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Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Summary by the President of the General Assembly of the High-level Dialogue on Financing for Development (New York, 27-28 June 2005)

I. Introduction

1. The General Assembly held its second High-level Dialogue on Financing for Development on 27 and 28 June 2005 at Headquarters. The overall theme of the meeting was "The Monterrey Consensus: status of implementation and tasks ahead". The President of the General Assembly, Jean Ping, opened the meeting. Statements were made by the Secretary-General, Kofi Annan, and the President of the Economic and Social Council, Munir Akram. A total of 28 ministers, 11 vice-ministers and many high-level officials from more than 80 Governments made statements at the plenary meetings. Senior managers of major institutional stakeholders, the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), the United Nations Conference on Trade and Development and the United Nations Development Programme (UNDP) also spoke. The second day was devoted to six interactive multi-stakeholder round tables followed by an informal interactive dialogue. Participants at those informal meetings included ministers and other high-level representatives of Governments, officials of 21 international organizations and members of 36 civil society and private sector entities.

2. The titles of the round tables and their co-chairs were as follows — round table 1: "Mobilizing domestic financial resources for development", co-chaired by József Berényi, Secretary of State, Ministry of Foreign Affairs (Slovakia), and John Wasielewski, Director, Office of Development Credit, United States Aid for International Development Bureau for Economic Growth, Agriculture and Trade (United States of America); round table 2: "Mobilizing international resources for development: foreign direct investment and other private flows", co-chaired by Baledzi Gaolathe, Minister of Finance and Development Planning (Botswana), and

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Datuk Mustapa Mohamed, Minister in the Prime Minister Department (Malaysia); round table 3: "International trade as an engine for development", co-chaired by Fernando Canales, Minister of Economy (Mexico), and Fayza Aboulnaga, Minister for International Cooperation (Egypt); round table 4: "Increasing international financial and technical cooperation for development", co-chaired by Jean-Louis Schiltz, Minister for Development Cooperation and Humanitarian Action (Luxembourg), and Vonsey Vissoth, Deputy Secretary-General of the Ministry of Economy and Finance (Cambodia); round table 5: "External debt", co-chaired by Errol Cort, Minister of Finance and Economy (Antigua and Barbuda), and Frans Godts, Director, International Relations, Treasury (Belgium); round table 6: "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development", co-chaired by Hilde Johnson, Minister of International Development (Norway), and Ana Hrastović, Vice-Minister of Finance (Croatia).

3. The main themes raised in the plenary and informal meetings are outlined below.

II. General considerations and cross-cutting concerns

4. The High-level Dialogue was widely viewed as a momentous occasion to help set the stage for further progress on development issues at the High-level Plenary Meeting of the General Assembly of 2005. Several ministers underlined the interrelationship between the areas of development and of peace and security, while others emphasized the strong link between poverty and terrorism. A number of ministers stressed that development should receive as much attention as peace and security at the High-level Plenary Meeting. A sense of urgency to take action permeated many of the interventions of ministers, institutional stakeholders and other participants. There had been progress in several areas of the Monterrey Consensus, but going beyond what had already been achieved, including the recent positive announcements on aid, debt and trade, was urged. Swift progress was needed to enable developing countries, particularly African countries, to achieve the Millennium Development Goals.

5. Some ministers noted that 2005 was critical for the international community and the United Nations, as underscored by the report of the Secretary-General entitled "In larger freedom: towards development, security and human rights for all" (A/59/2005). The current year, they said, presented a unique opportunity for reforms at the multilateral level, including strengthening the United Nations. Regarding economic and social development, according to many participants, reforms were also necessary at the national and international levels. The report of the Secretary-General entitled "The Monterrey Consensus: status of implementation and tasks ahead" (A/59/822) proposed concrete actions in that regard. Several participants echoed the statement of the Secretary-General sharing the view that pervasive poverty could be defeated. This would require true global partnership leading to decisive implementation of national and international commitments embodied in the Monterrey Consensus.

6. While recognizing the recent positive steps taken regarding aid and debt, many ministers stressed that there was a serious implementation deficit of the Monterrey Consensus. By and large, developing countries had adopted reforms and had made

progress in a large number of areas. Yet the mobilization of the amount of resources needed to finance the level of development envisaged at the global conferences of the 1990s and the 2000 Millennium Summit fell considerably short of meeting requirements. The development challenge of the Monterrey Consensus was comprehensive. It included, and also went beyond, the Millennium Development Goals. Sustainable development in all countries called for fulfilling the commitments in all areas of the Consensus. Regarding countries with special needs, a number of ministers underlined that development cooperation should pay particular attention to the development obstacles faced by the least developed countries, landlocked developing countries and small island developing States.

7. Many participants highlighted the contribution of South-South cooperation to development in various fields. It was necessary to intensify such cooperation and to bring it to new levels. The New Partnership for Africa's Development (NEPAD) was a good example, including the ongoing effort to pursue the peer review process. The latter, according to one minister, could be usefully adopted in other developing regions. Several ministers also underlined the development contribution of regional development banks. Regarding regional integration and the monitoring of the implementation of the Monterrey Consensus in its different dimensions, it was stated that the regional commissions had an important role to play in both tasks.

8. The current world economic situation was encouraging, in the view of several participants. According to the International Monetary Fund, the world economy in 2004 had expanded at the fastest pace in nearly 30 years and the momentum, albeit not as strong, would continue in 2005. The 2004-2005 global performance was a promising development. As stated by the World Bank, growth must be central to Millennium Development Goals strategies since the target for poverty reduction cannot be achieved without strengthening growth performance. While all regions were making progress, several speakers noted that progress within regions had been far from uniform. Moreover, in the view of many ministers, several problems persisted: major imbalances in the world economy, net outward transfer of financial resources from developing countries and a volatile global environment. These problems constituted an impediment to more rapid and even progress.

9. Several ministers stated that strengthening the Economic and Social Council was important for the follow-up to and implementation of the Monterrey Consensus. Some ministers expressed support for the proposal of the Secretary-General to establish an executive committee that would, in particular, interact with the Bretton Woods institutions and WTO. Also, a number of ministers referred to the provision of the Monterrey Consensus calling for a follow-up international conference to review its implementation and for a decision on the modalities of the conference to be taken no later than 2005. The issue has to be decided soon. Some ministers proposed that a monitoring summit to review the implementation of the Monterrey Consensus be convened in 2007.

III. Mobilizing domestic financial resources for development

10. Many participants pointed out that domestic resource mobilization was by far the main source of financing for development. These resources could be complemented by external financing through international trade and investment and official development assistance. Many ministers stressed the importance of

developing countries' taking ownership of their development and poverty reduction strategies. They also underscored that policies for the mobilization of domestic resources should be integrated into these strategies. It was pointed out that policy space was often constrained by external considerations and that there should be more emphasis on providing developing countries with policy space to innovate, taking into account national circumstances. In addition, it was emphasized that strengthening of institutions in developing countries was needed for effective policy implementation.

11. A considerable number of ministers expressed continued support for NEPAD and noted that it connected the goals of poverty eradication and economic growth with integration into the international economy in its development strategy for African countries. This was important since economic growth was central to increasing long-term employment and achieving the Millennium Development Goals. NEPAD also reflected the commitment to improved governance of member countries as a basis for sustainable development. Many ministers underscored that good governance, transparency in public affairs, the rule of law, accountability and sound macroeconomic policies constituted critical elements of an environment leading to sustained domestic resource mobilization. Such an environment was also key to enhanced development cooperation and effective aid.

12. There was a widely shared view that economic growth, driven largely by the private sector, was the basis for mobilization of domestic financial resources for development and poverty reduction. Therefore, policies should be directed at fostering an enabling business environment, thereby attracting local and foreign investment and deterring capital flight. Participants noted the findings of the UNDP Commission on the Private Sector and Development in this regard, including the importance of legal protection for contracts and property, a sound regulatory system, transparency in the public system, the rule of law and fighting corruption. A competitive environment with well-regulated markets was the most effective institution to allocate resources efficiently.

13. Many participants emphasized that enhancing the domestic financial architecture, including development of microfinance, should be an integral part of domestic resource mobilization policies. An inclusive financial sector was key to promoting economic growth and equitable development; it was particularly important to promote small and medium-sized enterprises and increase employment. It was necessary to diversify financial products based on demand, reduce transaction costs and improve regulations to facilitate resource mobilization and help channel domestic saving into productive investment. It was noted that donor countries and multilateral financial institutions had been active in supporting these efforts and in providing debt guarantees to catalyse local private financing, ranging from microfinance to local currency bonds for infrastructure investment. Some speakers pointed out that there should be better coordination among donors and that risk should be shared with private financial institutions in the design of guarantees. A number of participants emphasized that improving the legal rights of the poor, especially property rights, and ensuring sound bank supervision and appropriate regulation could improve the access of the poor to financial services. There was also a proposal calling for a high-level task force that would explore how microfinance could be used effectively and efficiently for poverty reduction.

14. Many participants underscored that public resource mobilization and effective public management systems were important elements of domestic resource mobilization. According to them, apart from the growth of the private sector, capacity-building in, and reform of, taxation and public administration were needed to bolster tax revenues. Some also stressed that effective management of the fiscal budget with a medium-term perspective, as well as prudent monetary policies, were key in ensuring room to manoeuvre in case of shocks; they enabled countries to implement counter-cyclical policies.

15. Many participants underscored that poor infrastructure was a major constraint to private investment and development and said that that obstacle had to be addressed in considering domestic resource mobilization. It was noted that the need for infrastructure investment in developing countries was massive and substantial additional efforts were needed to mobilize the corresponding resources at the national and international levels.

16. At the same time, some participants emphasized that domestic resource mobilization policies should address the financing of a comprehensive range of measures that promote development and poverty reduction, including agricultural and rural development, social safety nets and health and education services. Some participants stressed that these policies should also be inclusive by addressing the needs of children and the disabled and supporting the participation of indigenous peoples in the process.

17. Many participants stressed that domestic resource mobilization policies should incorporate the international commitment to gender equality. They proposed that serious consideration be given to mobilizing financial resources for gender-specific interventions in areas such as agriculture, education, health, nutrition, rural and urban development, water and sanitation, capacity-building, and science and technology. In that regard, three actions were considered especially important: (a) use of gender-responsive budgeting to ensure that the relevant commitments are resourced; (b) upgrading the employment of women in the value chain; and (c) increasing women's access to assets and property rights.

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

18. Many ministers underscored the role of foreign direct investment (FDI) as a source of productive investment and economic growth in developing countries. The determinants of FDI, they added, were virtually the same as those leading to dynamic domestic private investments: good governance, stable macroeconomic environment, market-friendly frameworks, availability of human resources, reliable infrastructure and a measure of predictability. In the appropriate setting, FDI could provide numerous benefits such as advances in productive capacity, new technologies, management expertise and export markets. The challenge for developing countries, particularly those with low savings, was to attract FDI as a complement to the national strategy in a way that would maximize its contribution to the long-term development of the country. Several ministers pointed out that, consistent with the objectives of the recipient country, official development assistance (ODA) should serve as a useful instrument to leverage FDI.

19. A number of ministers noted that FDI from developing countries to other developing countries was assuming increasing relevance. That was seen as particularly important since many of those investments were going to low-income countries, some of which were least developed or landlocked. Participants called for further efforts to promote such investments.

20. Many participants stressed the crucial role of infrastructure in attracting FDI and said that international financial support for infrastructure development, including cross-border projects, was needed. In that context, several speakers supported the Economic and Social Commission for Asia and the Pacific (ESCAP) initiative to establish an Asian investment bank and proposed the creation of an infrastructure fund for Africa financed by pension funds. It was also noted that through the Overseas Private Investment Corporation and the Trade Development Agency, between fiscal years 2001 and 2004, the United States had provided $1.3 billion to support approximately 50 projects in sub-Saharan Africa.

21. A number of ministers recognized some serious challenges in formulating policies to attract FDI. There was, for instance, the temptation to keep wages and environmental and labour standards as low as possible to be competitive vis-à-vis other countries. Fiscal competition for FDI also reduced tax revenues, they said, further undermining social policies and probably having a negative impact on income distribution. If unregulated, FDI could easily lead to greater wage inequality between women and men due to their different degrees of bargaining power and social roles, according to some participants. Moreover, several noted that it was difficult for many low-income countries to attract FDI by market criteria alone. It was pointed out that in the low-income countries risk mitigation on the basis of bilateral or multilateral support was important to increase foreign investments.

22. Foreign financial flows, in the view of many participants, could also make a significant contribution to development. Yet prudent domestic management was a precondition. They stressed that a sound regulatory framework had to be in place to complement the opening of a capital account. Several speakers pointed out the importance of avoiding the accumulation of foreign currency-denominated debt and borrowing in local currency as a hedge against foreign exchange rate risk. According to a number of ministers, a decisive effort should also be made to develop the domestic financial sector. It was noted that improving the ratings of debt issuance to investment grade by securitization and other mechanisms could lead to opening the door to large global pools of institutional investment. Several ministers pointed out that the risk of international financial instability persisted and that it was necessary to correct global imbalances to reduce that risk.

23. Many ministers stressed the need to reduce further the costs of remittances and examine modalities to increase their development impact. In the view of a large number of participants, remittances by their very nature were private flows largely channelled for private purposes; they did not constitute development aid and, thus, should not be a substitute for ODA. It was pointed out that remittances were spent for both consumption and investment such as education and housing purposes. Remittances were more stable than other private flows and were steadily increasing. According to some participants, further work was required to assess how a larger share of such flows could be channelled to development-oriented purposes.

V. International trade as an engine for development

24. Many ministers emphasized that trade was a key element for speeding up economic growth, financing development and eradicating poverty. They stressed that it was critical to complete in 2006 the negotiations on the Doha work programme towards an equitable development-oriented trading system. Trade liberalization and improvement and observance of trade rules could make a substantial contribution to the achievement of the Millennium Development Goals, several speakers said. It was noted that a satisfactory completion of the negotiations on the Doha work programme would bolster medium-term global growth, add $200 billion annually to the income of developing countries and potentially lift more than 500 million people out of poverty. Nonetheless, a number of ministers pointed out that, since the adoption of the Monterrey Consensus, no progress on the substantive issues of interest to developing countries in the Doha work programme had taken place. They said that the High-level Plenary Meeting of the General Assembly in September 2005 should provide political impetus for decisive progress at the WTO Ministerial Conference in Hong Kong SAR in December 2005. At its Second South Summit, the Group of 77 and China had stressed the need for a fair, equitable and rules-based trading system that should be inclusive and give priority to development. According to several participants, the completion of the negotiation in 2006 should reflect an ambitious outcome avoiding exclusions and achieving concrete benchmarks, including duty-free and tariff-free access for the exports of the least developed countries.

25. A large number of ministers stressed the importance of market access for developing countries. That was particularly important in the areas of special interest to developing countries in the fields of agriculture and non-agricultural products and services. It was critical, they stressed, to address the issue of export subsidies and domestic protection for agricultural products in developed countries, such as cotton. Some ministers pointed out that it was also necessary to deal with the increased resort to non-trade barriers, such as sanitary and phyto-sanitary requirements. In the case of manufacturers, tariff peak and tariff escalation were a source of concern, as they discourage developing countries from developing higher value-added activities. Several speakers also noted the role of trade in services and its potential for welfare gains, in both developed and developing countries.

26. A number of participants said that enough flexibility should be built into the negotiations for developing countries, in particular for low-income and vulnerable countries. Special and differential treatment was key to avoiding possible negative shocks, they added. Some speakers suggested that poor countries should be exempted from various obligations; they should not be required to offer reciprocity in the negotiations. Several ministers stated that the full participation of developing countries in trade negotiation processes was crucial for establishing a fair and equitable trading system. The integrated framework for trade-related technical assistance was regarded as a useful tool to facilitate the integration of least developed countries in the global economy. Many participants emphasized the increasing importance of South-South trade. It was indicated that trade liberalization by developing countries would increase market access opportunities for other developing countries.

27. Several ministers and a number of other speakers underlined the unsatisfactory experience of countries with the Uruguay Round on a number of fronts. The link

between trade and development was not automatic and certain prerequisites had to be put in place, they added. Many participants stressed the need for "aid for trade". They pointed out that a large number of developing countries faced supply constraints, lack of technology, insufficient knowledge of export markets, weak institutional frameworks and significant gaps in infrastructure, which could be particularly severe in landlocked countries. According to many participants, aid and technical assistance could help to overcome those obstacles so that recipient countries could realize the potential benefits from trade. For example, for a number of countries considerable domestic efforts supported by international cooperation were key to increasing investments in infrastructure, such as ports and telecommunications, so they could benefit fully from any trade agreements. In that context, it was pointed out that it was crucial for developing countries to integrate trade policies into the national development strategy and that aid for trade should be increased substantially to support such efforts. Moreover, according to some speakers, assistance was also necessary to deal with adjustment costs in special cases. For a considerable number of developing countries, they said, trade remained a significant source of fiscal revenue and tariff reduction would compromise their fiscal positions. Also, some pointed out that the erosion of preferences — in sugar, for example — and the imposition of labour and environmental standards could lead to considerable short-term disruptions. It was noted that the European Union and the World Bank had decided to strengthen their aid for trade programmes.

28. Regarding commodities, some ministers expressed concern about the declining terms of trade for commodity exporters, noting that this was especially serious in Africa, where most people were dependent on the production of commodities for their livelihood. They cited three avenues to alleviate that problem: (a) actions to mitigate the negative effects arising in commodity markets through price risk management; (b) reducing dependence on a few commodity exports through diversification and the promotion of higher value-added activities; and (c) exploring new modalities for commodity-financing schemes.

VI. Increasing international financial and technical cooperation for development

29. Official development assistance was recognized by virtually all participants as an essential instrument for achieving the internationally agreed development goals. A large number said it was important that donors set a firm timetable to achieve the 0.7 per cent ODA target. Many ministers welcomed the turnaround of ODA flows and the new momentum of members of the European Union towards the 0.7 per cent target, which as from 2004 had been achieved by only five donors, four of which were members of the European Union. The announced timetable by the European Union envisaged a level of aid of 0.56 per cent of gross national income in 2010, leading to an additional €30 billion euros. Several participants pointed out that former recipient countries, particularly in Eastern Europe, were becoming donors and were also committed to increasing aid in the future. Also, other countries in a position to contribute were called upon by several participants to do so. It was noted that, at the initiative of Qatar, the South Fund for Development and Humanitarian Assistance had recently been launched in Qatar.

30. A number of ministers emphasized that aid cooperation should be based on two principles: ownership and mutual accountability. Some ministers expressed concern that recent ODA figures masked real contribution to development since recent ODA flows involved a large share of emergency aid, including aid to countries affected by the tsunami, debt write-offs and funds used to fight terrorism. Such flows did not constitute funding for long-term development projects or programmes, they said. Yet a number of participants stressed that humanitarian aid often was urgently needed and that there should be no delay in providing it; moreover, humanitarian aid and development activities were interconnected as part of the goal of achieving sustainable development.

31. Regarding aid allocations, many interventions stressed the need to focus on poor countries, particularly in Africa. The European Union announced that it would allocate half of its aid to African countries starting in 2006. Some ministers reiterated the importance of achieving the target of 0.15 to 0.20 per cent of gross national income to least developed countries. It was noted that additional aid to least developed countries should be accompanied by improvements in policy formulation and implementation in these countries. Some ministers pointed out that no country should be left behind. At present, aid in some low-income countries was decreasing. According to several participants, aid was also necessary for middle-income countries struggling with pervasive social problems and large pockets of poverty. More generally, several ministers acknowledged the key role of technical assistance and transfer of knowledge as an important element in policy reform and institutional building, thus contributing to laying the foundation for sustainable development.

32. While several ministers stated that aid should give priority to health, access to water and education, others emphasized that small- and medium-sized enterprises, agriculture and rural development needed additional financing. Some stressed that reducing hunger should be a key objective of aid. A number of ministers also stressed that a key role of aid was to leverage additional private sector investments. Several ministers stressed that developing infrastructure was particularly important for both economic growth and the fight against poverty and that the World Bank and regional development banks should pay particular attention to infrastructure development. It was noted that public-private partnerships could be particularly effective in this area and were working well in Asia.

33. Many ministers and financial institutions emphasized that increasing the quality and effectiveness of aid was as critical as was increasing its volume. The Paris Declaration on Aid Effectiveness of March 2005, they said, was a substantial step forward; thus, it was important that the High-Level Plenary Meeting of the General Assembly of September 2005 endorse the Declaration, leading to concrete actions to improve aid quality. A number of participants underlined the need for donors to exploit complementarities and simplify and harmonize regulations and procedures for disbursements in order to reduce transaction costs. Regarding the simplification and harmonization of regulations and procedures for disbursements, participants stressed the need to untie aid. Predictability of funding, according to a number of speakers, was also crucial to efficient aid delivery and completion of programmes.

34. Several participants underscored the need for a greater use of budgetary support and that the recipient country should be at the centre of aid coordination. In their view, it was also necessary to streamline conditionalities. The above was key

to ownership and to dealing with competing and sometimes conflicting donor priorities that made alignment difficult. Many ministers underlined the importance of sound public management to achieve aid effectiveness. Yet some added that delivery mechanisms had to be suited to local conditions and capacities. A number of ministers stressed the need to systematically measure aid impact. Several among them pointed out that, in the end, success depended in large measure on aid leveraging private sector activities and increased overall investments.

35. The idea of new and innovative sources of financing permeated a large number of the interventions on official development financing. Many ministers welcomed the progress in the consideration of innovative sources of finance and supported recent pilot-project initiatives to be financed through the International Finance Facility and the tax, or solidarity contribution, on air travel tickets. Both initiatives could provide promptly much-needed resources. A large number of participants stressed that funds from innovative sources should be additional to current aid volumes and commitments and should not be used as a substitute. Several ministers pointed out that preferably, this new form of funding should be voluntary. There was a widely shared view that the proposed schemes involving taxes should be applied nationally but coordinated internationally and that the new resources should be disbursed through existing channels.

36. A number of ministers stressed the advantages of funds from the innovative sources already proposed: they would provide substantial additional funding, would be more predictable and would serve well for specific purposes such as financing global immunization campaigns or the fight against HIV/AIDS and malaria. Several ministers highlighted the initiative on action against hunger and poverty being pursued by Algeria, Brazil, Chile, France, Germany and Spain. Besides the initiatives and proposals mentioned above, some ministers mentioned other feasible options such as financial transaction taxes, taxes on arms trade, allocation of antitrust fines to development, use of Special Drawing Rights and new forms of voluntary contributions.

VII. External debt

37. The initiative launched by the Group of Eight (G-8) to extend full relief to qualifying heavily indebted poor countries on their debt to the International Monetary Fund, the World Bank and the African Development Bank was welcomed in a large number of interventions by ministers and other participants. The initiative contemplated $40 billion of debt relief to 18 heavily indebted poor countries. Some ministers stressed that steps should be taken to ensure that the proposal did not compromise the ability of the three institutions concerned to continue to provide grants and concessional loans to developing countries. It was also noted that the proposal involved more creditors than just the G-8 countries, and participants urged the managing boards of the relevant institutions to approve the proposal promptly.

38. Some ministers pointed out that since the proposal did not fully cover all multilateral lending institutions, nor many of the poorest developing countries that were still facing unsustainable debt burdens, it was only a first step in lifting the debt obstacle to attaining the Millennium Development Goals. Further, many participants noted that the initiative did not deal with the debt problems of non-heavily indebted poor countries or financially handicapped middle-income

countries. A number of ministers called for the cancellation of all debt of the least developed countries and African countries. It was also stressed that continued support for middle-income countries in the form of subsidized loans was necessary, while other participants noted the importance of the Paris Club in resolving middle-income countries' debt problems. Several participants stressed that it was the private citizens of a country who bore the real costs of debt service and that they should therefore be the major beneficiaries of debt forgiveness. It was thus recommended that civil society, as well as debtors and creditors, be involved in the debt resolution process.

39. Several ministers stated that the aim of debt relief should be to stop the repetitive cycle of "lend and forgive". Yet it was noted that for some countries that had benefited from debt relief a substantial increase in grant-based aid would be necessary. A number of speakers emphasized the importance of assessing and controlling the use of new borrowing once creditworthiness was established. According to them, new borrowing must be able to provide value added and be assessed in terms of its ability to generate income to provide debt service. In that context, many participants noted the importance of an improved approach to the definition of debt sustainability in determining the appropriate amounts of debt relief, and the mix of grants and loans to be provided to developing countries.

40. Reference was made by several speakers to the difference between the backward-looking assessment of debt sustainability used in the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the new forward-looking approach currently being experimented in the fourteenth replenishment of the International Development Association. They noted the importance of using appropriate underlying assumptions. It was suggested that one of the major drawbacks of the HIPC approach to debt sustainability was the use of overly optimistic assumptions about the future evolution of country growth rates, exports and commodity prices.

41. Ministers and other participants expressed a range of views concerning an improved definition of debt sustainability. Some argued that the aim of debt sustainability was to re-establish creditworthiness and access to return to borrowing in private financial markets. Others embraced the proposal of the Secretary-General that defined sustainability with respect to the ability to meet the Millennium Development Goals. Still others argued that debt relief considered in the context of the internationally agreed development goals, including the Millennium Development Goals, had to be approached as part of the overall financing-for-development discussion, since debt relief was only one of a number of possible mechanisms to provide development financing. A number of speakers stressed the need to ensure that debt cancellation led to additional resources for debtor countries and had a clear and measurable impact on poverty reduction.

42. Regarding situations in which there was significant external debt owed to private creditors, many participants encouraged continued efforts to establish an appropriately designed, independent debt-restructuring framework. Several speakers noted that these were not new problems, and that the experience of the private sector in the assessment of debt sustainability and in the design of restructuring mechanisms should be drawn upon more fully by both the multilateral financial institutions and the intergovernmental organizations.

43. The overwhelming importance of political will in providing debt relief was underscored in many interventions. It was pointed out that the real problem was not

the financial constraints of the creditors, but political constraints. It was noted that to achieve long-term debt sustainability, the terms and scale of new financing were much more important than forgiveness.

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

44. Many ministers underscored the need to enhance the coherence between the financial and trading systems in support of development since often actions in one area negated or constrained actions in the other. They stressed that it was particularly important to harmonize aid and trade policies at both the international and the national level, including in the poverty reduction strategy framework of recipient countries. They also highlighted that the Economic and Social Council should be reformed and strengthened to enable it to assume the lead on development issues and be used effectively for development policy coordination and review of the implementation of the internationally agreed development goals. Several ministers pointed out that the Bretton Woods institutions should also be reformed; more inclusiveness and transparency were necessary in those institutions. A number of ministers noted that the United Nations and the Bretton Woods institutions were working better together. Some participants stressed that in various policy areas the Bretton Woods institutions had made significant improvements, particularly in comparison with the situation five years ago. Moreover, most of the reforms proposed were already on the agenda of these institutions. Many ministers highlighted that coherence at the international level should start at home; in particular, enhanced coordination and harmonization were required among policymakers dealing with trade, finance and development cooperation.

45. According to some ministers, the Economic and Social Council should be at the centre of the follow-up to the development cooperation policies geared to achieving the Millennium Development Goals, particularly Goal 8. They were of the view that developed and developing countries should report to the Economic and Social Council on their policies and efforts to achieve the Millennium Development Goals and that the Economic and Social Council should review those efforts, paying special attention to ODA flows and debt relief. It was also noted that a more systematic assessment of the impact of national and international policies on economic growth and development was necessary.

46. Macroeconomic policy design and advice by the Bretton Woods institutions for developing countries did not always contribute to achieving the Millennium Development Goals, according to a number of participants — for example, in caps on health spending, usually deemed necessary to avoid inflationary pressures. Several ministers also pointed out that international obligations and conditionalities imposed by the Bretton Woods institutions tended to constrain the policy space in a way that stifled some initiatives to foster development. It was noted that, despite the claim of being nationally owned, the poverty reduction strategies did not address the basic issue of economic sustainability since they did not take into account productive sectors of the economy; therefore, a better balance between ownership and conditionality was necessary.

47. A number of ministers highlighted the key role of IMF in helping to prevent and managing financial crises. They stressed that to perform this crucial task, IMF required a substantial increase in its resources. Several speakers pointed out that IMF resources could be raised by issuing SDRs in a counter-cyclical way or resorting to a general quota increase. Some participants indicated the need for creating in IMF a low-conditionality facility to help developing countries handle external shocks with less strenuous adjustments. It was also noted that it was important for IMF to enhance its work on surveillance and timely prevention. Improvement of the IMF early warning system for crisis prevention could lead to more effective coordination in policymaking.

48. The issue of strengthening and broadening the participation of developing countries and countries with economies in transition in international economic decision-making was underscored in many statements. Many ministers stressed that the governance of the international financial institutions should be improved, and that the voice and representation of developing countries in international economic decision-making and standard-setting should be enhanced. According to a number of ministers, there was a "democratic deficit" in the Bretton Woods institutions. Some speakers pointed out that that deficit was of special concern, since the Bretton Woods institutions had been moving to the area of global economic governance. It was also noted that the experience of the Asian crisis suggested that insufficient representation of developing countries in those institutions and their lack of participation in the design of policies had led to mistakes in handling that crisis.

49. While quota redistribution would be necessary to enhance the representation of developing countries, it was noted that IMF restructuring and reform would not need to be accompanied by quota redistribution.

50. Some ministers also expressed concern at the lack of effective participation of developing countries in standard-setting by international institutions or groups, such as the Basel Committee on Banking Supervision and the Financial Stability Forum. They pointed out that the decisions of those bodies affected directly or indirectly all countries, yet they had no representation of developing countries. Those bodies, as well as the Financial Action Task Force on Money Laundering, should become more transparent and representative of the interests of all parties, according to those ministers. In the same vein, several ministers also addressed tax cooperation issues, in particular the need for an effective and inclusive international forum that would balance the interests of all countries.