent) would be delivered in the context of the Heavily Indebted Poor Countries (HIPC) Initiative ($35 billion in end-2007 net present value terms) and the Multilateral Debt Relief Initiative ($22 billion in end-2007 net present value terms). The remainder is attributable to traditional debt relief and voluntary bilateral debt relief beyond the HIPC Initiative. Debt stocks in the 10 interim period countries are expected to decline by a similar factor under these debt relief initiatives.

49. Despite these positive developments, the General Assembly review session had also dwelled on the obstacles to ensuring debt sustainability and protecting the financing needed to make progress towards the Millennium Development Goals. The risk of debt distress remains moderate or high for more than half of the post-completion-point heavily indebted poor countries. Many have pointed to the critical importance of strengthened debt management capacity and the possibility of the joint Bank-Fund Debt Sustainability Framework as a coordination point for creditors.

50. Debt write-off programmes have been arduous and slow, often because of delays in meeting targets to improve public sector management. More importantly, many other developing countries, both least developed and middle income, have not benefited from a more widespread application of what could be called the "Monterrey debt principles" of 2002, which had actually been derived from the thinking that underpinned the launch of the HIPC Initiative. The March 2008 review session identified several political, legal, and governance obstacles explaining this situation.

51. New challenges have surfaced. The increasing weight of private debt in total external debt poses new problems for debt management, debt sustainability and debt restructuring. In recent years, domestic debt in many developing countries has increased vulnerability even as external debt levels have declined. Some note that the era of low interest rates and rapid export growth could be ending as the world economy enters a vulnerable period. Forecasts of lower growth prospects in both developing countries and the world economy as a whole portend a possible reversal in debt indicators.

52. External debt servicing in many countries receiving debt relief under the HIPC Initiative has returned to pre-Initiative levels, but rising domestic debt levels are increasing the cost of servicing public debt and reducing the fiscal space for development expenditure. Some heavily indebted poor countries have been subject to aggressive litigation by commercial creditors and vulture funds. Sounder fiscal management accompanying debt write-off programmes, has facilitated the restoration of debt servicing capacity. There is a debate over whether these fiscal policies have limited the public spending on infrastructure and productive activities necessary for the emergence of new, competitive economic sectors. Many speakers in the review session emphasized the importance of preventing a relapse into unsustainable debt. Reviving investment over the medium term and facilitating structural change should thus be part of the definition and design of sound macroeconomic policy.

53. The emergence of new creditors, both official and commercial, that are not members of the existing creditor coordination mechanisms has generated its own stresses in the overall situation. In this context, it is encouraging that there has been a reaffirmation of the basic debt principles upon which progress in international cooperation can be based. These principles are: joint responsibility of creditors and debtors; development needs rather than financial needs as the main foundation for debt reduction and cancellation; responsible lending practices in extending new loans to countries emerging from debt crisis; transparent national and international financial institutions, particularly banks; additionality of debt relief to ODA; and application of the Paris Declaration principles to achieving debt sustainability.

54. The impact of the many possible and flexible mechanisms and instruments, including grants, concessional loans, debt swaps, collective action bond clauses, payment moratoriums and debt write-off itself, for international debt management are often stymied by significant flaws in international law and governance in dealing with debt contracts. Inconsistencies as to which laws apply in the enforcement of contracts and weaknesses in international governance arrangements have made ensuring equivalent treatment of creditors difficult. This has encouraged individual actions by public and private institutions that have proven costly to developing countries. Lenders are unable to properly assess the risks they are bearing on their international loans, and this has encouraged both periods of excessive lending and sudden stops in lending.

55. In the March 2008 General Assembly review session on debt, it was noted that commercial debt buy-backs complementary to heavily indebted poor countries debt relief operations (such as one done under the debt reduction facility for International Development Association countries) and executed by heavily indebted poor countries Governments have been applied effectively to extinguish eligible commercial debt and to prevent costly and unjust litigation against heavily indebted poor countries. National laws in the major financial centres provide the bases for these lawsuits. The potential profitability of "vulture litigation" also derives from the fact that none of the existing mechanisms provides a guarantee of equivalent treatment to non-participating creditors. There was also a discussion on the non-participation of new creditors in the Paris Club and the difficulty of their inclusion in a body whose procedures had been set previously. It was pointed out by some in the review session that these procedures can be seen as constituting a de facto "court of creditors" with power to make judgements on creditor claims and debt servicing, and thus, contravene commonly held principles that decisions be made by an impartial agent.

56. The Workshop on Debt, Finance and Emerging Issues in Financial Integration, held on 8 and 9 April 2008 in New York and the civil society consultation organized by the United Nations Development Programme (UNDP) at United Nations Headquarters on the theme of "Avoiding the 2015 debt crisis", on 29 and 30 June 2008, considered related international debt management and governance issues, including inter alia, the absence of a sovereign debt restructuring mechanism and preferred creditor status of the Bretton Woods institutions. While improvements are continually being made to the approach, many have urged a review of the debt sustainability frameworks of the international financial institutions, so that these can take up development indicators, including in particular the achievement of the Millennium Development Goals and internationally agreed development goals as a central objective of these calculations.

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

57. The General Assembly review session on addressing systemic issues, held on 11 and 12 March 2008, discussed the challenges involved in supporting more effective functioning and coordination of the international financial architecture and the economic aspects of global governance. The international community's attention

has been focused largely on the challenge of crafting policy responses to financial system weaknesses posed by ongoing global financial turmoil. These responses are spawning additional challenges in adapting the governance structures of the international institutions and other global decision-making bodies.

58. While a process of financial rehabilitation can be seen to have begun, measures to address the underlying causes of the disruptions have also started. The final report of the Financial Stability Forum, presented on 11 April 2008 and endorsed by the Group of Seven participants and the International Monetary and Financial Committee, sets out policy recommendations in prudential oversight of capital, liquidity and risk management; transparency, disclosure and valuation policies; the role and uses of credit ratings; and the authorities' responsiveness to risks and their arrangements to deal with stress in the financial system.

59. In response to the financial crisis and as a key element in sustaining efficient investment processes during the recovery, the process of strengthening domestic regulatory frameworks over financial markets is accelerating. On 31 March 2008, the United States Secretary of the Treasury initiated this process for the United States of America; parallel efforts are being undertaken in the United Kingdom of Great Britain and Northern Ireland and other European economies. During the 2008 spring meeting of the Bretton Woods institutions, many participants highlighted the international impact of national financial regulatory policies and standards, which in turn affect the access of developing countries to external finance. It is therefore important for developing countries not only to incorporate regulatory lessons from the current crisis in the building of their own domestic financial systems but also to have a secure voice in the design of future financial regulatory frameworks.

60. On 5 June 2008, in New York State, credit ratings agencies signed an agreement with the New York State Attorney General setting new standards and guidelines governing how to evaluate investments backed by risky mortgage debt. On 8 July 2008, the Chairman of the United States Federal Reserve said that the Federal Reserve would issue new lending rules to regulate exotic mortgages and sub-prime loans. On 16 July 2008, the Chairman of the United States Securities and Exchange Commission proposed restricting the short selling of stocks of financial companies. These developments help put a spotlight on, in the first instance, how a process of re-regulation, heightened disclosure requirements and enhanced public sector oversight over financial markets has started in various locations and, in the second instance, the potential flaws of unilateral, uncoordinated regulatory reform.

61. In the review session on systemic issues, participants similarly highlighted the fundamentally changed economic context since the Monterrey Conference, as well as the heightened pressure to update international public oversight and governance structures in order for them to be consistent with the existing global economic structure. Developing economies have become a much larger proportion of the global economy. The size and complexity of international private markets in trade and finance have seriously challenged the monitoring and financial capabilities of international public institutions. As indicated earlier, many of the more successful developing economies have built up their own reserves as individual self-insurance against vulnerabilities stemming from private markets.

62. In this context, members of the international community have stressed that the governance regime of the international financial institutions is in need of significant reforms to inter alia increase the voice of developing countries. The 28 April 2008

decision of the IMF Board of Governors on voting reform was welcomed; it was also noted that, for its part, the World Bank Executive Board has started a dialogue intended to improve the Bank's internal governance and broaden representation in its decision-making processes. Many representatives concurred on the importance for the Doha Conference to help set out clear and time-bound processes to implement decisions in this area.

63. It is also noteworthy that some progress has been achieved recently in ongoing efforts to strengthen IMF capability in surveillance, in the analysis of macrofinancial linkages, in integrating multilateral perspectives in bilateral surveillance, and in sharpening the work on financial markets. The question of international standards and codes being determined outside the multilateral system was also discussed in the systemic issues review session, as was the need for effective representation of developing countries in setting these international norms.

64. In recent months, there have been calls by leaders of some countries for in-depth consideration of reforms to global governance structures and institutions, including those related to the international financial and monetary architecture. For example, at the Commonwealth Heads of Government Meeting on Reform of International Institutions, held in London on 9 and 10 June 2008, leaders of that organization expressed their intention to, inter alia, pursue the redefining of the purposes and governance of the international financial institutions, including working towards a Commonwealth consensus and wider international support for an international conference to achieve those goals. They agreed to work closely with the institutions concerned, including at an extraordinary meeting of the Commonwealth Heads of Government to be held on 24 September 2008.

65. There have also been renewed calls to strengthen the intergovernmental follow-up mechanisms to the Monterrey and Doha Conferences and to maintain the partnership of the United Nations with the other major institutional stakeholders in this task. In this regard, it was also noted that any mechanism must be effective, inclusive and transparent in view of the need to sustain the "Monterrey spirit" in a dynamic follow-up to the Monterrey Consensus and the agreements to be reached at the Doha Conference. It has also been pointed out that the follow-up of the International Conference on Financing for Development should ensure a continuing multi-stakeholder and multisector approach and build on the experiences and lessons in recent years, including strengthening of the interface with the Bretton Woods institutions, with a view to promoting a results-oriented framework for consultations and substantive dialogue. Such a framework would secure a larger opportunity for representatives of Bretton Woods institutions to voice their views.

VIII. Staying engaged

66. The General Assembly held its third High-level Dialogue on Financing for Development from 23 to 25 October 2007 in New York. The overall theme of the meeting was "The Monterrey Consensus: status of implementation and tasks ahead". Twenty ministers, 15 vice-ministers and other high-level officials from more than 100 Governments, as well as senior managers of major institutional stakeholders (the World Bank, IMF, WTO, UNCTAD and UNDP) spoke to the plenary. The outcome of the meeting is contained in the summary by the President of the General Assembly (A/62/550).

67. 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 was held on 14 April 2008 in New York. 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”. The substantive discussions focused on the following five sub-themes: (a) new initiatives on financing for development; (b) supporting development efforts and enhancing the role of middle-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 summary by the President of the Council (A/63/80-E/2008/67) covers the full range of views expressed at the meeting.

68. The Financing for Development Office (FfDO) of the United Nations Department of Economic and Social Affairs continued to organize, in collaboration with experts from the public and private sectors, academia and civil society, workshops, multi-stakeholder consultations, panel discussions and other activities aimed at better enabling member countries to implement their commitments as agreed in the Monterrey Consensus. Two regional consultations, on “National and regional development banks in Asia and the Pacific: potential and sustainability” and on “Financing access to basic utilities for all” were organized from 17 to 19 December 2007 in Bangkok, in cooperation with the Association of Development Financing Institutions in Asia and the Pacific. Information on the meetings is available on the Financing for Development website at www.un.org/esa/ffd.

69. The Financing for Development Office, in cooperation with the United Nations Capital Development Fund, continued to provide support to the United Nations Advisers Group on Inclusive Financial Sectors, comprising experts from Governments, the banking sector, civil society, academia and development cooperation institutions. Regional forums on policy and regulation in Africa and Latin America were held in the first half of 2008 and those for Eastern Europe and Asia are scheduled for the second half of the year, to promote best practices and share lessons learned. At the conclusion of its two-year term in June 2008, the Advisers Group issued a final statement entitled “Microcredit, microfinance, inclusive finance: building on success”, which contains key messages addressed to all relevant stakeholders, with a view to expanding access to financial services for all.

70. The preparatory process for the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus is well under way. As has been referred to throughout this report, from February to May 2008, the General Assembly held informal review sessions on each of the six thematic areas of the Monterrey Consensus. The meetings were followed by informal consultations on the contents of the outcome document of the Doha Review Conference, held in June and interactive hearings with representatives of civil society and the business sector, also held in June. Informal summaries of the review sessions are available on the Financing for Development website (www.un.org/esa/ffd). The monthly Financing for Development Office/United Nations Non-Governmental Liaison Service newsletter “The Road to Doha” provides regular updates on the preparatory process (http://www.un.-ngls.org).

71. United Nations regional commissions held consultations in preparation of the Doha Review Conference. The following consultations took place: the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, from 31 March to 2 April 2008 in Addis Ababa; the Economic Commission for Europe meeting on 13 May 2008 in Geneva; the Economic and Social Commission for Western Asia, from 26 to 29 May 2008 in Sana'a; the Economic Commission for Latin America and the Caribbean from 9 to 13 June 2008 in Santo Domingo; and the Economic and Social Commission for Asia and the Pacific on 18 and 19 June 2008 at its headquarters in Bangkok. The outcomes of these consultations are critical inputs in the preparatory process.

72. The Economic and Social Council held its inaugural Development Cooperation Forum on 30 June and 1 July 2008 in New York, under the overall theme "Towards more coherent and effective development cooperation". The key points of the discussions are contained in the official summary by the President of the Council (see www.un.org/newfunct/Summary_of_the_President.pdf).