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

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Report of the Secretary-General

Addendum**

Multi-stakeholder consultations on financing for development

Summary

Pursuant to General Assembly resolution 58/230 of 23 December 2003, the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat organized multi-stakeholder consultations to examine issues related to the mobilization of resources for financing development and to promote best practices and exchange information on the implementation of the commitments made and agreements reached at the International Conference on Financing for Development.

The consultations, held in 2004-2005, covered: (a) building inclusive financial sectors for development; (b) sovereign debt for sustained development; (c) public-private partnerships for improving the reach and effectiveness of development assistance; (d) improving the climate for private investment; and (e) enhancing the coherence and consistency of the international financial, monetary and trading systems in support of development. The present report outlines the basic modalities, main findings and substantive outcomes of those consultations.

* A/60/150.

** The present document was submitted on 22 August 2005 to allow for the incorporation of inputs provided by the co-organizers on substantive outcomes of the three sets of consultations.

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I. Introduction

1. In its resolution 58/230 of 23 December 2003, the General Assembly requested that the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat organize workshops and multi-stakeholder consultations to examine issues related to the mobilization of resources for financing development and poverty eradication and to convene activities involving various stakeholders to promote best practices and exchange information on the implementation of the commitments made and agreements reached at the International Conference on Financing for Development.

2. In response, the Financing for Development Office, in consultation with major institutional and non-institutional stakeholders in the follow-up process to the International Conference on Financing for Development, identified policy issues from the Monterrey Consensus of the International Conference on Financing for Development[1] on which informal and expert-level discussions by multiple stakeholders might facilitate policy debates in international forums. The multi-stakeholder consultations on these issues were to be technical rather than political meetings, addressing substantive aspects in order to mobilize the political will to take an agreed course of action.

3. To realize the multi-stakeholder approach, it was essential that all relevant stakeholders participate in each of the consultations. From Governments, officials involved in the relevant areas, either in national or in international bodies, were invited. The relevant multilateral institutions mobilized staff expertise on the issues under discussion. Individuals from civil society, the private sector and academic communities with technical expertise and experience were also engaged. Participation of representatives from developing countries was made possible by generous financial contributions received from the Governments of Norway, Switzerland and the United States of America. All participants were acting in their personal capacities, with due regard to their respective official responsibilities and institutional backgrounds.

4. The programme of multi-stakeholder consultations, held in the second half of 2004 and the first half of 2005, consisted of a series of informal meetings covering five substantive areas. The Financing for Development Office directly coordinated consultations in the areas of building inclusive financial sectors for development and sovereign debt for sustained development. The World Economic Forum was engaged to conduct another set of consultations on understanding how public-private partnerships can improve the reach and effectiveness of development assistance and on improving the climate for private investment through leveraging multilateral development banks and aid organizations to catalyse private investment and through bringing financial governance capacity-building to scale. The third set of consultations was coordinated by the New Rules for Global Finance Coalition on selected issues related to enhancing the coherence and consistency of the international financial, monetary and trading systems in support of development.

5. A brief overview of the consultation process and informal interim reports on the proceedings of multi-stakeholder consultations were made available to the

[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

second High-level Dialogue of the General Assembly on Financing for Development held in New York on 27 and 28 June 2005.[2] The main findings and substantive outcomes under each theme of those consultations are outlined below.

II. Building inclusive financial sectors for development

6. Access to financial services and the depth of financial markets have been associated with growth and development. Yet in many developing countries, people have no access to basic financial services, small enterprises and microentrepreneurs cannot borrow short term to finance working capital, and there are no long-term housing mortgages. Most do not have any form of insurance and many do not use the formal financial system to make financial payments or receive transfers. They operate in cash outside the formal financial sector and some, in relatively isolated communities, operate only partly in cash.

7. Many programmes have been introduced by developing-country Governments (for example, State-owned commercial or development banks, postal financial institutions, national savings banks, etc.) and non-governmental organizations (for example, credit unions, savings and loan cooperatives, microcredit institutions) to make these services more widely available. Governments have also adopted policies that provide incentives to the private sector to offer increased services to the poor or to the microfinance and other institutions that serve poor people. The official donor community and international private foundations have also provided substantial financial and technical assistance to improve the situation.

8. To focus global attention on the issue, the General Assembly by its resolution 53/197 of 15 December 1998 proclaimed the year 2005 as the International Year of Microcredit. In its resolution 58/221 of 23 December 2003 entitled "Programme of Action for the International Year of Microcredit, 2005", the Assembly invited the Department of Economic and Social Affairs of the Secretariat and the United Nations Capital Development Fund to jointly coordinate relevant United Nations system activities regarding the preparations for and observance of the Year, and also encouraged the sharing of best practices and lessons learned and the holding of regional and subregional events on microcredit and microfinance. On 29 December 2003, the Secretary-General called on the global community to meet the challenge to "build inclusive financial sectors that help people improve their lives".

9. In this context the Department of Economic and Social Affairs and the United Nations Capital Development Fund jointly organized a series of multi-stakeholder consultations on "Building inclusive financial sectors for development", with the aim of producing a "Blue Book" to serve as a companion to national multi-stakeholder consultations in developing countries for the purpose of helping Governments shape strategies for building inclusive financial sectors. That volume is expected to be launched during the sixtieth session of the General Assembly.

10. The multi-stakeholder discussions were also supported by a core group of multilateral institutions: the International Fund for Agricultural Development (IFAD), the International Labour Organization (ILO), the International Monetary

[2] For additional details on organizational aspects of the five sets of discussions, see "Multi-stakeholder consultations on financing for development: an overview" (A/59/CRP.6), available on the Financing for Development web page at www.un.org/esa/ffd.

Fund (IMF) and the World Bank. Support for regional meetings was provided by the Microcredit Summit Campaign (Amman and Santiago), the African Microfinance Network (Bamako), the Asian Development Bank (Manila), the World Savings Banks Institute (Santiago) and the United Nations Development Programme (UNDP) (Santiago). The global meeting was hosted by ILO in Geneva. The World Bank Institute joined with the United Nations Capital Development Fund and the Department of Economic and Social Affairs in organizing one of the largest e-conferences ever held by the Bank, in which some 800 people from 111 countries participated over more than a two-week period.[3]

11. In addition, Women's World Banking convoked a major global meeting of experts on "Building Domestic Financial Systems that Work for the Poor Majority" to support the Blue Book. The African Development Bank, the Inter-American Development Bank, the Consultative Group to Assist the Poor and many individuals from the microfinance community — from developing and donor countries — also provided support to the process.

12. The Blue Book seeks to identify the key constraints on financial inclusion based on experiences gathered from around the world, focusing on impediments at the level of the customer, the retail financial institutions, the financial markets (that is to say, finance at the wholesale and inter-institutional level), the policy and legal environment, and the regulatory and supervisory environment. In each case, the Blue Book points to areas in which strategic policy choices are likely to make the biggest difference to the future development of financial inclusion. Finally, the Blue Book offers a series of strategic options that have been distilled from the discussions.

13. The Blue Book is thus intended to provide a set of shared principles. The first is that financial services for the poor should be an integral part of overall financial sector development, with a continuum of services made available to micro, small and medium-sized enterprises as well as poor and low-income households. While there are some opportunities for the commercial banking sector, most of the institutions serving the poor and low-income market will have a "double bottom line", which means that they will also have social objectives. They may be government-owned (for example, State-owned banks, savings banks, postal financial services) or independent (for example, credit unions, non-governmental organizations) and should be able to reach sufficient scale to cover costs. However, policymakers should consider designing targeted subsidies (such as guarantees or tax breaks) to expand the reach and scope of "inclusive finance". Another principle is that a financial system with multiple service providers and vigorous consumer protection (including financial literacy programmes) will enhance fair treatment of clients. Finally, the vision should be dynamic as well as eclectic, so that the industry may take advantage of technical change. This requires a flexible approach to regulation and supervision.

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[3] Further details of the meetings are available at http://www.un.org/esa/ffd/09multi-stake-consul-flyer-finsector.htm. A CD-ROM containing all the information from the website is available from the Department of Economic and Social Affairs, the United Nations Capital Development Fund and the World Bank Institute under the title "Multi-Stakeholder Consultations on 'Building Inclusive Financial Sectors for Development': Shaping the Blue Book on Building Inclusive Financial Sectors, October 2004-May 2005".

14. The Blue Book is not a blueprint. It argues instead that the relevant stakeholders in each country should engage in their own consultative process to identify and address country-specific issues. This reflects the position of stakeholders that it is most important to increase understanding of the key options facing countries, rather than offer a single solution. Domestic stakeholders may develop their own country-specific blue books consistent with their national development strategies.

III. Sovereign debt for sustained development

15. Successful management of sovereign debt that Governments owe to foreign creditors presents difficult challenges to many developing and transition economies. The consultations were organized in collaboration with the United Nations Conference on Trade and Development (UNCTAD) Debt Management Financial and Analysis System, together with the World Bank and IMF. The multi-stakeholder consultations were held in New York (with the assistance of the Economic Commission for Latin America and the Caribbean (ECLAC)), Maputo (jointly with the Commonwealth Secretariat and with the participation of the International Organization of la Francophonie) and Geneva (as part of the UNCTAD Fifth Interregional Debt Management Conference).

16. To help focus the discussions on the policy matters that had immediate saliency for debtor countries and the international community at large, an "issues paper" was drafted in consultation with stakeholders.[4] The issues paper focused on the three main areas: how to make the concept of "debt sustainability" operational; how to manage sovereign debt for policy coherence; and practical ways to contain risk and reduce uncertainty.

17. There was a convergence of views on two broad points. The first was the absence of agreement on the concept of debt sustainability. The initiative of the Finance Ministers of the Group of Eight to deepen multilateral debt relief for a number of poor countries seems to implicitly acknowledge that previous assessments of the relief needed for debt sustainability had been incomplete, or that the concept had not been analytically rigorous, since substantial additional relief was proposed in order to allow a better chance to attain sustainability.

18. The second broad point of convergence was the need for an improved mechanism to achieve cooperative debt workouts from crises. Avoiding future cases of non-cooperative workouts from insolvency and strengthening confidence all around in a country's sovereign debt were a high priority. One approach advocated in the consultations was to take forward a set of "principles for stable capital flows and fair debt restructuring in emerging markets".[5] Others looked to a sharp break from current approaches to negotiated debt restructurings. All agreed that something more than the status quo was needed.

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[4] See "Strategic issues in managing sovereign debt for sustained development" on the Financing for Development web page at http://www.un.org/esa/ffd/09multi-stake-consul-flyer-debt.htm. Commentary by various non-governmental organizations and other substantive inputs to the consultative process are available there.

[5] See www.iif.com/data/public/principles-final_0305.pdf.

19. In fact, these two areas converge, since debt sustainability is not a number to be estimated but a conclusion to be reached in a domestic dialogue to which external creditors must contribute, and a workout from debt crisis requires a similar domestic dialogue and a dialogue with creditors. How these dialogues should be structured and guidelines for their initiation that would build mutual confidence remain to be defined.

IV. Public-private partnerships to improve the reach and effectiveness of development assistance

20. The World Economic Forum began this project by examining the status and promise of public-private partnerships (PPPs) in three areas: basic education, health, and water and sanitation.[6] Nearly three quarters of the sector-specific indicators for measuring progress on the Millennium Development Goals relate to these areas. It is in these sectors that private sector participation is often politically contentious.

21. Six multi-stakeholder gatherings were organized, two for each of the selected areas. The meetings relating to health took place in New Delhi in December 2004 and Geneva in May 2005; the meetings relating to education took place in Brasília in November 2004 and Paris in April 2005; the meetings relating to water took place in Durban, South Africa, in October 2004 and London in May 2005.

22. The general findings of the consultations were threefold. First, participants stressed that public-private partnerships had a significant role to play in achieving the Millennium Development Goals. In particular, there is increasing recognition by all stakeholders that persistent development challenges require new approaches and partnerships that draw on the expertise of the private sector. Second, the deliberations in the meetings pointed to evidence that increasing amounts of private resources were being directed to development-oriented public-private partnerships. Third, many participants called upon the official and private sectors to better integrate public-private partnerships into the structuring and delivery of aid programmes, and to work towards scaling up their use and strengthen their implementation.

23. A number of cross-cutting recommendations by participants emerged from the separate discussions relating to basic education, health, and water and sanitation. They included the following points:

(a) *Need for clearer appreciation of the benefits of public-private partnerships*. There is a need for a clearer appreciation by all stakeholders of the value added obtained from private sector participation in the form of the expertise contained in local and foreign companies, as well as additional financial resources to enhance the effectiveness of development assistance;

(b) *Importance of support from the official sector*. Given the likelihood of public-private partnerships playing a larger role in development, it is necessary to

[6] A public-private partnership involves business (including not-for-profit civil society organizations) working in partnership with official development institutions and government agencies. It involves joint responsibility in design and execution of ventures, mutual accountability and reciprocal obligations, and the sharing of risks, and can comprise voluntary/contractual relationships.

have appropriate policy and political support from Governments and international organizations so as to generate public awareness about public-private partnerships and provide a conducive legal and regulatory environment;

(c) *Requirement for global collaboration to facilitate public-private partnerships*. Such collaboration could manifest itself in the development of guidelines relating to the governance of public-private partnerships, new approaches to implementing partnerships in rural and remote areas and the dissemination of information. International organizations can play an important role in facilitating this collaboration.

24. The discussions and recommendations in the sector-specific meetings focused, first, on what was working well in public-private partnerships and what needed to be taken to scale and, second, on other high-potential areas that required resources to be devoted to further examination.

25. With respect to basic education, the key challenges identified included increasing enrolment, improving quality and performance and achieving greater gender parity in primary and secondary education. Two types of partnerships were identified to best address these challenges: core philanthropy from the private sector and incorporating private sector efficiencies into the public sector schooling system. In terms of what was working well in public-private partnerships and deserved to be scaled up, the recommendations made included:

(a) The need to devise strategies to ensure that the benefits of philanthropic public-private partnerships in basic education were sustained in the longer term. These plans should be embedded in the partnership contract and could include measures to ensure structural improvements in performance and cost management as well as secure new long-term financing for recurrent spending;

(b) Promoting collaboration to mobilize discretionary income of public schools. Toolkits should be provided to public schools, suggesting ways to generate discretionary income, including through collaboration with the private sector;

(c) Involving business coalitions and the for-profit education sector in supporting and raising standards in public schools.

26. On health, the key objective was the achievement of universal coverage of existing standard medical and preventive treatment. The challenge was to strengthen infrastructure so as to make it easier to translate increased aid from global funds and partnerships into action on the ground. In terms of what was working well in public-private partnerships and deserved to be scaled up, the recommendations made included the following:

(a) Addressing systemic funding gaps at the international and regional levels in all health domains. There is a need to create long-term and innovative funding models to overcome these gaps, which are often a function of global public policy and developed-country policies in trade, aid, finance and intellectual property rights;

(b) Promoting collaboration between the private sector, non-governmental organizations and Governments to extend disease eradication programmes. The private sector can help by extending employee health-care programmes into the community, assisting in developing new ways of providing infrastructure and access in the community and building awareness around key issues;

(c) The need for a cultural shift within international organizations so that they proactively identified public-private partnerships that both provided affordable health products for the poor and ensured an adequate return for investors. International organizations should also increasingly encourage communication and promote dialogue among different sectors and stakeholders;

(d) Linking public-private partnerships focusing on specific health issues, such as HIV/AIDS, to wider efforts to promote systematic improvements in countries' health-care systems;

(e) Setting targets and incentives to ensure long-term commitment and accountability of all participants.

27. With respect to water and sanitation, participants pointed to the need for substantially increased development assistance in the poorest countries (and especially in regions such as sub-Saharan Africa). Public-private partnerships can contribute to the effectiveness of this assistance. The recommendations made included the following:

(a) The importance of subsidies in mobilizing private finance for water. The example of the Netherlands was cited, where untied grants were offered to companies (via Governments) dedicated to encouraging private investments in drinking water facilities;

(b) The need for a shift in thinking by development institutions regarding the sequencing of institutional reform and private sector participation in utilities. The former need not be viewed as a prerequisite to the latter; the two can be integrated and run simultaneously. Such an approach would allow the mobilization of private investment at an earlier stage;

(c) The need to account for political and social implications of private participation in water provision. It is important to have better forms of communication among all stakeholders with respect to weighing the merits of the available policy, technology and management options so as to reach a consensus on action. It is also necessary to form partnerships with civil society and incorporate pro-poor technologies into the design process.

28. Initiatives showing high potential that deserve further experimentation include developing local capital markets, strengthening regulation for water and sanitation, and overcoming the high transaction costs involved in negotiating public-private partnerships.

V. Improving the climate for private investment

29. Consultations were also organized by the World Economic Forum on how multilateral development banks and bilateral aid agencies might expand their risk mitigation activities and deepen support for capacity-building in financial governance in cooperation with the private sector. They explored ways of improving the climate for private investment by leveraging multilateral development banks and aid agencies to catalyse private investment, and bringing financial governance capacity-building to scale. Workshops, with experts participating from the public and private sectors, as well as multilateral organizations, were held in São Paulo,

Brazil, in October 2004, Hong Kong Special Administrative Region of China in March 2005 and New York in June 2005.

30. While global capital markets could help meet the huge financing needs of developing countries for infrastructure, they are unlikely to provide the necessary finance without more targeted official sector support to cover unacceptable risks and uncertainties. Participants suggested that there was considerable unused capacity in the multilateral development banks that could fund more official development finance without an increase in their capital. Recommendations were made on how to unlock this "trapped capital" in both private and public institutions. The key recommendations were centred around the following points:

(a) Strengthening the risk mitigation products offered by official sector agencies. A wider range of risk mitigation products should be developed and scaled up, focusing on the twin concerns of regulatory and foreign-exchange risk. These will be described in technical detail in the World Economic Forum's report on this track of consultations. There were also calls to improve existing risk mitigation products offered by multilateral and bilateral agencies and reduce the bureaucratic and transaction costs involved in obtaining them;

(b) Providing financial and technical assistance to strengthen project development capacities. Since a critical bottleneck impeding development finance, especially in infrastructure, is the shortage of identified good projects, processes need to be implemented to generate a sustained stream of viable projects. The official sector could assist in a number of ways including through combining resources and committing joint donor funds for project development at both national and subnational levels. There were also calls for strategies to strengthen project development capacities within countries through "steering committees" of experts from the public and private sectors to oversee the project development process and through establishing partnerships with development banks and other entities that could assist in identifying and developing viable projects. These actions need to be operative at both country and subnational levels, since decentralization has led to a shift in the responsibility for many services from the central government to States and municipalities;

(c) The key importance in this respect of financial governance, including the quality of legal and regulatory systems, transparency, information, accounting standards, and performance standards across a range of private and public institutions. Official organizations need to scale up their long-term capacity-building programmes and also refocus on mobilizing private sector expertise and creating a joint "effectiveness secretariat" to facilitate multi-donor programmes. Technical assistance programmes need to be demand-driven and aligned to countries' specific needs and development policies. Other recommendations included launching global recruitment programmes of capacity-building experts, and developing and benchmarking information for investors on standards of governance;

(d) Implementing institutional changes within development organizations. The success of the proposed initiatives in the above three areas is dependent to a large measure on changes in the processes, structure and culture of many official institutions. Among the changes called for by participants was the reallocation of underutilized capital within multilateral development banks to areas such as sub-sovereign lending and risk mitigation products. There were also calls for debate on existing charters/articles of multilateral development banks that impeded reforms related to risk mitigation and sub-sovereign lending. New processes were also proposed that would better satisfy the needs of the private sector and developing countries, create performance targets and strengthen both accountability and empowerment of senior officials. The need for greater multi-donor coordination and the untying of aid was emphasized.

VI. Selected systemic issues

31. The consultations organized by the New Rules for Global Finance Coalition considered selected systemic issues from the Monterrey Consensus. The meetings focused on the structural features of the international monetary, financial and trading systems, the potential vulnerabilities they posed for developing countries and the institutional design of the international financial system. The consultations generated many concrete proposals aimed at establishing effective measures for the prevention and resolution of financial crises, securing viable sources of domestic finance, and improving governance of the international financial system. The multi-stakeholder consultations took place in Washington, D.C., in November 2004; Lima in February 2005; Nairobi in March 2005; New York in May 2005; and New Delhi in August 2005. Salient features of some of the recommendations made in the course of these expert meetings are outlined below.

Prevention of financial crises

32. In the course of the consultations, there was a general view that the liberalization of the financial sector at both the national and international levels had reinforced the pro-cyclical nature of financial flows and financial policies. Consequently, discussants highlighted the need for finding techniques that could help make financial systems more resilient to the fluctuations of the financial cycle. The critical role played by prudential regulation was stressed in this regard. Regulations needed to ensure both the solvency and the viability of financial institutions, and the markets in which those institutions traded. This was especially true of over-the-counter markets for foreign currency, securities, derivatives and repurchase agreements.

33. Participants also stressed that developing countries could suffer significant output losses during periods of financial distress. This highlighted the importance of a macroprudential perspective, with the objective of limiting the negative impact of macroeconomic risks on domestic financial institutions and markets. It was recommended that the design and implementation of prudential regulations for financial markets, in particular those trading derivative products, and financial institutions should enhance transparency, govern risk-taking and foster orderly marketplaces. The ultimate goal should be to significantly reduce exposure to risks in such instances as foreign exchange rate fluctuations, maturity mismatch, lack of liquidity, and concentrated credit exposures.

34. Debate also focused on the question how prudential regulation and other measures, such as capital controls, could help create the necessary policy space for objectives of counter-cyclical management of macroeconomic — fiscal, monetary and exchange-rate — policies. The tendency of financial markets to behave in a pro-cyclical manner would often severely limit the options for developing countries in

this regard. Price-based capital controls, as introduced in Colombia, Chile and, recently, Argentina, could help prevent exchange-rate appreciation during surges of capital inflows and open policy options for expansionary economic policies during recession.

35. The design of counter-cyclical financial regulation was seen as another possible way to compensate for the pro-cyclical nature of private financial markets. Examples of such counter-cyclical prudential regulation would be loan-loss reserves to be put aside at the beginning of the loan and appropriate collateral requirements for over-the-counter derivatives. The importance of the Government's debt management policy was noted. The use of longer-maturity fixed rate instruments could help prevent pro-cyclical effects caused by the Government's interest payments and funding requirements.

36. Currency mismatches caused by the build-up of enormous amounts of foreign currency-denominated debt were also identified as a major source of instability in developing countries. Expanding local currency bond markets could expedite a shift from dollar-denominated cross-border loans to local currency loans, bringing benefits to both investors and borrowers. More specifically, it was suggested that this would enhance opportunities for the creation of low-correlation local-currency-denominated portfolios of government debt securities that would give investors risk-adjusted returns that compared favourably with security indexes in the major capital markets.

37. Participants frequently discussed the implications of developing countries' heavy dependence on primary commodity exports. It was widely agreed that the long-run trend decline in the terms of trade of most non-oil commodity prices (when measured against the prices of manufactured goods) and volatile swings around the long-term price trend of commodities had adversely influenced many low-income countries' capacity to benefit from trade. During the consultations, speakers discussed both the long-term and the short-term dimensions of the problem of commodity price volatility.

38. While recognizing the need for a broad and comprehensive agenda to address the problems and vulnerabilities of commodity-dependent exporters, several speakers stressed the merit of market-based risk management tools. It was suggested that developing-country Governments could hedge their budget revenue's exposure to commodity price risk by rolling over derivatives instruments available on exchanges and over-the-counter markets. Furthermore, risk management tools could be provided by government to small producers. Free, non-transferable put options could be given to farmers to provide them with price certainty, while in turn Governments should hedge their exposure by selling futures or using over-the-counter derivatives contracts.

Resolution of financial crises

39. The consultations also explored possible modalities of a debt workout mechanism aimed at efficient and equitable burden-sharing among affected parties, such as the sovereign debt restructuring mechanism (SDRM) proposed by IMF. It was noted, however, that one of the reasons the mechanism had failed to gain support was that IMF could not be regarded as a neutral arbitrator, given its preferred creditor status.

40. An international debt framework (IDF), representing a middle ground between a legally binding insolvency procedure and a voluntary code of conduct, was proposed as an alternative means to address the problem. The proposal would be initiated within the Group of 20 (G20) at the ministerial level, instead of by IMF. Permanent debtor-creditor dialogues, the provision of transparency, and information on emerging market debt would be ensured through the creation of a permanent international debt framework secretariat. An international debt framework commission would aim for a coherent and comprehensive debt restructuring when requested to do so by the debtor country. The commission would also propose the amount of necessary financial support and an economic adjustment path that could guarantee long-term debt sustainability. These recommendations would then apply to all creditors.

41. In discussions of the proposal, some participants identified its drawbacks as the limited membership of G20, collective action problems, the prevention of hostile litigation, ensuring the effectiveness of exit consents, and transparency requirements. Conversely, the comprehensive nature of the proposal, political feasibility, improved impartiality regarding prices of emerging market securities, and the inclusion of brokers and dealers to exclude hold-out problems were highlighted as positive aspects.

42. In light of the increasingly frequent financial crises in the 1990s, and increased access by IMF members to balance-of-payments support beyond their normal quota drawings, many speakers questioned the adequacy of existing credit lines to manage crises and preserve global financial stability. Discussants highlighted the international community's long-standing responsibility to provide adequate financial support to countries with balance-of-payments problems. Participants considered it vital to ensure that sufficient resources could be disbursed quickly when a country was in crisis. This type of quick and effective response, however, was not always available through the current standard IMF lending windows. Most if not all of the new financing vehicles with exceptional access rules had often failed to effectively supplement precautionary arrangements made within normal access limits determined by IMF quotas.

43. Concrete proposals were made for IMF to be an effective "lender of last resort". Speakers highlighted the fact that, in a crisis situation, quick funding was needed temporarily to facilitate negotiation of a longer-term solution. This conflict between the needs for responsible lending and speedy financing could be resolved by enlarging the first tranche of an IMF standby arrangement. This approach, however, was currently excluded by virtue of the size of country quotas. Consequently, many participants called for an overall increase and redistribution of quotas. Generalized emissions of special drawing rights would further enable IMF to increase available credit to countries in need of assistance. Furthermore, financing vehicles with exceptional access limits, such as the Contingent Credit Line and Compensatory Financing Facility, should be reintroduced with more funding, lower costs and less conditionality.

44. A concrete recommendation was made on how low-income countries could adequately protect themselves against multiple, frequent and severe shocks, ranging from instability of aid and trade flows, to natural and climatic disasters. The proposal featured a comprehensive anti-shock facility for all low-income countries to compensate shock-induced shortfalls in economic growth, budget spending or

foreign exchange. Such a facility would be fast-acting and utilize contingent funds that would be set aside for countries each year. It should be based on official development assistance (ODA) grants in order to avoid increasing national debt burdens. In order to ensure the effectiveness and speed of anti-shock financing, it would need to be set aside upfront so as to be available as genuine financing against contingencies, rather than after the shock when its negative effects had already had an impact on the economy.

Securing viable sources of domestic finance

45. Speakers stressed that capital flight in the form of undeclared funds transfers cost world Governments vast amounts in lost tax revenues. Such evasion was facilitated by bank secrecy and other confidentiality laws. A possible response would be to restrict bank secrecy and other confidentiality laws in tax matters, as well as to institute uniform rules and standards on tax havens in all countries. Many discussants noted that such actions would enable developing countries to retain more resources and enable Governments to derive greater tax revenues. It would also facilitate transparency and efficient regulation of the international financial system, helping to reduce corruption, money-laundering, terrorist financing and other fraud.

46. Three recommendations were put forward in the course of the consultations with regard to enhanced international cooperation in tax matters. First, intergovernmental exchange of tax information, especially automatic exchange of information, should be implemented or intensified if already in operation. Second, countries members of the Organization for Economic Cooperation and Development (OECD) should comply with the same rules and standards applied to non-OECD jurisdictions regarded as tax havens. Lastly, developing-country jurisdictions that currently relied upon bank secrecy and tax-free treatment for revenue should be assisted in their transitions to other revenue-producing activities.

47. Debate also focused on the appropriate policy mix for Governments to ensure availability of long-term credit to support the productive economy. Participants stressed that, owing to the presence of market failures, Governments had a critical role to play in developing a financial sector capable of supporting broad-based growth and ultimately poverty reduction. Among the various policy instruments that the State should have at its disposal, participants highlighted directed and subsidized credit, partial subsidies on credit insurance premiums or partial guarantee funds, differential and preferential interest rates, ceilings and other measures targeting the deposit-credit ratio, State direct equity investments and the establishment of State-backed development finance institutions. It was stressed that many of these instruments had successfully been used by developed countries at earlier stages of their development process.

48. Participants emphasized that national development banks could play a crucial role in providing long-term financing where the private sector had failed to do so. Success of domestic and public finance institutions hinged upon expertise in long-term industrial financing and the avoidance of excessive public sector risks and badly targeted interest rate subsidies. Well-run banks could themselves act as agents of innovation and should be encouraged and supported by international financial institutions, donors and, when feasible, the private sector.

Improving governance of the international financial system

49. Discussion focused on ways to achieve a more equitable voice and participation of developing countries in the decision-making processes of the Bretton Woods institutions and other policymaking and financial standard-setting bodies. With regard to the World Bank and IMF, it was pointed out that the governance of these institutions seemed inadequate in light of the enormous economic and political changes that had taken place since their creation. It was further highlighted that they would be more effective and efficient if their agenda and decisions more adequately reflected the needs and troubles of the majority of the countries affected by them.

50. While some limited action had been taken by the Bretton Woods institutions to make the participation of developing countries more effective, there was no progress in respect of participation of developing countries in decision-making. In this regard, many participants criticized the current quota formula. In order to make it more equitable, several speakers suggested that the quotas determining contributions should be based on gross domestic product (GDP) valued at purchasing power parity, rather than market exchange rates. The evaluation of potential financing needs should take into account demand variables, such as the variability of the current account, external debt, volatility of capital flows and general economic vulnerability indexes. Many suggested reintroducing a much larger fixed proportion of basic votes and establishing a double-weighted voting system. These actions would ensure a more equitable and effective participation of the large majority of developing countries, including least developed countries. It was stressed by many participants that all of these actions should be accompanied by measures to increase the autonomy, accountability and effectiveness of the World Bank and IMF Executive Boards.

51. With regard to financial agenda and standard-setting bodies such as the Financial Stability Forum and the Basel Committee on Banking Supervision, participants recommended that developing countries should be included in their membership and deliberations. Furthermore, all interested countries should be invited to participate in current and future working groups of those entities. Finally, decisions regarding design, endorsement and implementation of financial standards and codes at the Bretton Woods institutions should be subject to double-majority rules.

VII. Next steps

52. **The multi-stakeholder consultations on financing for development held in 2004-2005 have generated a number of interesting ideas and promising proposals. A possible next step would be to continue to explore the existing topical areas and viable recommendations, with a view to effecting their implementation.**

53. **The Blue Book is intended to serve as a reference point for multi-stakeholder dialogues at the national level, including interested Governments and other local partners. The United Nations Capital Development Fund will lead the organization and facilitation of country-level dialogues in cooperation**

with the Department of Economic and Social Affairs and other multilateral partners, beginning in several African countries in 2006.

54. **The report of the Secretary-General entitled "In larger freedom: towards development, security and human rights for all" (A/59/2005) suggested that debt sustainability be defined with reference to the ability of the borrowing country to meet the Millennium Development Goals. The Financing for Development Office is cooperating with UNDP to assess the relation between the achievement of Millennium Development Goals and debt sustainability in heavily indebted poor countries (HIPCs) and other critically indebted countries with the objective of providing an operational definition of development-oriented debt sustainability. This project could serve as an input into possible renewed multi-stakeholder consultations on debt and development.**

55. **In addition to follow-up activities on the issues that were the subjects of consultations in 2004-2005, a new series of consultations, to be initiated in 2006-2007, might be merited by the many policy areas covered by the Monterrey Consensus. The themes of these consultations should respond to major policy concerns of developing countries and should contribute to intergovernmental policy debate on financing for development. These areas include improving the regional regulation of financial sectors, rethinking the role of national development banks, and securing the financing of basic services, in particular in the water, sanitation and energy sectors. The General Assembly may wish to provide further guidance in this regard.**

56. **Final reports on the outcomes of the individual sets of multi-stakeholder consultations held in 2004-2005 will be made available both on the Financing for Development website at www.un.org/esa/ffd and in hard copies. All interested parties are invited to provide their comments and perspectives either directly to the coordinators of individual projects or to the Financing for Development Office at ffdoffice@un.org.**