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Building on Monterrey and Doha: towards achieving the internationally agreed development goals, including the Millennium Development Goals

Note by the Secretary-General*

Summary

The present note provides background information and suggested points for reflection in order to inform discussion on the following selected themes:

(a) Mobilizing domestic and international resources to fund existing and emerging Millennium Development Goal implementation gaps;

(b) Supporting the rehabilitation, recovery and development efforts of developing countries with special needs and those facing humanitarian emergency situations;

(c) Enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

* The present note was prepared in consultation with the staff of the major institutional stakeholders involved in the financing for development process. Responsibility for its content, however, is solely that of the United Nations Secretariat.

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I. Introduction

1. The Monterrey Consensus of the 2002 International Conference on Financing for Development recognized "the link between financing of development and attaining internationally agreed development goals and objectives, including those contained in the Millennium Declaration, in measuring development progress and helping to guide development priorities". The Consensus further emphasized that achieving the Millennium Development Goals required a new partnership between developed and developing countries, based on the recognition that each country had the primary responsibility for its own economic and social development and that national development efforts needed to be supported by an enabling international economic environment. The 2008 Doha Declaration on Financing for Development reaffirmed this partnership commitment and highlighted that mobilizing financial resources and putting them to effective use were central to the global partnership for sustainable development, including the support of the achievement of the internationally agreed development goals, including the Millennium Development Goals.

II. Mobilizing domestic and international resources to fund existing and emerging gaps with respect to the Millennium Development Goals

2. While there has clearly been progress towards achieving the Millennium Development Goals, the record has been uneven, both with respect to the different goals and among regions. Many countries, particularly in large parts of sub-Saharan Africa and many least developed countries, are not on track to attain their development goals. The impact of the global financial and economic crisis, compounded with that of the food and energy crises, has resulted in additional setbacks. This increases the urgency of accelerating progress towards achieving the Millennium Development Goals by 2015.

A. Mobilization of domestic resources

3. Developing countries have the primary responsibility for mobilizing domestic resources for their own development in a sustainable manner. Sustained and equitable economic growth is a prerequisite for poverty reduction, and international investment and trade can be important sources of support.

4. As the global economy emerges from a sharp slowdown in 2009 and begins a fragile recovery, labour markets are showing few signs of improvement. The International Labour Organization (ILO) estimates that there was an increase of 34 million unemployed from 2007 to 2009, with the bulk of that increase occurring in 2009. These adverse conditions are expected to aggravate already relatively poor employment opportunities for women. In developing countries, conditions for decent work have seriously deteriorated, and the number of working poor increased between 2008 and 2009. More than 300 million new jobs will need to be created

over the next five years in order to return to pre-crisis levels of unemployment.[1] Implementation of the Global Jobs Pact will be instrumental in meeting specific needs with regard to job creation and decent work.

5. An estimated 47 to 84 million more people remain in or have fallen into poverty because of the crisis, which demands urgent efforts to expand the social safety net and enhance protection of the poor and vulnerable.[2] Group of Twenty (G-20) leaders at the Pittsburgh Summit agreed on the importance of promoting inclusive finance to increase access to financial services by the poor in order to help them weather economic shock and increase self-employment. They also recognized the importance of improving the access of small and medium enterprises to financing as a means of catalysing job creation.

6. Major setbacks in meeting the Millennium Development Goals can be expected in low-income countries that lack the resources for fiscal stimulus, the creation of employment and the expansion of needed social services. These prospects highlight the importance of ensuring budgetary support from donors and the need for policy space in order for these countries to sustain investment in education, health, infrastructure and capacity-building during the economic downturn in order to promote long-term development and support the achievement of the Millennium Development Goals. In addition, there is a range of countercyclical policy tools, such as reserve funds, targeted public spending programmes and the use of the tax system, to temper booms and busts.

7. The Doha Declaration reaffirmed a commitment to the empowerment of women and gender equality and recognized their spillover effects on the Millennium Development Goals. Increased efforts are needed to eliminate gender discrimination, including in financial and labour markets and in ownership of assets and property rights. At the same time, the promotion and reinforcement of gender-responsive public management of resources and budgeting, as well as increasing the voice of women at all levels of decision-making, should be high on the international agenda.

8. In the face of the pressure of managing the fallout from the crisis, fiscal reform to improve the quality of public expenditure, as well as to increase fiscal policy space, needs to be sustained by enhancing effective mobilization of tax revenues based on a modernized, effective and equitable tax system and a broadening of the tax base. There is an emerging consensus on the enormous cost to development created by illicit capital flows, including capital flight and transfer abroad of stolen assets, from developing countries. Tax evasion, including mispricing of intragroup transactions, is a key concern. Another dimension is a frequent "race to the bottom" on competing tax incentives that do not always lead to sustainable development.

9. Strengthening international tax cooperation to reduce skill, information and technological gaps in developing countries, to enhance South-South sharing of successful tax practices, to address emerging issues such as the tax consequences of

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[1] International Labour Office, *Global Employment Trends: January 2010* (Geneva, International Labour Organization, 2010); and International Labour Office, Economically active population estimates and projections 1980-2020, LABORSTA database. Available from http://laborsta.ilo.org.

[2] *World Economic Situation and Prospects 2010* (United Nations publication, Sales No. E.10.II.C.2).

climate change and to provide developing countries a greater voice and improved participation in norm development have become urgent development-related tasks. A clear step forward in this direction would be expeditious action by the Economic and Social Council on the request made by Member States in Doha to examine the strengthening of institutional arrangements, including the Committee of Experts on International Cooperation in Tax Matters.

10. Corruption at all levels and in all forms seriously hinders the mobilization of resources for development. Progress in fighting corruption has varied among countries. Greater efforts in institution-building and improved public management remain critical to increasing capacity to fight corruption, as well as increasing transparency and effectiveness in the use of resources in the public and private sectors.

B. Mobilization of international resources: private flows

11. Private capital flows to emerging market countries declined substantially in 2008 and 2009 from the peak in 2007, but are expected to recover in 2010 in response to synchronized Government fiscal stimulus and financial stabilization measures and a general improvement of economic conditions.[3] Developing countries and countries with economies in transition, particularly those dependent on external financing, were hardest hit. Private portfolio capital flows have subsequently picked up, particularly in equities, but bank lending remains depressed because of deleveraging and capital-raising in the banking sector. At the same time, international financial stability remains tentative, as questions about the sustainability of the sovereign debt of a number of smaller European countries have triggered concern over renewed financial turmoil with possible global implications.[4]

12. External factors, especially confidence and liquidity shocks at the centre of the international financial system, continue to be the drivers of capital flows to developing countries. With the return of risk appetite, a surge of speculative financial flows could be a source of increased macroeconomic, financial and exchange rate volatility. This will require formulation of effective regulatory policies to manage inflows and countercyclical policies to avoid the build-up of asset bubbles. Under these circumstances, the use of capital controls on more volatile types of capital flows, such as debt and foreign direct investment (FDI) in the financial sector, is increasingly acknowledged as a useful tool in a broad policy toolkit to manage capital inflows.[5]

13. FDI flows to developing countries and countries with economies in transition declined by 35 per cent and 39 per cent, respectively, in 2009. With indications of a slow improvement in the international investment environment, the United Nations Conference on Trade and Development (UNCTAD) forecasts a modest recovery in 2010.[6] Although FDI is generally the most stable component of private capital flows

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[3] Institute of International Finance (IIF), "Capital flows to emerging market economies", IIF research note (Washington, D.C., 26 January 2010).

[4] United Nations, Department of Economic and Social Affairs, "Monthly briefing: world economic situation and prospects", No. 16 (17 February 2010).

[5] International Monetary Fund (IMF), "Capital inflows: the role of controls", IMF staff position note (Washington, D.C., 19 February 2010).

[6] United Nations Conference on Trade and Development, "Global investment trends monitor", issue No. 2 (Geneva, 19 January 2010).

to developing countries, studies have shown that FDI in the financial sector is destabilizing and procyclical.[5] Therefore, the nature of FDI is a critical factor in the stability of these capital flows.

14. With FDI as a potential source of capital, as well as technology and management know-how, for these countries, it is a priority to provide a consistently enabling environment for such investment. One concern is the high concentration of FDI in a small number of mainly middle-income countries. Risk mitigation and capacity-building are needed on a continuing basis in order to widen the distribution of FDI to a larger number of developing countries, particularly low-income countries, as well as to infrastructure and productive sectors that face an investment gap, such as energy, infrastructure, technology, human resources and agriculture. In addition, it is important for countries receiving FDI to act on the Doha commitment to strengthen national and international efforts aimed at maximizing FDI production linkages with domestic production, enhancing transfer of technology and the training of local workers.

15. Although remittance receipts in developing countries have historically tended to be countercyclical, their volume declined in 2009, to $317 billion from $338 billion in 2008, despite the weakened dollar. East and South-East Asia fared best, continuing to receive growing amounts of remittances, and sub-Saharan African countries also maintained growth in remittance inflows.[7] Despite the overall decline, total remittances have been more resilient in the crisis than private capital flows and continue to be a very large source of funds for developing countries and countries with economies in transition during this economic downturn. Major threats to a continued rebound of remittances are a slow global economic recovery and restrictions on work opportunities for migrant workers. There is agreement on the need to strengthen international cooperation to address the effects of the financial crisis on migration and migrant workers. Because of the importance of remittances to recipient countries, national and international efforts in reducing the cost of remittances should also be sustained.

C. International trade and development

16. A collapse in import demand by developed countries at the beginning of 2009, which was aggravated by the drying up of trade finance, triggered a decline of almost 13 per cent in world trade volume in 2009.[2] Modest growth in world trade is expected in 2010, with a mild recovery in aggregate demand. Developing countries have been hit hard by the decline in manufacturing and oil and non-oil commodities exports. As a result, the income and public revenues of commodity exporters have suffered, particularly as a result of price volatility and depressed demand.

17. The challenge of mitigating the impact of the global recession on domestic production resulted in the threat of a new wave of protectionist measures. In 2009, a number of Governments resorted to measures, albeit relatively mild, to protect domestic production and employment, despite a pledge by G-20 leaders in

[7] Dilip Ratha, Sanket Mohapatra and Ani Silwal, "Migration and remittance trends 2009", Migration and Development Brief No. 11 (Washington, D.C., World Bank, 3 November 2009).

November 2008 to resist such steps.[8] Notwithstanding some policy slippage, widespread protectionist measures have been avoided, however.[2]

18. These developments underline the importance of trade in financing development and the urgency of pressing ahead to complete the Doha Round of multilateral trade negotiations in 2010. The outcomes of these negotiations need to deliver on their core development objectives, including effective market access for the agricultural, manufacturing and services exports of developing countries, the parallel elimination of all forms of export subsidies and substantial reductions in trade-distorting domestic support. A successful and ambitious outcome of the Doha Round would help developing countries realize their economic potential and consolidate market access gains.

19. To enable developing countries to take advantage of improved market access and fairer rules, there is a need to continue scaling up "aid for trade", which has a key role to play in building capacity in developing countries to overcome the supply-side and trade-related infrastructure constraints that limit their participation in regional and global markets. The second Global Review of Aid for Trade in July 2009 also underlined the role that additional, predictable, sustainable and effective financing can play in promoting recovery from the current economic downturn and highlighted the increasingly important role of partners that are not members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) in supporting aid for trade.[9]

20. Annual increases of at least 10 per cent in global aid-for-trade funding should be sustained, as should the commitment of developing countries to mainstream trade into their national and regional development strategies. Aid-for-trade support should be aligned with national and regional priorities, and thus be in accordance with the aid effectiveness agenda. At the same time, continued actions need to be taken to increase the availability of trade finance to exporters, both in terms of short-term liquidity and long-term structural access, so as to support the trade of developing countries.

D. International financial and technical cooperation

21. Although continued growth in total net official development assistance (ODA) from Development Assistance Committee donor countries is projected for 2009 and 2010, a number of large donor countries are not expected to meet their aid commitments. This will result in an increase in aid delivery between 2004 and 2010 of only $44 billion (in 2004 dollars) instead of the $50 billion that was originally projected; an estimated delivery shortfall of $17 billion is expected in 2010.[10] The average ratio of ODA to gross national income (GNI) for 2010 will be 0.34 per cent, compared with 0.36 per cent projected in 2005. The increase in the delivery gap

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8 Organization for Economic Cooperation and Development, World Trade Organization and United Nations Conference on Trade and Development, "Report on G-20 trade and investment measures" (14 September 2009); and Elisa Gamberoni and Richard Newfarmer, "Trade protection: incipient but worrying trends", Trade Note No. 37 (Washington, D.C., World Bank, 2 March 2009).

9 See the summary report of the second Global Review of Aid for Trade, held on 6 and 7 July 2009 in Geneva. Available from www.wto.org.

10 Organization for Economic Cooperation and Development, Development Assistance Committee, "ODA volume prospects in 2010" (Paris, 12 February 2010).

with respect to the commitments of Development Assistance Committee donors at the Group of Eight (G-8) summit in Gleneagles is a serious threat to the financing of the Millennium Development Goals in low-income countries and poses a major challenge to the positive role of aid during a serious economic downturn.

22. Past and current crises have shown that aid flows are heavily influenced by the political and business cycle in donor countries. This is particularly problematic in global recessions, when recipient countries need them most. During economic downturns, aid provided for budget support is critical in the light of the need for expanded fiscal space and countercyclical macroeconomic policies in recipient countries. It is thus necessary to devise mechanisms to delink aid flows from the business cycles of donor countries.[11] There is also an urgent need to improve the quality, predictability and durability of aid, as well as its quantity. The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action set out principles and practices for enhancing aid effectiveness that need to be implemented urgently. Development assistance must correspond to national development strategies and needs. Efforts to measure aid performance at the country level need to be continued with support from donor countries.

23. Partners that are not members of the Development Assistance Committee have been increasing their contributions to development assistance, which are estimated to have reached 8 to 10 per cent of global aid flows; these contributions complement traditional ODA. The Doha Declaration encouraged growth in South-South development cooperation and triangular cooperation, as did the Nairobi outcome document of the High-level United Nations Conference on South-South Cooperation. The growing contributions from non-governmental organizations and the private sector further complement traditional ODA and broaden choice with respect to the type of donor and assistance priorities. At the same time, there is an increasing need for coordination among donors in order to avoid the adverse effects of an increasing proliferation of donors and a fragmentation of the development cooperation effort.

24. The multilateral development banks have been responsive to the need to accelerate and expand lending in order to mitigate the impact of the financial crisis on poor countries, deploying new tools and facilities. Donors need to meet their commitment at the G-20 Summit in Pittsburgh to ensure that their concessional lending facilities and efforts to achieve the Millennium Development Goals are adequately funded. As development and global poverty reduction are critical to the core mission of the multilateral development banks, it is important that they work together, in cooperation with other international institutions, to strengthen their focus on pressing development challenges in the areas of food security, climate change, human development, private sector development and infrastructure investment.

25. Innovative sources of finance have become more diversified since the Monterrey Consensus was adopted, and are increasing in importance as complements to traditional ODA. Innovative financing for development has been applied to achieving specific development objectives, with notable progress in addressing acute health problems in developing countries. Its framework consists of

[11] See United Nations Conference on Trade and Development, "Keeping ODA afloat: no stone unturned", Policy Brief No. 7 (Geneva, March 2009).

an important component of public-private partnership, as well as collaboration between developing and developed countries in mobilizing resources. Many proposals are also emerging with regard to financing climate change mitigation and adaptation and curbing illicit financial transfers. Viable new programmes and schemes need to be expeditiously explored for scaling up and maximizing their impact on development.

26. The enormous potential of very small rates of levies on foreign exchange transactions in filling the delivery gap in ODA by Development Assistance Committee donors has been highlighted by the Secretary-General's Special Adviser on Innovative Financing for Development, as well as other parties. Work is ongoing under a group of eight innovative financing mechanisms.[12]

E. External debt

27. After notable progress in reducing the external debt burden through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), external debt conditions of indebted developing countries have been adversely affected by the global economic slowdown. The negative balance-of-payments effects have been especially severe in commodity-exporting countries because of the decline of export revenues and higher import expenditures in countries that faced higher prices for imported food and energy. A deterioration of fiscal balance also resulted from the loss of revenues from import tariffs and, in some countries, revenues from export taxes. These developments exposed the risk of overdependence on these volatile sources of revenue and even threatened debt sustainability of some countries that had already received debt relief.

28. A number of proposals to provide additional options for HIPC and non-HIPC indebted countries to deal with the effects of an extraordinary external shock on their debt sustainability should be considered. For instance, some have suggested the possibility of giving additional grants, negotiating moratoriums on debt service and providing assistance in rolling over debt that has come due. In the Doha Declaration, the international consensus that debt relief should not come at the expense of other components of ODA was reiterated. The International Monetary Fund (IMF)/World Bank Debt Sustainability Framework for low-income countries has recently been reviewed and made more flexible through closer attention to the impact of public investment on growth, the role of remittances and the treatment of the external debt of State-owned enterprises. For low- and middle-income countries, efforts to develop an equitable and orderly international debt workout mechanism need to be continued. In this difficult period for the world economy, it is important to underline the international consensus that debt sustainability frameworks should give due weight to mobilizing financing to meet the development needs of debtor countries.

F. Emerging challenges

29. In the wake of the food crisis, which hit particularly the food-importing developing countries, the G-8 at the L'Aquila Summit and the G-20 at the Pittsburgh Summit pledged $20 billion over three years in financing for food security. These

[12] "Innovative financing for development: the I-8 Group: Leading Innovative Financing for Equity (LIFE)" (December 2009).

funds should be provided urgently to initiate implementation of the comprehensive plan of action for small farmers to increase food productivity, particularly through the launch of a new multi-donor trust fund. Donors should make every effort to provide resources in addition to ODA to meet these commitments. It would also be important to ensure that international commitments are kept by the time of the G-8 and G-20 summits to be held in June in Canada.

30. Budgetary requirements for climate change mitigation and adaptation are particularly large for developing countries that are most vulnerable to the adverse effects of climate change. In the Doha Declaration, it was stressed that resources for climate change must be in addition to the traditional sources of ODA. It is also critical to channel resources to where they are most needed, including access to technology and capacity-building. In order for developing countries to meet the combined challenges of development and climate change, the financing available to them, currently estimated at $21 billion from bilateral and multilateral sources, would have to be raised manyfold.[13]

31. In the Copenhagen Accord, reached at the Fifteenth Conference of Parties to the United Nations Framework Convention on Climate Change, held in December 2009, the need to mobilize new and additional predictable resources of $30 billion for the period 2010-2012, and $100 billion per year by 2020 was recognized. On 12 February 2010, the Secretary-General established a high-level advisory group on climate change financing to mobilize the financing pledged during the Copenhagen conference. The advisory group is tasked with developing practical proposals on how to significantly scale up long-term financing for mitigation and adaptation strategies in developing countries from various public and private sources. It is expected to produce recommendations before the next Conference of Parties to the Framework Convention, to be held in Mexico in December 2010.

Some questions for discussion

1. **What policy measures are needed to mitigate the impact of the crisis on income, employment and social services while building a sound foundation for sustainable growth and development? How can the requisite policy space be ensured? How can employment and income stabilization objectives be incorporated into the macroeconomic policy framework?**

2. **What actions should be taken to implement the international commitment to strengthening institutional arrangements for international cooperation in tax matters, including the Committee of Experts on International Cooperation in Tax Matters?**

3. **How can national and international measures reduce the volatility of private capital flows to developing countries and increase the quantity and quality of long-term investments? How can international cooperation promote and protect the rights of migrant workers and enhance the contribution of remittances to development?**

4. **What needs to be done to make progress on concluding the Doha Round and to ensure its development objectives? How can aid-for-trade strategies and**

[13] *World Economic and Social Survey 2009: Promoting Development, Saving the Planet* (United Nations publication, Sales No. E.09.II.C.1).

funding be effectively implemented to enable developing countries to participate in international trade?

5. **What can be done to reduce the delivery gap in aid commitments of the Development Assistance Committee? What are the priority areas of action in exploring innovative sources of financing for development? How can the international community help indebted developing countries avoid and resolve debt distress resulting from external shocks?**

III. Supporting rehabilitation, recovery and development efforts of developing countries with special needs and those facing humanitarian emergency situations

32. The confluence of the financial, food and energy crises; devastating natural disasters, such as the recent earthquakes in Haiti and Chile; and the challenges posed by climate change have pushed many countries into emergency situations that were not of their making. Developing economies have suffered most from the adverse impact of these crises. Among them, countries with special needs, such as the least developed countries, landlocked developing countries, small island developing States, countries in conflict or post-conflict situations and middle-income countries with large segments of their populations suffering from poverty, have been hit particularly hard. Reversing the effects of these multiple crises and putting countries with special needs and those facing humanitarian emergency situations on stable paths of rehabilitation, recovery and sustainable development call for urgent, coordinated, coherent and comprehensive actions at all levels. To this end, the Secretary-General has initiated a Global Impact and Vulnerability Alert System for real-time monitoring of the impacts of future global crises on the most vulnerable and poor.

33. Measuring the vulnerability of countries with special needs to external shocks is an important initial step in the formulation of international support efforts. The recent impact of multiple crises on countries with special needs highlights how important it is for the international community to consider the structural economic vulnerability of a country, in addition to policy or institutional factors. If the goal of aid is to compensate for structural constraints in order to promote the equality of opportunities, structural vulnerability must serve as a criterion for aid allocation. Moreover, aid effectiveness increases where structural vulnerability is high, as aid can serve as a cushion against the adverse impacts of exogenous shocks. Indicators like the economic vulnerability index, set up by the United Nations Committee for Development Policy, provide a suitable measure for such structural factors that are outside the control of the country.[14] The integrated monitoring and analysis system, developed by the Department of Economic and Social Affairs, represents an

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[14] The present economic vulnerability index comprises three shock indices and four exposure indices, with each group of indices given equal weight using arithmetical averaging. Shock indices comprise: (a) percentage of population displaced because of natural disasters; (b) instability of agricultural production; and (c) trade shocks. Exposure indices comprise: (a) population size; (b) export concentration; (c) share of agriculture, forestry and fisheries; and (d) remoteness from world markets. See Patrick Guillaumont, “An economic vulnerability index: its design and use for international development policy”, Oxford Development Studies, vol. 37, No. 3 (September 2009).

important attempt to monitor more reliably and measure the impact of global economic shocks on developing countries, including those with special needs and those facing humanitarian emergency situations.[15]

A. The impact of multiple crises on countries with special needs

34. Currently, the scale of devastation that exogenous shocks can unleash on countries with special needs is most palpable in Haiti, which has been hit successively by the food, energy and financial crises, only to suffer a devastating natural disaster. While the initial international response to the Haitian earthquake has been timely and sizable, it is important that the international community remain engaged in the long term and that it continue to support the rehabilitation, recovery and development efforts. The General Assembly called on the United Nations system, as well as the international financial institutions and development agencies, to assist Haiti through continued effective humanitarian, technical and financial assistance in conformity with the priorities identified at the national level.

35. While highly varied, significant, and in many cases drastic, impacts on countries with special needs have resulted from the financial crisis. Through a variety of channels, such as a decrease in external flows, lower remittances, lower trade revenues, commodity price fluctuations and shortfalls in tourism revenue, these impacts threaten to jeopardize hard-won gains in the fight against poverty. Moreover, despite significant progress in mobilizing domestic resources to finance their development, most countries with special needs have to rely on ODA to finance vital public services and investments. In this connection, it was recognized at the June 2009 Conference on the World Financial and Economic Crisis and Its Impact on Development that developing countries, particularly the least developed countries, would need additional short-term liquidity and long-term development financing.

36. The food and energy crises have hit food- and energy-importing developing countries especially hard. Since 2008, food and energy prices have declined rapidly, reducing inflationary pressures, but they have risen again recently. While higher food prices have the potential to increase the incomes of farmers, the energy crisis hampered efforts to raise food production in the least developed countries because of higher input prices. Weak harvests have constrained domestic supply, and many least developed countries continue to suffer from persistent food insecurity. Prolonged droughts have led to severe food shortages and widespread hunger in the Horn of Africa and East Africa. The food crisis has also exposed severe flaws in access to food from the local level up to the national, regional and global levels.

37. The effects of climate change put the most vulnerable countries, particularly the least developed countries and small island developing States, in the worst situation. Whereas climate change has already shown adverse impacts on the economic growth, health indicators, water availability, food production and fragile ecosystems of these countries, significant increases in global temperatures threaten

[15] The outcomes of initial work are being reported in the “World economic vulnerability monitor” published alongside the “Monthly briefing: world economic situation and prospects”. The three publications issued thus far have concentrated on measuring the impact of global economic “shocks” and trends on the evolution of trade activity worldwide, as well as on implied vulnerability to such shocks through food and energy prices. See www.un.org/esa/policy/publications/dpad_wespwevm.html.

to completely submerge some low-lying island States. Moreover, flooding of low-lying coastal areas, increased water scarcity, a decline in agricultural yields and fisheries resources and a loss of biological resources threaten the least developed countries in Africa and Asia.

B. Financing special development needs

38. Special and sustained attention is needed to develop partnerships to implement schemes that increase domestic capacity for reconstruction, rehabilitation and development in countries with special needs and those facing humanitarian emergency situations. Where called upon, the United Nations system and international organizations should provide timely and well coordinated international relief assistance, with a view to reducing risk and vulnerability, improving national capacities and ensuring that effective arrangements for international cooperation are being developed at the national and local levels, as called for in the Hyogo Framework for Action. International support should encourage disaster-prone developing countries to set up national strategies, plans of action and programmes for disaster risk reduction and to develop their institutional and technical capacities. These efforts should build on strategies that spread out risks, reduce insurance premiums and promote an environment that encourages a culture of insurance. Aid and debt relief in the wake of large natural disasters could also be made more rapid and effective by bundling insurance clauses within debt contracts.[16]

39. During the past decade, many countries with special needs have continued their comprehensive economic reforms and have taken a range of measures to increase domestic and foreign investment, through successful macroeconomic policies, improved governance and increased public expenditure, especially on infrastructure. Before the world financial and economic crisis, the investment rate in the least developed countries, measured as the ratio of gross fixed capital formation to gross domestic product (GDP), for the group as a whole increased from 16 per cent in 2000 to 25 per cent in 2007, exceeding the Programme of Action for the Least Developed Countries for the Decade 2001-2010 (Brussels Programme) target by two percentage points. Most of the increase was attributable to larger FDI inflows in almost all least developed countries, although such inflows were largely confined to resource extraction, especially of minerals, particularly in sub-Saharan Africa (see A/64/80-E/2009/79). Remittance flows to developing countries moderated during the crisis; however, some least developed countries experienced continued stable inflows. Since these flows can help sustain domestic demand during hard times, increased cooperation between source and recipient countries to lower transaction costs and the creation of opportunities for development-oriented investments should remain priorities on the international development agenda.

40. Global FDI flows to countries with special needs are likely to decrease in response to lower commodity prices, more limited access to financing and the overall economic slowdown. Simultaneously, competition for such investments is likely to intensify, which could lead to unsustainable regulatory "races to the bottom" in order to increase private flows. The Doha Declaration therefore acknowledged the need to assist particularly those countries that had been at a particular disadvantage in attracting such flows. These efforts can include technical,

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[16] See United Nations Conference on Trade and Development, "Haiti's recovery should start with cancelling its debt", Policy Brief No. 11 (January 2010).

financial and other forms of assistance, the promotion of public-private partnerships, and other cooperation arrangements at all levels.

41. In the Doha Declaration, the actions taken by some individual countries since Monterrey towards the goal of full duty-free and quota-free market access for all least developed countries were welcomed. For countries with special needs, measures that help improve their trade performance and mitigate the adverse impact of volatile commodity prices remain critical. Possible mechanisms to dampen these adverse effects may include international price stabilization funds, as well as buffer stocks that could be used to dampen large movements in commodity prices. Greater export diversification and development of the industrial and service sectors remain the most suitable long-term strategies for reducing vulnerability to commodity price shocks. Moreover, countries gain from trade liberalization when their productive capacities are sufficiently competitive to take advantage of any improvements in market access. Consolidated, enhanced and predictable aid-for-trade programmes can stimulate economic development, particularly in the least developed countries, through the promotion of productive capacities, investment in trade-related infrastructure and the formulation of trade policy and regulations, trade development, trade-related adjustment and other trade-related needs.

42. Total net ODA to least developed countries from countries that are members of the OECD Development Assistance Committee reached 0.094 per cent of the combined GNI of donors in 2008. This falls well short of the target of 0.15 to 0.20 per cent of gross national product for ODA to least developed countries set in the Brussels Programme of Action. ODA to Africa, estimated by the G-8 at Gleneagles to increase by $25 billion a year between 2004 and 2010, increased by only $12 billion a year (in 2004 dollars) over this period.[10] It is thus imperative that all donor Governments fulfil their commitments made in the Monterrey Consensus and reaffirmed in the Doha Declaration to reach the 0.15-0.20 per cent target.

43. It is critically important to mainstream disaster risk reduction measures into multilateral and bilateral development assistance programmes to developing countries that are prone to natural disasters. Systems that help these countries monitor aid flows are especially critical in emergency situations in which development and emergency aid converge. For example, the aid information management system developed by the United Nations Development Programme, which tracks how much aid enters the country as well as where and how it is spent, provides Governments with a platform to coordinate relief efforts with their development partners.[17]

44. Important progress has been made in reducing the burden of external debt on the least developed countries, mostly through the HIPC and MDRI initiatives; however, the world financial and economic crisis has renewed fiscal stress and put pressure on fiscal sustainability in low-income countries, on both the revenue and expenditure sides. In the Doha Declaration, therefore, bold measures were called for to address the debt problems of developing countries, particularly those in Africa and the least developed countries, in an effective and equitable manner, including through debt cancellation. Greater provision of grants and concessional loans by bilateral donors and multilateral financial institutions will be essential, given the

[17] The programme has been used in more than 60 countries, including post-conflict countries and middle-income countries. See www.aideffectiveness.org/aims.

external financing requirements for meeting development goals, particularly in the least developed countries that are facing increased risks of debt distress. Debt forgiveness can also provide important relief to countries facing humanitarian emergency situations, owing to their tremendous financing needs and their reduced capacity to generate domestic or export revenues.

Some questions for discussion

1. **How can the United Nations system facilitate a timely, integrated and coordinated response to the challenges generated by the confluence of multiple crises for countries with special needs and those facing humanitarian emergency situations?**

2. **What are the priorities for capacity-building in the poorest and most vulnerable countries in order to enable them to better withstand various types of exogenous shocks? How can fiscal sustainability in developing countries, especially in the least developed countries and small island developing States, be effectively ensured?**

3. **What type of indicators adequately capture the economic vulnerability of countries with special needs, and how can these indicators be improved in order to take into account the risk of financial and economic crisis contagion, as well as environmental factors?**

4. **How should emergency humanitarian assistance and rehabilitation and recovery efforts be integrated with national development strategies for poverty reduction, sustained economic growth and sustainable development?**

5. **What role can the financing for development process play in supporting the recovery, rehabilitation and development efforts of countries with special needs and those facing humanitarian emergency situations?**

IV. Enhancing coherence and consistency of the international monetary, financial and trading systems in support of development

45. At the Conference on the World Financial and Economic Crisis and Its Impact on Development, it was concluded that the crisis had not only highlighted long-standing systemic fragilities and imbalances, but had also led to an intensification of efforts to reform and strengthen the international financial system and architecture. The challenge is to ensure that actions and responses to the crisis are commensurate with its scale, depth and urgency, adequately financed, promptly implemented and appropriately coordinated internationally. The necessary reforms require important international political changes, including in areas related to the mandate, scope, governance, responsiveness and development orientation of key mechanisms.

A. Strengthening international economic governance

46. Addressing global economic governance issues is a prerequisite for many other changes in the international financial architecture. Moreover, international financial institutions need a more representative, responsive and accountable governance that reflects the realities of the twenty-first century. The next round of international

financial institution governance reforms should therefore go far beyond the initial, very modest outcome achieved during the 2008 spring meetings of the Bretton Woods institutions. The International Monetary and Financial Committee agreed to shift at least 5 per cent of aggregate quota shares in IMF from developed to developing countries and to countries with economies in transition at the next quota review, which is scheduled to be completed in January 2011. The Development Committee agreed that an increase of at least 3 per cent in the voting power of developing countries and countries with economies in transition, in addition to the 1.46 per cent increase under phase 1 of the World Bank's voice reforms, should be achieved through a shareholding review to be agreed at the 2010 spring meetings. Many developing countries, however, had maintained that the shifts should be of at least 7 per cent and 6 per cent, respectively.

47. In addition to quota rebalancing, work is under way at both institutions to enhance the voice and representation of developing countries and countries with economies in transition at the Executive Boards, as well as to increase the diversity of management and staff and develop open, transparent and merit-based selection processes for senior leadership. Also, in order to better balance the interests of large and small countries, lowering the voting threshold for critical decisions and applying double majority mechanisms to a wider range of decisions may be considered.

B. Multilateral surveillance and economic policy coordination

48. Another important governance issue is the design and implementation of multilateral surveillance as the key crisis prevention tool of IMF. The Fund's traditional emphasis has been on the exchange rate policies of its members and, since the 1980s, on problems in emerging and developing countries. The crisis has pushed macrofinancial and macroprudential issues and advance country risks onto centre stage in IMF surveillance. In this regard, more attention should be given to financial risks, including asset price bubbles, leverage, risk concentration in large banks and hidden or off-balance-sheet exposures, as well as to better integration of macroeconomic and financial sector surveillance, with a focus on the linkages between the macroeconomy and the financial markets and on the soundness of the financial sector of member countries. A joint IMF/Financial Stability Board early-warning exercise may help establish a less fragmented and more pointed surveillance system. Also, the September 2009 revision of the financial sector assessment programme of IMF and the World Bank was aimed at making the programme more focused and adapted to country development needs, as well as at making it more risk-based and forward-looking, with a greater emphasis on external links and spillover effects and a better integration into the broader macroeconomic surveillance framework. As regards implementation, all G-20 members committed themselves to participating in the programme and its update every five years.

49. IMF surveillance can only be effective to the extent that members are cooperative and responsive. Indeed, before the crisis, IMF and other international organizations, including the United Nations, warned repeatedly about the risks posed by global imbalances. There was no effective collective action, however. The challenge is to ensure that, going forward, the international community will be more willing and able to respond to global risks in a more coordinated fashion. It is necessary to build an effective framework for enhanced multilateral macroeconomic and financial policy coordination against the backdrop of planned governance

reforms in the international financial institutions. Without a political agreement in this area, any solution to the present crisis would only be partial and insufficient.

50. There is a need to promote an adequate level of coordination aimed at having mutually compatible policies on fiscal, monetary and exchange-rate issues, including mechanisms to address accountability and enforceability in the application of these policies. In this context, the framework for strong, sustainable and balanced growth proposed by the G-20 is an important step towards international policy coordination. The aim of the framework is to ensure that the fiscal, monetary, trade and structural policies of constituent countries are collectively consistent with framework objectives, including the reduction of development imbalances. It was also decided that IMF would assist G-20 members in the mutual assessment of how their policies fit together. It was agreed that the World Bank would assist G-20 members in assessing the implications of the G-20 national policy frameworks and economic outlooks for development and poverty reduction. The G-20 leaders also committed their nations to adopting key elements of a global jobs pact in order to advance the social dimension of globalization, and directed their ministers to review reports from ILO and other organizations on the impact of G-20 policies on the employment situation and to consider whether further measures were desirable.

51. Also, to further strengthen multilateral efforts aimed at the rebalancing of the global economy, G-20 members called for a conclusion of the Doha Round before the end of 2010. In this regard, as articulated in *World Economic Situation and Prospects 2010*, a sustainable rebalancing of the global economy would require, inter alia, that the new multilateral trading regime be conducive to meeting development objectives and that it place greater focus on implementation, policy review and the enhancement of trade-related capacities in order to avoid the risks of non-implementation and disputes.[2]

52. The crisis has shown that international cooperation can be mobilized if the interests of major economic powers are under threat. Swift and decisive policy actions by G-20 countries and, at their request, by multilateral financial institutions seem to have helped avoid an outright global economic and financial collapse. At the same time, there have been some concerns that policymakers may currently be sowing the seeds of future boom-and-bust episodes by taking actions that may slow, or possibly prevent, necessary global adjustments by providing “too much” demand stimulus. A premature withdrawal of monetary and fiscal stimuli by individual countries with a view to an “orderly exit” would pose a significant risk, however. Thus, an exit strategy should retain a countercyclical policy framework, with the phasing out of stimulus measures after unemployment rates have come down to acceptable levels.

53. The G-20 has also become a significant locus for multilateral economic discussion, but its effectiveness will truly be tested in the coming global effort to address international imbalances in trade, finance and the public-private economic mix. It will be necessary for the G-20 process to develop greater legitimacy, especially as it begins to deal with a broader set of issues, including by forging stronger institutional linkages with non-member States and achieving the responsiveness of more universal international bodies to G-20 decisions in order to ensure that the views and concerns of all countries, especially the poorest, are reflected.

54. As noted in *World Economic Situation and Prospects 2010*, sustainable rebalancing of the world economy will also require close coordination with other areas of global governance, including those related to the global development agenda, the multilateral trading system and climate change. No specific mechanism for such coordination exists at present, and the creation of such a mechanism would seem worthy of consideration.

C. International cooperation in financial regulation

55. The crisis has demonstrated the urgent need to significantly improve financial regulation and supervision in order to ensure that financial leverage levels do not endanger the stability of the system as a whole. There is a shared intention to reshape regulatory systems in order to identify and take into account macroprudential risks; expand the perimeter of regulation and oversight to all systemically important financial institutions, instruments and markets; mitigate procyclicality in prudential regulation; strengthen capital, liquidity and risk management; implement new principles with respect to executive remuneration; and improve standards of valuation and provisioning.

56. In a financially integrated world, the enduring success of regulatory reforms depends in large part on significantly enhanced international cooperation, coordination and communication among regulators. In the foreseeable future, however, regulatory responsibilities will likely remain a matter of national sovereignty.

57. Current institutional arrangements to ensure that national decisions regarding regulation appropriately take into account both external and domestic consequences are not adequate. There exist important inconsistencies among national regulatory systems, as well as a clear tendency for country authorities to privilege domestic interests and ignore the adverse international spillovers of their actions. Establishing more effective international mechanisms to coordinate national regulatory, oversight and resolution frameworks, minimize conflicting standards and enforce agreements will entail an extended but necessary process in the coming years.

D. International Monetary Fund lending and resources

58. Despite recent positive changes in multilateral lending facilities, there is room for further innovation in how official liquidity is deployed. It is considered important to further enhance instruments for broad-based precautionary financing beyond the Flexible Credit Line and high access precautionary arrangements in order to make them a credible alternative to self-insurance. The crisis has highlighted the need for very large liquidity buffers to deal with fast and sizable capital market shocks. Accordingly, a much larger precautionary facility that reduces the need for self-insurance against crisis and is available to a vast majority of countries, both developing and developed, may be needed. A more representative and legitimate IMF could become an important provider of reliable emergency financing, gradually taking over the role of international lender of last resort with respect to other insurance arrangements, such as bilateral swaps and regional reserve pools, and playing an important complementary role.

59. There is scope for further innovation with regard to how resources in drawing programmes are used. The conditions attached to the Fund’s recent loans have been fewer and more targeted than in the past; however, many IMF country programmes

still contain procyclical elements, such as public sector spending reductions amid sharply falling global demand, that can unnecessarily exacerbate an economic downturn in a number of developing countries. IMF should expand the use of its resources to help support countercyclical measures in those developing countries that have sustainable public finances in the medium term but that are impeded in this effort by adverse market conditions. Accordingly, there may be a need to further modify IMF conditionality in such a way that procyclical monetary and fiscal policy stances are avoided.

60. There is also a consensus that lending by the Fund to low-income countries should be more flexible in the light of long-recognized country needs and greater exposure to global volatility. In July 2009, IMF announced a new concessional lending framework aimed at enhancing its usefulness to low-income countries. IMF also boosted its concessional lending capacity to up to $17 billion through 2014. Bilateral borrowing arrangements and the expansion of the New Arrangements to Borrow are likely the most viable options to mobilize much-needed liquidity in a timely manner to significantly increase the Fund's lending capacity. Over the medium term, however, it is important from both a governance and a balance sheet perspective that the quota mechanism be restored as the primary basis of expanded IMF lending. The next review of IMF quotas, envisaged for completion in January 2011, comes at an appropriate moment in this regard.

E. Global payments and reserve system

61. The financial crisis has once again brought to the fore the shortcomings of the dollar-based international monetary system and, along with suggestions for how to improve existing mechanisms, revived discussions on alternative reserve currency arrangements. The international community should seize this opportunity to start deliberations on the feasibility and desirability of the creation of a new, more stable and equitable international monetary system. There have been suggestions to move towards a system based on several competing national currencies performing reserve functions on a more or less equal footing. Such a system may result in even higher exchange rate volatility, however, owing to the possibility of sharp shifts in international demand from one international currency to another, since they are likely to be close substitutes. Besides, the supply of reserve currencies will still be determined mainly with regard to national, not international, considerations.

62. Another option is the introduction of a new global reserve currency along the lines of the proposal made by economist John Maynard Keynes in the 1940s. The establishment of a full-fledged international currency, though, requires far-reaching changes, including giving up national sovereignty over key issues of economic policy, which the international community is not yet ready to make. A more realistic method of reform may be to broaden existing Special Drawing Rights (SDRs) arrangements, which over time could gradually evolve into a widely accepted world reserve currency. Along with reducing the inherent instability of the current system, the greater use of SDRs may result in a more democratic control of global liquidity, including a more equitable sharing of the seigniorage gained.

63. For SDRs to take on a significant role, their issuance should be made on a regular basis, and possibly linked to the estimated additional demand for foreign reserves. There have also been suggestions for SDR allocations to be made in cases of crisis, with appropriate assurances that these resources will be used only to deal

with the crisis and will not become a permanent transfer, and/or with clear, predetermined criteria to cancel the SDRs once the crisis has passed and the Fund has been repaid.[18] Making SDRs an attractive unit also requires deep and liquid public and private markets in SDR claims, in addition to a well-functioning settlement system to facilitate the direct exchange of SDR claims into all constituent currencies, which should include monetary units of both developed and developing countries.

Some questions for discussion

1. **What measures are needed to further enhance the voice and participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting?**

2. **How can international processes of macroeconomic coordination and cooperation be made more effective? What mechanisms may be needed to bolster the coordination of international macroeconomic decision-making with other areas of global governance? What should be the role of the United Nations system in this effort?**

3. **What steps should be taken to strengthen cross-border arrangements for financial supervision and regulation?**

4. **How can multilateral funding for liquidity support and external adjustment be further enhanced?**

5. **Should the existing global reserve system be improved or reformed? Which alternative reserve currency arrangements have the greatest feasibility?**

[18] See, for instance, Isabelle Mateos y Lago, Rupa Duttagupta and Rishi Goyal, "The debate on the international monetary system", IMF Staff Position Note No. SPN/09/26 (11 November 2009).