THE PRESIDENT
OF THE
GENERAL ASSEMBLY

11 April 2008

Excellency,

Summaries of the Financing for Development review sessions on Chapter V of the Monterrey Consensus, "External debt", on 10-11 March, and Chapter VI, "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development", on 11-12 March are now available on the President's website and have also been e-mailed to your mission. Hard copies of the summaries can be collected from General Assembly Affairs room S-2925.

Please accept, Excellency, the assurances of my highest consideration.

Srgjan Kerim

All Permanent Representatives and
Permanent Observers to the United Nations
New York

<u>Informal Summary of General Assembly Review Session 3</u>
<u>10-11 March 2008</u>

Chapter V of the Monterrey Consensus, "External debt"

I. Introduction

The informal G.A. review session on Chapter V of the Monterrey Consensus, held on10 and 11 (morning) March 2008, was chaired by H.E. Ambassador Maged A. Abdelaziz of Egypt and H.E. Ambassador Johan L. Lovald of Norway. The meeting consisted of an initial panel discussion followed by an interactive dialogue by all stakeholders. The panel presentations were made by Mr. Thomas Courbe, Secretary General, Paris Club, France; Mr. Deepak Nayyar, Professor of Economics, Jawaharlal Nehru University, India; Ms. Martine Guerguil, Chief of Official Financing Division, Policy Development and Review Department, IMF; Mr. Hitoshi Shoji, Adviser, Development Assistance Strategy Department, Japan Bank for International Cooperation; and Mr. Léonce Ndikumana, Chief, Macroeconomic Analysis, UN Economic Commission for Africa. (The views of the panelists in response to questions from the floor are also included in section II – Panel presentations). After the panel presentations, which were highly appreciated by the attendees, a policy discussion took place among participants, including representatives of governments as well as institutional and non-institutional stakeholders.

II. Panel presentations

a) External debt of developing countries and related policies since 2002

1. The Heavily Indebted Poor Country initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) operate under an equal burden-sharing arrangement. Preventing debt crises is a shared responsibility of creditors and debtors. The Monterrey Consensus (MC) follows the principle of “the logic of collective action” in debt relief, that is, welfare of the parties concerned improves with coordinated action, not through unilateral action. Yet, coordinated action has seldom been put into practice up to now.

2. A Paris Club (PC) debt relief programme for the HIPCs has been in operation since Monterrey. In 2007, PC debt treatments for the 23 post-Completion Point countries totaled $7.6 billion. Total MDRI debt relief reached $37.6 billion. Debt service for the 32 Decision Point HIPCs fell considerably as a percentage of exports: from 16.6 per cent in 2000 to 5 percent in 2007. Poverty-reducing expenditures in post-Decision Point countries, as a percentage of GDP, rose also during the same period from 6.8 per cent to 9.4 per cent. Six countries have benefited from “topping up” schemes, which provided additional funds to Completion Point HIPCs to help them deal with external shocks.

3. Nine debt-distressed countries received “Evian debt treatment”, including non-HIPC countries. The Evian approach groups developing country debtors into two classes, those whose debts are sustainable and those with unsustainable debt. For countries with

the most serious debt problem, the most generous implementation of existing terms is applied. Treatment under unsustainable debt situations is delivered with a strong focus on the link between economic performance - under an IMF-sponsored programme - and public debt management. Debt relief terms are determined on a case-by-case basis. Under the Evian treatment, Nigeria's debt stock fell sharply from 2000 to 2007. Countries granted goodwill clauses under the Evian approach did not have to use it.

4. Early repayment of official loans of about $70 billion was made possible by the improvement in the economic situation of some developing countries. The PC supports this if it is an integral part of a country's long-term debt management strategy. The PC accepts early repayments under two arrangements: early repayment at par, and buyback at market rate.

5. Challenges to resolving the debt problem entail fully implementing debt relief efforts, including the full delivery by all non-PC bilateral creditors and private creditors of their share in debt relief. This requires increased inter-creditor coordination, particularly taking into account the increasing role of private creditors and emerging bilateral creditors, such as China and India.

6. The problem of aggressively litigating creditors against some developing countries, including HIPCs, has to be addressed. Efforts needed to deal with this problem include moral suasion, debt buybacks and Paris Club creditors not reselling claims in secondary markets. Technical assistance to HIPCs in capacity building in debt management and sound legal expertise to respond to litigators is important as well.

Notwithstanding overall progress, the debt picture is still mixed. In Africa, debt levels have declined but private debt remains high and is rising. In some cases, debt relief volumes provided have been too little, too late. While debt relief has provided more fiscal space for poverty reduction expenditures, the impact is limited. A key issue has been sidelined – often debt relief has not taken into account financing needs for productive and infrastructure investment.

7. The problematic political, economic and security situation of many of the remaining HIPC countries hinders restoration of debt sustainability. Conflict and post-conflict countries need debt relief beyond what is provided in existing programmes.

8. Since the international financial system does not provide insurance for future economic shocks, international reserves are being accumulated by numerous developing countries as self-insurance against potential debt crisis. This diverts financial resources from financing investment in development. Proper management of reserves and their productive use are equally important for development financing.

b) New challenges and the way forward

9. Low income countries have huge investment needs in infrastructure and the social sector but face problems of unchanged economic structure and low domestic saving. In

general, they have scant access to international financial markets and limited grant financing. At the current juncture, volatility in commodity and energy prices could undermine debt sustainability of these countries. Financial shocks that raise international interest rates could also derail efforts in reducing financial pressures from debt relief, maintaining debt sustainability and achieving development goals.

10. Borrowing to finance development must take into account sound macroeconomic principles and take into consideration that it can be sustainable where credit is used for investment with a rate of return greater than the interest rate of the loan. If borrowing is cross-border, the country needs to transform domestic resources into external resources to meet the liability. As returns to investment in the social sector are generally lagged and intangible, financing from domestic public debt or increased tax revenues is more appropriate for this sector.

11. HIPC debt treatment is based on policy conditionalities ensuring repayment not development aims. Overly strict application of conditionalities have often resulted in compressed public spending to balance the budget, squeezing much-needed infrastructure investment and social sector spending. Streamlining conditionalities or shifting to outcome-based conditionalities to revive economic growth by taking into account development needs is, therefore, desirable.

12. With the private sector in middle-income countries (MICs) becoming a major debtor, new risks are emerging and the need for risk mitigation measures is increasing. MICs' vulnerabilities to external debt are often triggered by liquidity problems as a result of the level, currency denomination and maturity composition of debt. To access international financial markets, these countries are obliged to maintain high interest rates to provide attractive returns and a strong exchange rate to inspire confidence; but these macroeconomic policies undermine competitiveness and stifle economic growth. Greater policy space is needed to allow a focus on debt crisis prevention as well as remedy, considering that sustained higher growth generally tends to reduce debt pressures.

13. As MICs and some low income countries are not part of the HIPC initiative, other options to reduce debt and help achieve development goals should be used more extensively, including debt swaps and bilateral debt relief agreements.

14. The way forward in restoring and maintaining debt sustainability involves a commitment or recommitment to the following principles: joint responsibility of creditors and debtors; development needs rather than financial needs as the foundation of 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 of ownership, management for development results, mutual accountability, alignment and harmonization to achieving debt sustainability;.

15. With an increasing number of emerging economies holding large accumulations of foreign exchange reserves, they can provide financing for distressed indebted

countries. This creates competition to financing by the international financial institutions (IFIs), which is a good thing, as it can help make them more responsive to the needs of developing countries.

16. Some post-debt relief low-income countries are vulnerable to medium or high risk of debt distress. There needs to be a focus on prevention of a relapse into unsustainable debt by making available grants or concessional loans. Access to additional lending in large volumes or unfavourable terms should be very cautious and gradual.

17. Net financial transfers on debt in many developing countries, including some African countries, are negative due to high debt service. Illicit capital flows also contribute to net negative financial transfers. In most African countries, domestic public debt is a concern as it crowds out private sector borrowing. MICs without access to financial markets have to similarly depend on domestic credit, leading to a credit squeeze on private sectors.

18. Capital flight needs to be stemmed through improved investment conditions, a deep financial system, anti-corruption measures and accountability of all domestic and external parties. There is also a need for international mechanisms for repatriation of assets - the Task Force/Leading Group on International Illicit Financial Flows initiated by the "Leading Group on Solidarity Levies" should be supported by countries and multilateral organizations. Additional research on the volumes and mechanisms of illicit financial flows is needed.

19. Development partners should go beyond establishing emergency global funds for LICs to set up growth-supporting global funds for investment in infrastructure, energy and skills development to boost growth as a means of poverty reduction.

20. More resources are needed to finance debt relief for HIPCs that are in conflict or post-conflict situations as their political, security and economic situations are challenging and have long-standing arrears with multilateral institutions. Selling more IMF gold to finance debt relief for these countries could be an important option to consider, subject to member country agreement.

21. With the increasing role of private creditors and emerging bilateral creditors, there is a need for greater creditor coordination. For example, the Paris Club has regular contacts with private sector representatives but enhanced dialogue with emerging lenders is needed.

22. Noting the limited membership of the Paris Club and the issue of representation and legitimacy, there were calls for more cooperation among all creditors. One possible avenue is to broaden the membership of the Paris Club to include non-member creditors and commercial creditors. Another is the establishment of more universal guidelines outside the Paris Club framework, covering all creditors, with developing countries playing a leading role.

23. The OECD export credit group has developed sustainable lending principles with regard to credit for low-income countries. On a global basis, there is a need for universal guidelines, with the participation of non-OECD countries, for enhanced cooperation between debtors and creditors to avoid another round of unsustainable lending.

c) Assessing debt sustainability

24. The IMF/World Bank Debt Sustainability Framework (DSF) has been used to monitor debt relief outcomes, construct the path of debt under different borrowing and macroeconomic scenarios and identify policies needed to maintain debt sustainability. A complementary framework for low-income countries that are more vulnerable to shocks and have weaker institutional settings incorporates these considerations and the need for joint creditor-debtor responsibility. Good governance is included as a key factor in sustainable public debt.

25. The DSF is effective only if used by both creditors and debtors. It is a valuable instrument to develop a medium-term strategy to meet development financing needs at a level and composition that is sustainable. It is also a tool to improve policy advice from the BWIs and regional development banks. An IMF capacity building programme in debt management has been stepped up to support debtors. Outreach to creditors by IMF has also been increased through information sharing in country debt sustainability analysis and awareness-raising on the need for enhanced cooperation.

26. The DSF needs improvement in transparency and information-sharing in the choice of scenarios and construction of indicators. Indicators should include sufficient examination of the domestic debt situation. Priority should be placed on achieving development goals in maintaining debt sustainability instead of improving debt service scenarios. In this regard, monitoring the impact of debt relief should include its development impact.

III. Policy deliberations

a) Progress and setbacks in the implementation of the Monterrey Consensus

27. A considerable number of representatives expressed their satisfaction that, as a whole, the debt indicators of developing countries had improved markedly since 2002. Most developing countries now had debt management programmes in place and had built reserves, thus reducing vulnerability. The widespread introduction of collective action clauses on debt contracts had been also a positive development.

28. Furthermore, it was pointed out that the implementation of Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) had contributed to a significant reduction of the debt burden of the 23 countries reaching completion point. The debt relief granted under both initiatives had been of the order of $ 110 billion. In the meantime, largely as a consequence of this, poverty reduction expenditures as a share of GDP had increased significantly.

29. With regard to developing countries who were not part of the HIPC initiative, it was noted that the Evian Approach of the Paris Club had also contributed to reduced debt burdens. Middle Income Countries (MICs) had seen their credit ratings improve and the interest spread on their borrowing decline markedly since 2002. However, many representatives stressed that a considerable number of countries - including LDCs and numerous low income and middle income countries - still faced very high or unsustainable debt servicing burdens.

30. Some noted that there was a considerable transfer of resources from the South to the North, partly because of debt servicing. In this regard, it was stressed that high levels of debt service hamper development. This was also true for some heavily indebted LDCs. In the view of some participants, total debt cancellation was necessary, particularly for LDCs and post-conflict countries.

31. Many representatives indicated that the pace of the HIPC initiative had been slow and that the attached conditionalities had significantly narrowed policy space in beneficiary countries. It was noted that half of HIPC countries that had reached completion point, had slipped back into unsustainability, and a number of them were facing lawsuits or litigations from commercial creditors and "vulture funds". Moreover, in certain cases, debt relief had constrained the access to new credit.

32. Many delegates expressed that there had virtually been no progress in setting up an innovative mechanism to comprehensively address debt problems of developing countries, including MICs which, to a large extent, had been put aside. Numerous representatives stated that debt relief should not be counted as ODA or tied to political or excessive conditionalities. Some noted that debt relief has been unfair to countries with large development needs but low levels of debt.

b) Lessons learned and debt issues in the current juncture and the long-term

33. In the view of some representatives, sound macroeconomic policies and structural policies can help countries overcome debt problems through increased economic growth. In the long-term a more robust, well functioning domestic financial system was critical.

34. A large number of speakers expressed that responsible borrowing and lending was essential for maintaining debt sustainability in the long run. It was pointed out that this should be coupled with a transparent process and that it was important to pay attention to the "Principles and Guidelines to Promote Sustainable Lending in the Provision of Official Export Credit to Low Income countries" developed by OECD.

35. With respect to grants, it was noted that they were particularly important for over indebted low income countries. Indeed, IDA had increased its share of grants significantly since 2002. It was suggested that an institutional framework be designed to ensure an adequate use of resources obtained through IDA grants and other forms of concessional financing. Some representatives stated that there should be a minimum degree of conditionalities attached to any further debt relief so as to ensure that debt relief delivers poverty reduction. It was also stated that additional social expenditures as a result of debt reduction should take especially into account the gender perspective.

36. Some speakers warned that the switch from official to commercial borrowing and from external to domestic public debt is creating new vulnerabilities and risks. It was pointed out that to address this matter, there was a need to improve data collection of the composition of both the external and domestic public debt. It was also noted the need to address the issue of "free riders" in the HIPC and in the Paris Club processes.

37. With regard to the international financial system, many speakers warned of the impact and increased uncertainties derived from the sub-prime mortgage crisis and the risk of higher interest rates. Furthermore with respect to debt, it was noted that the international financial system will remain insecure and incomplete without a sovereign debt workout mechanism.

38. Related to the international financial system, it was pointed out that with more liberalized capital markets and floating exchange rates, the risk of substantial changes in the exchange rate of developing countries had increased, complicating matters because volatility of exchange rates might increase abruptly the debt burden. It was suggested that creditor nations and IFIs should pay more attention to this issue and develop a new mechanism for loans in domestic currencies. There was a need to strengthen the domestic financial system through renewed instruments like bonds in domestic currency. Also, IFIs should explore preventive mechanisms and support regional initiatives such as pooling of reserves. Another topic brought up by many speakers was the need for increased voice and participation of developing countries in institutions that set international financial policies and deal with external debt related issues.

39. Some speakers mentioned that the effective functioning of the global financial system would benefit from the establishment of an international debt commission to look for a multilateral approach to solving external debt problems. In this context, there was also a call for further consideration of the proposal to establish an <u>independent debt arbitration mechanism</u> to assess, adjudicate and pass judgment on debt reduction options.

40. In the view of various representatives, a <u>debt resolution mechanism</u>, aimed at guaranteeing fair burden sharing among debtors and creditors, whether they are dealing with official creditor debts or commercial debts, should be also considered.

41. With respect to credit rating, many speakers expressed their dissatisfaction with the present system. It was suggested that developing countries should have an input when the criteria to be used by rating agencies were being designed. Also, it was important to explore the possibilities of a multilateral approach to the credit rating process.

42. Many representatives referred to the need to build national capacities for debt management and debt sustainability analysis and a call for bilateral and multilateral support for implementation of debt management programmes, since sound financing and debt strategies are especially important. It was proposed that UNCTAD, The World Bank and the IMF should step up efforts in this area.

43. With respect to debt relief, a number of participants pointed out that additional resources were needed and that debt relief programmes should not constrain policy space. This was particularly important in the case of the SIDSs whose vulnerability makes them prone to debt servicing difficulties. It was pointed out that the BWIs should be more flexible when considering SIDSs for inclusion in debt relief programmes such as

HIPC/MDRI. It was further noted that for these countries technical assistance on debt management was critical. A similar suggestion regarding flexibility for the provision of debt relief and technical assitance was advanced for post conflict countries.

44. The case of MICs was mentioned by various participants. There was a need of effective consideration of their debt problems. One possibility mentioned was the adoption of debt swap mechanisms, i.e. swap of debt for MDG programs. These countries' income level often masked the true impact of the debt burden on their populations and their prospects of achieving the MDGs.

c) External debt sustainability frameworks (DSF)

45. A number of participants stressed that creditors should fully consider the debt sustainability of borrowers in order to prevent the occurrence of heavy indebtedness. All donors, including emerging donors should cooperate to enhance debt sustainability in borrowing countries. There was concern about emerging donors providing loans that might not be sustainable to countries that were benefiting or had benefited from debt relief.

46. It was noted that the DSF was an early warning system to be used by lenders and borrowers. Domestic debt was increasing and becoming substantial in several countries; thus, such debt should be included in the debt sustainability analysis (DSA) and debt management enhancement. Some participants pointed out that debt incurred to build physical and financial assets – particularly infrastructure and productive investments - was likely to be more sustainable than debt used to finance current expenditures, hence debt sustainability analysis should focus on both liabilities and assets. Some speakers suggested that recipient countries should participate actively in the DSA process.

47. Many participants highlighted that a review of the current debt sustainability frameworks in the IMF and World Bank was warranted. Debt sustainability frameworks should have development as an objective, including in particular, the achievement of the MDGs and other IADG.

<u>Informal Summary of General Assembly Review Session 4</u>
<u>11-12 March 2008</u>

Chapter VI of the Monterrey Consensus, "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development"

I. Introduction

1. The review session on chapter VI of the Monterrey Consensus was held from 11 (afternoon) to 12 March 2008. The meeting was chaired by H. E. Ambassador Maged A. Abdelaziz of Egypt and H.E. Ambassador Johan L. Lovald of Norway. Mr. Sha Zukang, Under-Secretary-General, Department of Economic and Social Affairs, presented opening remarks. The session consisted of an initial panel discussion and an interactive dialogue among all stakeholders. Panel presentations were made by Mr. Gerald Anderson, Deputy Assistant Secretary, Bureau of International Organization Affairs, Department of State, USA; Mr. Eduardo Galvez, Ambassador, Multilateral Affairs Director, Ministry of Foreign Affairs, Chile; Mr. Masood Ahmed, Director, External Relations Department, IMF; Mr. Mojmir Mrak, Professor of International Finance, University of Ljubljana, Slovenia; and, Ms. Jiayi Zou, Executive Director for China, World Bank. (The views of the panelists in response to questions from the floor are also included in the section II - Panel presentations). After the panel presentations, a policy discussion took place among participants, including representatives of governments, as well as institutional and non-institutional stakeholders.

II. Panel presentations

a) Main goals, current trends and new challenges.

2. Systemic issues in the Monterrey Consensus are primarily about enhancing the coherence and consistency of international monetary, financial and trading systems in support of development as well as about global economic leadership and governance. In this regard the systemic agenda should include two major broad issues: a) specific policies and actions to further the development perspective in the monetary, financial, and trading systems; and b) strengthening the voice and participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting.

3. Strong economic growth and dynamic institutional change are essential for development. The world has seen significant progress in this respect since the adoption of the Monterrey Consensus. At the same time, trends are emerging leading to new challenges which call for novel policy approaches and innovative measures.

4. Closer economic linkages have brought about significant economic benefits to many countries and peoples. Rapid globalization, however, has also led to conflicts of interest and to increased protectionist pressures. This implies new demands on and new challenges to the global economic governance system. More attention should be paid not only to promoting consistency of the macro-economic policies of developed countries but also to the interaction of developing countries and developed country policies. There is also a need for effective resource transfer to support achievement of the MDGs, a more stable financial environment for developing countries and a sufficient supply of global public goods.

5. New trends in the international economic landscape include: increased role of emerging economies; substantial global current account imbalances; large accumulation of foreign reserve holdings by a number of developing countries; the emergence of a new type of financial crisis; build-up of excessive global liquidity; and increasing marginalization of some international financial institutions, including the Bretton Woods Institutions (BWIs).

6. The share of developing countries in the global economy has increased to over 50 per cent in purchasing power parity terms. In recent years, emerging economies have been growing much faster than developed economies. Consequently, they strongly influence global demand and international financial market developments. The exports of emerging economies to other developing countries are growing faster than those to developed countries. There has been some “decoupling” of emerging economies from developed ones. However, decoupling does not mean disconnecting from globalization; it is essentially the result of structural adjustment.

7. Emerging economies as a group are running a current account surplus. Those countries, however, are not a homogenous group. There are countries with surpluses and deficits in their current accounts. Unlike many emerging economies, most developing economies have less than adequate savings.

8. In recent years current account imbalances have increased substantially both in nominal terms and as per cent of GDP. The large current account deficit of the United States has been accompanied by surpluses of Japan, emerging Asian economies and several energy and other commodity exporting countries. Meanwhile, the balance-of-payments adjustment process remains strongly asymmetrical. There is no real pressure to adjust in the country with the largest current account deficit and debt, nor is there effective pressure to adjust on countries with current account surpluses.

9. Global imbalances are largely the result of the globalization process where capital is chasing supply of cheap labor. This is unsustainable in the long run. A sizeable adjustment seems necessary to correct this since continuous devaluation in the largest economy might not be adequate or desirable. China and East Asia are called upon to lower their savings rate by stimulating domestic demand and encouraging consumption; the United States should contemplate lowering consumption and increasing its savings

rate; and the BWIs should support a more balanced world development and corresponding structural adjustment.

10. The financial crises in the1980s and the 1990s originated in emerging economies. Today their epicenter is in developed countries. Also, in those two decades, the financial crises were geographically concentrated. At present, they tend to spread globally causing considerable global slowdown. In the past, the BWIs played a rather important role in managing crises. Nowadays central banks of developed countries are key players as their focus is on financial institutions within their borders. BWIs' role in dealing with crises originating in developed countries is not clear.

11. The origins of excessive liquidity lie to a large extent in the current international monetary system. The use of national currencies as an international reserve currency, most prominently the US dollar, can be a source of inflationary pressures. There is a need for an international reserve currency. Indeed, in this regard it would be important to reconsider the role of the SDR.

12. BWIs have been increasingly marginalized as many members have prepaid their obligations to these institutions and new financial commitments to middle-income countries (MICs) have declined. There has also been marginalization on the policy side as fewer countries have IMF programmes. The BWIs have partly lost their relevance for all but low-income countries. Their role in managing crisis situations today is considerably smaller than it was a decade ago.

13. Though the BWIs have notable governance, financial and legitimacy problems, it is important that their credibility is fully restored and that they continue to play a substantial role in both achieving macroeconomic and financial stability and in fostering development. In addition to financing, BWIs should provide the basic forum for key aspects of financial regulation and economic policy coordination.

14. Exchange rate instability still represents an important challenge. Coordination of exchange rate policies has been recognized as helpful, but in practice it has not been working as well as desired. Being aware of this fact, the IMF-Board has recently adopted a new decision on exchange rate surveillance which formally opens the way for the Fund to play a more productive role. For this new multilateral exchange rate surveillance procedure to work effectively, full political commitment and support from the IMF membership will be needed. There are some indications, however, that achieving such political commitment still remains difficult.

15. Another major challenge is to ensure integrity and transparency of financial markets. While financial flows are increasingly global their regulation remains largely under national jurisdiction. There is, thus, an urgent need to improve cooperation among national regulators, to encourage them to adopt common standards in various areas, including bank liquidity, valuation of complex debt structures and activities of credit rating agencies. An international regulatory mechanism should also be considered.

b) Global economic governance

16. Strengthening global economic governance is a logical and critical response to development challenges in the context of globalization. There is a need for a balanced, effective, democratic and participatory global governance system to coordinate the interests of different countries and enhance common interests.

17. The UN and the UN system have an important role to play in systemic issues as these issues are essentially of a political nature. The Monterrey Consensus calls for the strengthening of the UN leadership and coordinating role in promoting development and for achieving an integrated view of monetary, financial and trade systems. Nevertheless, needed reforms in the UN often proceed more slowly than in the BWIs.

18. There should be a clearly defined division of labor between the UN and the BWIs. The UN should be an intellectual leader and political consensus builder while BWIs are mostly involved in implementation. BWIs are also involved in achieving macroeconomic stability and fostering development. In addition they provide a forum for financial and macroeconomic policy coordination. While recognizing that each institution should play its respective role, the MC calls for stronger links between UN, BWIs and WTO.

19. The BWIs remain important pillars of global economic governance in terms of the aid and international financial architecture. Cooperation on issues related to low income countries between IMF, the World Bank and UN agencies has been strengthened. In many developing countries there are pilot projects with joint involvement of BWIs and UN agencies. Nevertheless, there is an urgent need to further strengthen cooperation including between UN development agencies and WTO and between organizations dealing with debt issues. Also, there should be better coordination of the UN capacity building function.

20. There has been progress in strengthening voice and representation of developing countries in the IMF. The second round of quota increases based on new quota formula should be decided at the 2008 annual meeting. The share of basic votes will also be increased. Yet, countries have very different views on what indicators to use for a new quota formula and on how to measure them. This is a difficult issue, both technically and politically. In addition to the above, it has been proposed that there should be no veto power for any individual member state and that the number of developing country constituencies should be increased vis-à-vis the EU member state constituencies.

21. The WB is also considering steps to reform its own governance mechanism and is closely watching the progress at IMF on the issue. There is an understanding that simple reallocation of votes will not be enough. The voting power of developing countries as a group should be enhanced.

22. The governance reform should not be limited to the BWIs. It should also include other international financial, regulatory and standard setting bodies as well as WTO.

23. The “ownership” of the aid effectiveness agenda also needs to be addressed. This issue will be the subject matter not only of the OECD-DAC meeting in Accra in September, but also of the Development Cooperation Forum (DCF). The establishment of the DCF is, thus, a step in the right direction and provides an excellent opportunity to increase coherence of operations among UN Funds and Programmes as well as with other agencies.

24. The nature and focus of the annual ECOSOC-BWIs meetings need to be reconsidered carefully. A standing agenda that focuses on the reports of BWIs or a multi-year programme following the structure of the Monterrey Consensus could be adopted. There is also a view that BWIs that the ECOSOC-BWIs meetings should precede, rather than follow, the BWIs spring meetings.

25. There has been some important progress in cooperation in tax matters. Still, a stronger intergovernmental entity dealing with these issues may be called for. In this regard, UN member states should consider converting the Committee of Experts on International Cooperation in Tax Matters into a fully intergovernmental body subsidiary to ECOSOC.

26. Overall, the follow-up to Monterrey – and to Doha- requires more attention. Better, more effective mechanisms are needed to assess progress on issues and policies and decide on the corresponding necessary actions. Relevant stakeholders should be part of the follow-up process and take advantage of the outcome. The follow-up should include bodies and institutions dealing with trade, finance and development assistance with adequate participation of civil society and private sector.

27. In Doha, the international community could decide to create some structure of support for effective coordination and global economic governance. A post-Doha follow-up mechanism may take the form, for example, of an integrated multi-stakeholder Council or Committee on Financing for Development, including the BWIs, WTO, specialized agencies, civil society and private sector. The principal objective of such a body will be to change the nature of the existing follow-up “dialogues” at the UN which do not produce any agreed outcome to an integrated review of the Financing for Development Agenda and make viable recommendations to expedite its implementation.

c) Policies and instruments

28. As noted earlier, systemic issues involve more than the technical aspects of economic and financial issues; they also have important political dimension which have a substantial bearing on development. It is, thus, critical that the United Nations play a substantial role in impending reforms and implementation of new ideas. Also a key consideration is that as the nature of the problems and crises has changed, the instruments to solve or to manage them must also change.

29. IMF should focus more on overall systemic issues, including addressing the need for new forms of global regulation. It needs to strengthen multilateral surveillance and pay more attention to the consistency of macroeconomic policies of developed countries. It should promote the reform of the international monetary system including better management of external shocks, macroeconomic policy coordination, efficient multilateral liquidity provision, and consideration of a debt workout mechanism. Obviously the Fund can only play a greater role on all these issues only if the membership decides so.

30. In fact, the IMF has initiated discussions between member states on macroeconomic imbalances with the goal of narrowing them while maintaining growth. It is working on improving its facilities to provide liquidity during crises and, together with the BIS, the Financial Stability Forum and national supervisors, is working to determine how a new model of securitization is impacting financial flows and what it means for risk. In addition to regulatory issues, the recent financial turmoil has highlighted the macroeconomic dimensions of the problem. The Fund has also been asked to help sovereign wealth funds identify and begin to implement a set of good practices. More information on these funds appears necessary to counter protectionist pressures.

31. IMF programmes in low-income countries are also evolving. Maintaining debt sustainability after debt relief is now a key concern. As a number of low-income countries are increasingly drawing upon market sources of finance, the Fund is helping them learn from the market access experience of MICs. Besides, it is helping commodity exporting low-income countries ensure that current high revenues are managed and used effectively.

32. It is important for the Fund to identify priority areas in assessing systemic risks. A first step would be looking at hedge funds. In general, the assessment of risks is not an easy task; still, enhanced financial information and transparency go a long way in improving risk assessment. Nonetheless, in the case of individual countries there are often risks – mostly of a political nature – that are very difficult to evaluate.

33. The World Bank is changing its way of doing business: from a more "supply driven" approach to supporting the borrowing country's agenda. The major function of the Bank should be to mobilize development resources, including the development and introduction of innovative financial products as well as the facilitation of North-South, South-South, triangular and regional cooperation. In today's world the design of mechanisms to recycle global surpluses to productive investment is essential. In this regard, the Bank is introducing schemes to help channel liquidity from MICs to investment in low-income countries. The Bank should also consider providing more loans without a sovereign guarantee.

34. A new strategic theme, "Inclusive and Sustainable Globalization", has been proposed by the Bank's President. The theme's main focus is on: poverty in Africa; post-conflict countries; development strategies for MICs; more active role in the provision of regional and global "public goods" (climate change, diseases, labor mobility, technology

transfer); support for development opportunities in the Arab world; and fostering "development knowledge and learning agenda" across the World Bank Group.

35. The UN should focus more on assistance to fragile states. Dealing with these states is one of the serious gaps in the implementation of the Monterrey Consensus. Also, the UN should continue to promote capacity building aimed at attracting private flows to developing countries; one of the important emerging areas of cooperation is the promotion of entrepreneurship. All countries should sign, ratify and implement the UN Convention against Corruption which addresses central issues of capital flight.

36. It is important to further explore innovative sources of financing. The Leading Group on Solidarity Levies to Fund Development is considering many initiatives including fighting tax evasion and stemming illicit capital flows; possibly taxes on currency transactions; and implementing a digital solidarity contribution among others. Also, it appears important that the proposal to use SDR allocations for development purposes or to finance liquidity needs of developing countries is paid increasing attention.

37. The DCF provides an opportunity to discuss a wide array of issues related to aid. It should consider the possibility of becoming the "harmonizer" of the development assistance provided by international institutions. Also, country level coordination is important for improved coherence. Good examples of effective coordination and coherent action are: the work of the International Trade Centre, UNCTAD entrepreneurship training program "EMPRETEC", UNDP activities to support private sector, UNCTAD debt management program DIMFAST and the BWIs and UN MDG Africa Steering Group.

III. Policy Deliberations

a) *Review of Progress and Emerging Issues*

38. Many speakers noted that since the Monterrey Conference a number of challenges had intensified due to the rapid pace of globalization and interlinked markets. Inter alia, those challenges included: unsustainable trade and current account imbalances; large and volatile capital flows and their potential contagion effect; and marked exchange rate instability. It was in this context that the latest financial crisis – which, it was noted, originated in the country issuing the global reserve currency - was taking place.

39. A considerable number of representatives stated that the ongoing efforts to reform the international financial architecture lacked tempo and depth. The pace of reforms within the World Bank and the International Monetary Fund was too slow. The fundamental issues of increasing the voice and participation of developing countries in the BWIs had not been addressed decisively. The compartmentalization of the reform effort in the two institutions would make it virtually impossible to achieve in any coherent manner one of the stated major objectives of the reform, namely "to enhance financing for development and poverty reduction".

40. Many participants pointed to the lack of a clear set of international principles for the management and resolution of financial crises, while the G-8 continued to recommend and decide on measures to manage the international financial system without broader international representation. The current crisis originating from the failure of the sub-prime mortgage market demonstrated the continued short comings of the system. The crisis also suggested that the current international financial institutions did not have the capacity to effectively address such situations.

41. Numerous speakers expressed concern about high exchange rate volatility and economic instability, at a time when multilateral institutions like the IMF and the World Bank did not have the resources required to buffer countries from crisis. Thus, while the Monterrey Consensus stressed the need for creating liquidity facilities that could help affected countries to fight financial crises and contagion, many countries were resorting to holding increased reserve levels as self insurance. Moreover, the flow of resources from the BWIs had become negative: the net outflow from developing countries to those institutions had been over US$ 25 billion in 2006, indicating diminished reliance by many borrowing members on the BWIs.

42. A large number of representatives referred to positive developments after Monterrey including, the economic dynamism of developing countries and the recovery from the turmoil of the late 1990s, as strengthened policy reform in developing countries and improved surveillance since the early 2000s had been supportive of development. They highlighted that most of the multilateral institutions had taken steps towards reform and had embarked on new policy approaches. They pointed to the fact that the United Nations system was exploring means to further improve its coherence and that the Bretton Woods institutions had launched initiatives to reinforce developing countries' inclusiveness. Regarding the participation of developing countries in international economic decision-making, according to various speakers, their involvement had increased: more active participation of developing countries in the Doha trade round, in the "G-20" meetings, as well as in consultations in the Basel financial standards setting process (through a liaison group to non-committee members) and through ad-hoc invitations to selected countries to attend G-8 summits. An enlargement process was also taking place at OECD.

43. Numerous representatives pointed to the fact that the global context had changed considerably since Monterrey. The economic and financial system had evolved; emerging countries had gained in importance in the global economy and international forums, and new issues had emerged regarding environmental sustainability and evolving social conditions. With respect to the current juncture, several of them referred to the statement of the G-7 Finance Ministers and Central Bank Governors issued in Tokyo on 9 February. It had candidly admitted that the world is facing a more challenging and uncertain environment than in last October, but had also stated that the fundamentals of the global economy as a whole remained solid.

44. Various participants observed that stronger coordination of macroeconomic polices among industrial countries was proving difficult. The problem of the increasing number of unregulated or poorly regulated activities in the international financial markets such as hedge funds and financial derivatives as well as the lack of transparency and independence of credit rating agencies were also a cause for concern. Several participants pointed to the fact that the limited progress made in enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development made the task of achieving the MDGs much harder.

45. In the view of several speakers, sovereign wealth funds had become an important feature in the international financial landscape. They recognized the potential benefits for national economies open to investments by such funds; but also saw merit in identifying best practices for both investors and recipients. Others stressed that the current efforts to regulate sovereign wealth funds should consider an agreed framework built on broad representation.

b) Global economic governance and the Monterrey Consensus follow-up process

46. Many representatives called on the Doha Review Conference to decide on a clear and time-bound process to implement recommendations to improve the global economic, financial and monetary governance structures, strengthen the follow-up mechanism to the Monterrey and Doha Conferences and the leadership role of the United Nations in those areas. In this regard, they stressed it would be worthwhile to analyze various proposed options and alternatives for strengthening the institutional follow-up mechanism. They also stressed that an enhanced mechanism must be effective, inclusive and transparent in view of the need of an effective follow up to the Monterrey Consensus and any agreements reached at the Doha Conference. It was also pointed out that it should ensure a multi-sector approach taking into account international financial, trade, technological and investment trends that affect the development prospects of the developing countries.
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47. Numerous delegates referred to the positive developments in the UN system to strengthen the General Assembly and ECOSOC. The latter had been tasked to continue strengthening its role in system-wide coordination and the follow-up to the outcomes of the major United Nations conferences in economic, social and related fields, to enhance collaboration between the UN and the other major institutional stakeholders of the Financing for Development process, and to provide a universal forum where both donors and recipients can discuss matters relating to aid and aid effectiveness.

48. Many speakers recognized that governance reforms were essential to the continued effectiveness, legitimacy and credibility of the Bretton Woods institutions, indicating that the two main goals were firstly, to ensure that the distribution of quotas and shares adequately reflects the member countries' economic weight and role in the global economy and financial system; and secondly, the importance of strengthening the voice of low income countries in those institutions through a substantial increase of basic votes.

49. A significant number of representatives stressed that the governance regime of the BWIs needed major overhaul. In this regard, they called for fundamental reform of the institutions' voting systems and accountability structure, where significant redistribution of voting power in favor of developing countries - including the LDCs - should be the overarching objective of the reform. They also highlighted the fact that the Singapore resolution of 2006 called for at least a doubling of basic votes. However, this last measure would not affect to any significant extent the prevailing distribution of power in the governance system of the BWIs. They pointed to the proposal of a double-majority voting system ("one country, one-vote" and a weighted vote) for decision-making as one issue that deserved serious consideration. Numerous speakers welcomed the agreement reached at the annual meeting of the IMF in October 2007, which emphasized the importance of agreeing as soon as possible on a credible reform package with specific deadlines concerning the quotas and voice of all member countries of the Fund.

50. Many representatives noted that developing countries were acquiring a growing weight in the international trade arena and in the World Trade Organization; this was a welcome development. They also stressed the importance of supporting WTO initiatives designed to help developing countries build the necessary capacity to participate in WTO and other international trade negotiations. Various speakers expressed support to efforts in WTO to assist developing countries in strengthening capacity to handle trade finance instruments and build adequate trade finance institutions.

51. Many speakers highlighted the large number of global standards and codes, which are meant for global financial regulation, indicating that they are mostly being formulated outside the multilateral system. They called for effective representation of developing countries in standard and norm-setting bodies which would lead to a fairer, more widely accepted and truly universal regulation, and which could in turn contribute to a more stable financial system with welfare-enhancing effects for all. Indeed, the Monterrey Consensus pointed to the importance of ensuring effective and equitable participation of developing countries and countries with economies in transition in the formulation of financial standards and codes and their implementation on a voluntary and progressive basis. However, the challenge to involve all parties concerned, including the private sector and relevant civil society groups, still remained. Another challenge highlighted was to ensure that standards and codes were mutually consistent and, at the same time, flexible enough to be effectively applied in countries with advanced and less advanced financial systems.

52. A large number of participants called on the Doha Review Conference to recommend the establishment of a time-bound, independent process to examine more closely concepts such as systemic risks and systemic crises and the role of individual countries and autonomous financial movements. It was crucial to enhance regulatory and supervisory frameworks and to establish an inclusive process for devising measures aimed at increasing the accountability and transparency of private credit rating agencies.

53. A significant number of speakers highlighted the vital role of regional development banks in the respective regional governance structures. They pointed to the

fact that several regional development banks were collaborating closely with regional integration schemes on issues such as financial stability and trade integration.

54. A significant number of speakers recognized OECD’s contribution to collecting data, identifying good practices and setting standards in various fields including development issues and economic rules. They welcomed the opening of discussions in OECD with a view to future enlargement of membership and its enhanced dialogue with emerging economies as well as its increased involvement in the North-South dialogue.

55. Many representatives asked for an examination of the overall arrangements for follow-up as set out in Part III of the Monterrey Consensus – “Staying Engaged”, as there was a need for a fundamental discussion on the adequacy of the current arrangements. It was important to explore all possible avenues to ensure that in the future the objectives can be met on a timely and effective basis. Several representatives questioned, for example, whether the impact of and attendance at the Spring meetings of ECOSOC with major stakeholders were adequate and whether the timing and nature of the outcome were the most appropriate. In a similar vein, various participants suggested that the biennial High-level Dialogue of the General Assembly on Financing for Development should provide an agreed outcome.

56. In this context, a large number of speakers asked for monitoring the effectiveness and comparative advantage of the new mechanisms under ECOSOC and the further strengthening of both the General Assembly and ECOSOC in the follow-up of recent decisions on economic and social development, including financing for development. While some representatives were of the view that existing arrangements were adequate, many participants indicated that the time was ripe for a considerable strengthening of the Financing for Development intergovernmental follow-up process, and that proposals that had been advanced in this regard should be reviewed carefully, with a view to taking the most appropriate decisions.

c) *Enhancing institutions and policies*

57. A number of speakers stressed that all countries share responsibility for promoting the prosperity and sustainability of the world economy. They emphasized that this was especially true in light of new realities, such as the increasing flows of private capital, the growing power of emerging economies and the fact that global imbalances were fundamentally a multilateral challenge. The work of the international financial institutions to address global imbalances had to be underpinned by domestic efforts: by well-regulated banking and broader financial services; by appropriate exchange rate policy, savings and investment; by adequate trade policies and tax system; and by other complementary domestic economic policies. Also, many participants underlined that the BWIs must be representative, financially stable and transparent, as these elements were central to the two institutions maintaining their relevance and legitimacy in an evolving global context.

58. Many representatives highlighted the importance of multilateral surveillance and the associated process of policy coordination. In this regard, they underscored the need for the IMF to further strengthen its surveillance activities for all economies. They stressed that the focus of surveillance in this regard should be on the stability of the system as a whole, particularly on the spillover impact of macroeconomic and financial policies of the larger economies on other countries. They also indicated that this would require more rigorous surveillance over systemically important countries issuing major reserve currencies. Several representatives welcomed the efforts undertaken by IMF to sharpen tools designed to help promote international financial stability and enhance crisis prevention, in particular, the consultations to address global imbalances in a manner that sustains economic growth.

59. A considerable number of participants stressed the importance of formulating a strategy oriented at reducing the volatility of exchange rate markets as well as enhancing the transparency of their operations. More transparency was also necessary in the regulatory frameworks and interventions carried out by monetary authorities in this area.

60. Several speakers stated that the IMF should consider paying more attention to analyzing the repercussions of financial sector developments on the real economy. They also referred to the large reserves accumulated by developing countries as self insurance. The opportunity cost of such large reserve was often quite high. It was important to devise ways by which surplus developing countries find an outlet to use such reserves in their own development or for financing development in other developing countries.

61. Many representatives emphasized the importance of establishing appropriate, clear and transparent criteria for private sector activities that exert a strong influence on the policies and situation of developing countries, including credit rating agencies. They also stressed in this regard that developing countries should have sufficient policy space to put into effect their development strategies and to improve their capacity to implement counter-cyclical policies to respond to the downward phase of the economic cycle.

62. In this regard, a considerable number of speakers called for both multilateral and bilateral partners to refrain from imposing conditionalities that run counter the national development strategies of developing countries. Cooperation based on partnership should lead to a flexible approach reflecting the sovereign power of each country to set its own priorities, as well as the responsibility and commitment of the international community to provide support.

63. Some delegations also highlighted the importance of regional frameworks, particularly financial arrangements that can complement the international financial system, make individual economies more resilient and serve as a mechanism in any effort to prevent financial crises. In this regard, a special reference was made to the role of the Chiang Mai Initiative.

64. Some speakers emphasized that the World Bank Group, IMF, regional development banks and other development oriented financial institutions should strongly

support and provide leadership around the principles of the Paris Declaration - ownership, alignment, harmonization, management for development results, mutual accountability - and to work closely together in support of nationally-owned poverty eradication programmes and other development programmes.

65. Many delegations called for the international financial institutions, in particular the BWIs, to increase their support for the implementation of the MDGs through enhanced delivery of technical assistance and concessional lending. They stressed in this regard that, for LDCs, IDA should to shift to an all grant facility without any conditionality. A large number of delegates also called on the international financial institutions to strengthen their commitment with middle-income countries, taking into account their specific needs, and as a way to reinforce their national development strategies.

66. Many countries expressed concern about capital flight, illicit financial activities and transfers, tax evasion and corruption, and called on sustained international cooperation to fight those ills. They emphasized that international oversight institutions should continue strengthening existing mechanisms such as the United Nations Convention Against Corruption. They stated that the ratification by all countries and full observance of the Convention should be further promoted.

67. Many speakers called for upgrading the present United Nations Committee of Experts on International Cooperation on Tax Matters to an intergovernmental commission with appropriate representation to reflect all interests. They stressed in this regard the special importance of addressing the concerns of small, vulnerable developing countries. They pointed out that the agenda of existing institutions, which address international tax matters outside the UN, was still largely lacking a development dimension, besides not being universally representative.

68. Many speakers expressed the need for mainstreaming the gender perspective into development policies. They acknowledged that while significant advances have made in the area of gender responsive efforts, further efforts were needed to ensure the shift from analysis to implementation. The CSW had considered various ways to strengthen the advancement of women through the Financing for Development process. Also it was pointed out that multilateral institutions, particularly the World Bank, should pay increased attention to core labor standards and the decent work agenda.

69. A number of representatives addressed the specific vulnerabilities of small island developing economies. Several of them pointed out that many of these economies were based on agriculture and were particularly vulnerable to price fluctuations in the international commodities market. It was important to develop a workable mechanism to help mitigate the impact of such market events.

70. Various speakers stressed that the process of enabling all countries to participate on the global market requires commitment from all actors to support effective regional transport and communications infrastructure to integrate markets in the international

trading system. In this regard, they called on all donor countries and multilateral financial and development institutions to continue their efforts to ensure effective implementation of the Monterrey Consensus, particularly paragraphs 41 to 43, with the aim of providing landlocked and transit developing countries with the appropriate financial and technical assistance to achieve the needs identified in the Almaty Programme of Action. The mid-term review of the Programme would take place soon after the Doha Conference and, to that effect, it was important to pursue an integrated process building on the platform provided by the Monterrey Consensus.