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Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development*

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* The present report has benefited from the inputs and close collaboration of many individuals and agencies — both within and outside the United Nations system — and their invaluable contributions are gratefully acknowledged. In particular, besides the departments and entities of the United Nations proper, special efforts were made to take into account the ideas, views and perspectives of the secretariats or staff of the three "major institutional stakeholders" specifically identified by the General Assembly and the Preparatory Committee as having special relevance for the financing for development initiative: the World Bank, the International Monetary Fund and the World Trade Organization. However, responsibility for the recommendations and other contents of the report is solely that of the United Nations Secretariat.

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Introduction

1. As the new century dawns, there can be no task more urgent for the United Nations than that fixed by the Millennium Summit, of rescuing more that one billion men, women and children from "abject and dehumanizing poverty". At that Summit, Governments also agreed that the benefits of globalization — faster and more sustained growth, higher living standards, more employment and large human dividends from advances in technology — require concerted action, at both the national and international levels, and cannot be left to the operation of market forces alone. Rather, globalization and its accompanying market energies must be guided and harnessed to become inclusive forces for sustainable, people-centred development. In this effort, Governments, international organizations, private entities, and civil society all have a role to play, in a spirit of true partnership.

2. The opportunity for a detailed discussion in the United Nations on financing for development is a historic one. Tectonic shifts have taken place in the world of finance in the 1990s which are having a major impact on development worldwide. Many parameters have changed and old assumptions are no longer as relevant. While the new global environment has benefited a significant number of countries and created opportunities for faster growth and improvements in standards of living, public perspectives increasingly focus on the negative impact of globalization. International cooperation for development is adapting all too slowly to the shape of our changing world. Shared objectives of the global community are to sustain economic growth, integrate those who have not benefited from globalization while maximizing the opportunities it offers, and make easier the task of poverty eradication. In this and in other areas, such as emergency humanitarian assistance and the provision of "global public goods", the availability of finance for public and private purposes is crucial.

3. Development depends on many factors, and a series of United Nations conferences have outlined a framework of goals and objectives, sectoral policy paradigms, and a commitment to build capacity for development and promote technology transfer and new and additional finance for development. All of this constitutes an agreed programmatic framework that was also synthesized in the Agenda for Development adopted by the General Assembly in 1997 (resolution 51/240, annex). More recently, a set of key development and environmental goals derived from these United Nations conferences was endorsed at the highest level at the Millennium Summit (see General Assembly resolution 55/2). The primary resource for development is the great untapped reservoir of human creativity and talent of the people of the developing countries themselves; the release of this human potential requires investment in education, infrastructure, public health and other basic social services, as well as in production for the market. The high-level event on financing for development is not meant to revisit the goals and content of development — its primary purpose should be to address the need for finance to meet these developmental needs.

4. The link between the world of finance and the world of development is primarily through the savings-investment mechanism. In 2000, it is expected that the world will have saved and invested about $7.5 trillion, a substantial part of which was mediated through domestic financial markets. The net transfer of resources from capital-surplus to capital-importing countries was of the order of $450 billion, about three quarters of which was absorbed by the United States, although the gross

flow across national boundaries is significantly higher. For instance, the daily turnover in foreign exchange markets is now estimated at over $1.5 trillion.

5. The share of developing countries in global investment was around 23 per cent, or $1.7 trillion in all, in 2000. A small part of this investment is normally financed by net flows from abroad — both in terms of concessional official flows and private/non-concessional flows — although in 2000, owing partly to continued retrenchment from crisis countries and reduced borrowing needs of oil-exporting countries, there was a net transfer of financial resources out of developing countries. The principal trend in this regard during the 1990s, however, was the growing importance of private flows — though mainly to a small group of developing countries — and, until recently, the stagnation in official development assistance. Another major defining feature of this period was the vulnerability of developing and transition economy countries that received large amounts of private flows to crises of confidence and sudden reversals of resource flows. The peso crisis in Mexico in 1994/95 and the series of financial crises that affected Asia, Latin America and the Russian Federation in 1997 and 1998 are examples.

6. The trends in official development assistance (ODA) during the 1990s were particularly troublesome. They have come at a time when ODA should have gone up substantially because: (a) a clear programmatic basis for development cooperation was put forward in a cycle of major United Nations conferences, (b) more developing countries undertook major reforms in economic and political governance, and (c) the fiscal situation in donor countries improved significantly and inflationary pressures were reduced.

7. The high-level event on financing for development can also be seen as part of the process of implementing the outcome of the Millennium Summit, where world leaders adopted a set of important development goals and made a commitment to make every effort to ensure the success of the financing for development event. The leaders, while committing themselves to upholding the values of equality, solidarity and social justice, stated that “the central challenge we face today is to ensure that globalization becomes a positive force for all the world’s people”, and recognized “that developing countries and countries with economies in transition face special difficulties in responding to this central challenge. Thus, only through broad and sustained efforts to create a shared future, based upon our common humanity in all its diversity, can globalization be made fully inclusive and equitable” (see General Assembly resolution 55/2, para. 5).

8. The level of investment and its distribution across different uses are perhaps the most important determinants of the pace and pattern of economic growth. Fluctuations in this level are an important source of instability in the development process. The proportion that is available as a public resource is crucial for attaining certain widely accepted development goals. Thus, the central goal of public policy on financing for development must be to support equitable and sustainable growth in developing countries, reduce the risks of systemic crises and make available the resources required for achieving key developmental goals.

9. Although domestic savings and resource flows to developing countries are crucial to their ability to invest and establish a firm foundation for growth, access to external resources, however, remains a crucial supplement. Private-sector sources account for an increasingly important part of total external financing and, for middle-income countries in particular, the stability of private capital inflows is

crucial in sustaining a steady expansion of the economy. Progress in this area will help developing and transition economy countries benefit from the potentially rapid continued expansion of private capital flows, and will encourage more countries to implement policies that can earn the confidence of international capital markets and harness private-sector financial, managerial and technological resources in support of development.

10. The volatility of economies calls for medium-term fiscal planning that is responsive to times of boom and bust. Medium-term budget frameworks offer one policy instrument to cope with prosperity cycles. It is also most urgent to focus on household and intra-household income and security. Macrolevel aggregates do not capture the pain of the children, women and men in households coping with these insecurities. The financing for development process allows for a substantive dialogue on enhancing security for the household to protect it from crises beyond its control.

11. For least developed and other low-income countries, official sources account for the greater part of their external financing, and for many countries ODA remains the major — and virtually the only — source of external financing of investment. While private flows may increasingly expand their reach, ODA still has a critical role to play in helping a large number of countries with high concentrations of people living in poverty. The prosperity in industrial countries and the policy reform efforts in developing countries make this a unique moment in which major increases in aid volumes and enhanced aid effectiveness are not only possible but could achieve a massive impact in terms of poverty reduction and of development. The time is opportune for a significant commitment from donor nations to reverse the decline in ODA, working towards their renewed pledge to reach the target of 0.7 per cent of gross national product (GNP). A global campaign is required to reach this target in a time-bound frame.

12. The debt burdens of many developing and transition countries have become heavy constraints on their ability to reduce poverty and reach other development goals. While debt relief is just one of various financial assistance instruments, it is important to recognize that in some cases debt burdens represent insurmountable obstacles to development and need to be addressed urgently.

13. Most of the resources available to developing and transition countries are domestic resources. Without efficient domestic resource mobilization, sustained growth and sustainable development are not achievable. National policies and effective resource mobilization have a critical role to play and are important both to obtain domestic resources and to put them to use efficiently. Moreover, sound policies supportive of development efforts are also critical to a country’s ability to mobilize stable external resources — external resources can then complement domestic resources in the most effective and growth-oriented way. To this should be added the need for adequate technology transfers and other knowledge flows and complementary technical assistance and capacity-building.

14. Fiscal, monetary, trade and other domestic macroeconomic policies, particularly of the industrialized countries, also play a key role in affecting the development prospects of other countries. Trade policy is one of the most important among them. In a context of rapidly growing world markets, the potential impact on developing and transition economy countries of expanding market access for their exports can be many times greater than direct financial assistance — provided it is

combined with successful efforts to increase and diversify their productive capacity. This two-pronged, coherent and consistent offensive should be a top priority.

15. As economic integration increases, so does the importance of international institutions. Existing institutions are receiving expanded mandates and new institutions and discussion forums are created. In this context, a key means for the pursuit of the financing for development objectives is that international governance practices evolve in a manner that is supportive of development. In particular, it is crucial to ensure that developing and transition economy countries have an adequate voice in every forum in which decisions are made and policies formulated that will have an impact on their development prospects.

16. As leaders at the Millennium Summit recognized, “These efforts must include policies and measures, at the global level, which correspond to the needs of developing countries and countries with economies in transition and are formulated with their effective participation … We resolve, therefore, to create an environment — at the national and global levels alike — which is conducive to development and to the elimination of poverty ... Success in meeting these objectives depends, inter alia, on good governance within each country. It also depends on good governance at the international level and on transparency in the financial, monetary and trading systems …” (see General Assembly resolution 55/2, paras. 5, 12 and 13).

17. The present report is intended to contribute to the intergovernmental consideration of, and discussion on, the above issues. It is guided by paragraph 3 of General Assembly resolution 54/196, in which the Assembly stated that the “high-level intergovernmental event in 2001 will address national, international and systemic issues relating to financing for development in a holistic manner in the context of globalization and interdependence and by so doing, will also address development through the perspective of finance; within this overall context, the event should also address the mobilization of financial resources for the full implementation of the outcome of major conferences and summits organized during the 1990s by the United Nations and the implementation of the Agenda for Development, in particular for poverty eradication”.

18. The factors that need to be addressed in a discussion of financing for development are closely intertwined and have necessary overlaps with each other. Many interconnections must thus be kept constantly in mind. The Preparatory Committee provided a framework for a systematic discussion of the issues contained in the preliminary agenda it adopted in its decision 1/1 of 1 June 2000,[1] with six main headings; chapters I to VI of the present report correspond to each of those headings. Recommendations for consideration by the Preparatory Committee are set out in boxes and highlighted in bold type.

Chapter I

Mobilizing domestic financial resources for development

Enabling domestic environments: governance issues; sound macroeconomic policies, including fiscal and private savings policies; special needs of Africa, the least developed countries, small island developing States, landlocked and transit developing countries and other developing countries as well as countries with economies in transition with special difficulties in attracting financing for development

An enabling environment

19. The mobilization of domestic resources is the foundation for self-sustaining development. Domestic resources play the main role in financing gross domestic investment and social programmes. They are essential for economic growth, increasing human capabilities and making permanent gains in eradicating poverty. A dual challenge thus lies in generating an increasing stream of domestic resources and efficiently channelling them to development ends and to increases in productive capacity. This requires an environment conducive to private savings, the consolidation of public finances, efficient and effective mechanisms for the allocation of public expenditure, and adequate room for private initiative — in short, sound macroeconomic policies. The rule of law, a sound legal system, appropriate safeguards for private investment, transparency of Governments, markets and corporations, and participatory processes of governance are all also important ingredients of this environment.

20. Macroeconomic policies play a major role in promoting domestic resource mobilization and development. Proper macroeconomic policy depends heavily on the initial conditions and priorities in a particular country. Decisions on the prioritization of objectives and choice of instruments are thus best left to individual countries. Nevertheless, a general principle is that sound policy requires as a foundation medium-term objectives that provide a framework for short-term policy decisions. This also serves as a means of insulting macroeconomic policy-making from swings in the political environment.

The high-level event should underline that national macroeconomic policies should aim at a medium-term framework that balances the key objectives of sustained economic growth, employment growth and poverty reduction, taking into account the need to ensure low inflation and that fiscal and current account balances are sustainable. In determining the macroeconomic policy package, national economic authorities should pay special attention to the time horizon of implementation and to consistency among the various objectives and instruments.

21. Sound macroeconomic policies encourage capital inflows — which can lead to increased productive investments — and discourage outflows (or capital flight). While the globalization of capital movements increases opportunities, it also heightens risks. Opening of the capital account should normally be undertaken by

laying the ground for, and properly sequencing, capital account liberalization, so that the resulting financial inflows and outflows can be adequately absorbed.

The international community should agree that special care be taken with respect to the opening of the capital account in developing countries and countries with economies in transition, recognizing the need for national policy autonomy, which in some circumstances may call for countries to apply disincentives or controls on short-term capital in times of surges in capital flows. However, capital controls cannot be used as a substitute for sound and appropriate macroeconomic policies.

22. As will be discussed in Chapter VI, the macroeconomic policies of large industrial countries strongly influence the international economic and financial environment. These countries thus bear special responsibility for supporting vigorous global economic growth and the expansion of international trade and in dampening abrupt changes in interest rates and in international capital markets. At the same time, developing countries themselves must create new instruments to manage the risks associated with interest rate and exchange rate fluctuations in order to deal with the new circumstances.

The international community should create and promote an international economic environment supportive of sound macroeconomic policy and domestic resource mobilization in developing countries and countries with economies in transition. The large industrial countries should endeavour to formulate and implement policies that are supportive of robust international global growth and consistent with a stable international economic environment, making special efforts to minimize abrupt shifts in interest rates, in the supply of capital in international financial markets and in the exchange rates of reserve currencies.

23. A key measure for ensuring long-run stability is to manage macroeconomic policy in boom periods in such a way as to avoid deep recurring cycles. This involves maintaining sustainable fiscal and current account balances and low or decelerating inflation. It also requires an exchange-rate regime that is fully consistent with other elements of the macroeconomic policy package.

While traditional macroeconomic instruments remain crucial, Member States should agree that supplemental instruments need to be developed to deal with the fluctuations in fiscal balances and foreign-exchange reserves and the greater risk of instability that have been accentuated by the increasing speed of globalization. These instruments could include fiscal stabilization funds, which neutralize fortuitous increases in revenues or foreign-exchange earnings, for use later, and more stringent supervision and regulation of the international exposure of the industrial and financial sector.

24. Different groups of countries face different challenges in macroeconomic management. One factor that varies from country to country is macroeconomic capacity, that is, the level of skills, instruments and institutions necessary for

making and implementing policy decisions. While in the process of developing such skills, instruments and institutions, countries must avoid taking on tasks for which they may not yet be fully prepared (such as exposing themselves to new risks by premature opening of the capital account).

Developing and transition economy countries should give high priority to strengthening macroeconomic institutions, especially central banks and finance ministries, and to enhancing or creating supervisory bodies. This will involve capacity-building — e.g., through training programmes for public officials — and requires enhanced technical cooperation, particularly for the least developed countries. Emphasis in all countries should be placed on strengthening institutional arrangements that bring the main elements of macroeconomic policy into the public domain so that the full consequences of those policies, including their social dimensions, can be discussed in a way that helps achieve a balance between economic and social priorities and enhances the acceptance — and facilitates the implementation — of the chosen macroeconomic policies.

25. A participatory approach to development promotes political and social stability. Increasingly, the promotion of the rights of all individuals, along with the development and participation of civil society, are perceived as essential ingredients for economic and social progress. There is also widespread acceptance of the need for transparency and accountability in government as well as increasing adherence to the principles contained in the Universal Declaration of Human Rights (General Assembly resolution 217 A III) and related covenants, conventions and declarations, including the Declaration on the Right to Development (General Assembly resolution 41/128, annex).

Member States should accelerate implementation of their commitment, reiterated at the twenty-fourth special session of the General Assembly, to effective, participatory, transparent and accountable governance and institutions responsive to the people and their needs, and to intensify reforms geared to strengthening legal and regulatory frameworks, social, economic and institutional infrastructure, equal access to and control over resources for women and men, the enforcement of contracts and domestic laws regarding private property, and financial sector reform.

26. The lessons of the last 50 years underscore the link between respecting domestic laws and financial regulations and the mobilization of domestic resources. Public institutions free of corruption and accountable corporate governance are necessary elements of an environment conducive to effective mobilization and allocation of domestic resources.

Member States should strengthen measures to fight corruption at the national and international levels, including through enhanced international cooperation. In this regard, they should call for expeditious completion of preparatory work for the elaboration of an international legal instrument against corruption under the aegis of the United Nations — independent of the United Nations convention against transnational organized crime — and for the convening of a conference for the negotiation of the corresponding legal instrument by the earliest possible date.

27. The institutional requirements of a strengthened governance system are demanding and complex and the development of robust institutions is a long-term process requiring sustained efforts and international support. Experience in recent decades has underscored how severe external shocks as well as domestic political and social instability could result in serious setbacks in institutional development and the capacity to govern.

The international community should support on a long-term basis the national efforts of developing countries, particularly the countries of Africa, the least developed countries, small island developing States and landlocked and transit developing countries, as well as countries with economies in transition, to develop effective governance systems, in particular by providing increased resources for technical assistance for institution building.

Strengthening public finances

28. Mobilizing adequate public revenues while not stifling private initiative is key in achieving sustained and non-inflationary growth. Globalization, liberalization, international trade agreements and efforts to attract foreign capital have encouraged many countries to lower some tax rates and tariffs, resulting in declines in public revenues, often privileging the internationally mobile factor — financial capital — at the expense of labour, and underlining the need to establish or strengthen a progressive tax system.

29. The usual framework for the management of public finances is the annual budget. The resources available to a government for spending can change substantially from year to year because of economic fluctuations, because of international interest rates or terms-of-trade changes beyond its control or because of unforeseen emergencies. This variability on the resources side often leads to a similar variability in public expenditure. Often, the burden of adjustment falls on development expenditures, in particular those directed at social ends. In short, the management of public finances is increasingly exacerbated by the uncertainties in the international environment.

30. The management of both public expenditure and revenue can be made more predictable through the formulation of a medium-term budget framework, say, for five years. Such a framework would provide indicative parameters for programme planning in government. A medium-term framework can deal with both the current and capital account of the budget and help to manage the level and term-profile of the public debt.

Countries should consider the formulation of a medium-term fiscal framework to provide a measure of predictability for public spending programmes and to set out clear goals for the mobilization of tax and non-tax revenues and the profile of public assets and liabilities, including contingent liabilities. International institutions should be ready to assist countries in developing such a framework, and all donor partners should take it into account in providing assistance to those countries.

31. Past experience points to the need to strengthen or put in place a tax system that is just and equitable; that minimizes disincentives for economic efficiency; that is easy to understand and administer; that eliminates evasion and avoidance; that is flexible enough to secure adequate tax revenue from income attributable to new and innovative financial instruments; and that allows for gradually widening the tax base and the integration of the informal sector in the mainstream of the economy. Efforts to gradually widen the tax base of the informal sector risk provoking increased tax avoidance unless parallel steps are taken to increase the provision of public services to, and improve the working conditions and productivity of, those working in the informal sector.

Countries should strive to develop progressive taxation systems and should endeavour to ensure that the process of adopting taxes is equitable and participatory through, inter alia, the following policies and measures:

- **Taking measures to ensure that the incidence of taxation falls justly on different income classes and different categories of income, such as wages, profits and rents;**
- **Extending the tax base to cover incomes from activities that are not currently taxed;**
- **Expanding indirect taxes and making them more equitable by targeting the growing modern service sector and socially and environmentally undesirable activities.**

32. The selection of taxes and duties needs to ensure that they are administratively feasible and lead to effective collection of revenues. A transparent budget process and effective public institutions enhance accountability and legitimize revenue collection. Efforts in improving the transparency of the budget process include, for instance, adherence to specific standards, such as those contained in the International Monetary Fund (IMF) Fiscal Transparency Code. An efficient tax administration system that is free of corruption is also key to effective revenue collection.

All countries should strive to simplify tax laws, to improve the efficiency and effectiveness of tax administration and to enhance enforcement through the strengthening of institutional, technical and technological capacities, including the development of a transparent, accountable and corruption-free system. Developed countries and international institutions should provide increasing support, especially in terms of resources for technical assistance in capacity-building, to developing and transition economy countries undertaking these changes.

33. In countries with a large informal sector that remains outside formal systems of registration and reporting, a standard system of tax assessment and collection may be difficult to implement. Such alternatives as "presumptive" taxation of well-defined categories of enterprises on the basis of some proxy for income is one method for resolving this problem. Systematic surveys of business enterprises and linking benefits to evidence of tax compliance are other ways of widening this tax net. This is an area where the similarity of conditions among developing countries provides a basis for South-South cooperation.

Developing countries and countries with economies in transition should undertake appropriate administrative and legislative measures to combat tax evasion and prevent tax avoidance. International institutions should provide assistance for this purpose, particularly to facilitate South-South cooperation.

34. The critical problems of public expenditure planning are to ensure that priorities are determined in a manner that reflects democratically expressed public wishes, needs and requirements, and that the resources available for public programmes are predictable enough to enable medium-term programme planning, a dimension that has been dealt with above in the discussion on the medium-term budget framework (see para. 30).

35. Public expenditures play a fundamental role in the implementation of the national development strategy and perform multiple functions. They are the basis for the provision of police and justice, security, order and peace, all of which are fundamental functions of government. Public expenditures are crucial for the adequate provision of public goods and essential services, such as education, health and basic infrastructure. They also constitute an important tool to smooth out macroeconomic fluctuations and provide relief in times of crisis. In a certain sense, the extent to which Governments can meet the basic needs of and provide essential services for all sectors of the population, in particular women and disadvantaged sectors, is a measure of their legitimacy.

National, regional and local authorities should establish transparent budget procedures and facilitate the participation of civil society in the review of public expenditures with a view to enhancing the efficient and equitable provision of health, education, social security and infrastructure services, and safety nets. Such transparent procedures and review should also help Governments to protect essential maintenance and developmental expenditures in times of adjustment, to enhance the cost-effectiveness of public programmes and correct those that are mistargeted, and to evaluate their impact on the poor, particularly women, and on the environment.

36. For many countries, the critical challenge is to enhance the supply of "public goods", merit goods and essential services in an environment of scarce domestic resources and limited administrative capacity. Increased funding of public administrative functions and services needs to be supported by clear procedures to facilitate the judicious allocation of expenditures and by the participation of civil society and the private sector in the provision of services. Many services provided for the benefit of all will continue to be predominantly supplied publicly so as to be made comprehensively and equitably available, such as the administration of justice, the main health and education services, and consumer and environmental protection. However, other important services often associated with the public domain, such as infrastructure and a variety of education and health services, can also be efficiently provided by private operators but must remain subject to proper regulation and oversight.

National authorities, supported by the international community, should explore possibilities for tapping civil society and private-sector resources, both managerial and financial, to contribute to the provision of infrastructure and social services in a way that promotes service quality, expands access to the poorest, in particular to women, and at the same time maximizes the levels of public resources allocated to the provision of other non-commercial services, including safety nets, that are required to establish more just and equitable societies.

Strengthening the domestic financial sector

37. The central purpose of the financial sector is to promote savings and channel investible resources into productive channels. A financial system that facilitates efficient allocation of financing for productive purposes and provides widespread facilities for savings and access to credit — including for women and the poor — is essential for domestic resource mobilization and equitable development. When financial systems function well, they mobilize resources and savings and allocate them at low transaction cost to their most productive uses. Well functioning financial markets also facilitate the trading, hedging, diversifying and pooling of risk and the channelling of external financial resources. In view of the dominant role of commercial banking in the delivery of financial services, the strengthening and reform of the banking system, including supervision by independent authorities, deserves priority.

All countries should support the development of well functioning financial markets by:

Establishing a transparent and efficient overall legal framework and administration, complemented by effective regulatory and supervisory institutions in order to, inter alia, reduce excessive risk-taking and "moral hazard";

Building an effective insolvency regime that properly and equitably balances the rights and obligations of debtors and creditors;

Fostering good corporate governance, accounting, and auditing practices in private and public entities;

Fostering a competitive environment to facilitate efficiency and innovation in financial services, including the consideration, where appropriate, of in-country operation of foreign financial institutions.

38. The state has an important role in supporting the development of well-functioning financial markets by providing sound regulatory and supervisory institutions and ensuring enforcement. Financial markets have been among the most dynamic sectors in the global economy, and regulatory frameworks and supervision practices need to be able to respond to constant change without stifling beneficial financial innovation. At the same time, in a significant number of countries, there is a need for more active state intervention to continue to fill gaps, such as the provision of long-term investment capital through development banks and the transparent management of subsidies that the state wishes to channel through them.

All countries should aim to develop a diverse financial system, consistent with legal and cultural traditions and the capacity for adequate regulation, that responds to the multifaceted needs for financial services, in particular to promote household savings and facilitate long-term investment. Such a system includes markets for public and private bonds and equities; such institutions as pension funds, life-insurance companies, mutual funds, postal savings and mortgage providers; and development banks and non-bank financial institutions. Groups of countries with small economies and lack of financial depth should consider modalities to foster regional markets for financial services.

39. Small and medium-sized enterprises, including many run by women, can play a vital role in the development process, helping to spread growth more widely within the country and promoting more employment intensive growth. Their financing needs require a special effort on the part of public policy.

All countries should facilitate access to finance by small and medium-sized enterprises through the provision of credit — particularly microcredit — and appropriate guarantee schemes, as well as through the introduction of segments of stock markets which are adapted to the needs of small and medium-sized enterprises and where more flexible rules apply. The emphasis should be on transparency of enterprises, on innovative, market-based financing mechanisms and on modalities appropriate to small enterprises, such as venture capital, leasing companies and insurance products.

40. In most developing countries, the provision of credit to agriculture and related sectors is of particular importance. These sectors provide the bulk of employment and account for a substantial part of the national product. Large-scale, market-oriented agriculture, often in export-oriented plantations, generally has access to the organized credit market. However, a focused public policy effort is necessary to provide access to credit, insurance and other financial services for large numbers of small farmers, particularly women, spread throughout the countryside, often at a great distance from the retail outlets of the financial services industry. Cooperative credit institutions have played a particularly important role in this regard in many countries.

Countries should develop a rural credit plan that provides farmers, fisher folk and other small rural producers with equitable access to long- and short-term credit, crop (weather) insurance and other financial services. The development of a legal framework and promotional measures that facilitate credit cooperatives can play an important role in this regard.

41. Well developed and diverse financial systems are also critical for providing access to credit and other services to the poor and vulnerable segments of society in support of development and poverty reduction. Groups of people living in poverty, in both urban and rural areas, as well as very small-scale enterprises, which formal financial institutions tend to bypass because of the perceived high cost of serving them, depend on the development of alternative financial intermediaries and a broad range of financial instruments to gain access to financial services. There is an important function for government to enable and support the development of such intermediaries and instruments and, in appropriate cases, to provide financial services directly through public institutions.

All countries should facilitate access to financial services for the poor and vulnerable by fostering a wide range of financial intermediaries which target small savers and small borrowers, microenterprises, including microfinance institutions, cooperatives, credit unions and postal savings. To this end, countries should strive to remove institutional and regulatory obstacles, such as restrictions on cost recovery, lack of secure transaction laws and weak property registries. Countries should also seek to improve women's access to mainstream sources of financing, including by strengthening their rights to pledge collateral. Governments and donors should provide resources and explore venues to reach people living in poverty, including through international public-private partnership funds to encourage research and applications on innovative financial tools.

42. Owing to the very nature of financial transactions, lack of supervision or implicit or explicit public guarantees granted to private financial institutions, can create "moral hazard". This encourages excessive risk-taking by financial institutions, which can ultimately result in financial crises, with huge, lingering costs in terms of output loss, widespread unemployment and fiscal retrenchment, not only within the country itself but also elsewhere. Even when systemic crises are not at issue, financial market participants deserve to be protected from unscrupulous operators.

Countries should further assess the underpinnings of well functioning financial markets — which should also help to reduce the vulnerability of the international and domestic financial systems to crisis and contagion — through self-assessments or externally assisted assessments, as embodied, for example, in the multi-agency "financial sector assessment programmes" and "reports on the observance of standards and codes". In many countries, such guidelines can be of great assistance in determining the priorities of financial reforms and the appropriate sequencing of reform and economic liberalization measures.

43. As indicated above, lessons from the recent past indicate that the liberalization of the domestic financial sector should be based on a deliberate and judicious management and careful sequencing of the liberalization measures and of the reform of financial institutions in order to ensure that financial management capacity, as well as the supervisory and regulatory system, are sufficiently strengthened to provide resilience in the face of abrupt changes in the domestic economy and volatility in international financial flows. This requires strengthened international cooperation and support.

Bilateral and multilateral financing and development agencies and institutions should be urged to continue to support, on a long-term basis and with increased resources for technical assistance, the national efforts of developing countries and countries with economies in transition in capacity-building for their efforts related to strengthening the financial sector.

Social security and savings mobilization

44. Social protection is an expression of social solidarity and provides assistance to individuals when they experience a reduction in or lack of working capability and thus loss of income. Traditional economies generally provide such help through the pooling of resources in the family unit. In more developed economies, more formalized mechanisms of social security, involving public financing and provision to varying degrees, have regularly been developed to facilitate risk management and the satisfaction of basic needs by individuals and families. These mechanisms, which usually mobilize a very large volume of resources, include pensions, unemployment insurance, sickness and disability insurance, private insurance and health services and housing programmes. Low-income countries do not usually have the capacity to finance or administer a comprehensive system of social protection, but the poor and vulnerable in their populations, particularly women, are the most in need of and entitled to such protection, especially in times of economic and financial crisis. The Asian crisis of the 1990s has highlighted the importance of devising social protection policies and social safety nets as an integral part of countries' development policies, well in advance of any such shock.

National authorities should support a comprehensive approach towards the development of sustainable social protection systems by designing such systems in a manner that facilitates risk management at the individual and family levels, particularly for women; increasing the allocation of national resources for social protection; supporting, to the extent possible, the principle of universal coverage; evaluating systems both in terms of their effectiveness as support mechanisms and also of their impact on productivity, job creation and competitiveness; developing institutional mechanisms for improved coherence in social protection expenditures at the national and local levels; developing modalities and mobilizing resources to extend social protection to those working in the informal economy and those performing unpaid work — who are disproportionately likely to be women; and having social safety nets in place to extend special protection for the poor and vulnerable in times of economic crisis.

45. In many developed and middle-income countries, contributory pension funds have become a component of the pension system. As pension funds are long-term financial contracts, they mobilize savings on a long-term basis, making them available for long-term domestic investment. In addition, pension funds as institutional investors can contribute to the development of domestic capital markets. In spite of their role in domestic resource mobilization, the primary function of pension funds should be the reliable provision of retirement income to workers; other functions should be subordinate objectives. Nevertheless, where these savings are channelled and their impact on financial sector development will depend on the size and investment behaviour of the pension funds, as well as on the availability of financial instruments, financial regulation and supervision, and the level of development of the financial sector in general.

National authorities should explore the development of pension funds, where appropriate to domestic circumstances, as a mechanism to improve income security and as an integral part of a national pension system. The design of the specific programme should aim to ensure its sustainability and attain its primary objective of the reliable provision of income, while giving appropriate consideration to fostering its potential impact on savings mobilization and the development of the financial sector through effective, transparent and adaptable regulation and accountable administration. The sharing of experience in this area should be supported by technical assistance resources from the international community.

Chapter II

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

Enhancing private capital flows for financing development: facilitating private flows, especially longer-term flows; expanding foreign direct investment to a much larger number of developing countries, countries with economies in transition and sectors; enhancing the development impact of investments of transnational corporations in developing countries; improving measures in destination and source countries to reduce risks of excessive international financial volatility; capacity-building and technical assistance

46. External private capital can play an important role in complementing domestic resources. For developing countries and economies in transition as a group, *official inflows* have declined from 56 per cent of total external resource flows in 1990 to 18 per cent in 1999; the balance is accounted for by private flows. Private flows are, however, concentrated in a relatively small number of middle-income countries, and low-income countries still rely largely on official flows for their external financing. For the least developed countries in particular, ODA remains extremely important: in 1998, it accounted for 84 per cent of total resource flows to the 48 least developed countries, while private flows accounted for most of the balance. Long-term private inflows include foreign direct investment (FDI), medium- and long-term foreign portfolio investment (equity issues and long-term bond issues) and medium- and long-term bank loans.

47. These trends have important implications for policies and the three principal stakeholders involved in private flows: host countries, home countries and international investors. Policies also need to take into account that developing countries are not seeking more private flows per se; rather, they seek to attract investment to advance their development efforts with a view to building local productive capacity in the real economy. In this context, it also needs to be recognized that different types of private flows, including different types of FDI flows, may have different impacts on recipient economies. Recognizing these differences is important so as to ensure adequate policy responses by home and host countries as well as to design appropriate programmes supported by the international community. At the same time, some negative experiences — e.g. in the operation of "export processing zones" — should likewise be kept in mind, especially in relation to compliance with host country labour and environmental protection rules and regulations.

Facilitating long-term private flows

48. *Host country* determinants of FDI inflows include a country's level of economic development, its policy and regulatory frameworks, and the business facilitation services it has in place. Among these, economic factors are the most important ones. The regulatory framework is important in that it can create the conditions for private flows to take place. Although typically not the principal binding constraint, it is one set of determinants amenable to immediate policy

action. Indeed, the past 10 years have seen considerable liberalization in this area. For example, most recorded changes in national FDI laws worldwide were essentially favourable to FDI during the decade of the 1990s. While these policy changes were meant to help attract FDI, additional policies and measures can help to maximize the positive impact of such investment while minimizing the negative effects. Business facilitation services, too, lend themselves to immediate policy action. In fact, many countries have established investment promotion agencies to deliver such services. A World Association of Investment Promotion Agencies (WAIPA) has been set up as a joint initiative of the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization (UNIDO) and the World Bank Group to promote and facilitate the exchange of experiences in this area.

Host developing countries and countries with economies in transition that seek to attract long-term international investment flows should continue to take steps to put into place a transparent, stable and predictable framework for private investment and the institutional infrastructure that allows its efficient implementation. Such a framework and the related infrastructure encourages not only international but also, just as importantly, domestic investment.

49. FDI flows to developing countries (and the technologies associated with them) can also be facilitated through the action of *home countries*, especially developed countries. These countries have a number of measures in place to do this, such as the provision of information about investment opportunities in developing countries, financial and fiscal support to outward investors, insurance schemes and market-access provisions (of particular relevance to export-oriented FDI) — although not all developed countries are equally advanced in this regard.

An inventory of home-country measures to enhance FDI outflows to developing countries should be established. Developed countries should emulate best practices regarding such measures, and should devise additional measures to encourage and facilitate investment flows to developing countries, especially least developed countries and other low-income countries.

50. Governments have also taken joint actions to create a favourable investment climate. In particular, the number of bilateral investment treaties had reached 1,856 by the end of 1999, while the number of double-taxation treaties had reached 1,982. Both types of treaties are meant to establish a more stable and predictable investment climate. A rising number of these treaties are between developing countries. Enabling frameworks have been put in place at the regional level as well.

51. At the multilateral level, the Multilateral Investment Guarantee Agency (MIGA) provides insurance against non-commercial risk. Beyond that, discussions have been under way in the World Trade Organization (WTO) since 1996 on the relationship between trade and investment. At the third WTO Ministerial Conference, in December 1999, a number of WTO members proposed launching negotiations on a multilateral framework of rules on foreign investment, a proposal that was opposed by a number of other WTO members. The issues involved are

complex, and discussions are continuing in the WTO Working Group on the Relationship between Trade and Investment on the basis of its 1996 mandate. Those discussions could be complemented by a broader airing of views on the perceived advantages and disadvantages of all forms of international investment agreements, in particular on the contribution they can make to the promotion of development. The objective of such an exercise should be fact-finding, to obtain a broad spectrum of views, without necessarily having to arrive at conclusions and recommendations at an initial stage.

Member States should consider the convening of ad hoc global hearings to discuss the issues surrounding international investment agreements, in particular the extent to which such agreements can further the development of developing countries. Such a dialogue should involve Governments, the private sector and civil society.

52. In addition to FDI, foreign portfolio investment is becoming an increasingly important source of external finance for many developing countries and transition economy countries. Such investment can play a positive role in the financing of domestic enterprises and government financial requirements. Access of developing and transition economy countries — as well as their firms — to international capital markets and export credits can be facilitated by improved financial statements and the disclosure of other relevant information in order to build investor confidence. Good corporate governance — corporate accountability, transparency and adequate disclosure — are also important for a wider group of stakeholders. Such organizations as the International Accounting Standards Committee and the International Federation of Accountants, as well as the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, have a key role to play in this respect.

The high-level meeting should encourage relevant international organizations to undertake a deeper examination of issues related to corporate governance, in particular their relevance to developing and transition economy countries, taking into account their specific legal, social and cultural environment. In particular, support should be given to efforts to develop and implement international accounting, reporting and auditing standards, taking the needs of these countries into account.

Expanding the spread of FDI

53. Investment flows to developing and transition economy countries are heavily concentrated. During the period 1993-1998, 20 countries accounted for over 70 per cent of all FDI inflows to all such countries. The majority of low-income countries have been largely bypassed by private finance from abroad — least developed countries as a group received only 0.5 per cent of world FDI inflows in 1999. The contribution of FDI to economic diversification, the generation of foreign exchange and the upgrading of technical and managerial skills of host economies can be high in export-oriented industries, in industries with high potential for technology transfer and in industries that allow for an integration of foreign production in the local economy, and thus can generate positive spillover effects. Given the

geographic imbalance of FDI flows, the challenge is to ensure that it flows to more countries, especially the least developed countries.

The relevant international organizations and donor countries, in cooperation with the potential recipient countries and with firms and private-sector associations, should expand and facilitate information flows on investment opportunities in developing countries, particularly least developed countries and African countries. At the same time, international institutions involved in supporting FDI flows should evaluate the development impact of investment flows in recipient countries, including social development concerns.

54. In order to attract FDI — and, more generally, encourage investment — developing countries and economies in transition need to enhance their locational assets, which means investing in health, education, water supply, sanitation, power, transport and telecommunication. These infrastructure services are essential for a growing economy and improving the quality of life. While some of these assets can be provided by the private sector, most others need to be supplied by the public sector. In this context, ODA and FDI can be mutually supportive.

55. Despite the growth of private capital flows, however, as indicated in other sections of the present report, most developing countries lack access to international capital markets. For some “borderline” borrowers, access to certain types of international portfolio investment — such as venture capital funds, equity funds for large infrastructure projects and even bond issues — can be enhanced by public/private partnerships. As a partial, temporary bridging measure, the relevant financial institutions can use their guarantee powers to enable developing countries and economies in transition to access international private capital markets and thus assist them in gaining creditworthiness with international lenders and investors. Such a role is particularly valuable in developing the infrastructure in least developed countries, African countries and other low-income countries, since improved infrastructure facilities are a key not only for overall development in these countries but also for improving their prospects of attracting private capital.

Countries should examine critical infrastructure constraints for private sector development. Priorities should be identified for the involvement of the private sector in the financing of infrastructure projects, including those in areas, such as telecommunications, that help to bridge the digital divide. Private-public sector commercial partnerships (e.g., co-financing, partial or full risk guarantees, and technical assistance and advisory services) may also offer opportunities in support of the above. In cases in which host countries provide incentives to encourage private-sector financing, guarantees should be fully identified, appropriately classified, and monitored so that they do not hide contingent fiscal risks that could threaten fiscal stability.

56. Firms from developing countries themselves increasingly invest abroad. FDI from developing countries increased from 2 per cent of total FDI outflows in the early 1980s to 10 per cent currently. This growth has been particularly important within regions.

The high-level meeting should propose the establishment of an expert group to examine ways and means by which FDI flows among developing countries can be further encouraged. Attention should be given to "growth triangles", especially those comprising geographically proximate areas, and to the role of regional investment frameworks in facilitating an intraregional division of labour and helping to attract FDI.

Enhancing the development impact of investments

57. Enhancing the developmental impact of FDI flows translates into harnessing its potential benefits, especially in strengthening technological capabilities, boosting export competitiveness, generating employment and strengthening the skills base. Strengthening the linkages of foreign affiliates with their host economies, especially with small and medium-sized enterprises (SMEs), is one important way in which these benefits are disseminated to domestic enterprises. Since technology is one of the most important components of the FDI package and is central to development, special attention should be given to encouraging its transfer and dissemination within host countries and, beyond that, to the creation of indigenous research and development capacities.

Host and home countries, as well as transnational corporations and international organizations, should compile an inventory of best practices through which more and deeper linkages between foreign affiliates and local enterprises can be encouraged, with a view to helping to foster a vibrant domestic enterprise sector in developing countries; in particular, this inventory should contain successful practices to transfer and disseminate technology, as well as to build local research and development capacities. Transnational corporations should emulate such best practices to the largest extent possible. Likewise, options should be devised through which existing commitments in international agreements to encourage the transfer of technology can be operationalized.

58. Enhancing the development impact of FDI also requires minimizing negative effects that can be associated with FDI, e.g., where transfer prices are manipulated and a country's tax base is negatively affected or anti-competitive practices are employed. As regards the first of these issues, the emergence of complex corporate international production systems — and the intra-firm division of labour they involve — makes it increasingly difficult to determine where profits and losses are occurring and, hence, what taxes need to be paid by whom. Since taxation is the bedrock of a government's financial capabilities, international cooperation on tax questions arising from the growth of international production and trade should be enhanced (see recommendation in chap. VI).

59. The growth of FDI flows is increasingly being fuelled by cross-border mergers and acquisitions. While such mergers and acquisitions raise a variety of issues, particularly important among them is their impact on market structure through increased market concentration and reduced competition. The principal reason is that they can lead to reduced competition, even in generally contestable markets. Cross-border mergers and acquisitions, by their very nature, require attention from more than one competition authority. This raises a range of issues, including

evaluation criteria, definition of the relevant market, time periods for reviews and measures of implementation. As the pace of cross-border mergers and acquisitions accelerates, the need for strengthened cooperation is becoming more urgent, especially for developing countries, which may be unable to take effective remedial action unilaterally if and when needed. At present, the principal multilateral forums (apart from the Organisation for Economic Cooperation and Development (OECD)) where these matters are being discussed are the UNCTAD Intergovernmental Group of Experts on Competition Law and Policy and the WTO Working Group on the Interaction Between Trade and Competition Policy.

Greater international cooperation among national competition authorities is necessary and should be encouraged. Special attention should be given to work aimed at strengthening international cooperation on competition policy and regulation, in particular as regards mergers and acquisitions, with a view to promoting a greater understanding of the issues involved, especially in developing countries, and to increasing cooperation in implementation among all countries concerned. Merger review guidelines have a role to play in this context by increasing transparency and reducing differences in the technical criteria used.

60. While Governments play a central role in maximizing the positive and minimizing the negative effects of FDI, *transnational corporations* have responsibilities of their own in this respect. The recently updated OECD guidelines on multinational enterprises are an example of how these responsibilities can be defined — they can be seen as part of the broader concept of “good corporate citizenship”. Good corporate citizenship goes beyond the pursuit of share value and profit. It becomes all the more important as global markets and production systems need to be complemented by a shared system of values and responsibilities. In this respect, the Global Compact initiated by the United Nations provides a framework for better interaction between transnational corporations and host countries.

Transnational corporations and other firms should accept and implement the principle of good corporate citizenship and should, inter alia, subscribe fully to the United Nations Global Compact. Global Compact participants should take specific measures that foster development — including innovative partnerships, linkages and collective action — and share their experience with all stakeholders.

Helping reduce negative aspects

61. While, at one end of the spectrum, FDI is recognized as a relatively stable source of finance, at the other end, short-term, pure financial flows (especially short-term commercial bank loans and deposits) give rise to concerns over their volatility. Host-country factors and policies, external factors (including the macroeconomic policies of source countries and the strategies of international investors), asymmetric information about financial transactions and international financial contagion all play a role in the volatility of short-term capital flows. Moreover, large capital inflows can lead to inflationary pressures and real exchange-rate appreciation, and should therefore be subject to careful monitoring and

regulation, as appropriate, on the part of host countries. As indicated in chapters I and VI, it is therefore important to devise mechanisms to harness the positive contribution of financial flows while reducing the risks they entail.

62. Credit-rating agencies play a critical role in providing information that contributes to investment decisions. The impact of negative ratings announcements can be particularly significant during times of financial turbulence, and can exacerbate the negative reactions of markets towards countries in crisis and encourage the spread of panic behaviour among investors. Sound and reliable local systems of credit information in developing countries and economies in transition, working in close cooperation with international rating agencies, could provide additional information on local borrowers, and contribute to lowering the cost of ratings.

Credit-rating agencies should endeavour to rate sovereign risk according to criteria that are as objective and transparent as possible. Borrowing developing and transition economy countries should give priority to the development of reliable local systems of credit information in accordance with international practices and in close cooperation with international rating agencies.

63. Excess leverage of non-bank financial institutions and over-exposure to certain categories of assets are also important causes of volatility in financial markets. Various international forums have stressed the need for enhanced national surveillance of financial market activity. Information on investor exposures to different categories of assets — particularly the exposure of non-bank financial institutions, including highly leveraged institutions — is limited. Greater transparency by all parties can also help to reduce possible procyclicality or contagious bias of sovereign credit ratings. These issues will be further discussed in chapter VI.

Governments and international organizations should implement measures to strengthen the transparency of financial markets; and the relevant authorities, in their review of the impact of the activities of highly leveraged international investors on the stability of national banking systems, should propose ways in which the risks associated with this impact can be taken into account in revising the existing capital adequacy standards for banks.

64. Transparency of financial markets requires that attention be given to the question of illegal transfers of funds and money-laundering. The integrity of financial markets and hence the international financial system requires effective protection against abuse and criminal activities. As recognized in General Assembly resolution 54/205 and in the communiqué of the International Monetary and Financial Committee of 24 September 2000, sustained international and national efforts are critical to the fight against money-laundering. More recently, a group of 11 large private international banks have agreed on common procedures to increase oversight in order to ascertain the source of funds offered for deposit, as well as the true beneficiaries of an account.

Recent initiatives of the General Assembly and the Bretton Woods institutions in the fight against money-laundering should be pursued and Member States should continue to strengthen measures against illicit transfer of funds and improve the exchange of information across borders; encourage additional measures by large international banks; and enhance international cooperation with a view to reaching a common approach to combat money laundering and financial crime (see also recommendation in chap. I).

Capacity-building and technical assistance

65. The need of developing countries — especially least developed countries — for the strengthening of capacity and technical assistance in FDI-related matters has increased. Assistance is particularly required in the following areas: upgrading regulatory frameworks for FDI and strengthening the capacity to achieve and maintain this upgrading; policy-oriented analysis aimed at improving the understanding of the role of FDI in the world economy and its impact on development; the provision of information on investment opportunities; measures to attract FDI (and the technology that is part and parcel of it) and efforts to benefit from it as much as possible; and developing enterprises that are internationally competitive.

66. In the light of the fact that private flows now account for the larger share of external finance for many developing countries (although not for least developed countries), and given the importance of FDI in the world economy, it would seem appropriate to consider the creation of a mechanism through which issues related to FDI could be discussed among all the principal stakeholders. Such a mechanism would not necessarily need to possess the authority to make decisions and could be serviced by an ad hoc task force of staff from international organizations. It would provide an opportunity to exchange experiences about best practices as regards attracting and benefiting from FDI, and the role of the international community in this regard.

The high-level event should consider setting up an ad hoc forum to bring together representatives of Governments, international organizations, business, labour and NGOs in order to facilitate a dialogue on policy and technical assistance issues relating to foreign direct investment. The objective should be to facilitate such flows to developing countries — especially least developed countries — and to identify obstacles and examine best practices as regards government policies for maximizing the contribution of FDI to development and minimizing any negative effects.

Chapter III
Trade

Enhancing trade for financing development: ensuring market access for products of export interest to developing countries; addressing issues related to the decline of public revenues from trade liberalization; strengthening regional cooperation/integration for expansion of global trade; capacity-building and technical assistance, including assistance for trade negotiations and dispute settlement; special needs of Africa, the least developed countries, small island developing States, landlocked and transit developing countries and other developing countries as well as countries with economies in transition with special difficulties in attracting financing for development

67. There is now widespread acceptance that, in the long run, the expansion of international trade and integration into the world economy are necessary instruments for promoting economic growth and reducing and eradicating poverty, especially insofar as they allow economic agents to use their productive potential in the most efficient way, contribute to higher productivity, curtail arbitrary policy intervention and help insulate against economic shocks. Developing countries as a whole have been able to expand their exports substantially and have made major progress in liberalizing their trade regimes since the 1980s. At the end of the 1990s, average nominal tariffs in developing countries had fallen to less than one half of their level in the mid-1970s. This liberalization of trade regimes was associated with a significant acceleration in the growth of incomes and exports in several developing countries in the 1990s. However, trade liberalization should be approached in a sequenced manner and must be complemented with stronger measures to diversify and expand productive capacity. Rapid trade liberalization can, in the short to medium term, entail heavy adjustment costs such as a reduction in employment and output, the loss of industry-specific and firm-specific human capital, and potential macroeconomic instability resulting from balance of payments difficulties or reductions in government revenue.

68. Despite the aggregate progress, it is clear that many developing countries, especially least developed countries, have not achieved sustained increases in their per capita gross domestic product (GDP) over the last three decades. The overall economic environment confronting many of the poorest countries makes it difficult for them to rapidly raise living standards, improve or even maintain export shares in traditional markets, or encourage rapid diversification. This outcome reflects complex situations whose elements are dealt with in other parts of the present report. And experience of successful integration suggests that encouraging rapid growth and integration requires multiple and coordinated initiatives across a broad front.

Donor countries and international financial and developmental institutions should pursue a global, fully-funded programme to assist interested developing countries, particularly least developed countries and other low-income countries, in liberalizing, as appropriate, the trade sector of their economies, building the necessary policy, physical and human capacity to trade competitively in goods and services, and ensuring that gradual trade liberalization is part of, and consistent with, development and poverty reduction strategies.

Market access

69. Market access protection by developed countries currently imposes costs on developing countries that significantly exceed aid flows. Estimates of the potential gains in developing countries from a variety of liberalization measures range from $100 to $150 billion. There are thus large gains to be captured by developing countries from continued liberalization in goods markets. At the same time, developing countries have great scope to expand service exports, especially services involving the movement of natural persons, and thus would benefit significantly from greater access to service markets in the high-income countries. However, the evaluation of the trading system should be made from the perspective not of whether it maximizes a developing country's trade flows but rather whether it contributes to sustainable growth and maximizes development possibilities at the national level.

70. Even after the full implementation of the Uruguay Round, the average tariff on exports from developing to developed countries will exceed 12 per cent and tariff peaks for some important products will reach 350 per cent (though import-weighted averages are somewhat lower). The tariffication of quotas and other non-tariff measures in the agricultural sector resulted in a number of high tariffs, with the access opportunities in many sectors being provided only within tariff quotas. The textile and clothing sector, of vital interest to many developing countries, is subject to declining quantitative restrictions until 2005, with the most meaningful liberalization of existing quotas coming last, and tariffs in the sector will remain high. Further, integration in the textile and clothing sector and market access in agriculture are hindered by the slow pace of liberalization of these sectors by high-income countries.

All trading partners should liberalize trade in goods and services of particular interest to developing economies, seeking to achieve bound, expanded and commercially meaningful market access for such goods and services. Particular attention should be given, in the first instance, to the full integration of textiles and clothing into WTO; the reduction of barriers of trade in agricultural products; the removal of tariff peaks and escalation affecting the export products of developing countries; and the expansion, where appropriate, of Generalized System of Preferences (GSP) schemes.

71. The European Commission has proposed to fully open the markets of European Union countries to all goods, except arms, from the world's poorest countries. Its proposal would grant duty-free, quota-free access for products from the 48 least developed countries. It is hoped that other developed countries will follow suit. Concern that this development could divert trade from developing

countries that are not least developed countries would not seem to be justified. But similar measures need to be extended to other developing countries and countries with economies in transition.

All developed countries should immediately provide duty-free, quota-free market access to all non-arms exports of least developed countries and highly indebted poor countries and consider doing the same for other developing countries, particularly the countries of Africa, small island developing States, landlocked and transit developing countries, and other developing countries, as well as countries with economies in transition with special difficulties in attracting financing for development.

72. Many countries consider that the implementation of the WTO agreements has shown imbalances and asymmetries, and that provisions for special and differential treatment have not been adequately implemented. Many such provisions are expressed in terms of "best endeavours" rather than firm, legal commitments. In addition, the growing use in all markets of increasingly complex industrial standards, technical regulations and sanitary and phytosanitary regulations has presented new difficulties for developing countries. Moreover, trade contingency measures, particularly anti-dumping measures, have increasingly affected sectors of interest to developing countries, such as processed food, fresh agricultural produce, fish, metals, plastics, textiles, clothing, footwear and headwear. Some developing countries have also experienced difficulties in applying the WTO agreements owing to human, institutional and financial constraints.

73. Many analysts also consider that a new approach to special and differential treatment is necessary. This should provide bound provisions including appropriate time frames for implementation of the WTO agreements; adequate assistance for the building of human and institutional capacity; and space for appropriate development policies to build up competitive supply capacity to meet market access opportunities. Some point to the need for direct policy action and reinforced international support in respect of structural production and investment conditions. Moreover, many countries also generally oppose the introduction into WTO of non-trade concerns, which could be used for protectionist purposes.

WTO members should ensure that the WTO agreements and their associated disciplines are applied in ways conducive to development. Developed country members of WTO and international financial institutions should ensure that adequate financial and technical assistance is provided to developing countries for their implementation of the WTO agreements. WTO members should also not use contingency measures and restrictive rules of origin, and should ensure that standards, technical regulations and Sanitary and Phytosanitary Standards (SPS) measures are not used to obstruct trade, that they can be adequately observed by developing countries and that appropriate assistance is provided to enable them to do so.

Compensatory finance and price-risk management

74. Recently, there have been significant changes in the IMF and European Union (EU) compensatory financing mechanisms for short-term fluctuations in export

earnings and in main safety-net measures protecting the different agents in the commodities sector against negative effects of price instability. Under the streamlined IMF Compensatory Financing Facility, balance-of-payments financing will normally be made available in the context of a regular Fund arrangement. The new EU-African, Caribbean and Pacific Countries (ACP) agreement provides novel access to a special account to be used for offsetting both agricultural and mineral export earning shortfalls through the establishment and use of market-based mechanisms, such as through the adoption of strategies based on both futures and over-the-counter markets.

The international financial institutions should continue adapting and making more flexible the mechanisms through which they provide balance of payments support in times of commodity price shocks.

75. The dynamics of the commodities sector have shifted drastically, with agricultural and mineral policies undergoing critical changes in the new market-based environment. To cope with this development, since the early 1990s, the international community has sought innovative approaches involving market-based instruments for protecting commodity operators (producers, domestic exporters and traders, Governments and parastatal bodies, as well as commodity importers, processing companies and consumers) against the negative impact of price instability.

76. Price instability causes problems for commodity-dependent countries at both the macro and micro levels. For Governments, unforeseen fluctuations in export and import prices jeopardize budgetary planning and the attainment of debt targets. For local exporters and processing companies, price variability increases cash-flow uncertainty and reduces the collateral value of inventories, which in turn increase borrowing costs. Similarly, small-scale farmers, often with poor access to efficient savings and insurance instruments, are strongly affected by a price decline and have limited possibility to benefit from safety-net measures. The effects of trade liberalization and reduced interventions on price stability is not yet clear: some analysts estimate that liberalization will help stabilize prices, while others estimate that likely lower stockholdings will increase instability. This suggests the need to consider strategies, which, if they cannot eliminate the above-mentioned risks, can at least try to address and manage them effectively.

77. Since April 1998, based on the earlier work carried out principally at UNCTAD, an international task force on commodity risk management in developing countries has been giving consideration to the role of international cooperation by exploring new market-based approaches to deal with intra-annual commodity price fluctuations. Particular themes include the possibility of supplying risk management tools, intermediation, transaction guarantees by an international structure, the provision of a safety net for prices, the setting up of risk management institutions and provision of technical assistance in this regard.

The relevant international organizations should urgently formulate measures to help developing countries to deal with commodity price risks, including the possible establishment of a new global facility to facilitate developing country access to commodity price risk management and structured commodity finance mechanisms and to assist in the development of regional and national commodity exchanges.

Vulnerability

78. In reducing vulnerability by greater diversification of the productive and export base, countries can make use of a wide panoply of policies which are permitted by the disciplines of WTO, including non-specific subsidies and subsidies allocated for regional development, technological upgrading and the adaptation of industries to norms of environmental protection. Vulnerabilities in the agricultural sector deserve special attention. Large segments of the population in developing countries, women in particular, continue to rely on the agricultural sector for their basic food needs and for their income-earning opportunities.

79. The extreme vulnerability to external shocks of small economies is caused by three sets of interrelated factors: geographical (country size and location), demographic and economic. Both a high degree of trade openness and a more rigid and concentrated export structure generate special risks. Traditional and non-traditional exports from smaller countries tend to be concentrated in critical areas, such as agricultural products, textiles and apparel. Each of these areas is sensitive to protectionist pressures within industrialized countries.

80. Countries with medium levels of income per capita and a more diversified export mix are nonetheless vulnerable to arbitrary actions in importing markets. In spite of the success of the Uruguay Round agreements in reducing discrimination and “grey area” rules, there is mounting evidence of a disproportionate use of anti-dumping measures and the resurgence of voluntary export restraint agreements in particular sectors of mature technology. The evidence is clear that stable and predictable market access for developing countries’ exports is crucial for sustaining higher levels of investment in the tradable sector.

The multilateral development banks should spearhead the development of a major programme to assist developing countries, particularly small and vulnerable economies, in diversifying their export base in terms of both the product mix (goods and services) and destination markets. The importance of export diversification programmes should be kept in mind by bilateral donors and all multilateral aid agencies in considering expenditure and assistance priorities. WTO should monitor vigilantly the use of anti-dumping measures and any voluntary export restraint agreements, particularly when used against developing countries.

Technical assistance and capacity-building

81. Experience both during and after the Uruguay Round has demonstrated clearly the inadequacy of the institutional capacity of most developing countries in the formulation, negotiation and implementation of trade policy, and the corresponding need for developing the necessary analytical and policy framework for

mainstreaming trade into national development strategies. The Integrated Framework, meant to be a response to this critical need for the 48 least developed countries, has so far remained an unfunded mandate, and there is no equivalent for the other developing countries also in need of such capacity-building.

Donor countries should contribute rapidly and generously to the Trust Fund established in the context of the Integrated Framework. WTO members should expand the scope of the Integrated Framework beyond the least developed countries, to cover other developing countries, particularly countries of Africa, small island States and landlocked and transit developing countries.

Chapter IV

Increasing international financial cooperation for development through, inter alia, official development assistance

Enhancing official development assistance (ODA): reinvigorating the commitment to fulfil the 0.7-per-cent target, including renewed leadership based on best practices, improved advocacy and sound information policies that address misperceptions and differentiate ODA for economic growth from global public goods financing; increasing the effectiveness and efficiency of ODA, through, inter alia, enhanced ownership and better coordination of initiatives such as the comprehensive development framework, the United Nations Development Assistance Framework, and the poverty reduction strategy papers; special needs of Africa, the least developed countries, small island developing States, landlocked developing countries and other developing countries with special difficulties in attracting financing for development

82. The Millennium Declaration (General Assembly resolution 55/2) contains a set of goals around which development efforts in general and the mobilization of ODA and other official assistance in particular can rally. One central goal that of halving poverty by 2015, is a powerful summary of the challenge that the international community faces. To achieve this goal, developing and transition economy countries must achieve and sustain high growth rates as well as remove social barriers to poverty reduction. This, in turn, requires economic and social policies that are designed in a participatory way and look at the impact on the poor in order to ensure that the allocation of resources is not only efficient but also equitable. In addition, Governments realize that, to reap the benefits of globalization, they must have transparent, accountable and effective institutions that both help create an enabling environment and generate the impetus required to mobilize domestic and external resources.

83. As a complement to domestic efforts and to foreign private capital flows, ODA and other official assistance can be critically important in helping developing and transition economy countries. But, for ODA resources to make an effective contribution to development, they must be structured around two basic principles: supporting strategies that revolve around the goal of poverty reduction and that generate sustainable, equitable growth; and relying on policies and programmes that enjoy ownership by recipient countries' Governments and civil societies. These principles mean that partnerships between donors and recipient countries — not only to transfer financial resources and provide access to knowledge and build capacity but also to help empower the poor, particularly women — must be based on mutual respect, shared objectives and recognition of the common interests that emerge from globalization.

84. In this regard, multilateral, regional and subregional development finance institutions play an important role in marshalling both concessional and non-concessional resources for development. That role is essential in providing financing

for lower-income countries whose access to private markets is limited. In addition, official financing has advantages over private financing in terms of maturities and costs and it can be supplied counter cyclically (see chap. VI). The international community thus needs to continue to support these institutions and provide them with a continuous, predictable and assured flow of resources, adequate to fully carry out their mandated activities.

Volume of official development assistance

85. ODA flows reached a peak in the early 1990s, and have since been declining — with the decline being very significant in real terms — until recently. While fiscal deficits in donor countries were a major factor until the mid-1990s, fiscal balances in most donor countries have improved greatly. The other main factors behind ODA declines probably consist of a motivational vacuum (related in part to the end of the cold war); persisting doubts about the effectiveness of ODA-supported projects and programmes; and the increased supply of private capital.

86. The rapid increase in private capital flows to developing and transition countries in the 1980s and 1990s created a sense that their continued expansion would provide the resources needed for these countries to achieve accelerated investment and growth. However, since 1997, following the financial crises, private capital flows have declined and their prospects now seem less certain. Most important, even at the private capital flows peak of 1996, the often-reproduced "scissors" diagram (i.e., total ODA flows went from being greater than total private flows to being much smaller) misrepresents the situation faced by least developed countries and other low-income countries. As indicated in the previous chapter, ODA flows continue to represent the bulk of external financing in virtually all of the low-income countries and remain critical to their development prospects.

87. For many countries, therefore, ODA remains a source of financing, as well as technical assistance, which can make a key contribution to the success of their efforts to achieve sustained growth and steadily reduce poverty. ODA can help countries to reach adequate levels of domestic resource mobilization over an appropriate time horizon, helping them to expand their human capital and productive capacity as well as diversify their export bases. ODA can also help countries to improve their enabling environment for private sector activity through infrastructure and institutional development and, thus pave the way for robust growth — driven by both domestic and foreign private investment.

88. Fiscal pressures in donor countries played a role in the declining trend of ODA flows. But many donor countries are experiencing unprecedented prosperity. As deficits have shrunk and even turned into surpluses, only a few donor countries have reversed the decline in real ODA budgets. The improved fiscal health and the prosperity that many developed countries are enjoying have created an opportunity for increased financing for development. Nevertheless, instead of moving towards the 0.7 per cent level, ODA has declined as a percentage of donor country GNP as a whole (from 0.33 per cent in 1992 to 0.24 per cent in 1999) and has also declined as well for most individual donor countries.

89. The challenge, therefore, is threefold: motivating increases in ODA and related resource flows; ensuring that resources are provided in a form that matches the short and long-term needs of developing and transition economy countries; and improving

the delivery mechanisms, coordination and other factors that determine the effectiveness and impact of available resources.

Member States should agree that ODA has a key role to play in ensuring that the benefits of globalization reach people living in poverty in many low-income countries, and that it should thus revolve around the objective of poverty reduction through sustained and equitable growth. To this end, partnerships between ODA donors and recipient countries must be enhanced and donor assistance structured around the recipient country's own strategy for poverty reduction and eradication, in the context of its overall development objectives.

90. The development goals arising out of the major conferences and summits of the 1990s, which were strongly endorsed by the Millennium Declaration — including notably the poverty goal for 2015 — could thus be the basis for a new impetus for ODA. Placing an intense spotlight on these millennium development goals could serve a dual objective. First, to ensure that progress (or lack thereof) towards the development goals is tracked, that flags are raised if there are deviations from the desired path, and that implications are drawn for resource requirements and policy changes for the sectors or countries lagging behind. Second, it could heighten interest in development assistance in donor countries by linking it to specific pursuits that resonate with the public at large; notably, with taxpayers and public opinion in donor countries.

91. It would not be realistic to expect that the resource costs of a 15-year path for so many countries can be reliably estimated in advance and that donor commitments can be made for such an extended period. Therefore, an interactive process to assess needs and identify resource requirements to achieve the two objectives — tracking progress and mobilizing resources — should be put into place. The inter-agency initiative to this effect that took place in the first half of 2000 (including the United Nations, the World Bank, IMF and OECD) is a useful first experience in that direction. But this experience also underscored the need for an approach that is even more inclusive in terms of participants and goals. A dedicated, "high-visibility" campaign could be undertaken to argue forcefully for the required ODA resources in donor capitals and to prompt the relevant international implementing agencies in a constructive way.

A campaign for the millennium development goals should be established. The campaign would have a limited lifespan of five years. Its mandate would be to consolidate information collected by different agencies and Governments on progress towards the goals in different countries, on cost implications at each stage, and on resource availability to fuel this progress.

92. Reaching the development goals will require effective domestic policies and improvements in national capacity and international policy coherence, as well as in aid delivery and coordination mechanisms. It will also require: (a) additional resource transfers delivered with increasing flexibility; (b) concessionality levels (including grants) appropriate to the purposes and to the situation of recipient countries; and (c) a diversity of aid channels to provide recipient countries with a

range of options appropriate to their needs (including emergency and humanitarian assistance). In this context, the erosion of voluntary contributions to the funds and programmes of the United Nations development system is a serious concern.

Donor countries should be called upon to redouble every effort to increase the amount of ODA and meet international commitments in this regard without any further delay. Donors should undertake an immediate commitment to avoiding any declines in ODA and, in the case of countries where ODA still accounts for well under 0.7 per cent of GNP, they should pledge to honour existing commitments to steady increases in real ODA flows within a defined time frame. Donor countries should also be urged to explore determinedly not only how they can improve the amount of ODA they provide but also the flexibility with which resources are made available.

93. For ODA to address adequately the situations faced by different countries, it must be available through a balanced mix of conduits and in the form of a continuum of financial and other instruments. The serious erosion of core funding for the United Nations development system is causing gaps to emerge in the aid system. As a result, developing and transition countries find themselves with reduced access to an adequate range of development assistance options.

Donor countries should be urged to ensure that adequate resources are provided through the different multilateral aid agencies, so that they can fulfil their mandates and sustain a range of ODA mechanisms and channels. This range must match the needs of developing and transition economy countries while providing a sound balance between diversity of channels and efficiency in aid delivery.

94. As indicated above, for ODA to address adequately the situations faced by different countries it must be available in the form of a continuum of financial and other instruments. Aggregate resource availability must be ample, but availability for each type of resource must also be sufficient to meet the opportunities for effective aid interventions. This continuum starts with situations for which only grants are appropriate (such as emergencies, catastrophes and post-conflict situations, technical cooperation in support of enabling environments and technical assistance to develop the capacity to manage aid flows). It also ranges from balance-of-payments financing to help countries deal with terms-of-trade shocks, public expenditure financing for least developed countries and other low-income countries and specific support for poor regions in lower middle-income countries to funding and other support for regional or subregional initiatives.

Regular reviews of the volume and composition of ODA and related flows should be maintained with a view to, inter alia, identifying critical gaps. All relevant international organizations should review the range of development needs and instruments and consult with each other to identify these gaps. It is particularly important to identify situations in which development assistance is not reaching regions with large concentrations of people living in poverty. Based on this review and with the assistance of the Economic and Social Council, coordinated proposals should be made to the governing bodies of the relevant institutions to fill the gaps that are of most relevance to the mandate and capabilities of each entity.

Aid effectiveness and efficiency

95. Aid effectiveness is the result of two types of factors. The first relates to the policy and institutional preconditions in recipient countries (including targeting of public expenditure to priority areas in line with goals of poverty reduction). The second relates to the level and nature of transaction costs in the aid delivery system. Considerable progress has been made in recent years in understanding the preconditions for aid effectiveness. They revolve around the same factors that determine domestic resource mobilization and underscore that development assistance can only be a complement for domestic efforts. Sound domestic policy formulation is not only key to efficient resource utilization but also provides the basis around which donor assistance must be articulated. In this context, two important premises for aid effectiveness are:

(a) Ensuring that aid-recipient Governments are at the centre of the formulation of programmes to be supported by donors and international agencies and also lead a participatory, transparent effort to monitor the impact of external assistance;

(b) Making sure that poverty reduction is effectively the overriding objective of official international assistance, with growth-oriented macroeconomic policies conducive to development one of the key means to that end and with fiscal adjustment horizons appropriate to the situation of each country.

96. A growing number of aid-recipient countries are organizing their national development plans and programmes into holistic development frameworks and expecting external agencies (including multilateral and bilateral donors) to ensure that their own assistance strategies are designed as part of their implementation. In addition, it is important that diagnostic analysis and policy formulation efforts revolve around the poverty reduction objectives and their links to the national development strategies. The poverty reduction strategies and the United Nations Development Assistance Framework represent important steps in this direction and early experience with their implementation should be carefully analysed.

Developing countries should adopt comprehensive frameworks for equitable growth and formulate poverty reduction strategies that, in addition to guiding national efforts, should provide leadership for external assistance and serve as the basis on which individual donors formulate assistance strategies for the country. Similarly, donor agencies should cooperate among themselves and with recipient country Governments to reduce the plethora of diagnostic and programming instruments required.

97. All bilateral and multilateral development agencies have operational policies and procedural requirements that guide their engagement with developing and transition countries. They cover areas as diverse as environmental and social assessment, procurement, financial management and analysis, and project processing and evaluation, as well as country and sector strategy formulation. A major problem is that, even when agencies have similar objectives, their specific requirements can be different. As a result, ODA recipients — particularly poorer and smaller borrowers that have limited implementation capacity — face massive administrative complexities and high transaction costs when dealing with multiple donors.

98. Concerns with reducing these costs and complexities and increasing development impact has led to an effort of "harmonization". This consists of initiatives by the multilateral development banks, the United Nations funds and programmes and other donors, including the round table on operational policies, strategies and practices involving the multilateral development banks and the OECD Development Assistance Committee (DAC) task force on harmonization of donor procedures. The most effective and lasting solution, however, is for countries to have sound operational policy and procedural frameworks that could then provide the basis for managing all development expenditure — whether donor-funded or not. Building in-country capacity in this regard is, therefore, critical to aid effectiveness.

Donor agencies should pursue as a matter of priority their efforts to simplify and harmonize operational policies and procedures. In this context, multilateral and bilateral donors should make every effort to help developing and transition economy countries to strengthen their own capacity for designing and managing their own operational policies and procedures.

99. In addition to harmonizing procedures and increasing flexibility in aid delivery mechanisms, reducing the transaction costs of aid requires a broad effort to coordinate donor interventions throughout their full cycle of involvement. The existing system of consultative group meetings and round tables has been evolving to reflect the increasing recognition of the importance of broad ownership. More decisive steps in this direction are now called for, in line with the approach of the Comprehensive Development Framework and similar devices, to ensure ownership not only by recipient country Governments but also by civil society.

The high-level event should endorse the principle that recipient countries must be not only the prime architects of development programmes but also the cornerstone of aid coordination mechanisms, with the help and support, as appropriate, of relevant international organizations and bilateral donors. Donor coordination should take place in country, under the leadership of the recipient country Government.

100. As the lessons of experience with aid effectiveness have been systematically analysed, donors have undertaken to concentrate resources in needy countries where the policy environment is seen to be conducive to aid effectiveness. They have shifted financial flows away from situations in which, because of prevailing socio-economic policies or forms of governance, aid is believed to be unlikely to have a positive impact. They have not managed, however, to sufficiently intensify resource transfers in support of the efforts of countries, which have adopted sound policies and have been steadily improving their overall governance.

101. Traditional project-based assistance programmes have limitations as a channel for the transfer of resources and there is the risk that, as a result, the lessons of aid effectiveness could become a hindrance to ODA flows rather than a basis for increasing flows to countries where effectiveness is likely. Efforts to organize donor support around project packages and sector programmes have generally had modest effects and do not appear to offer an adequate solution for this problem.

102. Alternative approaches need to be considered to ensure that donor delivery mechanisms and disbursement procedures do not make excessive or unrealistic demands on recipient country institutions but rather support the implementation of promising programmes formulated and adopted by the recipient countries. Greater donor flexibility towards ODA to countries with sound and appropriate policies and improved governance structures and institutions would also provide an incentive for other countries to implement adequate reform and development programmes to benefit from such flexibility.

Donors should match the progress being made in the policies and programmes of recipient countries with increasing flexibility in their delivery and disbursement systems. Special approaches by donors to enable coordinated budget support, joint sector programme financing and other enhancements of disbursement flexibility are called for, in particular for countries that have adopted best practice policies and are striving to improve their governance structures and institutions.

103. Over the years, many efforts have been made to improve the effectiveness of service delivery and to design projects that have maximum impact on development. The reform of and capacity-building in public service providers can significantly improve effectiveness. For certain types of services, alternatives to public delivery mechanisms can offer the best prospects for improved results. “Output-based” contracts provide one such mechanism, harnessing private-sector initiative for the delivery of the services (e.g., child immunization) that Governments and donors wish to subsidize, with remuneration being tied to results. They draw on experience with reform and private participation in the infrastructure sectors to help relieve key bottlenecks in developmentally significant sectors. This approach — which could be

called “output-based assistance” — links the flow of resources through contracts and monetary incentives to developmental outcomes.

In order to improve the efficiency of aid and of public expenditure more generally, developing country Governments should consider ensuring that their regulatory systems are open to service delivery mechanisms which supplement public capacity, such as output-based mechanisms, including through the setting up of monitoring indicators to make this type of assistance successful. In parallel, multilateral agencies should expand their efforts to support the development of regulatory capacity to support output-based mechanisms, and bilateral donors should modify their procedures to ensure that they can finance and otherwise support such aid delivery modalities — where requested by recipient country Governments.

104. Similar steps to enhance ownership and ensure effective aid partnerships need to be taken at the international level. Donor countries have found OECD/DAC useful in discussing and promoting improvements in aid policies. A similar grouping of ODA recipient countries may now be called for to facilitate the exchange of views among developing and transition economy countries on ODA, and could ensure that recipient countries are adequately represented in international discussions on aid policy.

Member States should agree on a process to facilitate the effective participation of ODA recipient countries, as a collective, in international aid policy discussions aimed at forging strong partnerships and enhancing the effectiveness of aid.

Exploring innovative sources for financing for development: considering innovative global instruments, including tax cooperation and global public goods financing mechanisms; enhancing the contribution of multilateral development institutions, in particular the World Bank and regional development banks, to financial innovation in support of development; promoting national and international public/private partnerships

Global public goods and services

105. An important dimension of globalization is the openness of national borders, which has facilitated a growing volume of international trade, finance, travel and communication. In addition, it has caused many public goods and services, which were traditionally national in scope, to become international: such public goods or services as narcotics control, disease management, clean air, law and order, peace and security and financial stability can no longer be provided through domestic policy action alone.

106. The provision of these goods and services depends in part on international cooperation. An example of what can be achieved through this kind of concerted action can be found in the Consultative Group for International Agricultural Research’s success in fostering the development of improved seeds for use in developing countries. National public goods are increasingly turning into international (regional and global) public goods — and vice versa. The important

task facing the international community now is to develop modalities that are suited for the added challenge of provision of what have come to be called global public goods (GPGs).

107. The growing need for the concerted provision of global public goods and services is expressing itself in a rapidly rising number of international agreements on such matters, which pose the risk that such global concerns may divert attention and resources that should be destined for conventional official development assistance programmes, for the eradication of poverty and for the inclusion of all countries and peoples in the benefits of globalization.

The international community should agree to explicitly address global public goods concerns and seek a shared understanding of the expanded nature of the present agenda for international cooperation. These tasks should be undertaken through existing forums, particularly in the United Nations, and by setting up new ones, if so required.

108. The international community has been gradually realizing the new and growing challenge of GPGs and the interaction between GPGs and national-level development spending in low-income countries. The pragmatic response to problems in this area has been to finance GPG-related expenditures out of existing international cooperation funds, using in particular ODA resources, and to work through aid channels. Recent estimates suggest that 15 per cent of total ODA funds are used for GPG-related purposes.

109. With the recognition of an expanded agenda, there is an urgent need to review different options for financing GPGs. A key challenge calling for action and framing the background for this deliberation is the need to ensure that resources earmarked for GPG concerns are *additional* to those geared to ongoing development assistance programmes. In order to avoid the diversion of aid resources to GPG purposes, it would also be important to maintain a separate identification within reporting systems for these two strands of international development cooperation.

Donor countries should consider effective ways of complementing country allocations of aid with additional allocations to GPG concerns. To achieve additionality, one option to consider could be to increase sector ministry budgets in donor countries to allow them to fund international cooperation linked to GPGs in their sector — while existing aid resources remain focused on the financing of national programmes.

110. Given the magnitude and complexity of many GPG challenges, no one actor can tackle them alone. Public finance should therefore be used strategically and seek to leverage private financing, which can multiply the overall availability of resources. In some cases, public money should be used to create a GPG and “deliver” a developmental change; in others, it should be deployed to leverage private contributions. Private-sector financing of GPGs-related expenditure requires appropriate market-based and regulatory frameworks. As a rule, private financing can be a viable option when there is some excludability of benefits or when a subsidy scheme is in place.

Governments and international organizations should share experience and develop mechanisms to focus public finance on correcting incentive imbalances so as to encourage private actors to contribute to GPGs.

111. Policy makers and experts currently engaged in international development cooperation often rely on established aid modalities by default because of a lack of new tools and instruments suited to finance GPGs. Some global challenges are predictable and longer term, easier to foresee and address. Others emerge suddenly and unexpectedly. Therefore, the international community requires an institutional/organizational framework that is equipped to undertake core functions as well as special initiatives. This implies a need for both core financing and special-initiative financing. The time is ripe to take stock of various ad hoc arrangements and other innovations made to facilitate the financing of GPG-related expenditures.

Multilateral development banks, the United Nations funds and programmes and other relevant United Nations institutions should review jointly, with the assistance of the Economic and Social Council, financing and institutional arrangements to support the provision of GPGs, assess the experience gained, explore possible new approaches to financing and propose specific mechanisms for funding and coordination. This undertaking should be carried out in close consultation with all relevant parties, including bilateral donor agencies, stakeholders from developing and transition economy countries and the international private sector.

Other innovative sources of financing

112. The need to provide greater and more predictable volumes of ODA flows, as well as the importance of obtaining additional financing for global public goods, provides the justification for a renewed effort to identify new sources of international development assistance, including “innovative sources” for financing of development. As has been indicated, it is clear that there is currently a severe dearth of finance for development and that there is likely to continue to be a serious shortfall in comparison with needs.

113. The General Assembly, at its twenty-fourth special session entitled “World Summit for Social Development and beyond: achieving social development for all in a globalizing world”, called for “conducting a rigorous analysis of advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding, both public and private, for dedication to social development and poverty eradication programmes” (see General Assembly resolution S/24-2, annex, para. 142 (g)). Some delegations that sponsored this paragraph indicated their view that the proposals to be analysed should include those of national “currency transaction taxes”. In addition, the possibility of establishing mechanisms of this type (geared towards not only raising public revenues but also attenuating some of the negative effects of sudden and significant changes in capital inflows and outflows) was one of the issues that received much attention in the “hearings” with civil society on financing for development held on 6 and 7 November 2000.

The high-level event should consider, as part of its deliberations, the results of a rigorous analysis of the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding, both public and private, which the Secretary-General will commission in accordance with the request made by the General Assembly in its resolution S/24-2.

Chapter V
Debt

Confronting external debt challenges: addressing debt problems of developing countries, including cases of high indebtedness and moral hazard issues; enhancing and expanding the Heavily Indebted Poor Countries initiative; avoiding the recurrence of debt crises, through, inter alia, preventive measures to avoid unsustainable public and private debt; technical assistance for debt management

114. Domestic resource mobilization and other national policies hold the key to a country's development. Access to international financial markets and to official financial assistance is in many senses a consequence of such policies, as well as of the supply of international capital, the risks associated with its utilization, in particular the rules, norms and practices that constitute the international financial architecture. External debt issues, therefore, are covered not only in the present chapter but also in the relevant sections of chapter I, as well as, especially, chapters II and VI.

115. External debt management and financing is an important part of the options that countries have to mobilize resources for public and private investment. The development of capital markets in recent years has expanded the range of options available to creditworthy countries underlining the growing importance of careful debt management. Many developing countries have used debt financing effectively to expand their level of investment, and this in turn has led to growth and generated ample resources to repay debt and support both consumption and investment expenditures. Some countries, however, have ended up with unbearable debt burdens. These countries fall into two main categories:

(a) Low-income countries, for many of which borrowing has not resulted in growth because civil or military conflict, unsound economic policies, natural catastrophes or external factors have intervened. Many low-income countries, in particular, have accumulated debts and now face external debt-servicing obligations that constrain their ability to support poverty reduction programmes, including those aimed at the fulfilment of basic human needs, and to finance critical growth-oriented investments;

(b) Middle income developing and transition economy countries, many of which have unmanageable levels of debt and/or a serious mismatch between their financing needs and the maturity of their borrowings. While this debt may be manageable under rapid growth circumstances and in an otherwise favourable economic environment, their situation leaves them very vulnerable to abrupt changes in internal or external factors.

Low-income developing countries

116. The first group of countries has been the motivation and target of the heavily indebted poor countries (HIPC) initiative, which was designed to reduce the debt of low-income countries to sustainable levels; 20 countries may get debt relief through the enhanced HIPC initiative now, and another 17 countries could receive similar

relief in the future. The efforts of the Development Committee and the International Monetary and Financial Committee to deepen debt relief and expedite the HIPC process have been received as welcome steps in the right direction.

117. Fully implementing the HIPC initiative is an urgent and important objective. Many debtor countries are fulfilling the conditions required of them by the international community, and it is imperative for creditors to fulfil their side of the arrangement expeditiously. Donors need to provide the necessary resources while also ensuring that this is not at the expense of other ODA flows. But most low-income countries face much more than only a debt problem. They face a major problem of development financing. In the light of the experience of recent decades, it is crucial that the international community mobilize resources and exercise the flexibility required to give all low-income countries that are implementing growth and poverty reduction-oriented policies a chance to succeed. Countries that attain debt sustainability under the HIPC initiative will still need further considerable assistance to achieve the desired goals.

118. Low-income countries with fragile economies may find themselves unable to service debt obligations under certain circumstances — no matter how skilled their economic management is. Such circumstances may include natural calamities or economic catastrophes (such as major drops in the price of export commodities or other terms-of-trade shocks). In those circumstances, special measures to alleviate the burden of debt servicing obligations — and even debt cancellation — may be called for.

Bilateral and multilateral creditors should pursue debt relief vigorously and expeditiously, including steps to provide significant and immediate debt relief to the poorest countries. Steps should also be considered to provide, in exceptional situations and where appropriate, for a moratorium or even for debt cancellations. Similarly, there should be continued flexibility in addressing the debt problems of low-income countries and for additional proposals to be formulated, where needed, to complement the HIPC initiative.

119. In implementing the HIPC initiative as well as in pursuing avenues for debt relief for other low-income countries with low creditworthiness — as well as complementary avenues that may be required to achieve a definitive solution to the debt problem of these countries — three objectives are important: the funding must be additional to existing ODA; the debt relief must be clearly aimed at supporting growth and poverty reduction programmes; and the process should be designed to avoid creating institutional bottlenecks.

120. Since the debt burden is just one dimension of the problems of development financing, it is critical to ensure that funding for debt relief is additional and not an alternative to other forms of development assistance. In this context, the beneficiaries of debt relief should also ensure that domestic policies and effective governance modalities are conducive to an efficient use of debt-related savings and all other resources in support of growth and poverty reduction. It is also important to ensure that new financing takes a more realistic view of debt sustainability, and therefore that new financial assistance is in the form of grants or at highly concessional terms. It is particularly important to ensure that funding for debt relief

does not come at the expense of concessional funding for the low-income countries that happen not to have to face pressing debt problems.

Donors should be called on to ensure that resources are provided for debt relief without detracting from the resources that were already intended to be available for development assistance to low-income countries. Debtor countries should, in parallel, ensure that resources freed up by debt relief measures are used to support growth and poverty reduction-oriented programmes. To ensure that further debt problems do not emerge, efforts should be made to improve debt management, and new financing for all low-income countries should be on highly concessional terms or, in the case of countries with severe limitations in their capacity to pay, on grant terms.

Middle-income developing and transition economy countries

121. For middle-income countries and the few low-income countries which have had access to international capital markets and thus have a mix of official, quasi-official and private creditors, the situations are more complex and do not easily lend themselves to generalization. The fact remains that the situations of recent years will probably not be the last debt crises the international community will have to cope with and that, therefore, there is need to be much better prepared in the future and take the necessary preventive measures now.

122. But it must also be remembered that there are major risks of “moral hazard”, and the danger that debt relief for some countries will reduce the resources available to other developing countries. There is thus a need to avoid making other developing and transition economy countries indirectly “pay” for the debt restructuring of a few middle-income countries by such effects as higher borrowing costs for multilateral development banks if non-concessional multilateral debt was affected or if the International Financial Institutions (IFIs) preferred creditor status was not protected.

123. The Paris Club is usually at the centre of debt restructurings and it may well remain key in this regard. While it is taking steps to improve the availability of information on its proceedings, the need remains for clearer principles and more transparent mechanisms for working out debt problems, and new, complementary approaches may be required. One major objective should be to ensure that all the bilateral creditors participate fully in debt negotiations, which means giving all of them incentives to engage in dialogue.

124. Better coordination between private and public creditors is also called for. It appears that creditors have often underestimated the risks in extending their loans. The international community is now committed to ensuring greater appreciation of those risks by creating a presumption of private participation in debt workouts for future crisis countries. To facilitate this in the case of bond financing, the introduction of “collective action” clauses in bond contracts is now being discussed in various appropriate forums. However, crisis predictability is difficult. To minimize the risk of a crisis, the international community should vigorously continue its efforts, through the appropriate institutions, to promote sound economic policies and good debt management, monitor capital flows and ensure equitable cost-sharing among all relevant creditors.

125. Policy makers need to retain enough flexibility to respond to individual situations; this calls for an appropriate balance between the elements of judgement and clear rules. As one way to satisfy such requirement for effective debt workouts, a review of past-accepted approaches to debt treatment and studies towards better-coordinated debt relief packages might be useful. This could be achieved by adding to the menu available to debtor countries a mechanism for the simultaneous, fair and full treatment of all of a country's foreign debt obligations, along with the provision of required new funds by the international community or other creditors. The use of such a mechanism, which could be invoked under specified conditions by a country already cooperating with IMF and other international financial institutions, would bring together committees representing bank creditors, bondholders, the Paris Club and other bilateral official creditors, as appropriate, plus the debtor Government. For instance, an independent mediator, assisted by IMF and other experts, could be charged to facilitate arriving at an agreed financial package. The aim would be to ensure fairness, reduce financial uncertainties quickly and lower the cost to creditors as well as to the debtor of arriving at a final debt restructuring agreement. In addition, consideration could also be given to further "last-resort" mechanisms to be added to the international community's tool-kit to resolve debt crises fairly and expeditiously.

All creditors to developing and transition economy countries should support measures to ensure that debt financing becomes an integral part of their development efforts and not a hindrance to them. To complement other initiatives under way, the potential value of a mediation-type mechanism deserves particular consideration. Such a mechanism could be made available to debtor countries as an additional, voluntary option for restructuring debt from private and official bilateral creditors.

126. Preventing the accumulation of excessive debt or the "bunching" of debt servicing obligations over a short period of time is critical to ensure that debt financing plays a constructive role in development finance. Improved debt management mechanisms by developing countries can play an important role in this regard. Prompt disclosure of additional information on liabilities to foreigners and other means of enhancing the transparency of financial transactions can also make a critical contribution to the prevention of debt crises and facilitate the international community's effort to assist developing and transition countries with their debt management.

International organizations should ensure that they are equipped to respond effectively to requests from developing and transition economy countries to improve their debt management systems. International financial institutions should also be encouraged to vigorously pursue efforts to enhance transparency in financial transactions so as to strengthen capacity for liability management by national authorities.

Chapter VI

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

Improving global governance: broader participation in decision-making and norm-setting; accountability; transparency; regional arrangements; policy coordination for increased and more equitable world economic growth

127. The international structures that govern the global financial and trade systems were developed for the most part at the end of the Second World War. A comprehensive global governance system was designed at the 1944 Bretton Woods Conference and at subsequent deliberations to set up an International Trade Organization (ITO, but even at that time the structure remained incomplete as the proposed ITO never came into being).

128. In the area of trade, the General Agreement on Tariffs and Trade (GATT), served as the major international forum for negotiated liberalization of trade policy for half a century — containing provisions to, inter alia, afford developing countries special and differential treatment — while a number of other "development dimensions" of trade, such as international commodity agreements, were pursued separately in UNCTAD. In 1995, the World Trade Organization was established to carry forward some of the original ideas underlying ITO, although it has not taken the form of an agency within the United Nations system.

129. In the realm of international monetary and financial relations, the International Monetary Fund, particularly through its ministerial-level Interim Committee (converted into the International Monetary and Financial Committee in 2000) has been a major forum for discussion of international macroeconomic policy and coordination issues and of the reform of the international financial architecture. A joint ministerial committee of IMF and the World Bank (the Development Committee), which initially focused on policies to promote the transfer of resources to the developing countries, has today a broader development agenda. Both committees and both institutions, like other organizations, have had to respond to many unforeseen challenges.

130. Indeed, many developments have taken place since the mid-1940s: the growth of multilateral development finance institutions in the 1950s and 1960s; the collapse of the fixed-exchange rate regime in the early 1970s and the consequent change in the role of IMF; the debt crises of middle-income developing countries at the beginning of the 1980s and of low-income countries in the 1990s — and the growing importance of debt relief policy; the growth in private capital flows in the 1980s and 1990s; and the financial crises of the latter half of the 1990s.

131. All of these developments have led to ad hoc changes in existing institutions as well as the development of new institutions. Groupings of major industrialized countries — especially the "Group of Seven" — were set up to help coordinate the macroeconomic policies of their member countries, and they have increasingly served as forums for the elaboration of positions and proposals on international economic and financial policy, often with profound implications for the rest of the

world. As a response to the financial crises of the nineties, the Group of Seven set up the Financial Stability Forum to bring together several specialized financial entities, IMF and the World Bank, with national financial authorities, particularly of the major industrialized countries. Developing countries, for their part, have also set up over the years ad hoc intergovernmental bodies, with varying mandates, to consider different economic cooperation matters, such as the Group of Twenty-Four and the Group of Fifteen. Recently, a sequence of ad hoc consultative groups on financial issues have also been set up to exchange views among selected developed and developing countries, culminating in the Group of Twenty in 1999.

Participation, transparency and accountability

132. To effectively carry out the missions of the forums and institutions, members need not only to be properly represented but also to participate appropriately in decision-making, as well as to have an effective voice in policy-making. Participation is just as important as representation and this allows the forum or institution to benefit from the diversity of perspectives of its members, which in turn serves to boost the effectiveness of operations as well as to promote a sense of "ownership" by all. The responsibilities of governance of institutions can thus reflect the relative international roles of its members as they evolve over time, without compromising basic principles of representation and participation. All forums and institutions should provide the fullest measure possible of transparency in their activities, which is an essential requirement for their accountability to stakeholders.

133. At the same time, it should be recognized that international organizations, including the international financial institutions, have made important strides in recent years to improve the transparency of their operations, have increased the opportunities and forums for interaction with civil society organizations, and have begun reviews of how their leaders are selected. In the case of IMF, the formula by which quotas are allocated to members and votes apportioned is currently being reviewed.

134. Thus, the central question of global governance that needs to be asked is whether there is room for improving the existing arrangements for norm-setting and policy coordination, thereby raising the standards of effectiveness, equity, accountability, transparency, participation and voice. The answer to this question is yes. In addition, we should ask if additional steps are needed to further strengthen the current structure of international institutions and networks, particularly as they relate to the objective of increased and more equitable world economic growth. The answer to that question is also yes. The preceding must have been very much in the minds of world leaders when, in their Millennium Declaration, as quoted in the introduction to the present report, they resolved to create an environment supportive of development at both the national and international levels and asserted that development objectives depend on good governance within each country and good governance at the international level (see para. 16 above).

The ongoing reform efforts by the governing bodies of the international financial institutions should be welcomed and pursued vigorously and on a priority basis with a view, inter alia, to helping make those institutions more responsive to evolving globalization and development challenges, improve overall representation and participation, especially of developing countries, and enhance accountability and transparency.

135. Governmental and multilateral organizations are sometimes “audited” or monitored on a regular basis by independent bodies, partly to oversee management implementation of policy ideals, principles and guidelines, and partly to assist the policy-making bodies in assessing the policies themselves. In some institutions, this function is already carried out, as by the Office of Internal Oversight Services of the United Nations Secretariat and the Operations Evaluation Department and Inspection Panel of the World Bank. IMF has recently created an independent evaluation office that will become operational in 2001. These bodies typically report directly to the legislative or supervisory overseers of the organization and draw upon their own technical secretariat. They provide a venue for ex post review of organization policies as applied in actual cases, help identify errors in application of official policies, and help recognize the need to rethink the policies themselves.

Multilateral financial organizations should maintain independent monitoring bodies for external evaluation of their performance on a regular basis — in accordance with the terms of reference established by the respective governing bodies — which could as a general rule be empowered to respond to certain types of requests for evaluation from member Governments, civil society, the private sector and labour, as well as to initiatives of the evaluators themselves.

Policy coordination

136. While it is understandable that ad hoc international forums and committees may be established at the height of some global crisis conditions, there is reason for concern if such entities become institutionalized without equitable global representation or oversight, and if they begin to make, on a regular and permanent basis, policy decisions and recommendations — including on macroeconomic policy issues — with global implications. This is a practice to which the international community has become sensitive, leading to various mechanisms for ad hoc consultation and external comment. However, more systematic mechanisms are warranted, including, wherever appropriate, establishing closer links with United Nations system processes. This is all the more pressing and justified when an increasing number of voices, including from industrialized countries, are expressing their belief that enhanced representation can actually bolster the effectiveness and efficiency of these bodies and that entities affecting the governance of the international economy should as a general rule operate through open, inclusive and participatory processes.

Ad hoc groupings and forums that lack adequate global representation but that, in effect, make policy recommendations with global repercussions should be used mainly as a complement and as an input to discussions in forums that are more representative and that have clearly defined and broad-based intergovernmental mandates, such as the International Monetary and Financial Committee, the Development Committee, the General Assembly and the Economic and Social Council.

137. Even in specific instances in which bodies with restricted membership may be called for, there is an obligation to make the rationale for this restricted membership transparent and to provide underrepresented groups with clearly defined means to respond to and initiate proposals that are considered by the membership. Such means can include institutional relationships with a global forum and consultative bodies for dialogue and cooperation with non-member countries, with civil society and with the private sector, on an annual (or some other regular) basis, as appropriate. This should apply, for example, to the Financial Stability Forum, which was set up as a collaborative arrangement among various entities and has been actively involved in many aspects of the problem of international financial instability — in an essentially consultative role.

Restricted membership bodies undertaking any functions with implications for global governance should implement ways and means to establish clear procedures to increasingly reach out to and regularly engage all relevant non-member stakeholders and secure their views. The Financial Stability Forum and other international bodies set up to consider universal standards, codes and guidelines in the financial sector should pursue such procedures — and develop modalities for operating — through fully inclusive, participatory, accountable and open processes. Recommendations of such bodies should be taken up in discussions taking place in relevant bodies of the United Nations system.

138. The coherence and consistency of international monetary and financial policy with international trade policy and of both sets of policies with development objectives and commitments have long been a concern of the international community. Although formal cooperation arrangements were established between WTO and the two Bretton Woods institutions in the 1990s for improving the coherence of policies and measures adopted in their respective areas of responsibility, the fact that Member States decided not to bring WTO into membership in the United Nations system has presented important challenges for the coherence and consistency of the systems as a whole.

139. While significant progress in inter-agency cooperation has been made over the last several years — particularly at management and staff levels — and the Director General of WTO has participated in the annual Economic and Social Council policy dialogue, the question is how to further deepen this collaboration. WTO should be invited to take full advantage of the opportunities that exist to enhance its collaboration and cooperation with the United Nations system. One immediate possibility is to enhance WTO participation in discussions of relevant topics in United Nations forums, in particular building on recent experience in the Economic

and Social Council and cooperation with the United Nations Secretariat. In addition, an interesting modality has recently been established for interaction between WTO, through its Committee on Trade and Development, and the Bureau of the Preparatory Committee of the financing for development event. This could be a basis on which further initiatives might be built, as between the Trade and Development Board of UNCTAD and the WTO Trade and Development Committee, enlarging upon the mutual observer status that each of those bodies already has with the other. Similarly, as indicated earlier, cooperation among WTO, UNCTAD, the International Trade Centre (ITC), the United Nations Development Programme (UNDP), IMF and the World Bank in the Integrated Framework for the Trade Development of the Least Developed Countries and lessons learned in that exercise could lead to further joint operational initiatives. Finally, the Ministerial Conference of WTO might wish to keep on its permanent agenda further consideration of the issue of its institutional relationship with the United Nations.

The United Nations and the World Trade Organization should continue to work innovatively and constructively with each other in pursuing overall coherence and consistency issues related to the international monetary, financial and trading systems, especially as they relate to the support of development. In this context, the UNCTAD Trade and Development Board should further deepen regular interactions with the Committee on Trade and Development of the WTO General Council. Other interactions and cross-participation of senior officials, committee chairs and interested government representatives in United Nations and WTO intergovernmental meetings should be similarly facilitated.

140. There is a growing need to improve arrangements for cooperation between national tax authorities. Increasing international economic and financial interdependence is constraining national capacity to set and enforce various tax instruments. Governments are increasingly limited by international competition in both the forms of tax and the tax rates they can apply. Improved international cooperation between taxing authorities would serve, inter alia, to reduce opportunities for tax evasion and avoidance, contribute to mitigating the capital-flow instability to which developing countries are sometimes subject, and deploy tax incentives and disincentives in support of public goods, such as avoiding depletion of the global commons.

141. These goals require major improvements in international cooperation on taxation matters. Forums exist in limited membership organizations to treat these issues from the viewpoints of their members, in particular OECD. In addition, taxation is addressed at the level of experts in United Nations forums, notably the Ad Hoc Group of Experts on International Cooperation in Tax Matters and certain expert groups on accounting and other related matters that are convened by UNCTAD. But, although OECD, for instance, has undertaken a number of outreach activities with non-member countries, there is today no global intergovernmental forum that considers tax questions on an ongoing basis or that can adequately put the tax debate in a wider — including a developmental — context.

142. To fill this gap, an international organization for cooperation in tax matters could merge the various international tax-related efforts into a single entity. Such a broad-based international organization could provide a global forum for the

discussion of and cooperation in tax matters, including the sharing of national taxation experiences; the development of definitions, standards and norms for tax policy, administration and related matters; the identification of national tax trends and problems; tax reporting; and the provision of technical assistance to national tax authorities, particularly those of developing and transition economy countries. Other less ambitious proposals have also been put forward, including the strengthening of the Ad Hoc Group of Experts on International Cooperation in Tax Matters.

The high-level event should mandate that a careful in-depth study be undertaken, in cooperation with IMF and other relevant international financial institutions, of potential means for enhancing tax-related international cooperation, including mandating a specific negotiating process on international agreements on this subject and the possibility of establishing an international organization or forum for cooperation on tax matters.

Regional coordination

143. As a response to globalization-related challenges, there has been a resurgence of interest in economic and financial cooperation among regional and other groups of countries, including in matters of international trade, investment, monetary issues and financial sector oversight. More specifically, they are seen to offer opportunities for macroeconomic consultation and coordination, provision of liquidity during crises, development banking etc. Such initiatives may promote more effective participation of small countries in norm-setting than is practical in the global process — in such areas as the formulation, adoption and implementation of prudential codes and standards for the financial sector — where the principle of subsidiarity could properly apply. Regional and subregional arrangements can be very effective instruments for promoting development and the opportunities for intensified integration should be explored by interested countries and supported by the international community.

International support for regional and subregional cooperation in financial as well as trade matters, which should complement and be consistent with global accords, should be strengthened. In this context, the United Nations regional commissions should enhance collaboration with other subregional and regional bodies on these issues, such as by facilitating the exchange of relevant information on experiences and practices.

Strengthening the international financial architecture to support development: enhancing financial stability; improving early warning, prevention and response capabilities vis-à-vis financial crises through, inter alia, the enhancement of social safety nets; liquidity and lender of last resort

144. In the sphere of global finance, the challenge before the world community is to construct an international financial system that will best serve development in a globalized and interdependent environment. This objective can only be met by a system that is open, efficient and innovative, that is just and spreads opportunities to

all, that is reasonably stable and that enables any crises that occur to be managed effectively and equitably. It also calls for increased efforts to build capacity for developing and transition economy countries to help them participate fully in international trade and finance. Sound domestic financial systems around the world are an essential ingredient for such an international system.

145. The international financial system comprises private and public actors that have complementary roles. Private finance seeks opportunities and responds to developments within countries and around the globe, channelling financial resources in amounts and forms that vary accordingly and widely. As noted in chapter I, one fundamental role of Governments, individually and collectively, is to establish the policy frameworks, institutions, rules of law and regulations that provide the infrastructure and norms within which private finance should operate. Through such means, the official sector should facilitate the private-sector process, contain its excesses and complement it with official financial flows.

146. As discussed above, in order to foster development every country should strive to maintain a set of macroeconomic and financial policies and institutions that can be sustained economically and socially and that are attuned to the circumstances of the country and to its relationship to the global economy. This requires, inter alia, a system of social protection that is strengthened, pari passu, with increasing integration into the global economy. This national imperative is also desirable from the perspective of the international financial system. From this international perspective, the prudential management of the capital account and the regulation of banks and other financial intermediaries also assume particular importance.

147. For example, as noted in chapter I, if countries decide to liberalize their external capital-account transactions, they should do so in a carefully sequenced and paced manner. As part of this process, several types of measures can be applied to volatile capital flows to address the potential risks they pose for many low and middle-income economies. In general, countries should strive toward “best practice” in such measures, and in order to sustain financial market confidence should be transparent about them. For instance, countries envisaging the possible use of “circuit-breaker” types of controls on capital outflows during a financial panic should specify the guidelines to be followed in invoking the controls and in later relaxing them.

Standards and practices

148. In a wide range of economic and financial areas, international standards may provide coherent indications of “good practices”. With the collaboration of international and national bodies, international standards are being or have been developed or improved in such areas as data dissemination; banking supervision; transparency in fiscal, monetary and financial policies; securities regulation; accounting and auditing; insurance regulation; and payment systems. Effective participation of developing countries in these standard-setting exercises is essential.

149. Many of these international standards and codes of good practice have been developed for application throughout the world, but others have been prepared with the more advanced financial transactions and institutions of developed countries in mind. In such cases, the relevance of the standard depends on a country’s stage of development. Countries may wish to assign different priorities to the implementation of the various international standards given their different

economic, regulatory and institutional circumstances. These considerations could be addressed by individual countries or in regional or other forums, and systems of peer review among interested countries could be a useful mechanism for the effective implementation of standards. At the same time, there is an extensive need for capacity-building in financial sector supervision in developing and transition economy countries. Increased international support in this area would thus not only contribute to global financial stability but would also reflect a strengthened commitment to development. A "one size fits all" approach should be avoided. The recognition of these differences by IMF and other agencies involved in setting and assessing standards should be welcomed and encouraged.

The international community should recognize that the implementation of international prudential standards and regulations for national financial systems should take account of different stages of economic development and administrative capacities, as well as different cultural and legal traditions, across countries. In the developed economies, all relevant financial markets and institutions, including highly leveraged institutions, should be the subject of prudential standards and regulations. In economies with less developed financial sectors, not all standards may be fully relevant due to the absence or limited development of some sectors. In order to enhance the implementation of standards, capacity-building in financial-sector supervision in developing and transition economy countries should receive increased international support. Special provisions should be formulated to allow these countries to overcome their structural or systemic impediments to their overall participation in the international financial and trading system.

150. Judging the soundness of economic and financial policies and measures requires official and private monitoring of the economic and financial situation and prospects of national economies. This, in turn, requires sound, timely and publicly available data on, inter alia, the balance of payments, net international investment position, flows of funds in and out of countries and flows and exposures in major financial markets. This was the main motive for the Special Data Dissemination Standard and the General Data Dissemination System of IMF. In addition, the increasing sophistication of global financial markets calls for greater and more harmonized disclosure of information by internationally active private financial institutions, as well as by national authorities.

National authorities in all countries and relevant international institutions should strengthen the collection and reporting of economic and financial data by government offices, central banks and financial authorities at domestic and international levels, taking into account norms established in international forums. This is an additional need that has to be met as a result of the new global economic environment, and the international community should respond favourably to requests from developing and transition economy countries for assistance in this area.

Oversight and surveillance

151. As the smooth functioning of the world economy and the international financial system is not automatically assured, multilateral oversight is required of the system as a whole and of its main component parts, as well as of the broad economic and social consequences of the operation of the system. The objective should be to ensure adequate and sustained economic growth in all countries, consistent with existing commitments to sustainable development and poverty eradication. This, as noted above, requires in turn an enabling international environment, including dynamic trade opportunities and a substantial, stable and sustained net transfer of resources to developing countries and lower-income transition economy countries. The monitoring and assessment of world economic conditions should be undertaken from the perspective of these objectives and should address, inter alia, economic growth, unemployment, inflation, the balance of payments, exchange and interest rates — particularly of major countries — global financial flows, international commodity prices, growth of world trade and global "risk" factors.

In order to provide policy makers with a variety of perspectives, global economic monitoring and assessment should continue to be carried out in the international financial institutions, in the United Nations, in the World Trade Organization and in other representative global and regional forums.

152. Multilateral surveillance, particularly by the International Monetary Fund, of the economic and financial policies of national and regional economies, is both a service to individual Member States and a global public good. By identifying weaknesses in national economies and policies, it can forewarn individual Governments of impending economic difficulties and financial crises. However, the world at large also benefits from multilateral surveillance because economic developments and policy actions in an individual country may have consequences in global markets that affect other countries and the world economy as a whole. One frequently mentioned example in this regard is that of changes in interest rates made by the United States Federal Reserve Board.

153. To serve these purposes, multilateral economic and financial surveillance should focus on the essential determinants of "robustness", recognizing that differing country circumstances may call for a correspondingly differentiated approach. Key concerns include the provision of accurate and adequate information, transparent practices, strong adherence to sound policies and the pursuance, in accordance with the principles set out above, of international economic and financial standards and codes. Also, effective surveillance of international financial markets is crucial, with emphasis on prudential and competitive concerns, transparency and non-discriminatory access for all users and providers of funds.

154. The International Monetary Fund has primary responsibility for multilateral surveillance and is meant to focus primarily on global and national macroeconomic stability, significant and well distributed economic growth, sustainable external accounts and appropriate exchange rates. IMF understanding of its members' economies and policy needs requires regular review and updating, particularly in the light of the need to respond to increased globalization and interdependence. Multilateral surveillance of national economies — particularly of the largest ones —

should give increased attention to the consequences of domestic developments for other countries and for the international economy in general, as well as for international financial instability.

The high-level event should underline the importance of full and symmetrical surveillance of all national and regional economies by IMF on behalf of the international community. Such surveillance should continue to emphasize the systemic consequences of national economic developments and policies, taking into account the differences in circumstances among countries. The content and nature of multilateral surveillance should continue to be kept under review, adapted and strengthened as the world economic and financial environment evolves.

155. In many instances, as indicated in the previous section, countries have formed groups within which they have intensified dialogues on economic policy goals and their mutual consistency. For example, the Governments of the largest economies acting as the Group of Seven have sought to coordinate their macroeconomic policies — policies which can have a large impact on world economic and financial conditions, including a capacity to provoke large fluctuations in key-currency exchange rates and to cause abrupt shifts in the scale and direction of international capital flows. Similarly, regional groupings of developing countries, such as the Gulf Cooperation Council, the Manila Framework Group and, more broadly, the Group of Twenty-Four, have also undertaken mutual macroeconomic policy discussions. Mutual surveillance by limited-membership groupings of countries can supplement the multilateral surveillance discussed above.

The high-level event should endorse the principle that arrangements among groups of countries for mutual surveillance are a useful supplement to multilateral surveillance, and should encourage developing and transition economy countries to engage in such exercises. The international financial institutions and such other entities should work closely together to mutually reinforce their respective surveillance and policy coordination endeavours.

Funding and liquidity

156. One of the roles of the international financial community is to assist countries in weathering and adjusting to economic and financial crises, and in sustaining or regaining macroeconomic stability and growth. This has become especially important in the light of the predominance of private financial flows over official flows and the high social costs of financial market failure. For addressing these concerns, the relevant multilateral institutions should continue to make available a variety of credit facilities on appropriate terms, including medium-term financing, in support of growth and development-oriented adjustment programmes. They should also continue to explore the creation or modification of policy tools so as to permit a quick and more effective response to crises.

157. Under existing arrangements, semi-automatic and rapidly disbursed multilateral financial support can be provided to crisis countries in certain circumstances. In other cases, the borrowing country first needs to negotiate an agreed set of policy adjustments as conditions for the use of multilateral resources.

Such policy conditions should be consistent with and not extend beyond the mandate and responsibilities of the lending institutions. Moreover, there is increased recognition that such policy requirements should duly take into account social objectives and concerns. During a balance-of-payments crisis, every effort should be made to maintain essential imports and to ensure that a lack of domestic credit does not cause a collapse in economic activity. In some extreme situations, this may necessitate a temporary suspension of debt-servicing payments — a "debt standstill" — while more lasting arrangements between the country and its creditors are being finalized (see also chap. V).

158. As also indicated in chapter V, the involvement of the private sector in forestalling and resolving financial crises can be an important element of efforts to strengthen the international financial system. Recent progress by IMF in making operational a framework for private-sector involvement is important in this regard. However, long-term private flows are still likely to decline or cease in a crisis and official finance can serve a useful catalytic function for such flows to resume and may reduce the need for fiscal contraction and countering the negative social consequences of the crisis. The World Bank, regional development banks and bilateral donors can assist in countering the consequences of a crisis by sustaining or increasing their flows of long-term development finance. The principal counter-cyclical flows, however, are those of IMF, through its lending facilities, and more importantly through its catalytic role.

The high-level event should reiterate that internationally supported adjustment programmes should be employment and growth-oriented and should minimize the social costs of adjustment, especially their impact on poverty and on access to basic social services. Programmes should be fully funded, including provision for sufficient restructuring of external debt-servicing obligations. For this purpose, the international community should continue to explore mechanisms that might be added to existing funding and policy instruments.

159. It is possible that financial market contagion or global panic following a widespread loss of confidence in particular financial markets and currencies might cause simultaneous, multiple external payments crises. To attend to such a situation might require that large amounts of liquidity be quickly supplied to the crisis countries. Knowing that a mechanism capable of providing such liquidity existed — a "lender of last resort" — could in itself strengthen general and investor confidence in the international financial system. Even though significant resources are currently available to IMF through various mechanisms, including arrangements for quick deployment under the Contingent Credit Line, concerns have been expressed about the adequacy of resources should a global crisis arise. A comprehensive understanding is needed of the manner in which sufficient international liquidity might be deployed expeditiously to deal with a crisis that threatened to affect the world economy as a whole. One such possibility might be the proposal for preapproved temporary allocations of special drawing rights by IMF.

The high-level event should suggest that, in view of the possibility of multiple and simultaneous financial crises, IMF, in cooperation with other relevant international institutions, undertake an assessment of the global capacity to respond to emergency needs for international liquidity, including the feasibility of temporary allocations of special drawing rights.

Capacity-building

160. The confidence of economic stakeholders in a country can be boosted by regular information-sharing and dialogue among investors and creditors, whether domestic or foreign, official or private, as well as with other stakeholders in development. Such exchanges may also help to anticipate difficulties and facilitate dealing with them if they arise. The United Nations system is in a unique position to assist countries in facilitating such dialogue, owing to its local presence in most developing countries and countries with economies in transition. In collaboration with the international financial institutions, the United Nations could assist individual countries in bringing together representatives from diverse communities for discussions of national economic development and its financing. This would not only inform the public debate on national development; it could also address sources of financial uncertainties, deepen financial market analyses of country situations, and might even help to foresee difficulties and build the confidence to take timely preventive action in the event that a financial crisis began to loom.

The high-level event should request that the United Nations system have and use the professional and operational capacity to assist all interested developing and transition economy countries in developing and operating appropriate mechanisms for national and international dialogues on development and its financing with all relevant stakeholders.

Strengthening the role of the United Nations in assisting and complementing the work undertaken in the appropriate international monetary, financial and trade institutions in accordance with their respective mandates, with a view to enhancing the coherence and consistency in support of development

161. The Millennium Summit not only recognized the need for "good governance at the international level" and for "transparency in the financial, monetary and trading systems" but also demonstrated the value of an open, democratic and comprehensive policy dialogue at the highest level on the key issue of globalization — with finance, trade, technology and debt at the centre of the debate.

162. As was indicated in the previous sections of the present chapter, one of the principal challenges posed by the increasing integration of international trade and financial markets is the need to manage the accompanying systemic risks and inequalities in the system that can put into question its fairness, openness and long-term stability. The challenges, and the nature of the policy responses required to meet them, have brought to the fore the issue of international governance — and of the need for coherent global policy responses to bridge existing gaps — and the

crucial role that the United Nations can and should play in helping enhance the desired overall coherence and consistency.

163. The Millennium Summit is the most significant but only the most recent example of the convening power of the United Nations and its capacity to promote democratic, open and comprehensive dialogue on global policy questions across the broad spectrum of issues relating to peace and development. The United Nations conferences of the past decade and their follow-up special sessions have helped forge consensus on norms, standards and policy responses to emerging issues in the economic, environmental and social areas. The United Nations has also particularly demonstrated its openness to the participation of other stakeholders — civil society and the private sector — in the dialogue.

164. In this regard, world leaders at the Millennium Summit resolved "to ensure greater policy coherence and to improve better cooperation between the United Nations, its agencies, the Bretton Woods institutions and the World Trade Organization, as well as other multilateral bodies, with a view to achieving a fully coordinated approach to the problem of peace and development" (see General Assembly resolution 55/2, para. 30). The United Nations can and should provide a means by which the international community can address this challenge — including the goal of assisting and complementing the work undertaken in the appropriate international monetary, financial and trade institutions, in accordance with their respective mandates.

The high-level event should call for a strengthened United Nations to play a key role as a central pillar of the international system, acting in collaboration with the Bretton Woods institutions and the World Trade Organization, in the management of global economic integration and in helping to develop adequate policy responses to the imperatives of growth, equity and stability, and of coherence and consistency. It should urge Member States to strengthen the capacity of the United Nations to promote broad-based and participatory dialogue and to use this capacity more fully and effectively in the international efforts to ensure that globalization contributes to development and that its benefits reach all people, and to develop an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system.

General Assembly

165. The General Assembly has over the years set overarching policy on development and international economic cooperation matters, as it did through the international development strategies adopted for the United Nations development decades; the 10 UNCTAD conferences; the various special sessions devoted to development issues; the 1997 Agenda for Development; the specialized conferences of the 1990s; and more recently, the twenty-fourth special session of the General Assembly, devoted to the review of the implementation of the 1995 World Summit for Social Development, and the Millennium Summit itself. Any effort to strengthen the United Nations in support of development must thus begin with a further strengthening of the General Assembly itself and of its workings, a process that is ongoing. New ways and means should be found to further enhance the effectiveness of the work of the Assembly's Economic and Financial (Second) Committee and of

the relationships between the work of the Second Committee and that of the Economic and Social Council and its subsidiary machinery and of other organizations. The biennial discussion in the Assembly on renewal of the dialogue on strengthening international economic cooperation through partnership should be mainly focused on issues related to globalization that require coordinated international policy-making at the highest level.

166. At the Millennium Summit, world leaders resolved "to reaffirm the central position of the General Assembly as the chief deliberative, policy-making and representative organ of the United Nations, and to enable it to play that role effectively" (see General Assembly resolution 55/2, para. 30). The General Assembly, as the highest policy-making body of the United Nations, is entrusted with broad, cross-sectoral, norm-setting powers and responsibilities in all areas falling under the wide spectrum of activities of the United Nations, including development-related activities. Indeed, the interactions that took place during the Millennium Summit round tables among heads of State and Government at the Summit were considered so valuable that they felt that such occasions needed to be organized on a more regular basis.

Member States should consider convening, in the context of the General Assembly sessions, periodic round-table meetings at the highest level to address broad, cross-cutting policy questions relating to global economic growth, stability, equity and integration. Such round tables should have an open and participatory preparatory process, with the full involvement of the relevant multilateral institutions, civil society and the private sector.

167. As noted above, the international economy is governed by a mix of multilateral institutions, associations of Governments at the regional level, ongoing and temporary forums for intergovernmental consultation and networks of private-sector agencies. Globalization of economic and financial activity has had especially dramatic consequences for national economies and for the resulting inter-State and multilateral efforts to manage it. Enhanced global governance requires complementary and enhanced exchanges at the intergovernmental level, at both the regional and international levels.

The President of the General Assembly should be invited to explore, with the chairs of relevant regional associations of Governments, the international financial and trade organizations, and United Nations system bodies with economic responsibilities, appropriate modalities for consultations with each other and with all relevant actors that will help identify and deal with institutional policy gaps and focus attention on development-related policy issues of global concern.

Economic and Social Council

168. One defining aspect of the present global economic system is that it consists of a decentralized collection of specialized institutions, forums and networks devoted not only to policy-making but also to policy coordination. There is no automatic process to ensure that decisions in one body are duly consistent with those in another. Even when the bodies are official multilateral institutions, representatives

to different entities from the same Government may not fully coordinate their positions, particularly when they may come from different ministries.

169. Chapter IX of the Charter of the United Nations vested in the United Nations broad responsibilities for the promotion of economic and social progress and development, and pointed to a participatory approach for the exercise of these responsibilities, with the United Nations advancing these objectives drawing on a system of specialized agencies, each contributing in its own field of competence as defined in its respective mandate. Chapter X of the Charter places the Economic and Social Council at the centre of such a system. Article 63 specifically provides that the "Economic and Social Council ... may coordinate the activities of the specialized agencies through consultations with and recommendations to such agencies and through recommendations to the General Assembly and to the Members of the United Nations". Article 64 goes on to provide that the Council "may take appropriate steps to obtain regular reports from the specialized agencies. It may make arrangements with the Members of the United Nations and with the specialized agencies to obtain reports on the steps taken to give effect to its own recommendations and to recommendations on matters falling within its competence made by the General Assembly". These provisions form the general basis for the specific modalities of cooperation included in the respective agreements entered into with the different specialized agencies and other bodies, such as the Bretton Woods institutions.

170. Thus, in view of the need to enhance global policy coherence and consistency while also respecting the individual mandates and responsibilities of the relevant international monetary, financial and trade institutions, the mandate of the Economic and Social Council and its recent positive experience in engaging all partners in dialogue makes it well suited to promoting international coordination, coherence and consistency and addressing related issues, including those which may require detailed consideration in the more specialized forums. Therefore, Member States as well as organizations of the system can and should make better and more effective use of the Council as a forum for dialogue, especially regarding issues of policy coherence and coordination.

171. As noted above, the Economic and Social Council has been emerging as a strategic forum to help develop overall guidance and promote policy coordination within the United Nations system. It provides a natural forum where the various components of the system come together and engage in a productive dialogue across functional, sectoral and institutional lines — where relevant components of the global system can "speak" to each other about mutual concerns, and also to speak with and hear the world at large. At the Millennium Summit, world leaders indeed resolved "to further strengthen the Economic and Social Council, building on its recent achievements, to help it fulfil the role ascribed to it in the Charter" (see General Assembly resolution 55/2, para. 30).

The high-level event should agree that efforts should be strengthened to make more effective use of the United Nations Economic and Social Council as a forum for identifying coherence gaps and discussing general policy coordination issues on international economic, social and related matters, as well as concerns related to the objective of enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

172. Ever since efforts to "reform and restructure the United Nations in the economic, social and related fields" began to be expressly pursued in the 1980s, much progress to strengthen and revitalize the Council and its methods of work has been achieved, including that related to General Assembly resolution 50/227 and measures included in chapter 3 of the Agenda for Development, on institutional issues and follow-up. Many innovative changes have already been put into place by the Economic and Social Council in order to enhance its effectiveness, particularly in relation to the efforts to improve and enrich its relationship with the international financial and trade institutions and other specialized agencies and bodies. There has been growing interest and participation in the annual "policy dialogue" held at the beginning of the high-level segment of the Council's session, which brings to the Council the heads of the major international financial and trade institutions.

173. Similarly, the meeting now held each spring between the Council and representatives — particularly financial ministry officials — participating in the semi-annual meetings of the Bretton Woods institutions has been hailed as a successful initiative that brings together policy makers from the areas of finance, development cooperation and foreign affairs (this should be seen in conjunction with informal exchanges that are now organized regularly to facilitate contact and interaction between Council members and Executive Directors in the Boards of the Bretton Woods institutions). These instrumentalities can be further strengthened and adapted to facilitate the Economic and Social Council interactions to feed into discussions in other relevant forums, and the agendas for these meetings can and should be further developed. One idea that has been mentioned is for the Council to meet more frequently for short, focused meetings on high-priority topics, as the need arises.

Member States should further pursue and enrich initiatives, such as those introduced in recent years to facilitate the interaction of the Economic and Social Council with representatives of the international monetary, financial and trade institutions. The annual "policy dialogue" and the Council's meeting with representatives attending the semi-annual meetings of the Bretton Woods institutions should be seen as a continuum of opportunities for promoting policy coordination and coherence and their agendas should accordingly be developed and preparations undertaken with a view to achieving more clearly defined outcomes.

174. Apart from its own regular sessions, the Council has a well established system of functional commissions and expert bodies that cover a range of socio-economic issues (sustainable development, social development, environment, gender, human rights, public administration, habitat, crime). They normally attract ministerial

participation and interact with the relevant inter-agency machinery. Their reports are fed into the work of the Council and an effort is now under way to enable the Council to address them in an overall context and in a coherent manner. The Council has also intensified its own dialogue and interactions with the Administrative Committee on Coordination (ACC), and efforts are being made to intensify the involvement of executive heads of the organizations of the system in its work. The Council thus has considerable potential at its disposal to bring the system together and promote dialogue on questions of policy coordination, including improving the coherence and consistency of the system's approaches to financial, trade, environmental and social issues.

175. As part of the progress made in moving in this direction during the past few years, the Council has adopted ministerial communiqués on such wide-ranging issues as market access, poverty eradication, employment and women and information technology for development. It has been successful in engaging the multilateral development and financial institutions and other specialized agencies, as well as civil society and the private sector, in a multi-stakeholder dialogue that is contributing to transform the very character of the Council. Still, the Economic and Social Council is far from the stage where it can be said to have realized its full potential, and other ideas put forward to further strengthen the impact of the Council's work should be actively pursued.

176. The Council's recent efforts to promote an integrated approach to the follow-up to global conferences has helped focus international attention on a set of internationally agreed development goals and targets — endorsed at the Millennium Summit — and on the means of implementation. The Council could now take this process a step forward by putting in place, with support from ACC and its subsidiary machinery and with the participation of multilateral development and finance and trade institutions and of civil society, arrangements for the regular review and assessment of progress in the attainment of these goals and targets, the trends in development cooperation policies and performance, and a more systematic analysis and assessment of the overall development impact of development cooperation, finance and trade policies. ACC, as the body composed of executive heads of the system, should have the responsibility to analyse and assess these trends and policies, develop system-wide responses to major policy issues and assist the Council in carrying out the review.

The Economic and Social Council should undertake, as part of its follow-up to global conferences and of the financing for development high-level event, a periodic and systematic review and assessment of:

(a) Progress in the attainment of internationally agreed development goals and targets;

(b) Trends in development cooperation policies and performance;

(c) Overall development impact of development cooperation, finance and trade policies.

Follow-up and multi-stakeholder involvement

177. The active involvement and participation of all relevant stakeholders — in particular representatives of civil society and of the private sector — has been in recent years a major concern of United Nations Member States, especially in the context of the financing for development initiative. With this in mind and going beyond the innovative modalities set in place to facilitate broad participation in the financing for development process itself, it has been suggested that, as part of the follow-up to the final event, the Economic and Social Council could devote part of its session to follow-up discussions on financing for development, using a flexible and broad-based format that would include, in addition to Council members, representatives of the specialized agencies and other pertinent intergovernmental bodies, non-governmental organizations in consultative status with the Council and relevant financial, business and labour associations. These meetings, which could take place every two years so as to not overload the work of the Council, should give preference to open, informal discussion, and dialogue among participants could be enhanced with the use of round tables and associated events. As indicated in the previous recommendation, discussions could also be linked with those on the implementation of the results of the major United Nations conferences and of the Millennium Summit.

The Economic and Social Council should be requested to consider devoting part of its sessions, on a periodic basis, to a broad-based discussion on issues related to the follow-up and implementation of the financing for development event, which should include, through further innovative and flexible mechanisms, the active involvement and participation of all relevant institutional and non-institutional stakeholders.

Notes

[1] See Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 28 (A/55/28), part two, chap. VI, sect. B.