

Financing *for* Development

A critical global collaboration

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FOR THE HIGH-LEVEL INTERNATIONAL INTERGOVERNMENTAL EVENT ON
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REPORT OF THE SECRETARY-GENERAL TO THE PREPARATORY COMMITTEE FOR THE HIGH-LEVEL INTERNATIONAL INTERGOVERNMENTAL EVENT ON FINANCING FOR DEVELOPMENT

Introduction

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

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

3. Development depends on many factors, and a series of United Nations conferences have outlined a framework of goals and objectives, sectoral policy paradigms, and a commitment to build capacity for develop-

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

4. The link between the world of finance and the world of development is primarily through the savings-investment mechanism. In 2000, it is expected that the world will have saved and invested about \$7.5 trillion, a substantial part of which was mediated through domestic financial markets. The net transfer of resources from capital-surplus to capital-importing countries was of the order of \$450 billion, about three quarters of which was absorbed by the United States, although the gross flow across national boundaries is significantly higher. For instance, the daily turnover in foreign exchange markets is now estimated at over \$1.5 trillion.

5. The share of developing countries in global investment was around 23 per cent, or \$1.7 trillion in all, in 2000. A small part of this investment is normally financed by net flows from abroad—both in terms of concessional official flows and private/non-concessional flows—although in 2000, owing partly to continued retrenchment from crisis countries and reduced borrowing needs of oil-exporting countries, there was a net transfer of financial resources out of developing coun-

tries. The principal trend in this regard during the 1990s, however, was the growing importance of private flows—though mainly to a small group of developing countries—and, until recently, the stagnation in official development assistance. Another major defining feature of this period was the vulnerability of developing and transition economy countries that received large amounts of private flows to crises of confidence and sudden reversals of resource flows. The peso crisis in Mexico in 1994/95 and the series of financial crises that affected Asia, Latin America and the Russian Federation in 1997 and 1998 are examples.

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

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

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

make available the resources required for achieving key developmental goals.

9. Although domestic savings and resource flows to developing countries are crucial to their ability to invest and establish a firm foundation for growth, access to external resources, however, remains a crucial supplement. Private-sector sources account for an increasingly important part of total external financing and, for middle-income countries in particular, the stability of private capital inflows is crucial in sustaining a steady expansion of the economy. Progress in this area will help developing and transition economy countries benefit from the potentially rapid continued expansion of private capital flows, and will encourage more countries to implement policies that can earn the confidence of international capital markets and harness private-sector financial, managerial and technological resources in support of development.

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

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

12. The debt burdens of many developing and transition countries have become heavy constraints on their

ability to reduce poverty and reach other development goals. While debt relief is just one of various financial assistance instruments, it is important to recognize that in some cases debt burdens represent insurmountable obstacles to development and need to be addressed urgently.

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

14. Fiscal, monetary, trade and other domestic macroeconomic policies, particularly of the industrialized countries, also play a key role in affecting the development prospects of other countries. Trade policy is one of the most important among them. In a context of rapidly growing world markets, the potential impact on developing and transition economy countries of expanding market access for their exports can be many times greater than direct financial assistance—provided it is combined with successful efforts to increase and diversify their productive capacity. This two-pronged, coherent and consistent offensive should be a top priority.

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

ed that will have an impact on their development prospects.

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

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

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

CHAPTER I

Mobilizing domestic financial resources for development

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

An enabling environment

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

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

The high-level event should underline that national macroeconomic policies should aim at a medium-term framework that balances the key objectives of sustained economic growth, employment growth and poverty reduction, taking into account

the need to ensure low inflation and that fiscal and current account balances are sustainable. In determining the macroeconomic policy package, national economic authorities should pay special attention to the time horizon of implementation and to consistency among the various objectives and instruments.

21. Sound macroeconomic policies encourage capital inflows—which can lead to increased productive investments—and discourage outflows (or capital flight). While the globalization of capital movements increases opportunities, it also heightens risks. Opening of the capital account should normally be undertaken by laying the ground for, and properly sequencing, capital account liberalization, so that the resulting financial inflows and outflows can be adequately absorbed.

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

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

ated with interest rate and exchange rate fluctuations in order to deal with the new circumstances.

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

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

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

24. Different groups of countries face different challenges in macroeconomic management. One factor that varies from country to country is macroeconomic capacity, that is, the level of skills, instruments and institutions necessary for making and implementing policy decisions. While in the process of developing such skills, instruments and institutions, countries must avoid taking on tasks for which they may not yet be fully prepared (such as exposing themselves to new risks by premature opening of the capital account).

Developing and transition economy countries should give high priority to strengthening macro-

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

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

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

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

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

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

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

Strengthening public finances

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

29. The usual framework for the management of public finances is the annual budget. The resources available to a government for spending can change substantially from year to year because of economic fluctuations, because of international interest rates or terms-of-trade changes beyond its control or because of unforeseen emer-

gencies. This variability on the resources side often leads to a similar variability in public expenditure. Often, the burden of adjustment falls on development expenditures, in particular those directed at social ends. In short, the management of public finances is increasingly exacerbated by the uncertainties in the international environment.

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

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

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

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

- **Taking measures to ensure that the incidence of taxation falls justly on different income classes and different categories of income, such as wages, profits and rents;**

- **Extending the tax base to cover incomes from activities that are not currently taxed;**
- **Expanding indirect taxes and making them more equitable by targeting the growing modern service sector and socially and environmentally undesirable activities.**

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

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

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

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

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

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

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

36. For many countries, the critical challenge is to enhance the supply of “public goods”, merit goods and essential services in an environment of scarce domestic resources and limited administrative capacity. Increased funding of public administrative functions and services needs to be supported by clear procedures to facilitate the judicious allocation of expenditures and by the participation of civil society and the private sector in the provision of services. Many services provided for the benefit of all will continue to be predominantly supplied publicly so as to be made comprehensively and equitably available, such as the administration of justice, the main health and education services, and consumer and environmental pro-

tection. However, other important services often associated with the public domain, such as infrastructure and a variety of education and health services, can also be efficiently provided by private operators but must remain subject to proper regulation and oversight.

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

Strengthening the domestic financial sector

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

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

- **Establishing a transparent and efficient overall legal framework and administration, complemented by effective regulatory and supervisory institutions in order to, inter alia, reduce excessive risk-taking and “moral hazard”;**
- **Building an effective insolvency regime that properly and equitably balances the rights and obligations of debtors and creditors;**
- **Fostering good corporate governance, accounting, and auditing practices in private and public entities;**

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

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

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

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

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

ties appropriate to small enterprises, such as venture capital, leasing companies and insurance products.

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

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

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

All countries should facilitate access to financial services for the poor and vulnerable by fostering a wide range of financial intermediaries which target small savers and small borrowers, microenterprises, including microfinance institutions, cooperatives, credit unions and postal savings. To this end, countries should strive to remove institutional and regulatory obstacles, such as restrictions on cost recovery, lack of secure transaction laws and weak property registries. Countries should also seek to improve women's access to mainstream

sources of financing, including by strengthening their rights to pledge collateral. Governments and donors should provide resources and explore venues to reach people living in poverty, including through international public-private partnership funds to encourage research and applications on innovative financial tools.

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

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

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

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

Social security and savings mobilization

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

National authorities should support a comprehensive approach towards the development of sustainable social protection systems by designing such systems in a manner that facilitates risk management at the individual and family levels, particularly for women; increasing the allocation of national resources for social protection; supporting, to the extent possible, the principle of universal coverage; evaluating systems both in terms of their effectiveness as support mechanisms and also of their impact on productivity, job creation and competitiveness; developing institutional mechanisms for improved coherence in social protection expenditures at the national and local lev-

els; developing modalities and mobilizing resources to extend social protection to those working in the informal economy and those performing unpaid work—who are disproportionately likely to be women; and having social safety nets in place to extend special protection for the poor and vulnerable in times of economic crisis.

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

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

CHAPTER II

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

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

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

47. These trends have important implications for policies and the three principal stakeholders involved in private flows: host countries, home countries and international investors. Policies also need to take into account that developing countries are not seeking more private flows per se; rather, they seek to attract investment to advance their development efforts with a view to building local productive capacity in the real economy. In this context, it also needs to be recognized that different types of private flows, including different types of FDI flows, may have different impacts on recipient economies. Recognizing these differences is important so as to ensure adequate policy responses by home and host countries as well as to design appropriate programmes supported by

the international community. At the same time, some negative experiences—e.g. in the operation of “export processing zones”—should likewise be kept in mind, especially in relation to compliance with host country labour and environmental protection rules and regulations.

Facilitating long-term private flows

48. *Host country* determinants of FDI inflows include a country’s level of economic development, its policy and regulatory frameworks, and the business facilitation services it has in place. Among these, economic factors are the most important ones. The regulatory framework is important in that it can create the conditions for private flows to take place. Although typically not the principal binding constraint, it is one set of determinants amenable to immediate policy action. Indeed, the past 10 years have seen considerable liberalization in this area. For example, most recorded changes in national FDI laws worldwide were essentially favourable to FDI during the decade of the 1990s. While these policy changes were meant to help attract FDI, additional policies and measures can help to maximize the positive impact of such investment while minimizing the negative effects. Business facilitation services, too, lend themselves to immediate policy action. In fact, many countries have established investment promotion agencies to deliver such services. A World Association of Investment Promotion Agencies (WAIPA) has been set up as a joint initiative of the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial

Development Organization (UNIDO) and the World Bank Group to promote and facilitate the exchange of experiences in this area.

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

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

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

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

51. At the multilateral level, the Multilateral Investment Guarantee Agency (MIGA) provides insurance against non-commercial risk. Beyond that, discussions have been under way in the World Trade Organization (WTO) since 1996 on the relationship between trade and investment. At the third WTO Ministerial Conference, in December 1999, a number of

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

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

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

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

tional accounting, reporting and auditing standards, taking the needs of these countries into account.

Expanding the spread of FDI

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

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

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

55. Despite the growth of private capital flows, however, as indicated in other sections of the present report, most developing countries lack access to international capital markets. For some “borderline” borrowers, access to certain types of international portfolio

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

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

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

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

Enhancing the development impact of investments

57. Enhancing the developmental impact of FDI flows translates into harnessing its potential benefits,

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

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

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

59. The growth of FDI flows is increasingly being fuelled by cross-border mergers and acquisitions. While such mergers and acquisitions raise a variety of issues, particularly important among them is their impact on market structure through increased market concentration and reduced competition. The principal reason is that they can lead to reduced competition, even in generally

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

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

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

Transnational corporations and other firms should accept and implement the principle of good corporate citizenship and should, inter alia, subscribe fully to the United Nations Global

Compact. Global Compact participants should take specific measures that foster development—including innovative partnerships, linkages and collective action—and share their experience with all stakeholders.

Helping reduce negative aspects

61. While, at one end of the spectrum, FDI is recognized as a relatively stable source of finance, at the other end, short-term, pure financial flows (especially short-term commercial bank loans and deposits) give rise to concerns over their volatility. Host-country factors and policies, external factors (including the macroeconomic policies of source countries and the strategies of international investors), asymmetric information about financial transactions and international financial contagion all play a role in the volatility of short-term capital flows. Moreover, large capital inflows can lead to inflationary pressures and real exchange-rate appreciation, and should therefore be subject to careful monitoring and regulation, as appropriate, on the part of host countries. As indicated in chapters I and VI, it is therefore important to devise mechanisms to harness the positive contribution of financial flows while reducing the risks they entail.

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

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

63. Excess leverage of non-bank financial institutions and over-exposure to certain categories of assets are also important causes of volatility in financial markets. Various international forums have stressed the need for

enhanced national surveillance of financial market activity. Information on investor exposures to different categories of assets—particularly the exposure of non-bank financial institutions, including highly leveraged institutions—is limited. Greater transparency by all parties can also help to reduce possible procyclicality or contagious bias of sovereign credit ratings. These issues will be further discussed in chapter VI.

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

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

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

Capacity-building and technical assistance

65. The need of developing countries—especially least developed countries—for the strengthening of capacity and technical assistance in FDI-related matters has

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

66. In the light of the fact that private flows now account for the larger share of external finance for many developing countries (although not for least developed countries), and given the importance of FDI in the world economy, it would seem appropriate to consider the creation of a mechanism through which issues related to FDI could be discussed among all the principal stakeholders. Such a mechanism would not necessarily need to possess

the authority to make decisions and could be serviced by an ad hoc task force of staff from international organizations. It would provide an opportunity to exchange experiences about best practices as regards attracting and benefiting from FDI, and the role of the international community in this regard.

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

CHAPTER III

Trade

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

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

68. Despite the aggregate progress, it is clear that many developing countries, especially least developed countries, have not achieved sustained increases in their per capita gross domestic product (GDP) over the last three decades. The overall economic environment con-

fronting many of the poorest countries makes it difficult for them to rapidly raise living standards, improve or even maintain export shares in traditional markets, or encourage rapid diversification. This outcome reflects complex situations whose elements are dealt with in other parts of the present report. And experience of successful integration suggests that encouraging rapid growth and integration requires multiple and coordinated initiatives across a broad front.

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

Market access

69. Market access protection by developed countries currently imposes costs on developing countries that significantly exceed aid flows. Estimates of the potential gains in developing countries from a variety of liberalization measures range from \$100 to \$150 billion. There are thus large gains to be captured by developing countries from continued liberalization in goods markets. At the same time, developing countries have great scope to

expand service exports, especially services involving the movement of natural persons, and thus would benefit significantly from greater access to service markets in the high-income countries. However, the evaluation of the trading system should be made from the perspective not of whether it maximizes a developing country's trade flows but rather whether it contributes to sustainable growth and maximizes development possibilities at the national level.

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

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

71. The European Commission has proposed to fully open the markets of European Union countries to all goods, except arms, from the world's poorest countries. Its proposal would grant duty-free, quota-free access for products from the 48 least developed countries. It is hoped that other developed countries will follow suit. Concern that this development could divert trade from developing countries that are not least developed countries would not seem to be justified. But similar measures need to be extended to other developing countries and countries with economies in transition.

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

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

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

WTO members should ensure that the WTO agreements and their associated disciplines are applied in ways conducive to development. Developed country members of WTO and international financial institutions should ensure that adequate financial and technical assistance is provided to developing countries for their implementation of the WTO agreements. WTO members

should also not use contingency measures and restrictive rules of origin, and should ensure that standards, technical regulations and Sanitary and Phytosanitary Standards (SPS) measures are not used to obstruct trade, that they can be adequately observed by developing countries and that appropriate assistance is provided to enable them to do so.

Compensatory finance and price-risk management

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

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

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

76. Price instability causes problems for commodity-dependent countries at both the macro and micro levels. For Governments, unforeseen fluctuations in export and import prices jeopardize budgetary planning and the attainment of debt targets. For local exporters and processing companies, price variability increases cash-flow

uncertainty and reduces the collateral value of inventories, which in turn increase borrowing costs. Similarly, small-scale farmers, often with poor access to efficient savings and insurance instruments, are strongly affected by a price decline and have limited possibility to benefit from safety-net measures. The effects of trade liberalization and reduced interventions on price stability is not yet clear: some analysts estimate that liberalization will help stabilize prices, while others estimate that likely lower stockholdings will increase instability. This suggests the need to consider strategies, which, if they cannot eliminate the above-mentioned risks, can at least try to address and manage them effectively.

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

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

Vulnerability

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

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

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

The multilateral development banks should spearhead the development of a major programme to assist developing countries, particularly small and vulnerable economies, in diversifying their export base in terms of both the product mix (goods and services) and destination markets. The importance of export diversification programmes should

be kept in mind by bilateral donors and all multilateral aid agencies in considering expenditure and assistance priorities. WTO should monitor vigilantly the use of anti-dumping measures and any voluntary export restraint agreements, particularly when used against developing countries.

Technical assistance and capacity-building

81. Experience both during and after the Uruguay Round has demonstrated clearly the inadequacy of the institutional capacity of most developing countries in the formulation, negotiation and implementation of trade policy, and the corresponding need for developing the necessary analytical and policy framework for mainstreaming trade into national development strategies. The Integrated Framework, meant to be a response to this critical need for the 48 least developed countries, has so far remained an unfunded mandate, and there is no equivalent for the other developing countries also in need of such capacity-building.

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

CHAPTER IV

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

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

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

83. As a complement to domestic efforts and to foreign private capital flows, ODA and other official assistance can be critically important in helping developing and transition economy countries. But, for ODA resources to make an effective contribution to development, they must be structured around two basic principles: supporting strategies that revolve around the goal of poverty reduction and that generate sustainable, equitable growth; and relying on policies and programmes that

enjoy ownership by recipient countries' Governments and civil societies. These principles mean that partnerships between donors and recipient countries—not only to transfer financial resources and provide access to knowledge and build capacity but also to help empower the poor, particularly women—must be based on mutual respect, shared objectives and recognition of the common interests that emerge from globalization.

84. In this regard, multilateral, regional and subregional development finance institutions play an important role in marshalling both concessional and non-concessional resources for development. That role is essential in providing financing for lower-income countries whose access to private markets is limited. In addition, official financing has advantages over private financing in terms of maturities and costs and it can be supplied counter cyclically (see chap. VI). The international community thus needs to continue to support these institutions and provide them with a continuous, predictable and assured flow of resources, adequate to fully carry out their mandated activities.

Volume of official development assistance

85. ODA flows reached a peak in the early 1990s, and have since been declining—with the decline being very significant in real terms—until recently. While fiscal

deficits in donor countries were a major factor until the mid-1990s, fiscal balances in most donor countries have improved greatly. The other main factors behind ODA declines probably consist of a motivational vacuum (related in part to the end of the cold war); persisting doubts about the effectiveness of ODA-supported projects and programmes; and the increased supply of private capital.

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

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

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

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

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

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

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

donor capitals and to prompt the relevant international implementing agencies in a constructive way.

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

92. Reaching the development goals will require effective domestic policies and improvements in national capacity and international policy coherence, as well as in aid delivery and coordination mechanisms. It will also require: (a) additional resource transfers delivered with increasing flexibility; (b) concessionality levels (including grants) appropriate to the purposes and to the situation of recipient countries; and (c) a diversity of aid channels to provide recipient countries with a range of options appropriate to their needs (including emergency and humanitarian assistance). In this context, the erosion of voluntary contributions to the funds and programmes of the United Nations development system is a serious concern.

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

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

Donor countries should be urged to ensure that adequate resources are provided through the dif-

ferent multilateral aid agencies, so that they can fulfil their mandates and sustain a range of ODA mechanisms and channels. This range must match the needs of developing and transition economy countries while providing a sound balance between diversity of channels and efficiency in aid delivery.

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

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

Aid effectiveness and efficiency

95. Aid effectiveness is the result of two types of factors. The first relates to the policy and institutional preconditions in recipient countries (including targeting of public expenditure to priority areas in line with goals of poverty reduction). The second relates to the level and nature of transaction costs in the aid delivery system.

Considerable progress has been made in recent years in understanding the preconditions for aid effectiveness. They revolve around the same factors that determine domestic resource mobilization and underscore that development assistance can only be a complement for domestic efforts. Sound domestic policy formulation is not only key to efficient resource utilization but also provides the basis around which donor assistance must be articulated. In this context, two important premises for aid effectiveness are:

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

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

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

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

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

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

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

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

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

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

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

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

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

policies and are striving to improve their governance structures and institutions.

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

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

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

Member States should agree on a process to facilitate the effective participation of ODA recipient countries, as a collective, in international aid poli-

cy discussions aimed at forging strong partnerships and enhancing the effectiveness of aid.

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

Global public goods and services

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

106. The provision of these goods and services depends in part on international cooperation. An example of what can be achieved through this kind of concerted action can be found in the Consultative Group for International Agricultural Research's success in fostering the development of improved seeds for use in developing countries. National public goods are increasingly turning into international (regional and global) public goods—and vice versa. The important task facing the international community now is to develop modalities that are suited for the added challenge of provision of what have come to be called global public goods (GPGs).

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

The international community should agree to explicitly address global public goods concerns and seek a shared understanding of the expanded

nature of the present agenda for international cooperation. These tasks should be undertaken through existing forums, particularly in the United Nations, and by setting up new ones, if so required.

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

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

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

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

Governments and international organizations should share experience and develop mechanisms to focus public finance on correcting incentive

imbalances so as to encourage private actors to contribute to GPGs.

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

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

Other innovative sources of financing

112. The need to provide greater and more predictable volumes of ODA flows, as well as the importance of obtaining additional financing for global public goods,

provides the justification for a renewed effort to identify new sources of international development assistance, including “innovative sources” for financing of development. As has been indicated, it is clear that there is currently a severe dearth of finance for development and that there is likely to continue to be a serious shortfall in comparison with needs.

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

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

CHAPTER V

Debt

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

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

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

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

(b) Middle-income developing and transition economy countries, many of which have unmanageable

levels of debt and/or a serious mismatch between their financing needs and the maturity of their borrowings. While this debt may be manageable under rapid growth circumstances and in an otherwise favourable economic environment, their situation leaves them very vulnerable to abrupt changes in internal or external factors.

Low-income developing countries

116. The first group of countries has been the motivation and target of the heavily indebted poor countries (HIPC) initiative, which was designed to reduce the debt of low-income countries to sustainable levels; 20 countries may get debt relief through the enhanced HIPC initiative now, and another 17 countries could receive similar relief in the future. The efforts of the Development Committee and the International Monetary and Financial Committee to deepen debt relief and expedite the HIPC process have been received as welcome steps in the right direction.

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

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

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

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

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

Donors should be called on to ensure that resources are provided for debt relief without detracting from the resources that were already

intended to be available for development assistance to low-income countries. Debtor countries should, in parallel, ensure that resources freed up by debt relief measures are used to support growth and poverty reduction-oriented programmes. To ensure that further debt problems do not emerge, efforts should be made to improve debt management, and new financing for all low-income countries should be on highly concessional terms or, in the case of countries with severe limitations in their capacity to pay, on grant terms.

Middle-income developing and transition economy countries

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

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

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

124. Better coordination between private and public creditors is also called for. It appears that creditors have often underestimated the risks in extending their loans.

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

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

ment. In addition, consideration could also be given to further “last-resort” mechanisms to be added to the international community’s tool-kit to resolve debt crises fairly and expeditiously.

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

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

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

CHAPTER VI

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

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

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

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

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

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

131. All of these developments have led to ad hoc changes in existing institutions as well as the development of new institutions. Groupings of major industrialized countries—especially the “Group of Seven”—were set up to help coordinate the macroeconomic policies of their member countries, and they have increasingly served as forums for the elaboration of positions and proposals on international economic and financial policy, often with profound implications for the rest of the world. As a response to the financial crises of the nineties, the Group of Seven set up the Financial Stability Forum to bring together several specialized financial entities, IMF and the World Bank, with national financial authorities, particularly of the major industrialized countries. Developing countries, for their part, have also set up over the years ad hoc intergovernmental bodies, with varying mandates, to consider different economic cooperation matters, such as the Group of Twenty-Four and the Group of Fifteen. Recently, a sequence of ad hoc consultative groups on financial issues have also been set up to exchange views among selected developed and developing countries, culminating in the Group of Twenty in 1999.

Participation, transparency and accountability

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

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

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

The ongoing reform efforts by the governing bodies of the international financial institutions should be welcomed and pursued vigorously and

on a priority basis with a view, inter alia, to helping make those institutions more responsive to evolving globalization and development challenges, improve overall representation and participation, especially of developing countries, and enhance accountability and transparency.

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

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

Policy coordination

136. While it is understandable that ad hoc international forums and committees may be established at the height of some global crisis conditions, there is reason for concern if such entities become institutionalized without equitable global representation or oversight, and if they begin to make, on a regular and permanent basis, policy decisions and recommendations—including on macro-economic policy issues—with global implications. This is a practice to which the international community has become sensitive, leading to various mechanisms for ad hoc consultation and external comment. However, more systematic mechanisms are warranted, including, wherever

er appropriate, establishing closer links with United Nations system processes. This is all the more pressing and justified when an increasing number of voices, including from industrialized countries, are expressing their belief that enhanced representation can actually bolster the effectiveness and efficiency of these bodies and that entities affecting the governance of the international economy should as a general rule operate through open, inclusive and participatory processes.

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

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

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

dations of such bodies should be taken up in discussions taking place in relevant bodies of the United Nations system.

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

139. While significant progress in inter-agency cooperation has been made over the last several years—particularly at management and staff levels—and the Director General of WTO has participated in the annual Economic and Social Council policy dialogue, the question is how to further deepen this collaboration. WTO should be invited to take full advantage of the opportunities that exist to enhance its collaboration and cooperation with the United Nations system. One immediate possibility is to enhance WTO participation in discussions of relevant topics in United Nations forums, in particular building on recent experience in the Economic and Social Council and cooperation with the United Nations Secretariat. In addition, an interesting modality has recently been established for interaction between WTO, through its Committee on Trade and Development, and the Bureau of the Preparatory Committee of the financing for development event. This could be a basis on which further initiatives might be built, as between the Trade and Development Board of UNCTAD and the WTO Trade and Development Committee, enlarging upon the mutual observer status that each of those bodies already has with the other. Similarly, as indicated earlier, cooperation among WTO, UNCTAD, the International Trade Centre (ITC), the United Nations Development Programme (UNDP), IMF and the World Bank in the Integrated Framework for the Trade Development of the Least Developed Countries and lessons learned in that exercise could lead to further joint operational initiatives. Finally, the Ministerial Conference of WTO might wish to keep on its permanent agenda further consideration of the issue of its institutional relationship with the United Nations.

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

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

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

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

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

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

Regional coordination

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

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

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

144. In the sphere of global finance, the challenge before the world community is to construct an international financial system that will best serve development in a globalized and interdependent environment. This objective can only be met by a system that is open, efficient and innovative, that is just and spreads opportunities to all, that is reasonably stable and that enables any crises that occur to be managed effectively and equitably. It also calls for increased efforts to build capacity for developing and transition economy countries to help them participate fully in international trade and finance. Sound domestic financial systems around the world are an essential ingredient for such an international system.

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

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

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

Standards and practices

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

149. Many of these international standards and codes of good practice have been developed for application throughout the world, but others have been prepared with the more advanced financial transactions and institutions of developed countries in mind. In such cases, the relevance of the standard depends on a country’s stage of development. Countries may wish to assign different priorities to the implementation of the various international standards given their different economic, regulatory and institutional circumstances. These considerations could be addressed by individual countries or in regional or other forums, and systems of peer review among interested countries could be a useful mechanism for the effective implementation of standards. At the same time, there is an extensive need for capacity-building in financial sector supervision in developing and transition economy countries. Increased international support in this area would thus not only contribute to global financial stability but would also reflect a strengthened commitment to development. A “one size fits all” approach should be avoided. The recognition of these differences by IMF and other agencies involved in setting and assessing standards should be welcomed and encouraged.

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

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

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

Oversight and surveillance

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

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

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

153. To serve these purposes, multilateral economic and financial surveillance should focus on the essential determinants of “robustness”, recognizing that differing country circumstances may call for a correspondingly differentiated approach. Key concerns include the provision

of accurate and adequate information, transparent practices, strong adherence to sound policies and the pursuance, in accordance with the principles set out above, of international economic and financial standards and codes. Also, effective surveillance of international financial markets is crucial, with emphasis on prudential and competitive concerns, transparency and non-discriminatory access for all users and providers of funds.

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

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

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

Mutual surveillance by limited-membership groupings of countries can supplement the multilateral surveillance discussed above.

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

Funding and liquidity

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

157. Under existing arrangements, semi-automatic and rapidly disbursed multilateral financial support can be provided to crisis countries in certain circumstances. In other cases, the borrowing country first needs to negotiate an agreed set of policy adjustments as conditions for the use of multilateral resources. Such policy conditions should be consistent with and not extend beyond the mandate and responsibilities of the lending institutions. Moreover, there is increased recognition that such policy requirements should duly take into account social objectives and concerns. During a balance-of-payments crisis, every effort should be made to maintain essential imports and to ensure that a lack of domestic credit does not cause a collapse in economic activity. In some extreme situations, this may necessitate a temporary suspension of debt-servicing payments—a “debt standstill”—while more lasting arrangements between the country and its creditors are being finalized (see also chap. V).

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

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

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

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

Capacity-building

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

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

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

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

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

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

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

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

General Assembly

165. The General Assembly has over the years set overarching policy on development and international economic cooperation matters, as it did through the international development strategies adopted for the United Nations development decades; the 10 UNCTAD conferences; the various special sessions devoted to development issues; the 1997 Agenda for Development; the specialized conferences of the 1990s; and more recently, the twenty-fourth special session of the General Assembly, devoted to the review of the implementation of the 1995 World Summit for Social Development, and the Millennium Summit itself. Any effort to strengthen the United Nations in support of development must thus begin with a further strengthening of the General Assembly itself and of its workings, a process that is ongoing. New ways and means should be found to further enhance the effectiveness of the work of the Assembly’s Economic and Financial (Second) Committee and of the relationships between the work of the Second Committee and that of the Economic and Social Council and its subsidiary machinery and of other organizations. The biennial discussion in the Assembly on renewal of the dialogue on strengthening international economic cooperation through partnership should be mainly focused on issues related to globalization that require coordinated international policy-making at the highest level.

166. At the Millennium Summit, world leaders resolved “to reaffirm the central position of the General Assembly as the chief deliberative, policy-making and rep-

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

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

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

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

Economic and Social Council

168. One defining aspect of the present global economic system is that it consists of a decentralized collection of specialized institutions, forums and networks devoted not only to policy-making but also to policy

coordination. There is no automatic process to ensure that decisions in one body are duly consistent with those in another. Even when the bodies are official multilateral institutions, representatives to different entities from the same Government may not fully coordinate their positions, particularly when they may come from different ministries.

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

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

171. As noted above, the Economic and Social Council

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

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

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

173. Similarly, the meeting now held each spring between the Council and representatives—particularly financial ministry officials—participating in the semi-annual meetings of the Bretton Woods institutions has been hailed as a successful initiative that brings together policy makers from the areas of finance, development cooperation and foreign affairs (this should be seen in conjunction with informal exchanges that are now organ-

ized regularly to facilitate contact and interaction between Council members and Executive Directors in the Boards of the Bretton Woods institutions). These instrumentalities can be further strengthened and adapted to facilitate the Economic and Social Council interactions to feed into discussions in other relevant forums, and the agendas for these meetings can and should be further developed. One idea that has been mentioned is for the Council to meet more frequently for short, focused meetings on high-priority topics, as the need arises.

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

174. Apart from its own regular sessions, the Council has a well established system of functional commissions and expert bodies that cover a range of socio-economic issues (sustainable development, social development, environment, gender, human rights, public administration, habitat, crime). They normally attract ministerial participation and interact with the relevant inter-agency machinery. Their reports are fed into the work of the Council and an effort is now under way to enable the Council to address them in an overall context and in a coherent manner. The Council has also intensified its own dialogue and interactions with the Administrative Committee on Coordination (ACC), and efforts are being made to intensify the involvement of executive heads of the organizations of the system in its work. The Council thus has considerable potential at its disposal to bring the system together and promote dialogue on questions of policy coordination, including improving the coherence and consistency of the system’s approaches to financial, trade, environmental and social issues.

175. As part of the progress made in moving in this direction during the past few years, the Council has adopted ministerial communiqués on such wide-ranging issues as market access, poverty eradication, employment and women and information technology for development. It has been successful in engaging the multilateral devel-

opment and financial institutions and other specialized agencies, as well as civil society and the private sector, in a multi-stakeholder dialogue that is contributing to transform the very character of the Council. Still, the Economic and Social Council is far from the stage where it can be said to have realized its full potential, and other ideas put forward to further strengthen the impact of the Council's work should be actively pursued.

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

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

- (a) Progress in the attainment of internationally agreed development goals and targets;**
- (b) Trends in development cooperation policies and performance;**
- (c) Overall development impact of development cooperation, finance and trade policies.**

Follow-up and multi-stakeholder involvement

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

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

Notes

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

TECHNICAL NOTES

1. The Preparatory Committee for the International Conference on Financing for Development held the first part of its third session in New York from 2 to 8 May 2001. On 8 May, at its 4th meeting, the Preparatory Committee requested the Financing for Development Coordinating secretariat to prepare a series of “technical notes” related to issues falling under the substantive agenda for the Conference, on the understanding that such reference notes were to consist of the factual, concise listing of existing proposals in a given topic, and were not to contain any analysis, comparisons, judgements or recommendations. The Bureau of the Preparatory Committee was entrusted with drawing up criteria for the selection of the topics and was to finalize the list. At its meeting on 15 June, after consulting with members of the Preparatory Committee, the Bureau delivered to the Coordinating secretariat the following list:

1. Existing proposals for enhanced international cooperation on tax matters.
2. Existing proposals for international cooperation to combat corruption, including repatriation of illegally transferred funds to the countries of origin.
3. Existing proposals for innovative sources of finance.
4. Existing proposals to promote the increased and more effective participation of developing countries in the trade and financial decision-making processes.
5. Existing proposals for improved or new

processes for coordinated debt restructuring (prevention and treatment of debt problems) in order to sustain growth and support economic and social development.

6. Existing proposals to increase market access to exports of developing countries.

7. Existing proposals on bilateral and multilateral investment agreements and practices towards codes of conduct on transnational corporations and Governments with respect to foreign direct investment.

8. Existing proposals on financial crisis prevention, including operation of early warning systems and transparent and predictable international financial markets.

9. Existing proposals to ensure availability of sufficient international liquidity in order, inter alia, to avoid unnecessarily recessive adjustment processes.

10. Existing proposals on strategies for expanding access to microcredit and for assisting current microcredit beneficiaries in gaining access to the formal domestic banking sector.

2. The corresponding technical notes have been put together by the Coordinating secretariat in close collaboration with, and with the generous assistance of, staff from various institutions and other relevant stakeholders engaged in the financing for development process. They are presented as individual addenda to the present note.

TECHNICAL NOTE NO. 1*:

Existing proposals for enhanced international cooperation in tax matters

I. Introduction

1. Growing international economic and financial interdependence has increased the cross-border spillover effects of taxation and constrained the capacity of national tax authorities to establish and enforce various tax instruments. Governments are increasingly limited in setting both the forms and rates of tax; at the same time, tax avoidance and tax evasion are on the increase. These developments may make it more difficult for Governments to finance public expenditures and constrain the financing options of the Governments of those countries faced with inflexible spending obligations and limited sources of revenue. Therefore, there is a growing need for improved international cooperation among tax authorities to address these issues. Such a cooperative effort will also have to address constraints to the capacity of tax administrations in developing countries to raise revenue in an effective manner.

2. There are at present several international forums that address certain aspects of international cooperation in taxation from the perspective of their members. The table in the annex to the present note provides an overview of the geographical coverage, scope and work methods of each of these organizations. Some of these forums are global in their reach; others are regional; a few cover a limited range of countries. In some cases, taxation is only one of the issues discussed; in others, the only focus is on taxation. Most are governmental organizations, although there are two non-governmental organizations that play a significant role in the tax area. The global and regional organizations tend to focus on both direct and indirect taxes and on domestic and international tax issues. Some are more oriented towards tax administration issues; others cover both tax policy and tax administration. Also, expert groups address issues of tax-

ation in United Nations forums, notably the Ad Hoc Group of Experts on International Cooperation in Tax Matters of the Economic and Social Council, and the expert groups on accounting and other related matters convened by the United Nations Conference on Trade and Development. There is, however, no global intergovernmental forum for the consideration of tax policy and administrative issues and international cooperation in tax matters in all its aspects.

3. Existing proposals for enhanced international cooperation in tax matters presented at intergovernmental forums or other international forums are outlined below in chronological order, with reference to the relevant document in the title. The present note covers proposals on tax cooperation ranging in scope from new organizations or new institutions, including new rules or regulations, to new mechanisms that build on existing organizations and institutions. Excluded from the note are most initiatives of regional organizations that are not relevant to non-members.

II. Existing proposals

A. International tax organization (United Nations, 2001, pp. 9, 27-28, 65-66)

4. The High-level Panel on Financing for Development proposed the consideration of an international tax organization, which could:

- (a) Compile statistics, identify trends and problems, present reports, offer technical assistance and provide a forum for the development of international norms for tax policy and administration;
- (b) Maintain surveillance of tax developments in the same way that the International Monetary Fund (IMF) maintains surveillance of macroeconomic policies;
- (c) Take a lead role in restraining tax competition designed to attract multinationals with excessive and unwise incentives;

* The preparation of technical note No. 1 was coordinated by the Department of Economic and Social Affairs of the United Nations Secretariat. Staff from the following collaborated, in a personal capacity, in its preparation: the Inter-American Center of Tax Administrations, the International Monetary Fund, the Organisation for Economic Cooperation and Development and the World Bank, as well as the aforementioned Department of Economic and Social Affairs.

(d) Develop procedures for arbitration when frictions develop between countries on tax questions;

(e) Sponsor a mechanism for multilateral sharing of tax information, such as that already in place within the Organisation for Economic Cooperation and Development (OECD), so as to curb the scope for evasion of taxes on investment income earned abroad;

(f) Develop and secure international agreement on a formula for the unitary taxation of multinationals;

(g) Develop, negotiate and operate international arrangements for the taxation of emigrants, enhancing the possibility for countries to tax citizens on worldwide income.

(In this context, see also Tanzi (1996; 1999, pp. 173-186)).

B. Steering group/council of international tax organizations (Commonwealth Association of Tax Administrators and others, 2001)

5. In June 2001, the secretaries general/heads of five organizations proposed, at a meeting held at Montreal, Canada, the creation of a steering group/council of international tax organizations, the membership of which would initially consist of the secretariats of the organizations. The five organizations concerned are: the Commonwealth Association of Tax Administrators, the Inter-American Center of Tax Administrations, the Centre de rencontres et d'études des dirigeants des administrations fiscales, the Intra-European Organisation of Tax Administrations and OECD. The group would be serviced by a small secretariat provided by Canada. Its first meeting will be held at Seville, Spain, in October 2001. The group will also seek to develop links with other regional or international tax organizations. Its primary functions in the short term would be to develop best practice in tax administrations and taxpayer service using, for example, the Forum on Strategic Management Knowledge Exchange (see <http://www.FSMKE.org>), which OECD is in the process of developing, as well as the coordination of technical assistance work.

C. International organization or forum for cooperation in tax matters or strengthening of the Ad Hoc Group of Experts on International Cooperation in Tax Matters (United Nations, 2000c, para. 142; Disney, 2000)

6. In the report submitted to the Preparatory Committee for the International Conference on Financing for Development at its second substantive session, the Secretary-General recommended the formation of an international organization or forum for cooperation in tax matters, into which the various existing international tax-related efforts would be merged into a single entity. It could provide a global forum for the discussion of, and cooperation in, tax matters, including:

- (a) Sharing of national taxation experience;
- (b) Development of definitions, standards and norms for tax policy and administration and other aspects of taxation;
- (c) Identification of national tax trends and problems;
- (d) Tax reporting;
- (e) Provision of technical assistance to national tax authorities, in particular those of developing countries and countries in economic transition.

The report also noted less ambitious proposals that have been put forward, including the strengthening of the Ad Hoc Group of Experts on International Cooperation in Tax Matters.

7. The report recommended that the International Conference on Financing for Development mandate a careful in-depth study, undertaken in cooperation with IMF and other relevant international financial institutions, of potential means for enhancing tax-related international cooperation, including mandating a specific negotiating process on international agreements on this subject and the possibility of establishing an international organization or forum for cooperation in tax matters.

8. The creation of an international tax forum under United Nations auspices was also proposed by the International Council on Social Welfare (ICSW) at the financing for development hearings with civil society, on 7 November 2000 (Disney, 2000). Additional functions envisaged for this forum include research and the arbitra-

tion of disputes. ICSW also proposed the strengthening of the Economic and Social Council in the area of tax cooperation, including through its existing expert taxation committee and through the convening of a major global conference on taxation and development (Disney, 2000; 2001, pp. 159-167). In particular, ICSW recommended the establishment of a special working group on international cooperation in tax reform, of about 25 members comprising approximately equal representation of the most economically powerful countries, the most populous countries and representatives of other countries chosen on a regional basis.

D. Technical assistance (United Nations, 2000c, paras. 30-33)

9. The report of the Secretary-General to the Preparatory Committee contained several recommendations regarding assistance to countries to improve the management of fiscal resources, enhance tax administration and combat tax evasion. The report specifically refers to assistance provided by developed countries and to South-South cooperation. In effect, these proposals also enhance international cooperation in tax matters. The report recommends that:

(a) International institutions should be ready to assist countries in developing medium-term fiscal frameworks and all donor partners should take that into account in providing assistance to those countries;

(b) Developed countries and international institutions should provide increasing support, especially in terms of resources for technical assistance in capacity-building, to developing countries and those in economic transition that strive to simplify tax laws and to improve the efficiency and effectiveness of tax administration and enhance enforcement through the strengthening of institutional, technical and technological capacities, including the development of a transparent, accountable and corruption-free system;

(c) International institutions should provide assistance to developing countries and countries in economic transition that undertake administrative and legislative measures to combat tax evasion and prevent tax avoidance, particularly to facilitate South-South cooperation.

E. International action pertaining to taxation to promote the mobilization of new and additional resources for social development (United Nations, 2000b, para. 142)

10. At its twenty-fourth special session, the General Assembly adopted proposals for the implementation of the commitments made at the World Summit for Social Development. Initiatives to implement commitment 9 of the World Summit included the promotion, through international action, of the mobilization of new and additional resources for social development, inter alia, by developing appropriate means of international cooperation in tax matters, exploring methods for dividing the liability of multinational corporations to pay taxes on profits among the various jurisdictions in which they operate, exploring ways to combat the use of tax shelters and tax havens that undermine national tax systems, and preventing tax avoidance and promoting treaties for avoiding double taxation.

F. International agreement on a formula to divide corporate income among jurisdictions (United Nations, 2000, p. 5)

11. The document for the Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition, convened by the United Nations in cooperation with Association de planification fiscale et financière at Montreal, Canada, from 2 to 6 October 2000, recommended an international agreement on the allocation of corporate and other enterprise income among jurisdictions according to an internationally agreed formula that relied as far as possible on objectively verifiable indicators, such as proportions of workforce, wage bill, or capital assets, in various countries. See also the report of the meeting (United Nations, 2001c, para. 16). The General Assembly, in resolution S-24/2, also suggested that such an agreement should be explored (United Nations, 2000b, annex, para. 142). The merits and limitations of various allocation methods are analysed by Mintz (1998).

G. International agreement on uniform rates of source withholding taxes on interest, dividends, royalties and management fees (United Nations, 2000, p. 5; Disney, 2000)

12. The above-mentioned document for the Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition also recommends an international agreement on a set of uniform rates for withholding taxes on interest, dividends, royalties and management fees, if these payments are to cross inter-jurisdictional borders. These taxes would be collected unilaterally. There might or might not at the same time be conventions providing for the transfer of some of the withholding tax so collected to the relevant country of residence of each taxpayer. See also the report of the meeting (United Nations, 2001c, para. 16). A similar proposal was put forward by the International Council on Social Welfare at the financing for development hearings with civil society, held on 7 November 2000 (Disney, 2000). OECD and United Nations model tax conventions propose maximum withholding rates for taxes on interest and dividends. The merits and limitations of withholding taxes on capital income are analysed by Zee (1998, pp. 587-599).

H. International system of coded identification for all individual and corporate income taxpayers (United Nations, 2000, p. 5)

13. The above-mentioned document for the Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition further recommended an international system of coded identification for all individual and corporate income taxpayers. The code would refer to the jurisdiction in which the taxpayer resided or was registered, and be extended to record all those from which she, he or it derived income. Knowledge of the identity of the taxpayer attached to each code number would be confined to the tax authorities of the jurisdictions referred to in the code number, but information relating to the taxpayer's income would be shared among them — in certain circumstances automatically, and in other circumstances upon request. See also the report of the meeting (United Nations, 2001c, para. 16). OECD has recommended that countries encourage non-resident recipients of income to disclose their resident country tax identification numbers to the payers of income who in turn will be required to pass the num-

bers to the tax authorities of the source country (OECD, 1997, 1997a; Perez-Navarro, 1999, pp. 18-21).

I. Global forum on taxation (OECD, 2000b)

14. The Organisation for Economic Cooperation and Development launched, on 28 and 29 June 2000, proposals for a global forum on taxation. The forum provides a framework within which OECD member countries and non-member countries can develop a dialogue on and propose solutions to issues of mutual interest and concern. The forum dialogue has reached at least 70 interested non-member countries in a number of contexts, ranging from high-level meetings to regional technical seminars and covering areas such as the taxation of electronic commerce, exchange of information, tax treaties, transfer pricing and tax administration. Participation is by invitation only. The global forum complements the dialogue between countries members of OECD and other countries with regional forums, such as the Asia-Pacific Economic Cooperation forum, and regional tax organizations.

J. Multilateral agreements on mutual assistance and information exchange (e.g., Council of Europe, 1989; Inter-American Center of Tax Administrations, 1999; ECOFIN, 2000; OECD, 2000; United Nations, 2001a)

15. A number of proposals have been put forward to improve mutual assistance and the exchange of information between tax authorities:

(a) OECD and the Council of Europe have in place the *Convention on Mutual Administrative Assistance in Tax Matters* (Council of Europe, 1989). Oxfam (UK) (2000, p. 18) proposed that the Convention should be further developed to define minimum standards of transparency and disclosure by companies and to develop wider networks of cooperation, extending to developing countries;

(b) The European Union has a similar instrument (European Commission, COM (1998) 295 final; European Commission, COM (2001) 260 final; Council of the European Communities, 1977). The European Union Council of Economics and Finance Ministers proposed a directive on the taxation of income from cross-border savings by individuals, which commits that, by 2010, all 15 countries members of the

European Union would be engaging in the automatic exchange of information on savings flows. The directive was endorsed by the European Council (2000) and given substantive content by ECOFIN (2000). The proposal is explicitly dependent on bilateral agreements with non-European Union members;

(c) The Inter-American Center of Tax Administrations in 1999 endorsed a Model Agreement for the Exchange of Information Agreement (Inter-American Center of Tax Administrations, 1999);

(d) The OECD and United Nations model tax conventions are also continuously changed to enhance mutual assistance and the exchange of information among countries;

(e) OECD (2000a) in 2000 issued a report on improving access to banking information, which set out a standard to which all countries should aspire.

16. All of the above-mentioned proposals move in the direction of increasing access to information for tax authorities and putting in place effective mechanisms for the exchange of such information. The International Council on Social Welfare, at the financing for development hearings with civil society held on 7 November 2000, proposed stronger international obligations for the provision of information to, and between, tax authorities (Disney, 2000). Tanzi and Zee (1999, pp. 58-63) contains a comprehensive discussion of bilateral and multilateral agreements, and the merits and limitations of information exchange in general are discussed in Tanzi and Zee (2001).

K. Global Tax Network (World Bank, IMF and OECD, 2001)

17. Discussions are currently taking place between the staff of IMF, the OECD secretariat and the World Bank to launch a global tax network, to be managed jointly by the aforementioned institutions and possibly also the United Nations, as a first step in facilitating a global tax dialogue. A primary responsibility of this network would be to prepare for regular meetings on topics of common interest, to oversee the sharing of information and to identify issues that should be taken up by the sponsoring organizations and regional tax organizations. The proposal contemplates that all countries would be welcome to participate with no preconditions, along with regional tax organizations and regional development banks.

18. Core functions of the network would be:

- (a) Discussion of tax matters of common interest;
- (b) Sharing of experience;
- (c) Identification of best practices;
- (d) Maintenance of a widely accessible database on current and prospective technical assistance activities in tax policy and administration.

The final institutional structures of the proposed global dialogue, as well as its role and responsibilities, would emerge over a number of years.

19. One additional feature that has been suggested is that, every three or four years, an intergovernmental body, such as the Economic and Social Council, would review the work programme and progress, thereby helping to shape the future agenda of the network.

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ANNEX

International organizations providing a forum for intergovernmental discussions on taxation^a

<i>Organization</i>	<i>Participating countries</i>	<i>Meetings per year</i>	<i>Staff working full-time on taxation^b</i>	<i>Main areas of focus</i>	<i>Work methods</i>	<i>Typical participants</i>
A. International intergovernmental organizations						
World Trade Organization	142; over 30 applicants	3 ^c	0	Tax issues related to trade and investment: primarily indirect taxes	Intergovernmental negotiations	Investment and trade experts
United Nations (Economic and Social Council)	189 (54)	1-3	2 plus consultants	Tax treaties, transfer pricing, financial derivatives, tax havens, e-commerce	Intergovernmental negotiations: models, guidelines, publications	Mainly treaty negotiators
United Nations Conference on Trade and Development	191	1	1/2 man-month plus consultants	Transfer pricing (accounting aspects), foreign direct investment, tax incentives	Intergovernmental negotiations: accounting standards	Experts in accounting/incentives
International Monetary Fund	183	Varies	47 in 2000 (including consultants)	Tax policy and administration	Bilateral consultations and technical assistance	Economic policy makers and tax administrators
World Bank	183	Varies	About 8 plus consultants	Tax policy and administration	Bilateral demand-driven technical assistance	Tax policy makers and tax administrators
World Customs Organization	151	Up to 10	18	Customs	Intergovernmental negotiations: models, best practices, standard	Customs officials
Organisation for Economic Cooperation and Development	30 member countries plus network of 70 non-member economies	120	30 plus consultants	International and related domestic issues, direct and indirect taxes, tax policy and administration	Intergovernmental negotiations: models, guidelines, best practices	Tax policy makers and tax administrators
Commonwealth Association of Tax Administrators	47	3 (?)	1 plus consultants	Direct tax administration and selected policy issues	Conferences and training	Tax administrators

<i>Organization</i>	<i>Participating countries</i>	<i>Meetings per year</i>	<i>Staff working full-time on taxation^b</i>	<i>Main areas of focus</i>	<i>Work methods</i>	<i>Typical participants</i>
B. Regional intergovernmental organizations						
Inter-American Center of Tax Administrations	34 (including 4 non-American members and 1 non-American associate member)	6	11 plus consultants	Tax administration, direct and indirect taxation	Conferences, technical assistance, working groups on best practice	Tax administrators
Asia-Pacific Economic Cooperation Forum	21	1	0	Customs and excise	Intergovernmental negotiations. Annual conference	Tax policy makers
European Union	15	30-40	60 plus	Indirect taxes but increasing direct taxes, mainly international	European Union directives, conventions, regulations	Tax administrators and policy makers
Centre de rencontres et d'études des dirigeants des administrations fiscales	27	1	1	Tax administration and selected policy in francophone countries	Conferences and training	Tax administrators
Intra-European Organization of Tax Administrations	15	6	1	Tax administration in economies in transition	Conferences and technical assistance	Tax administrators
C. Selected governmental groups						
Pacific Association of Tax Administrators	4	2	0	Tax administration, domestic and international. Mainly direct taxes	Intergovernmental informal discussions	Tax administrators
Study Group on Asian Tax Administration and Research	12	2	0	Tax administration and selected policy issues	Intergovernmental informal discussions	Tax administrators
Nordic Group	5	3	0	Tax administration and policy. Mainly international	Intergovernmental informal discussions	Tax administrators and policy makers
Caribbean Organization of Tax Administrators	15			Tax administration	Training, research, dissemination of information and technical assistance	Tax administrators and policy makers

<i>Organization</i>	<i>Participating countries</i>	<i>Meetings per year</i>	<i>Staff working full-time on taxation^b</i>	<i>Main areas of focus</i>	<i>Work methods</i>	<i>Typical participants</i>
D. Non-governmental organizations						
International Bureau of Fiscal Documentation	-	-	40	International and domestic taxation	Research; dissemination of information	Typical non-governmental
International Fiscal Association	-	-	1	International tax issues	Research; dissemination of information	Government and non-government

Note: Numbers provided are on an average basis.

- ^a Excludes such organizations as the Inter-American Development Bank and Asian Development Bank, which are primarily engaged in regional technical assistance.
- ^b Number of full-time Professional staff working on taxation.
- ^c Of subsidiary group.

TECHNICAL NOTE NO. 2*:

Existing proposals for international cooperation to combat corruption, including repatriation of illegally transferred funds to the countries of origin

I. Introduction

1. In its most recent reports, the United Nations Centre for International Crime Prevention has indicated that, in recent years, the international community has demonstrated an increased awareness of the problems associated with corruption and a determination to combat it. The academic and policy literature has been greatly enriched through studies, analysis and academic publications, which have reached and highlighted some common and basic conclusions. Corruption is seen to be multifaceted and to affect every society regardless of its level of development or the sophistication of its organization. While the underlying causes may range from the societal to the institutional, one conclusion shared by most is that corruption exacerbates other problems and derails development efforts, while it wreaks havoc on efforts to build, consolidate or further develop democratic institutions.

2. Recent developments in the political and economic spheres seem to have had two major consequences. Firstly, the phenomenon is no longer confined within national borders and, secondly, the levels of tolerance worldwide, of both the political leadership and the public at large, seem to be dropping rapidly. This has been coupled with consistent and strong calls for action against the phenomenon at all levels.

3. Analysis of the existing instruments, recommendations and other documents reflects several similarities in structure, themes and language. Those similarities may be an indication of the fact that in efforts against corrup-

tion common problems have been confronted and the negotiation process has produced comparable solutions, despite the different contexts in which the solutions have been considered.

4. Most of the intergovernmental organizations through which the existing international legal instruments have been developed are regional. Thus, the instruments have been developed by countries facing similar problems and sharing, at least to a certain degree, similar legal practices. The Organisation for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions¹ with signatories from five continents notably has a wider geographical coverage. One global legal instrument with anti-corruption provisions in which developing countries from all regions presently participate fully is the United Nations Convention against Transnational Organized Crime.²

5. Proposals for global action on corruption have been developing quite rapidly, inter alia, since the inception of the financing for development process. Most recently and significantly, in August 2001, the United Nations Centre for International Crime Prevention hosted the Intergovernmental Open-ended Expert Group to Prepare Draft Terms of Reference for the Negotiation of an International Legal Instrument against Corruption, which met to make recommendations on the scope and coverage of an international legal instrument against corruption (as requested by the General Assembly in its resolution 55/61) and to consider issues related to illegally transferred funds and the repatriation of such funds to their countries of origin (as requested by the Assembly in its resolution 55/188). The recommendation of the Expert Group that States Members of the United Nations forge a new, legally binding international convention against corruption by the end of 2003, as contained in the report of its meeting held in Vienna from 30 July to 3 August 2001 (A/AC.260/2), will be transmitted to the Assembly at its fifty-sixth session through the Commission on Crime Prevention and Criminal Justice at its reconvened tenth session.

* The preparation of the present technical note was coordinated in the Financing for Development Coordinating secretariat. Staff from the following entities collaborated, in a personal capacity, in its preparation: the United Nations Centre for International Crime Prevention, the Department of Economic and Social Affairs of the United Nations Secretariat, the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), the United Nations Development Programme (UNDP) and the United Nations Conference on Trade and Development (UNCTAD). Several sections contained in the most recent report of the Centre for International Crime Prevention are reproduced extensively in this note because of their relevance.

6. In its draft resolution brought to the attention of the General Assembly for consideration and action (see A/AC.260/2, sect. II), the Expert Group also proposed that the Assembly voice concern about the seriousness of the problems posed by corruption “which may endanger the stability and security of societies, undermine the values of democracy and morality and jeopardize social, economic and political development” (first preambular para.). The Expert Group noted that, while a number of regional arrangements and non-binding international declarations were already in place, no comprehensive instrument with force of international law currently existed. The treaty, as envisaged, would address many aspects of the problem, including preventive measures, criminalization, sanctions and remedies. The Expert Group likewise recommended that the negotiators of the convention should also be asked to consider provisions on jurisdiction, seizures, protection of witnesses, liability of legal persons, transfer of illicitly obtained funds abroad, return of such funds and a range of international cooperation measures.

7. The present technical note refers first to the work of the United Nations regarding proposals relating to corruption, and illicit transfers of funds and the return of such funds to the countries of origin. Then, the corresponding proposals from other institutions and organizations are presented. The note quotes and draws extensively from the documentation prepared by secretariat of the Centre for International Crime Prevention for the expert group meeting, particularly the most recent comprehensive report on existing international legal instruments and recommendations addressing corruption.³ The note does not address the range of technical assistance programmes offered by the United Nations system to aid Governments in combating corruption.⁴

II. Proposals

Within the United Nations

8. In the report of the Secretary-General to the Preparatory Committee for the International Conference on Financing for Development (A/AC.257/12) of 18 December 2000, the link between respecting domestic laws and financial regulations and the mobilization of domestic resources was underscored. The report recommended that “member States should strengthen measures to fight corruption at the national and international levels, including through enhanced international cooperation. In this regard, they should call for expeditious completion of

preparatory work for the elaboration of an international legal instrument against corruption under the aegis of the United Nations — independent of the United Nations Convention against Transnational Organized Crime — and for the convening of a conference for the negotiation of the corresponding legal instrument by the earliest possible date (box between paras. 26 and 27)”.

9. For its part, the report of the High-level Panel on Financing for Development (see A/55/1000) issued on 26 June 2001 highlights, in its executive summary, the point that “every developing country needs to set its economic fundamentals in order. No country can expect to achieve equitable growth, or to meet the International Development Goals, unless it focuses on building effective domestic institutions and adopting sound policies including: governance that is based on participation and the rule of law, with a strong focus on combating corruption” (see principal recommendation 1). The same concern is also raised in the reports to the Preparatory Committee for the Conference of the regional consultative meetings on financing for development.

10. As indicated above, in its resolution 55/61 of 4 December 2000, the General Assembly recognized the desirability of an effective international legal instrument against corruption and requested the Secretary-General to convene an intergovernmental open-ended expert group to examine and prepare draft terms of reference for the negotiation of the future legal instrument against corruption. Subsequently, in its resolution 55/188 of 20 December 2000, entitled “Preventing and combating corrupt practices and illegal transfer of funds and repatriation of such funds to the countries of origin”, the Assembly invited the intergovernmental open-ended expert group convened in accordance with Assembly resolution 55/61 to include an examination, on the same basis, of the question of illegally transferred funds and the repatriation of such funds to the countries of origin.

11. The report and recommendations of the Expert Group will be transmitted to the General Assembly at its fifty-sixth session through the Commission on Crime Prevention and Criminal Justice. As previously indicated, the main recommendation of the Expert Group is that Member States of the United Nations forge a new, legally binding international convention against corruption by the end of 2003.

12. At the Tenth United Nations Congress on the Prevention of Crime and the Treatment of Offenders, held in Vienna from 10 to 17 April 2000, the issue of corruption was also addressed, both in the Vienna Declaration

on Crime and Justice: Meeting the Challenges of the Twenty-first Century,⁵ and in the workshop on combating corruption,⁶ organized by the United Nations Interregional Crime and Justice Research Institute in cooperation with the International Scientific and Professional Advisory Council.

13. In adopting the Vienna Declaration, Member States committed themselves to taking enhanced international action against corruption and stressed the urgent need to develop an effective international legal instrument against corruption (para. 16). There was general agreement on the importance of transparency and the independence and integrity of investigative and subsequent criminal justice processes (para. 154). The discussion highlighted the need for justice to be applied to past activities, including financial recovery of the proceeds of corruption, proper investigation, prosecution and the application of effective criminal and/or non-criminal sanctions (para. 155). At the same time it was considered necessary to provide appropriate prevention measures for the future, including the strengthening of civil society (including the media and the private sector), decreasing opportunities for corruption of high- and low-level officials, improving their status and providing social rewards for those who were not corrupt in the performance of their duties (para. 156).

14. The Expert Group Meeting on Corruption and its Financial Channels, that met in Paris from 30 March to 1 April 1999 (as requested by the Economic and Social Council in its resolution 1998/16 of 28 July 1998) explored means of ensuring that recent multilateral initiatives against corruption were effective and that an appropriate international strategy against corruption, including the proceeds thereof, was formulated in consultation with other intergovernmental organizations active in the area. After identifying a set of measures to improve international cooperation in combating corruption and the detection of financial flows related to corruption, the Expert Group made a series of recommendations to be taken both at the international and at the national level (see E/CN.15/1999/10, sects. B, D and E).

15. At the international level, the Expert Group, *inter alia*, stressed the need to explore ways and means of persuading all insufficiently regulated financial centres to adopt rules enabling them to trace and take action against the proceeds of corruption, to participate actively in international cooperation efforts against related financial crime and, if necessary, to consider the introduction of measures to protect the global financial system from cen-

tres that posed the most significant problems or that did not participate in international cooperation (para. 13 (d)).

16. At the national level, the Expert Group recommended that corruption in all its forms should be criminalized and that bribe-givers and the proceeds of corruption should be covered under anti-money-laundering laws (para. 14 (a)); steps should be taken to ensure that bank secrecy and tax provisions did not hamper international administrative and judicial cooperation in combating corruption as well as to ensure that the authorities possessed sufficient capacities to provide prompt judicial cooperation in cases involving corruption or the laundering of the proceeds of corruption (paras. 14 (f) and (g)); and the capacity of States to prevent their financial systems from being used by bribe-givers and bribe-takers to transfer or launder money related to corrupt deals should be strengthened through the establishment of systems for the appropriate regulation and supervision of financial activities, based on internationally accepted principles (para. 14 (h)).

17. In addition, the Expert Group proposed the use of comprehensive systems for the prevention of money-laundering and the detection of illicit financial flows in combating corruption, including, in particular, the requirement that financial institutions should identify their customers, exercise vigilance and report suspicious transactions to a competent authority responsible for their investigation (para. 14 (j)).

18. In December 1996, the General Assembly adopted two important instruments in the fight against corruption: the International Code of Conduct for Public Officials⁷ (resolution 51/59, annex) and the United Nations Declaration against Corruption and Bribery in International Commercial Transactions⁸ (resolution 51/191, annex). Although both instruments are non-binding, they are still politically relevant, as they represent a broad agreement in the international community on these matters.

19. Regarding illicit transfers, in its resolution 55/188 the General Assembly called for increased international cooperation with regard to devising ways and means of preventing and addressing illegal transfers, as well as repatriating illegally transferred funds to the countries of origin, and called upon all countries and entities concerned to cooperate in that regard. As already mentioned above, the Assembly also invited the intergovernmental open-ended expert group, which was to prepare draft terms of reference for the negotiation of a future legal instrument against corruption pursuant to

Assembly resolution 55/61, to include examination of the question of illegally transferred funds and the repatriation of such funds to the countries of origin. The Expert Group has thus presented a proposal to address these matters in a comprehensive way, by including them in the new international convention whose negotiation is being recommended.

20. It is noted that policy proposals in this area have been affected by a number of vexing problems. According to the report of the Secretary-General (E/CN.15/2001/3) cited earlier, the question of illegally transferred funds resulting from corrupt practices commonly involve (a) immense amounts of wealth that represent a comparatively high proportion of the victimized country's resources; (b) the transfer of that wealth outside the country; (c) a high level of factual uncertainty regarding the countries and accounts holding the illicitly transferred wealth; (d) the correct identification of the legitimate beneficiary and titles for such assets; and (e) a complex of jurisdictional issues. Hence, the recommendation of the Intergovernmental Open-ended Expert Group that the newly proposed convention on corruption should also address, in a holistic approach, these issues.

21. The report of the Secretary-General also notes that policy recommendations relative to the repatriation of illegally exported funds by corrupt leaders need to address three broad categories: practical, political and legal difficulties. From the practical perspective, the Government seeking repatriation of funds does not always have the necessary financial resources to trace and recover them. In the global economy, funds are extremely mobile and can be hidden through secrecy and the use of multiple jurisdictions and tax havens. When it comes to the sophisticated laundering and investment of wealth exported overseas, traditional investigative methods often prove ineffective. Sometimes, even promising "leads" are lacking. In some cases, when Governments cannot cover the legal expenses, they seek contingency fee arrangements with major law firms and, given the length and uncertainty involved in the repatriation process, these contingency fees have not yet provided a reliable modality.

22. When dealing with illegally transferred funds by public sector officials, the Government succeeding a corrupt leader often has to establish its legitimacy and obtain recognition by the international community, inter alia, by countries where the funds may have been deposited or invested. Moreover, in some cases, the victimized Government may not pursue the claims with the required vigour for fear of embarrassing members of the local

political and economic elite whose role in reconstruction is considered vital. Therefore, given the socio-economic devastation such leaders often leave behind them, the new Government may be unable to comply with international "standards" in a prompt and timely manner.

Organisation for Economic Cooperation and Development

23. The 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is a legally binding treaty that obliges signatory countries to establish the bribery of foreign public officials in international business transactions as a criminal offence under their national laws. It is open to adherence by both OECD and non-OECD member countries. It entered into force on 15 February 1999 and at present, 33 of the original 34 signatories have ratified the Convention.

24. It provides that bribery includes not only the payment but also the offer or promise of a bribe and sets out an autonomous definition of "foreign public official" which covers elected or appointed officials and officials exercising a public function such as the head of a public agency or company. Sanctions by signatory countries must be effective, proportionate and dissuasive and apply to both natural and legal persons. There are also some non-criminal provisions covering accounting requirements, external audit and company controls, and the tax non-deductibility of bribe payments. Countries are required to facilitate mutual legal assistance and to provide extradition.

25. All signatory countries are obliged to cooperate in a programme of systematic follow-up to monitor and promote the full implementation of the Convention. This monitoring programme is the responsibility of the Working Group on Bribery in International Business Transactions and includes regular reviews of countries' legislation to implement the Convention and their efforts to enforce the Convention in practice, the examination of specific issues that arise in the course of monitoring, and the regular provision of information to the OECD Council of Ministers and to the public at large through publication on the Internet of reports on individual country performance (see <http://www.oecd.org/daf/nocorruption/instruments.htm>)

26. The Anti-Corruption Network for Transition Economies assists Eastern European and successor countries of the former Soviet Union, through a policy dialogue over the Network's web site as well as annual meet-

ings and specific seminars or workshops, in identifying appropriate political, institutional and economic reforms for combating corruption. The Stability Pact Anti-Corruption Initiative, co-chaired by OECD and the Council of Europe, calls for States in South-Eastern Europe to take measures to combat corruption by adapting laws and regulations in conformity with international instruments. The Asian Development Bank/OECD Anti-Corruption Initiative for Asia-Pacific calls for the development of a regional anti-corruption action plan aimed at strengthening national and regional efforts. The Anti-Corruption and Governance Initiative for Latin America, as a joint effort of the Organization of American States (OAS), the Inter-American Development Bank and OECD, aims at promoting stronger monitoring mechanisms in the implementation of international standards and provide a forum for regional policy dialogue.

27. OECD members had adopted a first Recommendation on Bribery in International Business Transactions in 1994. In 1997, the OECD Working Group on Bribery reviewed the 1994 Recommendation. The Revised Recommendation on Combating Bribery in International Business Transactions, adopted by the OECD Council on 23 May 1997, is the result of analytic work on anti-corruption measures and commitments undertaken over the previous three years to combat bribery in international business transactions. The Revised Recommendation invites member countries to take effective measures to deter, prevent and combat international bribery in a number of areas. In particular, it outlines commitments in the fields of criminalization of bribery of foreign public officials (covered by the Convention negotiated pursuant to the 1997 Recommendation); accounting, banking, financial and other provisions to ensure that adequate records are kept and made available for inspection and investigation; and public subsidies, licences, government procurement contracts or other public advantages that could be denied as sanctions for bribery in appropriate cases. It also urges prompt implementation of the 1996 Recommendation on the Tax Deductibility of Bribes to Foreign Public Officials⁹ and incorporates the proposals contained in the 1996 Recommendation of the Development Assistance Committee on Anti-Corruption Proposals for Aid-Funded Procurement. The Revised Recommendation also includes provisions concerning monitoring and other follow-up procedures designed to promote its implementation.

28. The OECD Guidelines for Multinational Enterprises, a multilaterally endorsed code of conduct

adhered to by the 30 OECD member countries as well as by Argentina, Brazil and Chile, also play a role in the OECD contribution to the fight against corruption. The Guidelines' recommendations on bribery are comprehensive and deal with such issues as solicitation, appropriate use of commercial agents, public commitment and transparency in the fight against bribery, management systems, training and political contributions. National Contact Points — offices located in each of the adhering countries — are charged with encouraging the observance of the Guidelines among multinational enterprises operating in or from their territories. As part of the 2001-2002 cycle of Guidelines implementation, the National Contact Points will be examining the role that multinational enterprises have played in societies plagued by corrupt Governments and will look at what these enterprises can do to enhance the benefits accruing to host societies from their operations and from the tax revenues they generate.

29. In an effort to assist Governments in combating the use of corporate vehicles to perpetrate criminal activities such as bribery, OECD recently completed the Report on the Misuse of Corporate Vehicles for Illicit Purposes, which presents a menu of options on how jurisdictions can establish effective mechanisms to enable their authorities to obtain beneficial ownership of and control information on corporate vehicles established in their own jurisdictions for the purpose of investigating illicit activities, fulfilling regulatory functions, and sharing such information with other authorities, domestically and internationally.

Financial Action Task Force on Money Laundering

30. In order to cover all relevant aspects of the fight against money-laundering, a Financial Action Task Force on Money Laundering (FATF) was established in 1990 at OECD. FATF developed Forty Recommendations, the latest version of which were revised in 1996. The Recommendations set out the basic framework for anti-money-laundering efforts and are envisaged to be of universal application. They cover the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation. The Forty Recommendations are divided into four parts: (a) general framework; (b) role of national legal systems in combating money-laundering; (c) role of the financial system in combating money-laundering; and (d) strengthening of international cooperation.

31. According to the Forty Recommendations, each

country should take such measures as may be necessary, including legislative ones, to enable it to criminalize money-laundering as set forth in the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988.¹⁰ Countries should consider establishing an offence of money-laundering based on all serious offences and/or on all offences that generate a significant amount of proceeds. Other sections of the Recommendations deal respectively with customer identification and record-keeping rules, increased diligence of financial institutions, measures to cope with the problem of countries with no or insufficient anti-money-laundering measures and the implementation and role of regulatory and other administrative authorities. Those recommendations should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions that are not subject to a formal prudential supervisory regime in all countries, for example, bureaux de change, Governments should ensure that such institutions are subject to the same anti-money-laundering laws or regulations as all other financial institutions and that those laws or regulations are implemented effectively. Some recommendations aim at strengthening international cooperation and provide rules for administrative as well as for other forms of cooperation, such as the basis and means for cooperation in confiscation, mutual assistance and extradition.

32. In 2001-2002, FATF will continue an in-depth review of the Forty Recommendations for combating money-laundering. Upon completion of the review, FATF will undertake a third round of mutual evaluations of its members' anti-money-laundering systems against the revised Recommendations.

Organization of American States (OAS)

33. In 1996, OAS adopted the Inter-American Convention against Corruption (see E/1996/99). This broad Convention covers, among other issues, corruption of domestic public officials, bribery of foreign public officials in connection with economic or commercial transactions, mutual legal assistance and illicit enrichment. The report of the Secretary-General (E/CN.15/2001/3) has referred to the OAS Convention as "the most detailed on the prevention of corruption".

34. On mutual legal assistance, the OAS Convention provides that States parties, in accordance with their domestic laws and applicable treaties, shall afford one another the widest measure of mutual assistance and the widest measure of mutual technical cooperation on the

most effective ways and means of preventing, detecting, investigating and punishing acts of corruption (article XIII, paras. 1 and 2).

35. OAS is currently considering aspects related to the establishment of a regional monitoring mechanism to implement the different elements of the Convention.

Council of Europe

36. The Committee of Ministers of the Council of Europe agreed in 1997¹¹ to adopt the Twenty Guiding Principles for the Fight against Corruption. The Principles, which member States are called upon to implement in their efforts against corruption, contain guidance at both the national and international levels. They include elements such as (a) raising public awareness and promoting ethical behaviour; (b) ensuring coordinated criminalization of national and international corruption; (c) guaranteeing the appropriate independence and autonomy of those in charge of the prevention, investigation, prosecution and adjudication of corruption offences; (d) taking appropriate measures for the seizure and deprivation of the proceeds of corruption offences as well as for preventing legal persons from being used to shield corruption offences; and (e) limiting immunity from investigation, prosecution or adjudication of corruption offences to the degree necessary in a democratic society.

37. In addition, the Committee of Ministers agreed on other measures such as (a) promoting the specialization of persons or bodies in charge of fighting corruption and providing them with appropriate means and training to perform their tasks; (b) denying tax deductibility for bribes or other expenses linked to corruption offences; (c) adopting codes of conduct both for public officials and for elected representatives; (d) promoting transparency within the public administration, in particular through the adoption of auditing procedures appropriate to the activities of public administration and the public sector as well as of appropriately transparent procedures for public procurement; (e) guaranteeing that the media have freedom to receive and impart information on corruption matters; (f) ensuring that civil law takes into account the need to fight corruption and in particular provides for effective remedies for those whose rights and interests are affected by corruption; and (g) ensuring that in every aspect of the fight against corruption, the possible connections with organized crime and money-laundering are taken into account.

38. On 11 May 2000, the Committee of Ministers of

the Council of Europe adopted a recommendation (Recommendation No. R (2000) 10) on codes of conduct for public officials, which includes, in the appendix, the model code of conduct for public officials. The Committee of Ministers recommended that the member States promote, subject to national law and the principles of public administration, the adoption of national codes of conduct for public officials based on the model code of conduct for public officials contained in the appendix to the Recommendation.

Organization of African Unity (OAU)

39. The OAU Summit on 11 July 2001 adopted A New African Initiative: Merger of the Millennium Partnership for the African Recovery Programme (MAP) and Omega Plan. Two parts of this Initiative directly address issues related to financial management and corruption. These institutional reforms will include effective measures to combat corruption and embezzlement and to implement judicial reform. MAP and the Omega Plan agreed to create a Task Team from Ministries of Finance and Central Banks (para. 54.2) to review economic and corporate governance practices in the various countries and regions, and make recommendations on appropriate standards and codes of good practice for consideration by the Heads of State Implementation Committee.

40. The African leaders also articulated their view of some of the responsibilities and obligations of the developed countries and multilateral institutions. One element of these obligations is that these countries and institutions should set up coordinated mechanisms to combat corruption effectively, as well as commit themselves to the return of monies (proceeds) of such practices to Africa.

International Monetary Fund (IMF)

41. The Executive Board of the International Monetary Fund (IMF) discussed (13 April 2001) how the Fund could enhance its contributions to the global efforts against money-laundering. In preparation for that discussion, staff papers on financial system abuse, and financial crime and a background paper on money-laundering,¹² and a joint Fund/Bank workshop on financial abuse¹³ were prepared.

42. The IMF Executive Board agreed that money-laundering is a problem of global concern, which affects major financial markets as well as smaller ones, and that to address it, international cooperation should be stepped up. The Directors also agreed that the Fund has an important role to play in protecting the integrity of the interna-

tional financial system, inter alia, through efforts to combat money-laundering, and recognized that more vigorous national and international efforts to counter money-laundering are needed. These efforts should encompass the promotion of sound financial systems and good governance, the design and implementation of judicial and legal reform and other related capacity-building programmes, and effective law enforcement. It was also pointed out that financial regulation and supervision, based on internationally recognized standards, play an important role in preventing financial abuse, including money-laundering.

43. The IMF Executive Board considered that intensifying the focus on anti-money-laundering elements in supervisory principles will help ensure that financial institutions have in place the management and risk control systems needed to deter financial abuse. It noted that financial sector supervisory principles already assessed under the Financial Sector Assessment Program (FSAP) include elements that are relevant to money-laundering and endorsed the proposal to develop a methodology that would enhance the assessment of financial standards relevant for countering money-laundering and that could be used for preparing reports in each FSAP on observance of all relevant principles. It was noted that the recently approved expansion of the FSAP and the ongoing offshore financial centre (OFC) assessments would allow an increasing number of members to benefit from the Fund's work on strengthening financial systems and countering money-laundering.

44. IMF Directors stressed that money-laundering issues should continue to be addressed in Fund surveillance when they have macroeconomic effects, including effects arising from financial instability and reputational damage. Some considered that the cross-border implications of money-laundering should be raised during Article IV consultations when they had significant externalities for other countries, even if they were not macroeconomically relevant for the member concerned. In this context, the Directors agreed that more research into the magnitude and the economic consequences of financial abuse, including money-laundering, should be encouraged. The IMF Executive Board called on all Governments, especially those with responsibilities for major financial markets, to put in place the necessary measures to counter money-laundering. It endorsed the staff's proposals for increased cooperation with FATF and regional anti-money-laundering task forces, including those relating to the exchange of information with these groupings.

Basel Committee on Banking Supervision

45. Only a relatively small part of the work of the Basel Committee on Banking Supervision is related to the issue of corruption. However, from the perspective of sound risk management, the Committee has issued guidance on money-laundering and “know-your-customer” practices for banks. That guidance seeks to prevent the laundering of illicit moneys, including those derived from corruption, through the financial system.

46. The Committee’s guidance is contained in three documents. “Prevention of criminal use of the banking system for the purpose of money-laundering” (1988) outlines the basic ethical principles and encourages banks to put in place effective procedures to identify customers, refuse suspicious transactions and cooperate with law enforcement agencies. The 1997 “Core principles for effective banking supervision” state that banks should have adequate policies, practices and procedures in place, including strict know-your-customer rules. Specifically, supervisors should encourage the adoption of the relevant recommendations of FATF related to customer identification and record-keeping, increased diligence by financial institutions in detecting and reporting suspicious transactions and measures to deal with countries with inadequate anti-money-laundering measures. The 1999 “Core principles methodology” elaborates upon the 1997 “Core principles” by listing a number of essential and additional criteria. In January 2001, a “consultative paper” was issued setting out guidance for banks and banking supervisors on customer due diligence to help guard against financial system abuses (including money-laundering). It can be seen at <http://www.bis.org>.

Southern African Development Community

47. The heads of State and Government of the member States of the Southern African Development Community (SADC) have proposed an SADC protocol against corruption.¹⁴ The three policy goals of the protocol are, inter alia:

- (a) To promote and strengthen the development, by each of the States parties, of mechanisms needed to prevent, detect, punish and eradicate corruption in the public and private sectors;
- (b) To promote, facilitate, and regulate cooperation among the States parties to ensure the effectiveness of (national) measures and actions (against corruption);

- (c) To foster the development and harmonization of policies and domestic legislation of the States parties relating to the prevention, detection, punishment and eradication of corruption in the public and private sectors.

Global Coalition for Africa

48. On 23 February 1999, representatives of a number of African countries met in Washington, D.C., under the auspices of the Global Coalition for Africa and co-sponsored by the Government of the United States of America, to discuss collaborative frameworks to address corruption. After discussion, the African participants, representing 11 countries (Benin, Botswana, Ethiopia, Ghana, Malawi, Mali, Mozambique, Senegal, South Africa, Uganda and the United Republic of Tanzania), agreed on 25 principles to combat corruption.

49. The introductory principles provide that Governments should demonstrate the leadership and political will to combat and eradicate corruption in all sectors of government and society by improving governance and economic management, by striving to create a climate that promotes transparency, accountability and integrity in public¹⁵ as well as private endeavours and by restoring popular confidence in the government. Governments should also establish budgetary and financial transparency and strong financial management systems. Governments are also called upon to enact and enforce criminal laws that will deal effectively with corruption offences by imposing severe penalties on individuals convicted of corruption or corrupt practices and on business entities found to be involved in such practices. The Governments are also called upon to enact and enforce criminal and civil laws that provide for the recovery, seizure, forfeiture or confiscation of property and other assets acquired through corruption, and provide enhanced mutual assistance to Member States.¹⁶

50. The principles also advocate the control of corruption in the private sector by stating that companies and organizations should be required to maintain adequate and accurate financial books and records and to adhere to internationally accepted standards of accounting. Self-regulating codes of conduct for different professions, including those in the private sector, should be established and enforced. The principles recommend that Governments promote standards for corporate governance and the protection of shareholder rights, and prohibit individuals found guilty of corruption from bidding on public contracts or otherwise doing business with Governments.

51. The principles support both the involvement and participation of civil society, on a continuous basis, in the formulation, execution and monitoring of anti-corruption reform programmes and the public's right to information about corruption and corrupt activities through protection of the freedom of the press and effective parliamentary oversight and scrutiny. Finally, it was recommended to establish government-to-government mechanisms to monitor implementation of the principles, including a mutual reporting and evaluation process.

Group of Eight

52. At the Genoa G-8 summit meeting (July 2001), the Heads of State and Government of these countries stated their agreement as follows: "Open, democratic and accountable systems of governance, based on respect for human rights and the rule of law, are preconditions for sustainable development and robust growth. Thus, we shall help developing countries promote: (a) accountability and transparency in the public sector; (b) legal frameworks and corporate governance regimes to fight corruption; (c) safeguards against the misappropriation of public funds and their diversion into non-productive uses; (d) access to legal systems for all citizens, independence of the judiciary, and legal provisions enabling private sector activity; (e) active involvement of civil society and non governmental organizations (NGOs); and (f) freedom of economic activities. We, for our part, will (a) implement fully the OECD Bribery Convention; (b) support efforts in the United Nations to pursue an effective instrument against corruption; and (c) encourage multilateral development banks (MDBs) to help recipient countries strengthen public expenditure and budget management."¹⁷

Global Forum on Fighting Corruption and Safeguarding Integrity

53. The second Global Forum on Fighting Corruption and Safeguarding Integrity was held from 28 to 31 May 2001 in The Hague, the Netherlands. The purpose of the Forum was to strengthen efforts to combat corruption and secure public integrity among government officials, in particular justice and security officials.¹⁸

54. The Forum recommended, inter alia, that Governments should adopt, widely publicize and enforce legislation and procedures that provide the public and the media in the best possible way an optimum degree of access to information relevant to fighting corruption. The media, civil society and the private sector are indispensable partners for government in this endeavour. The Forum

felt that it is evident that national parliaments and local administrations have an important role to play in ensuring high standards of integrity. Financing election activities and political parties should be transparent so as to prevent corruption.

55. In the Forum's findings, government organization and procedures should be designed in a manner that reduces opportunities for corruption and creates incentives for public integrity. This could be stimulated through the establishment of a comprehensive public sector integrity policy that envisages the management of public services through a merit-based, professional and impartial civil service, with appropriate recruitment and retention systems and codes of conduct governing ethical behaviour. Further measures that effectively promote integrity and prevent corruption among public officials can be strategically selected from a broad array of integrity practices. Parallel to the foregoing, the adoption of a private sector integrity policy is necessary. This policy should envisage, in particular, effective measures that discourage the misuse of legal persons for purposes of corruption and related offences. In this respect, participants considered appropriate the further exploration of the ability of Governments to exclude legal persons convicted of corruption offences from entitlement to public benefits or aid, and the ability to identify persons convicted of corruption offences and disqualify them from acting as directors of legal persons.

Notes

1 See *Corruption and Integrity Improvement Initiatives in Developing Countries* (United Nations publication, Sales No. E.98.111.B.18).

2 General Assembly resolution 55/25, annex I.

3 Existing international legal instruments, recommendations and other documents addressing corruption: report of the Secretary-General (E/CN.15/2001/3 and Corr.1), 2 April 2001.

4 For information on technical assistance in this area see *Anti-Corruption Tool Kit* (Global Programme Against Corruption, Centre for International Crime Prevention, Vienna, version 1, June 2001); *Public Service Ethics in Africa*, Vol. 1 (Department of Economic and Social Affairs of the United Nations Secretariat, Division for Public Economics and Public Administration, New York, 2001, ST/ESA/PAD/SER.E/23); and UNDP and World Bank programmes.

OECD also has an active programme of cooperation with non-OECD countries to help improve the rule of law, raise citizens' confidence in the fairness and impartiality of public administration and promote economic growth through transparent and competitive markets. The principal activities are (a) raising awareness of international anti-corruption efforts and developing a strategic knowledge about anti-corruption tools

and (b) promoting regional anti-corruption mechanisms. These outreach activities are carried out in conjunction with different other international organizations as well as private sector, trade union and civil society associations.

5 See *Tenth United Nations Congress on the Prevention of Crime and the Treatment of Offenders, Vienna, 10-17 April 2000: report prepared by the Secretariat* (United Nations publication, Sales No. E.00.IV.8), chap. I, resolution 1.

6 *Ibid.*, chap. VI; sect. A.

7 The International Code of Conduct for Public Officials has been adopted as a tool to guide Member States in their efforts against corruption through a set of basic recommendations that national public officials should follow in the performance of their duties. The Code deals with the following aspects: (a) the general principles that should guide public officials in the performance of their duties (namely, loyalty, integrity, efficiency, effectiveness, fairness and impartiality); (b) conflict of interest and disqualification; (c) disclosure of personal assets by public officials, as well as, if possible, by their spouses and/or dependants; (d) acceptance of gifts or other favours; (e) the handling of confidential information; and (f) the political activity of public officials, which, according to the Code, shall not be such as to impair public confidence in the impartial performance of the functions and duties of the public official.

8 The United Nations Declaration against Corruption and Bribery in International Commercial Transactions (General Assembly resolution 51/191, annex) includes a set of measures that each country could implement at the national level, in accordance with its own constitution, fundamental legal principles, national laws and procedures, to fight against corruption and bribery in international commercial transactions.

The Declaration addresses the bribery of foreign public officials. According to paragraph 3 of the Declaration:

3. Bribery may include, inter alia, the following elements:

“(a) The offer, promise or giving of any payment, gift or other advantage, directly or indirectly, by any private or public corporation, including a transnational corporation, or individual from a State to any public official or elected representative of another country as undue consideration for performing or refraining from the performance of that official’s or representative’s duties in connection with an international commercial transaction;

“(b) The soliciting, demanding, accepting or receiving, directly or indirectly, by any public official or elected representative of a State from any private or public corporation, including a transnational corporation, or individual from another country of any payment, gift or other advantage, as undue consideration for performing or refraining from the performance of that official’s or representative’s duties in connection with an international commercial transaction.”

The Declaration contains different provisions aimed at combating the phenomenon, including the adoption or, where they already exist, enforcement of laws prohibiting bribery in international commercial transactions; and the criminalization of such bribery as well as the denial of tax deductibility of bribes paid by any private or public corporation or individual of a State to any public offi-

cial or elected representative of another country.

In addition, Member States committed themselves to develop or maintain accounting standards and practices that improved the transparency of international commercial transactions; to develop or to encourage the development of business codes, standards or best practices that prohibited corruption, bribery and related illicit practices in international commercial transactions; to examine establishing illicit enrichment by public officials or elected representatives as an offence; and to ensure that bank secrecy provisions did not impede or hinder criminal investigations or other legal proceedings relating to corruption, bribery or related illicit practices in international commercial transactions.

Finally, Member States committed themselves to cooperating and affording one another the greatest possible assistance in connection with criminal investigations and other legal proceedings brought in respect of corruption and bribery in international commercial transactions, including sharing of information and documents.

9 The Recommendation on the Tax Deductibility of Bribes to Foreign Public Officials invites member countries that allow the deductibility of such bribes to re-examine the issue with a view to denying such deductibility.

10 See *Official Records of the United Nations Conference for the Adoption of a Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Vienna, 25 November-20 December 1988*, vol. I (United Nations publication, Sales No. E.94.XI.5).

11 Resolution (97) 24 of 6 November 1997.

12 IMF and World Bank, “Enhancing contributions to combating money laundering: policy paper”, 26 April 2001 (<http://www.imf.org/external/np/ml/2001/eng/042601.PDF>).

13 Financial abuse encompasses not only illegal activities that may harm financial systems, but also other activities that exploit the tax and regulatory frameworks with undesirable results. Financial crime can refer to any non-violent crime that generally results in financial loss. It includes not only financial fraud and tax evasion but also money-laundering which involves the processing of criminal proceeds to disguise their association with criminal activities.

14 The Economic Community of West African States (ECOWAS) has also developed a protocol on the fight against corruption with a similar set of policy objectives. See A/AC.260/CRP.1.

15 For example, in order to promote integrity of the public service, the principles call for (a) the elimination of conflicts of interest by adopting and enforcing effective national laws, guidelines, ethical regulations or codes of conduct for public officials, which include rules on conflict of interest and requirements for the regular disclosure of financial interests, assets, liabilities, gifts and other transactions; (b) undertaking necessary administrative reforms to restore the morale and integrity of the public service, for example, by ensuring merit-based recruitment and promotion policies and procedures and providing adequate benefits, including remuneration and pension schemes; (c) the promotion of transparency in procedures for

public procurement and the sale or licensing of economic rights and interests by eliminating bureaucratic red tape, by providing for open and competitive bidding for government contracts, by prohibiting bribery and by adopting procedures for resolving challenges to the award of contracts or the sale or licensing of economic rights; and (d) the restoration and maintenance of the independence of the judiciary and ensuring adherence to high standards of integrity, honesty and commitment in the dispensation of justice through, among other things, adopting a judicial code of conduct.

16 With regard to mutual legal assistance and extradition, the principles recommend that Governments adopt cooperative arrangements at the regional and/or subregional levels that provide for the mutual exchange of ideas, information, best practices, intelligence and experiences for the purpose of minimizing risks of cross-border corruption, including international business transactions. They should facilitate the cooperative investigation of cases involving corruption by rendering mutual legal assistance in obtaining evidence, documents, articles, records and witness statements.

17 See G-8 final official notice available at http://www.genoa-g8.it/eng/attralita/primo_piano/primo_piano_13.html

18 Final Declaration, Global Forum on Fighting Corruption and Safeguarding Integrity II, The Hague, 28-31 May 2001 (reprinted in A/AC.260/CRP.2, 2 July 2001).

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TECHNICAL NOTE NO. 3*:

Existing proposals for innovative sources of finance

I. Introduction

1. Particularly in private financial markets there has been a process of frequent innovation in mobilizing financial resources for development during recent decades. Nationally these innovations have ranged from the development of microcredit facilities to the introduction of increasingly sophisticated financial instruments and markets. There has been less innovation, however, in the mobilization of financial resources through the public sector, with the exception of the increasing use of value-added taxes. More generally, policies such as liberalization and deregulation through, for example, reductions in tariffs and privatization, have reduced the capacity of the public sector to mobilize finance for development from traditional areas, while taxes have not been imposed in new areas such as those associated with globalization and commerce conducted through the Internet. On the other hand, especially in developing countries where public sector outlays are relatively low, demands on public resources are increasing, sometimes as a result of structural changes caused by globalization. The need to finance the provision of global public goods in an increasingly globalized world also adds new urgency to the need for innovative new sources of financing for development. Many innovative proposals have been made over the years to generate additional financing for development, either nationally or internationally.

2. Four important proposed innovative sources of finance are within the terms of reference of other technical notes:

- Revenue that could result from constraints on tax avoidance and evasion as well as on tax competition between countries following enhanced international cooperation on tax matters (covered in technical note No. 1);
- Revenue resulting from strengthened international cooperation to combat illegality and corrup-

tion, inter alia, through repatriation of illegally transferred funds to the countries of origin (covered in technical note No. 2);

- Renewal of the issue of special drawing rights (SDRs) (covered in technical note No. 9 on proposals to ensure the availability of sufficient international liquidity);
- Improved access to microcredit and to credit from domestic banking institutions (covered in technical note No. 10 on microcredit).

3. Leaving those four sources aside, the present note concentrates on proposals for three potential innovative sources of finance that have been frequently mentioned, all relating to *national taxes* resulting from possible international agreements, namely, taxation of international air transport (IATT); a carbon tax; and a currency transaction tax (CTT). Only a brief description is given of the first of these. For the last two, descriptions of the proposals are given following the structure in which they are frequently presented, that is to say, in relation to correction of externalities or market distortions; administrative costs and feasibility; enforceability; the potential for generation of revenue and likely trends; vertical and horizontal burden and incidence of the tax across countries; and other incidental matters.

4. Each of these revenue possibilities, as currently proposed, raises some similar issues. It is normally assumed that each of the taxes would be collected by *individual Governments* following international agreements. *Thus, no international legislative body or collecting agency is supposed.* Each revenue source would have to be negotiated and accepted by the countries that would be the major collectors of the revenue. (Agreement would be required among countries about what proportion of the revenue might be used for international purposes, if any, and how that would be calculated.) Decisions could also be required, if this was the case, about whether there would be some international sharing of revenue and, if so, about the management of the process of distribution. However, as indicated above, no considerations are made about how the funds acquired under any of the proposals might be administered.

* The preparation of the present technical note was coordinated by the Department of Economic and Social Affairs of the United Nations Secretariat. Staff from various non-governmental organizations and academic institutions also contributed, in a personal capacity, to its preparation.

II. Proposals

A. International air transport tax

5. Experts recognize air transport of passengers and cargo as a key source of environmental pollution due to emissions and noise. Proposals to impose an international air transport user tax have been discussed in various international forums, at the United Nations in particular.¹ Proponents of an international air transport tax support it on the ground that as an economic instrument it embodies the “polluter-pays” principle of internalizing environmental externalities. Such a tax is also progressive in ability-to-pay terms, both across income-class worldwide and across countries, since the tax burden would fall mostly on those individuals and businesses that most benefit from, and contribute to, the “globalization process” through international air transport. One concern expressed is the impact of IATT on tourist destination countries — some developing countries rely heavily on revenues from tourism for foreign exchange and they would be negatively affected given the high price-elasticity of tourist travel.

6. Potential revenue from IATT would probably not be large. A 1 per cent tax on the price of all international passenger tickets and freight transport is estimated to generate US\$ 2.2 billion a year, and on passenger tickets, only US\$ 0.8 billion.² Air travel, especially tourism, is highly income-elastic and may balance or swamp the price effect, at least when economies are growing strongly. Although taxing emissions would be more efficient from the point of view of environmental protection, the impact of IATT on the environment would be expected to be positive based on Organisation for Economic Cooperation and Development (OECD) studies of preliminary results of other eco-taxes implemented since the 1990s, and it would be relatively easy to administer. An alternative would be to impose an environmental tax on aviation fuel, though this has been exempted from excise under the Convention on International Civil Aviation of 1944 (Chicago Convention) to ensure “fair” international competition.³

7. Debate about an IATT also includes issues relating to the design of the tax with regard to the tax base: on fuel, passenger tickets and air freight or passenger tickets only; the type of tax: a flat charge per transaction or an ad valorem tax;⁴ the tax rate; and how the levy would be collected and used.

B. Carbon tax

8. A carbon tax has been discussed as a potential new source of finance for development by the Commission on Sustainable Development and the High-level Panel on Financing for Development. It would utilize the market mechanism to contribute to a global public good, namely, the reduction in greenhouse gas emissions. It would also be a disincentive since such a tax would be based on the polluter-pays principle and internalizes a negative externality.

1. Nature and implementation

9. A carbon tax would be a levy on all commercial forms of hydrocarbon fuels at a uniform rate in relation to their carbon content. An attractive feature of the tax is that its imposition would discourage the generation of carbon dioxide (CO₂), the most important greenhouse gas. There are strong environmental arguments for fiscal instruments that discourage greenhouse gas emissions. A carbon base would therefore complement and strengthen the implementation of the agreements reached in Bonn in July 2001. If the tax was to be strictly universal, it would require the cooperation of every Government; but the absence of universal agreement would not make the operation impossible or necessarily unacceptable for those otherwise willing to take part. Implementation by, for example, the OECD countries alone would provide a large part of the potential revenue. Figures are regularly issued by many countries of consumption of most forms of commercial energy, and those for hydrocarbons can readily be converted, by a mean coefficient for each particular fuel, to carbon-equivalents.⁵

10. Governments would be free to collect the tax in several different ways; but the probable way would be in the form of an excise-type tax per unit quantity of hydrocarbon fuel sold, with the rate varying according to the carbon-content coefficient from one fuel to another. It would be accepted that Governments might already have a variety of taxes or subsidies or both falling on the use of hydrocarbon fuels, and that they might choose to make the general carbon tax additional to whatever had been in existence. It is not supposed that any commitment would necessarily be made to rationalize existing provisions. The agreement made might thus encourage participants to impose additional taxes at the required rates, but require them to submit internationally revenue corresponding, with perhaps a certain margin of tolerance, to the amounts due under ex post independent assessments of their residents’ use of the various hydrocarbon fuels. It would be

rationally consistent for the rates to be fixed by agreement in real terms,⁶ with an agreed schedule of the carbon coefficients deemed to apply to different fuels.

2. *Revenue yield in relation to market distortions; trends of revenue at given tax rates*

11. Recently, consumption of commercial hydrocarbon fuels has averaged in the order of 1 ton of carbon per person per year across the world, a total now, therefore, of about 6 billion tons of carbon. A uniform carbon tax amounting on motor gasoline to US\$ 2.00 per United States barrel, in other words 4.8 cents per United States gallon, would represent US\$ 17 per ton of motor gasoline, which, at an approximate carbon content of 0.81, would mean US\$ 21 per ton of carbon.⁷ This, applied universally, would raise about US\$ 125 billion.

12. If specific rates were fixed in real terms, revenue in real terms would be directly proportional to hydrocarbon use as measured by carbon content. Over the past 50 years, the use of hydrocarbons has risen considerably—but irregularly, with a downturn from 1979 to 1982, when energy costs were unusually high and economic activity was depressed. Success of any degree in the world effort to check global-warming influences, through conservation or technological substitutes, would reduce real revenue at any set of real rates.

3. *Enforceability and administrative costs*

13. Specific excises, especially on sales of bulky commodities, are among the easiest and most inexpensive taxes to impose. This is because the tax base is identified relatively easily. A gallon of gasoline or a ton of coal cannot readily be disguised.

14. In addition, it is noted that not only are specific excises on sales of commodities of this sort intrinsically cheap to administer compared with other kinds of tax but also, because the commodities will in many cases already be subject to specific taxes, the administrative machinery for taxing them would not have to be created anew, and in these many cases administrative and compliance costs of the extra taxation would be negligible.

4. *Burden and incidence of the tax*

15. The burden of the tax would fall to some extent on users of “commercial” hydrocarbon fuel — in relation to their use and to the carbon-intensity of the fuel that they use; and to some extent also on those involved at various stages in the extraction and processing of those

fuels and on owners of property rights over hydrocarbon resources.

16. Among countries at any income level, there are wide variations in the ratio of hydrocarbon consumption to income — and even wider variations (from zero upward) in the proportional contributions of hydrocarbon resource rents to income. There would thus be big variations across countries in the proportion of carbon tax paid to national income at any given income level.

17. Poorer countries appear to have some tendency to consume more commercial energy per unit of income than richer ones, though, as mentioned above, there is great variation at both ends of the scale. To the extent that this is true, the tax would have some regressive tendency across countries. Hydrocarbon resources are important as sources of income in some high-, middle-, and low-income countries, the distribution having no obvious tendency to make the tax either progressive or regressive.

18. The High-level Panel suggests that a carbon tax could be structured to be supportive of developing countries by allowing them to recycle receipts into their own economies while industrialized countries would be required to pay a part of their receipts to international organizations responsible for financing global public goods.

19. In affluent countries, poor households tend to spend a higher proportion of income directly on fuel and power than rich ones, but any tendency to spend a higher proportion on energy would appear at least mitigated when indirect uses were taken into account. Moreover, in poorer countries it is not clear that, even directly, the poor would consistently spend more of their income on commercial energy than the rich. Hence, no generalization on the regressiveness or other characteristics of the tax with respect to income classes in any country is normally made.

20. Owners of hydrocarbon resources and participants in their extraction and processing would be affected disproportionately, insofar as the tax reduces energy spending or diverts it to non-hydrocarbon sources.

C. *Currency transaction tax*

21. The perceived advantages of deterring short-term speculation in the foreign exchange market and of generating large sums of revenue has made a CTT,⁸ even at a “small” rate, attractive to a large number of proponents. Proposals for study of a CTT from Governments, international agencies, civil society organizations and the High-

level Panel on Financing for Development have been presented to intergovernmental bodies on occasions such as the twenty-fourth special session of the General Assembly entitled “World Summit for Social Development and beyond: achieving social development for all in a globalizing world”, financing for development hearings, meetings of the Commission on Sustainable Development and the Commission for Social Development, meetings of multilateral development banks, and meetings of major developed-country groupings.

1. Nature and implementation

22. What is generally proposed in this context is an ad valorem tax on foreign exchange transactions, possibly confined to the “wholesale” foreign exchange market and probably collected at the point of payment or settlement in banking systems. When proposed as a global source of revenue, this tax is normally conceived as applied at a uniform rate and ideally across the world. Until recently, it was normally discussed as if it would have to be assessed and collected when, and in whatever jurisdiction, foreign exchange trades were agreed; and, because trades might be agreed in any country and through any one of a variety of media, this raised doubts over whether enforcement would be possible, at least without near-universal cooperation on the part of Governments. Recent proposals, however, suggest that applying the levy to wholesale trades at the point of bank settlement at a uniform rate would make it possible to collect (without the hazard of avoidance through diversion from taxed to untaxed jurisdictions), provided only that the authorities issuing those currencies acting for the time being as “vehicle-currencies” (five or six at present) would cooperate.⁹ This would be the case, it is argued, because virtually all foreign exchange transactions have a vehicle-currency on at least one side and, if all were taxed at the same rate, there would be no reason to switch from one to another. The central bank issuing each of the vehicle-currencies is in a position to collect a tax on payments either into or out of banks within its jurisdiction; to distinguish payments for foreign exchange from those for other transactions; and to require similar information and taxation on any offshore netting system with access to its banks.

2. Revenue yield in relation to market distortions; trends of revenue at given tax rates

23. Total annual global currency transactions, as reported in daily form by the Bank for International Settlements (BIS), were of the order of US\$ 360 trillion

for 1998 and US\$ 264 trillion for 2000, on the assumption of a 240-trading-day year.¹⁰ US\$ 264 trillion may be taken as an indicator of current levels. If a tax was fixed at 0.1 per cent and it had no effect on the tax base, it would raise revenue of the order of US\$ 264 billion. If, to take another assumption, the tax at that rate was to reduce the tax base by 50 per cent, the yield would be US\$ 132 billion.

24. It is generally considered that a tax at that low rate would have a negligible effect on trade or long-term investment, in spite of the fact that the increase that it would impose on the transactions costs of exchange for these purposes might possibly be several times as high as the tax rate. The effect of a currency transaction tax in reducing short-term capital movements thus cannot easily be judged, and opinions are divided over whether any such reduction should be regarded as good in deterring destabilizing speculation or as bad in deterring stabilizing speculation.

25. On the assumption that it might be deliberate policy to levy the revenue instrument at a rate that would have no more than a negligible effect on short-term capital movements (with any use of currency-transaction levies for stabilization purposes treated as a separate and independent exercise, possibly involving much higher rates specific to particular countries and circumstances), a rate of 0.02 per cent has been suggested, yielding, if there was no impact on the tax base, about \$53 billion.

26. Uncertainty over the impact of the tax on its base might suggest that the tax, once Governments had decided to apply it for revenue purposes, might be initially imposed at an extremely low rate, and then raised by pre-agreed small steps so that some idea of the elasticity function of tax base to tax rate might be gained. A rate considered desirable in that light could thereafter be fixed.

27. Proponents point out that it seems most likely that the level of currency transactions under any of the tax rates considered would generally continue to grow — except insofar as there were further currency unions involving major currencies. However, they also note the fall recorded between 1998 and 2000, which was much larger than could be accounted for by the introduction of the euro.

3. Enforceability and administrative costs

28. Proposals cited above¹¹ suggest that, if the tax was confined to “wholesale” transactions and collected, with the cooperation of a handful of vehicle-currency

countries, at the point of bank settlement, enforcement could readily and inexpensively be achieved, at least given the types of derivatives being used in 2001 within foreign exchange markets.

29. As also indicated above, administration of the tax by central banks on bank settlements should, as generally proposed, be administratively inexpensive. Compliance costs would also be low. Hypothetically, further forms of derivatives might be employed by transactors in order to make effective currency deals without bank settlements; and these, like devices for evading or avoiding other taxes, might possibly add extra investigative and legal costs, and also contribute to the difficulty of achieving coordinated additional legislation among the six or so major-currency authorities administering the tax. The costs and settlement risks of transacting outside the wholesale markets, however, or outside the banking system altogether, are likely in any case to *limit* the use of derivatives other than those that involve ultimate bank settlement and would fall within the normal scope of the tax.

4. *Burden and incidence of the tax*

30. The tax burden seems likely to fall on businesses and individuals in positive relationship to two elements: first, and overwhelmingly, their engagement in international financial markets; and second, and subsidiarily, their direct or indirect involvement in trade of goods and services, and in transfers and income flows and flows of long-term capital between currency areas. This is because the value of financial transactions is more than 50 times as great as the value of world trade in goods and services and over 500 times as large as that of foreign direct investment in 1998, the latest year firm figures were available for all three indicators.¹² In any case, the payer of the CTT is most likely to be a beneficiary of increased international financial and trade flows, especially of the globalization of financial markets.

31. Richer countries would be expected to collect a much larger share of the tax than poorer countries in relation to income on the grounds of their dominant share of financial transactions. However, at each average-income level, countries with higher reliance on financial services would tend to show a larger ratio of tax to income.

32. Individuals and corporations selling foreign exchange services or participating in foreign exchange arbitrage and speculation are likely to be deriving quasi-rents from the foreign exchange markets, and hence in general will tend to bear a larger share of the burden than

other classes of persons. Since financial transactions are likely to be directly related to income, it is probable that the incidence of the tax across individuals in any country would be progressive.

D. Other proposals

33. Several other proposals exist that are not referred to in detail in this note for various reasons, namely, that, inter alia, they would generate very little or no revenue; they relate basically to domestic policy and do not require international cooperation to implement; or that arrangements already exist that would enable generation of finance from the source. Among those that are most commonly mentioned are:

- Taxation of the global commons through mining of the seabed or Antarctica or use of outer space. There is no seabed mining at present and if there were, provisions exist for taxing it under the United Nations Convention on the Law of the Sea.¹³ Taxing of ocean fishing would be possible but is unlikely to generate significant revenue. Mining in Antarctica is prohibited. The satellite use of outer space would not generate significant revenue at any reasonable tax rate;
- General levies on natural resource extraction and land. These are generally regarded as a national matter about which the justification for international coordination would seem to be no greater than for other normal sources of domestic revenue. A major problem would also be establishing a fair and sufficiently simple basis for assessment;
- Taxation of arms exports. This would largely involve Governments in “taxing themselves”. A tax on arms might well fall on importers rather than exporters and in that case disproportionately on developing countries since they are mostly net buyers. Compensation arrangements would be possible but would add to the administrative complexity of the proposal. The tax would probably not contribute very much to limiting illegal transfer of arms (and in fact might have the opposite effect);
- A “bit tax”. This would be a small tax on the volume of data transmitted through the Internet, at 1 United States cent on every 1,000 kilobytes of data, for example. At this rate, Internet data traffic in 1996 would have generated \$70 billion.¹⁴ Although such a tax could have the potential to

mobilize increasing amounts of revenues, proponents point out that, given the rapid expansion of the Internet, imposing a tax on such an important and cross-cutting emerging technology would probably not be easy. And administering a tax in an area of activity that is evolving as rapidly as the Internet would also be complex and technically difficult;

- Public/civil society/private partnerships. These encompass not only national arrangements that do not require international agreement for effective operation but also many forms that have been in operation for decades or even centuries (particularly in sectors such as education, health and other social services) and so are hardly innovative. It is true that during the 1990s the concept of public/civil society/private sector partnership in development gained more support and was applied more widely, but since such partnerships are already being effected in most countries, more detailed references were not included in this technical note. Some of the issues are discussed in the report of the Secretary-General to the Preparatory Committee (A/AC.257/12).

Notes

- 1 See reports of the Secretary-General to the Commission on Sustainable Development for various years.
- 2 See report of the Secretary-General on financial resources and mechanisms for sustainable development: overview of current issues and developments (E/CN.17/1995/8, para. 218).
- 3 International Civil Aviation Organization: "Aircraft engine emissions: ICAO's existing policies", background information paper for the Colloquium on Environmental Aspects of Aviation, 1-11 April 2001, Montreal.
- 4 Such taxes are proportional to the monetary value of taxed transactions.
- 5 For example, the form of accounting that reduces these and other substances and processes to equivalents as generators of greenhouse activity used by the United Nations Framework Convention on Climate Change (United Nations, *Treaty Series*, vol. 1771, No. 30822) can be utilized to make the conversions.
- 6 For example, the rate in carbon to be expressed in exchange-equivalents of constant-purchasing-power amounts in SDRs or United States dollars.
- 7 Coefficients and relationships from Economist Newspaper, Limited (1964); and as implied in Grubb (1989, p. 35).
- 8 This is often referred to as the "Tobin tax", after the Nobel laureate James Tobin who first proposed it in a 1978 article. For an overview of the debates over and the evolution of this tax proposal, see, for example, T. Palley (2001) and Ul Haq, Kaul and Grunberg (1996).
- 9 See Schmidt (1999; 2001).

10 Based on daily turnover reported in Bank for International Settlements (BIS), *Annual Report of the Bank for International Settlements, 2000-2001* (Basel, 2001), p. 98. However, large differences reported for the same period in different issues of the source suggest that these figures should be taken as highly approximate.

11 See Schmidt (1999; 2001) and Spahn (1996).

12 Currency transaction volume is based on Bank for International Settlements, *Annual Report of the Bank for International Settlements, 2000-2001* (Basel, 2001); trade value is as reported by the World Trade Organization (Historical Series, available at http://www.wto.org/english/res_e/statist_e.htm); and FDI flows are from the United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2000* (United Nations publication, Sales No. E.00.II.D.20), annex, table B.1.

13 See *The Law of the Sea: Official Texts of the United Nations Convention on the Law of the Sea of 10 December 1982 and of the Agreement relating to the Implementation of Part XI of the United Nations Convention on the Law of the Sea of 10 December 1982 with Index and Excerpts from the Final Act of the Third United Nations Conference on the Law of the Sea* (United Nations publication, Sales No. E.97.V.10).

14 United Nations Development Programme (UNDP), *Human Development Report, 1999* (New York, Oxford University Press, 1999), p. 66.

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TECHNICAL NOTE NO. 4*:

Existing proposals to promote the increased and more effective participation of developing countries in the trade and financial decision-making processes

I. Introduction

1. “Increased and more effective participation” has several dimensions, ranging from ensuring that more and more the voices of developing countries are heard to developing a situation in which their voting in relevant bodies is increased in a meaningful way. Regarding effectiveness, the dimensions range from ensuring the physical presence of individual developing countries in international negotiations to ensuring that each country representative has the required expertise on the subject under consideration and has also some experience or some training in negotiation processes. These dimensions have a similar connotation in institutions such as the International Monetary Fund (IMF) and the World Bank, where the voting process is largely based on the financial weight of the stakeholders. In the World Trade Organization — a more recently established institution with a growing membership — the large majority of decisions are taken by consensus and changes regarding participation of members and accession of new countries might have a different connotation.

2. The focus in the list of proposals given below is on intergovernmental bodies that discuss or negotiate principles, norms, standards or rules and set policies or policy guidelines.

* The preparation of the present technical note was coordinated by the Financing for Development Coordinating secretariat. Staff from the following entities collaborated, in a personal capacity, in its preparation: the Department of Economic and Social Affairs of the United Nations Secretariat, the United Nations Conference on Trade and Development, the International Monetary Fund, the World Bank, the World Trade Organization, the Economic and Social Commission for Asia and the Pacific, the Economic and Social Commission for Latin America and the Caribbean, the United Nations Development Programme, the Intergovernmental Group of Twenty-four Liaison Office, and various academic institutions.

II. List of proposals

A. Increased participation in financial decision-making processes

3. The report of the Secretary-General (A/AC.257/12) to the Preparatory Committee for the International Conference on Financing for Development (in paras. 134, 136, 137 and 166) contains proposals towards increased participation of developing countries in economic and financial decision-making. In the list that follows, the origin of the proposal and the intergovernmental body to which the proposal was presented have been identified except in the case of ministerial communiqués (for example, the Intergovernmental Group of Twenty-four (G-24) ministerial communiqués are regularly presented to the IMF International Monetary and Financial Committee and the Joint IMF/World Bank Development Committee and the results of the United Nations Conferences are regularly presented to the General Assembly).

1. *Origin:* Ministerial declaration (E/2001/L.20) of the high-level segment of the substantive session of 2001 of the Economic and Social Council, 18 July 2001

Presented to: the high-level segment of the substantive session of 2001 of the Economic and Social Council on the role of the United Nations in support of the efforts of African countries to achieve sustainable development, 18 July 2001

Proposal: Ministers “welcome the dialogue between the Group of Eight and representatives from Africa, including at the highest level, and invite the Group of

Eight to maintain the dialogue to ensure that the challenges facing the region are given due attention on a regular basis” (para. 25).

2. *Origin:* Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 30 and 31 May 2001

Proposal: “More meaningful and equitable participation, cooperation and consultation between developing and developed countries are required in the reform of the international financial system to ensure that the interests of all developing countries are safeguarded.”

3. *Origin:* Deliberations of the special high-level meeting of the Economic and Social Council with Bretton Woods institutions, held on 1 May 2001 (see E/2001/72)

Presented to: Substantive session of 2001 of the Economic and Social Council, July 2001

Proposal: (as reflected in para. 53 of the summary of the meeting on 1 May 2001): “Regarding the ongoing reforms of the Bretton Woods institutions, several ministers welcomed the review of IMF conditionality initiated by its Managing Director, with a view to making it better focused, more effective and less intrusive, as well as to enhancing programme ownership. Nevertheless, developing countries still needed a larger voice in the decision-making processes of these institutions. More generally, there was broad convergence on the need for inclusion and participation of all countries and stakeholders in global policy-making as a prerequisite to ensure its success.”

4. *Origin:* Quota Formula Review Group (report to the IMF Executive Board of the Quota Formula Review Group, 12 April 2001)

Presented to: IMF Executive Board (April 2001)

Proposal: “The most important criteria for assessing any proposals for change

in the quota formulas are: (a) any new formula should have a sound economic basis and reflect the relevant changes in the world economy; (b) its form and content should be consistent with the multiple functions of the quotas; and (c) it should be simple and transparent.”

The Group, whose purpose was to review the adequacy of calculated quotas in the light of changes in the world economy and the increasing globalization of markets, did not reach unanimity on any precise formula, but one option — a minority view — which is to use purchasing power parity (PPP) exchange rates instead of market exchange rates in the calculations, would lead to a relative increase in the quota (and voting power) of developing countries.

5. *Origin:* Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

Presented to: Preparatory Committee at its second substantive session, February 2001

Proposal: “... To perform needed functions effectively ... it is necessary to reform the governance of the international financial institutions (IFIs), including their voting structures and decision-making processes, with a view to bringing about greater participation of developing countries” (para. 64).

6. *Origin:* Deliberations on the high-level international intergovernmental event on financing for development of the eighth session of the Meeting of Ministers of Finance of African Countries, Addis Ababa, Ethiopia, 21 and 22 November 2000: ministerial statement (A/AC.257/14, annex)

Presented to: Preparatory Committee, February 2001

Proposal: “We are of the opinion that there is need for a serious dialogue on the issue of governance of the interna-

tional financial system. The basic problem today is the exclusion of a large number of developing countries, especially from Africa, from the decision-making process of the international financial system. Such a dialogue invariably would need, inter alia, to include a review of the respective roles of the Bretton Woods institutions, such as reconsidering their governance structures, providing a greater voice to developing countries, and customizing their programmes to the needs of developing countries” (para. 25).

7. *Origin:* Intergovernmental Group of Twenty-four (G-24) on International Monetary Affairs, G-24 Meeting of Ministers, ministerial communiqué, 23 September 2000

Proposal: “Ministers welcome the ongoing discussion of a whole range of complex issues relating to the role, structure, and context of the Fund’s quota formulae. They hope that these discussions will lead to a more balanced distribution of quotas between industrialized and developing economies and the provision of a larger voice for developing economies in the decision-making process of the Fund. They also reiterate their support for a revision of the size of the basic votes” (para. 18).

8. *Origin:* Report of the Regional Consultative Meeting on Financing for Development in the Asia and Pacific Region, Jakarta, 2 to 5 August 2000 (A/AC.257/13)

Presented to: Preparatory Committee, February 2001

Proposal: “The view was expressed that regarding its treatment of developing countries, IMF was not meeting the objectives of its articles of agreement.

“• IMF remains the appropriate forum for the reform of the international financial architecture.

“• There is a need to review IMF quotas” (para. 41).

9. *Origin:* Report of the Secretary-General

entitled “Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries” (A/55/187 and Add.1 and 2), 27 July 2000

Presented to: General Assembly at its fifty-fifth session (September-December 2000)

Proposal: “There is ... a broadening view that the voting structures of the Fund and Bank should be realigned both to better reflect current economic realities and to give more representation to low-income countries” (para. 72). “Sometimes, the principle of ‘subsidiarity’ can usefully limit what needs to be addressed at global level, or sub-groupings of the whole membership can deliberate first in decentralized forums and the group views can then be represented in the global forum. On both counts, it follows that, along with global institutions, stronger regional and subregional bodies can play a significant role in the globalizing world economy. It has been suggested, for example, that a more decentralized policy-making process might be conceived wherein regional forums would help prepare for discussions by representatives in global forum and thus facilitate wider participation in the discussion of global issues” (para. 73).

10. *Origin:* G-24 ministerial communiqué, 15 April 2000, Washington, D.C.

Proposal: “Ministers are concerned about the increasing role being taken in international monetary and financial affairs by international forums — other than the Bretton Woods institutions — in which the representation of developing countries is limited. The work of these forums has a direct bearing on developing countries. Therefore, Ministers urge that such issues should be considered within the Bretton Woods institutions, given their universal membership, and that agreements be reached in their decision-making bodies” (para. 11).

11. *Origin:* G-24 ministerial communiqué, 25 September 1999, Washington, D.C.
Proposal: “Ministers stress that, in order for informal mechanisms for dialogue between ‘systemically significant’ countries to gain ownership and representation, the choice of participants should take into account the constituency structure of the Bretton Woods institutions. They consider that such mechanisms should not undermine the role of the Bretton Woods institutions’ Executive Boards and Committees as the appropriate forums for addressing the main issues facing the international monetary and financial system” (para. 16). “While welcoming the establishment of the Financial Stability Forum, Ministers consider that developing countries should be appropriately represented in order to ensure that their views are properly reflected” (para. 17).
12. *Origin:* Communiqué of the Meeting of Ministers for Foreign Affairs and Heads of Delegation of the Non-Aligned Movement, 23 September 1999 (A/54/469-S/1999/1063, annex)
Proposal (adopted in the communiqué): “... However, we regret that the voice of developing countries in decision-making still does not realistically reflect their emergence as important actors in the world economy. We therefore urge developed countries to give this cumulative contribution and role meaningful and commensurate recognition. The participation of developing countries in global economic decision-making, particularly in the international financial institutions, as well as in trade and other economic areas, should thus be enhanced. We reaffirm the need for such democratization and transparency in international economic and financial decision-making in all forums and at all levels, with the full participation of developing countries so as to ensure that their development interests would be finally taken into account” (para. 104).
13. *Origin:* Commonwealth Finance Ministers meeting, Grand Cayman, Cayman Islands, 21-23 September 1999 (reiterated at the Commonwealth Finance Ministers meeting, St. Julians, Malta, 19-21 September 2000)
Proposal: “They (ministers) also stressed the need for a more inclusive process of shaping the international financial architecture. In this context, they welcomed the suggestion of enhanced participation of developing countries in the Financial Stability Forum.”
14. *Origin:* High-level Regional Meeting “Towards a stable and predictable international financial system and its relationship to social development”, held in Mexico City from 5 to 7 September 1999 under the auspices of the Government of Mexico and in collaboration with the Economic Commission for Latin America and the Caribbean (ECLAC) (A/54/384, annex, appendix), 22 September 1999
Presented to: General Assembly at its fifty-fourth session
Proposal: “The developing countries’ regional groups and coalitions, such as the Group of 77, the Group of 24, the Group of 15 and the Rio Group, should strengthen their participation in the dialogue with the Group of Seven, other industrialized countries and international financial institutions, with a view to ensuring consistency and universality of economic policy measures and to designing and setting up the new international financial architecture. Regional and subregional financial institutions have a key role to play in this endeavour” (para. 17).
15. *Origin:* G-24 ministerial communiqué, Washington, D.C., 26 April 1999
Proposal: “Ministers underscore the necessity of comprehensive reforms of the international monetary and financial systems, geared to prevent costly economic crises and to manage them effec-

- tively when they occur. They are of the view that improvements in the system should be built around the existing international institutions and emphasize the need for developing countries to have an equitable representation in this process. In this regard, Ministers reiterate their call for the establishment of a task force with participation from industrialized countries and representatives from a wide range of developing countries to engage in an in-depth examination of issues related to the reform of the international monetary and financial system” (para. 7).
16. *Origin:* Report of the Committee for Development Planning on its thirty-second session. (*Official Records of the Economic and Social Council, 1998, Supplement No. 14 (E/1998/34)*)
Presented to: Economic and Social Council, at its substantive session of 1998
Proposal: A world financial organization could be established “to provide overall guidance in the development and monitoring of international standards and codes of conduct for private financial management and capital flows, and to identify new needs for supervision of private capital markets as they arise” (para. 7). The proposal has been reiterated by the Executive Committee on Economic and Social Affairs of the United Nations in its report “Towards a new international financial architecture” (21 January 1999) which was presented to the Second Committee of the General Assembly. Discussing the proposal, the Committee added that “such an institution could evolve from existing ones, such as the Banu for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO)”, which would require a “significant expansion of the membership of these organizations”.
17. *Origin:* Ministerial Meeting of G-24, Caracas Declaration II, Caracas, Venezuela, 7-9 February 1998 (proposal reiterated at the G-24 Ministerial Meetings of April 1998 and October 1998)
Summary of the proposal: Establishment of a Task Force with participation from industrialized countries and representatives from a wide range of developing countries to engage in an in-depth examination of issues related to the reform of the international monetary and financial system. One of the six issues that the Task Force is called to address is the following: “The increased representation and participation of developing countries at the decision-making level of international financial institutions to properly reflect developing countries’ growing role in the world economy, including through the revision of the bases determining the voting power in these institutions.” The terms of reference of the Task Force could include the examination of ways to approach these issues more efficiently within existing bodies.
18. *Origin:* Report of the Secretary-General entitled “Global financial integration: an update” (A/52/406), 30 September 1997
Presented to: General Assembly at its fifty-first session
Proposal: “The Board of Directors of BIS continues ... to comprise only representatives of the central banks of the Group of Ten ... the developing countries should participate fully in the deliberations and decisions on international supervisory issues” (para. 51).
19. *Origin:* G-24 ministerial communiqué, Washington, D.C., 21 April 1996
Proposal: “Ministers emphasized the importance of maintaining a proper balance in the representation of members and regions within the Executive Board of the Fund and expressed serious concerns about the relative decline in the quota share of developing countries over time. They stressed that the quota increase under the Eleventh General

Review of Quotas should be predominantly equiproportional to ensure an adequate increase in quotas for all members and to help maintain the quota share of the developing countries” (para. 9). “They also called for a review of the number of basic votes, which would enhance the participation of developing countries, especially a number of smaller ones, in decision making in the Fund” (para. 10).

20. *Origin:* G-24 ministerial communiqué, Washington, D.C., 7 October 1995

Proposal: “With regard to the Halifax communiqué on this subject, Ministers reiterated the position taken in the G-24 Resolution adopted in Madrid in October 1994, and reaffirmed in April 1995 in Washington, D.C., that any assessment of the functioning of the international monetary and financial system must be made with the full and substantive participation of the developing countries. Accordingly, Ministers emphasized the importance of the involvement of the developing countries in any discussion on the reform of international financial institutions along the lines of the Committee of Twenty” (para. 24).

21. *Origin:* G-24 ministerial communiqué, Thailand, 12 October 1991

Proposal: “Ministers underscored, in view of the expanding membership of the Bretton Woods institutions, the critical importance of preserving the genuinely multilateral character of these institutions. They reiterated that new membership should not adversely affect the present geographical representation of developing countries on the Executive Boards of the Fund and the Bank. Ministers also reiterated the importance of ensuring an adequate representation of developing countries in the senior management of the Bretton Woods institutions” (para. 46).

B. Increased participation in trade decision-making processes

4. A significant development in this field has been the recent decision of the Director-General of the World Trade Organization to appoint a panel of experts to advise him on the challenges and opportunities confronting the organization and the global trading system. Accordingly, one of the main tasks of the panellists will be to examine “how the organization can ensure the fullest possible participation of each member Government as the World Trade Organization expands to near-universal membership” (WTO/News Press/236, Geneva, 5 July 2001). It is also important to note that since Seattle the General Council of the World Trade Organization has tried to ensure that the negotiation and discussion process in the World Trade Organization is fully transparent and open to all members and observers. All substantive issues regarding, for example, implementation of the World Trade Organization agreements, preparation for the Doha Ministerial Conference and the possible launch of a new round of trade negotiations are discussed in formal or informal sessions of the World Trade Organization’s General Council. “Subsidiary” bodies which deal with special topics are nonetheless open to all members and observers and are required to report back to the General Council.

1. *Origin:* Zanzibar Declaration, The Least Developed Countries Trade Ministers’ Meeting, 24 July 2001, Zanzibar, United Republic of Tanzania

To be presented to: Fourth World Trade Organization Ministerial Conference to be held in Doha, Qatar, from 9 to 13 November 2001

Proposals: The Ministers responsible for trade of the least developed countries, meeting in Zanzibar “call on the fourth World Trade Organization Ministerial Conference to agree on (a) facilitating the accession of least developed countries into the World Trade Organization with a more streamlined process of accession, under terms consistent with their development, financial and trade needs and commitments not higher than those undertaken by least developed countries World Trade Organization members, including transitional periods mandated by World Trade

- Organization Agreements starting from the date of accession and (b) ensuring that, in view of the least developed countries' limited capacity to negotiate and undertake further commitments, the scope of the future World Trade Organization work programme is manageable and agreed by all members by consensus, and that any future negotiations are based on an agenda accommodating least developed countries' interests" (para. 4).
2. *Origin:* Report of the High-level Panel on Financing for Development (A/55/1000), United Nations, 26 June 2001
Presented to: Secretary-General of the United Nations
Proposal: "There is a case for establishing a small steering group that can be delegated responsibility for negotiating consensus on future trade accords among World Trade Organization member countries. Ideally, the composition of the steering group should be representative of the total World Trade Organization membership, and participation should be based on clear, simple and objective criteria."
 3. *Origin:* Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 25-31 May 2001
Proposal: "We reaffirm that a rule-based, open, just, equitable and non-discriminatory multilateral trading system is a prerequisite for a sound and balanced international economy and the credibility of the multilateral trading system. In this context, greater democracy and internal inclusiveness, internal transparency and effective participation of all members in the decision-making process in the World Trade Organization should be enhanced in order to accommodate the legitimate requirements and priorities of developing countries" (para. 17).
 4. *Origin:* Deliberations at the Third United Nations Conference on the Least Developed Countries: Programme of Action for the Least Developed Countries for the Decade 2001-2010 (A/CONF.191/11), Brussels, Belgium, 14-20 May 2001
Summary of the proposal: To facilitate the accession process for least developed countries in the World Trade Organization on the basis of terms that take into account their stage of development and the basic principles of special and differential treatment. In the meantime, to support efforts of least developed countries already seeking to accede.
 5. *Origin:* Report of the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region, Bogotá, 9 and 10 November 2000 (A/AC.257/17)
Presented to: Preparatory Committee, February 2001
Proposal: "Of critical importance is a fair, equitable and rule-based multilateral trading system, operating in a non-discriminatory, inclusive and transparent manner that provides benefits for all countries, especially developing countries. This must involve, inter alia, effective participation of the latter in decision-making ... " (see para. 53, containing the statement entitled "Towards the High-level International Intergovernmental Event on Financing for Development", para. 7).
 6. *Origin:* Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development (A/AC.257/12), United Nations, 18 December 2000
Presented to: Preparatory Committee at its second substantive session, February 2001
Summary of the proposal: In discussing systemic issues of governance and policy coordination, the report recommends that "the United Nations and the World

Trade Organization should continue to work innovatively and constructively with each other in pursuing overall coherence and consistency issues related to the international monetary, financial and trading systems, especially as they relate to the support of development. In this context, the United Nations Conference on Trade and Development (UNCTAD) Trade and Development Board should further deepen regular interactions with the Committee on Trade and Development of the World Trade Organization General Council. Other interactions and cross-participation of senior officials, committee chairs and interested government representatives in United Nations and World Trade Organization intergovernmental meetings should be similarly facilitated” (box between paras. 139 and 140). The Secretary-General’s report also suggests that “the Ministerial Conference of the World Trade Organization might wish to keep on its permanent agenda further consideration of the issue of its institutional relationship with the United Nations” (para. 139).

7. *Origin:* Report of the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region, Bogotá, 9 and 10 November 2000

Presented to: Preparatory Committee at its second substantive session, February 2001

Proposal: “To this end” (here the report refers to the preceding paragraph calling for “reforms needed for a more equitable, participatory, solid and stable international financial and trade system, within a convergence of efforts” of the United Nations with the Bretton Woods institutions and the World Trade Organization), “it is essential that the process of reform for a strengthened and stable international financial architecture should be based on broadened and strengthened participation of developing

countries in the international economic decision-making and norm-setting processes in order to promote more efficient international institutions and arrangements in which all relevant interests can be effectively represented” (para. 53 containing the statement entitled “Towards the High-level International Intergovernmental Event on Financing for Development”, para. 5).

8. *Origin:* South Summit: Havana Programme of Action (A/55/74, annex II) (ministerial meeting of the Group of 77 and China), 10-14 April 2000, Havana, Cuba

Proposal: (We, the Heads of State and Government, commit ourselves to the following decisions and actions:) “Work towards achievement of the universal membership of the World Trade Organization as soon as possible in order to strengthen the multilateral trading system. We strongly believe that appropriate assistance should be made available to developing countries seeking accession. They should be offered terms that neither exceed nor are unrelated to the commitments of developing-country and least developed country members of the World Trade Organization. We urge that all World Trade Organization members refrain from placing excessive or onerous demands on applications from developing countries. We therefore stress the need for a transparent, streamlined and accelerated accession process that is in keeping with World Trade Organization rules and disciplines” (sect. V, para. 12 (1)).

9. *Origin:* Marrakech Declaration (A/54/392, annex), 7 September 1999 (Ninth ministerial meeting of the Group of 77 and China)

Presented to: Tenth session of UNCTAD (February 2000) and reiterated at the Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 25-31 May 2001 (para. 21)

Proposal: “The universality of the World Trade Organization should be achieved as soon as possible in order to strengthen the multilateral system. We strongly believe that appropriate assistance should be made available to developing countries seeking accession. They should be offered terms that do neither exceed nor are unrelated to the commitments of developing-country and least developed country members of the World Trade Organization” (para. 23).

10. *Origin:* Deliberations of UNCTAD at its tenth session, Plan of Action (TD/386), 18 February 2000, Bangkok, Thailand

Proposal: “The impact of the World Trade Organization commitments on national policies for small and medium-sized enterprise (SME) development, particularly those facilitating market access, has yet to be assessed. In addition, environmental and health-related standards may affect exports by developing-country companies and SMEs to countries in which these standards have to be met. Some least developed countries have already experienced export losses. Participation of developing countries in standard-setting needs to be enhanced” (para. 79).

C. More effective participation in financial and trade-related decision-making processes

5. The report of the Secretary-General (A/AC.257/12) in paragraph 81 calls for enhancing contributions to the Trust Fund established in the context of the Integrated Framework, whose objective is, inter alia, to enhance the capacity of developing countries in the negotiation of trade policies. It also calls on World Trade Organization members to expand the scope of the Integrated Framework to cover particularly countries of Africa, small island States, and landlocked and transit developing countries. It should be noted that several recommendations to enhance the effective participation of developing countries in the decision-making process were recently considered and adopted (see particularly paras. 129-139 of the Plan of Action adopted at the tenth session of UNCTAD in Bangkok, 18 February 2000). To

the same end, the World Trade Organization is circulating regular briefing notes on developments in World Trade Organization bodies to members and observers that have no missions, or small missions, in Geneva. A one-week meeting for non-residents is conducted annually in Geneva. Officials from capitals of non-resident members and observers are invited for intensive briefings and discussions of World Trade Organization issues.

1. *Origin:* Deliberations at the G-8 Summit Meeting in Genoa, Italy, 19 July 2001

Summary of the proposal: The Italian Foreign Affairs Minister Renato Ruggiero declared at the final press conference of the G-8 Ministerial Meeting that the Canadian Presidency had been asked to envisage an enlarged forum immediately after the G-8 meeting next year. This would be a “G-22” meeting to be held immediately after the Summit at which to compare notes and coordinate international commitments vis-à-vis the more severe challenges faced by less developed countries.

2. *Origin:* Deliberations of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, held on 1 May 2001 (E/2001/72)

Presented to: Substantive session of 2001 of the Economic and Social Council, July 2001

Proposal (as reflected in para. 38 of the summary of the meeting, held on 1 May 2001): The Chairperson of the Financial Stability Forum said that “(w)ith regard to representativeness of participation, it was vital that countries felt ownership, requiring the involvement of all those interested in the issues. Consultation mechanisms had to be further developed so that all voices could be heard. Regional forums could play an important role in this regard”.

3. *Origin:* Summary of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, held on 1 May 2001 (E/2001/72)

Presented to: Substantive session of 2001 of the Economic and Social

Council, July 2001

Proposal (as reflected in para. 23 of the summary of the meeting, held on 1 May 2001): The Chairperson of the Development Committee stated that “(t)rade needed to be leveraged for development so that countries receiving debt relief would not fall back into the debt trap. In this regard, international institutions should provide assistance in capacity-building so that these countries could take advantage of global trade opportunities. The World Bank could help in enhancing the negotiating capacities of the developing countries”.

4. *Origin*: G-24 ministerial communiqué, Washington, D.C., 28 April 2001

Proposal: “Given the complementary nature of this research with the research conducted by the Fund and the Bank, Ministers consider that it would be appropriate for the Bank and the Fund to supplement this assistance annually from their research budgets. This would help build capacity in G-24 member countries and contribute to better governance of the Bretton Woods institutions” (para. 20).

5. *Origin*: G-24 ministerial communiqué, Washington, D.C., 28 April 2001

Proposal: “Ministers stress the need for the Bretton Woods institutions to ensure that developing countries have a larger voice in the decision-making processes of these institutions. They note that the workload of the chairs representing developing countries — particularly the African chairs — on the Bretton Woods institutions Boards has increased significantly as a result of the Poverty Reduction Strategy Process (PRSP), the Heavily Indebted Poor Countries (HIPC) Initiative, and post-conflict and arrears cases. In this regard, Ministers welcome the recent decision of the Fund Board to increase the staffing of Executive Directors’ offices, and they urge the Bank Board to follow suit. Moreover, Ministers encourage the

Bretton Woods institutions to enhance the representation of developing country nationals in the staffs of these institutions” (para. 18).

6. *Origin*: Boards of the World Bank and IMF, March 2001

Presented to: Various constituencies (as explained in the proposal)

Proposal: “The Bank and Fund are inviting contributions from developing countries, aid donors, and civil society organizations. Together with analyses by Fund and Bank staff, these submissions will serve as background to an international conference on the PRSP approach to be held in Washington, D.C., in January 2002. Papers prepared for the review will be made publicly available. In addition to the international conference, there will also be regional country events to ensure that voices from within PRSP countries are adequately represented. The PRSP review, and a companion review of IMF’s Poverty Reduction and Growth Facility (PRGF) being conducted in parallel by the Fund, will be presented to the Executive Boards of the Bank and Fund by endorsing changes in the PRSP framework in March 2002.”

7. *Origin*: Report of the Regional Consultative Meeting on Financing for Development in the African Region, and Preparatory Meeting for the Third United Nations Conference on the Least Developed Countries, Addis Ababa, 15-17 November 2000 (A/AC.257/14)

Presented to: Preparatory Committee, February 2001

Proposal: “Another critical suggestion was effective participation by African countries, particularly least developed countries, in global trade negotiations, including the international standard-setting organizations. To this effect, the provision of capacity-building support by developed countries is critical in the following areas: ... building capacity in trade negotiations in order to defend and

- advance African trade interests. The Integrated Framework for trade-related technical assistance for least developed countries is critical in assisting least developed countries in meeting the challenge of integration into the global economy. Its effective implementation, however, requires substantial funding ...” (para. 46).
8. *Origin:* Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and IMF on the Transfer of Real Resources to Developing Countries), 17 April 2000 (see communiqué on the sixty-first meeting contained in appendix VI of IMF, *Annual Report, 2000* (Washington, D.C., IMF, 2000))
Presented to: Board of Executive Directors of the World Bank
Proposal: “The Committee urged the Bank to mainstream trade in its country assistance programmes by providing greater financial and technical support to improve trade-related infrastructure and institutions, including building domestic capacity for trade policy and negotiations, and by undertaking a strengthened research programme on, inter alia, trade barriers to developing-country exports, the issues developing countries face in implementing the Uruguay Round Agreement and the complex links between trade and poverty” (para. 6).
 9. *Origin:* Draft resolution contained in the report of the Second Committee (A/54/585/Add.3 and Corr.1, sect. III, draft resolution I)
Presented to: General Assembly at its fifty-fourth session (adopted by the General Assembly on 22 December 1999 (resolution 54/198))
Proposal: The General Assembly strongly emphasized the need for technical assistance, including legal assistance, to developing countries, through, inter alia, the newly established Advisory Centre on World Trade Organization Law and other mechanisms, to enable those countries to take the fullest possible advantage of the dispute settlement mechanism of the World Trade Organization, based on multilaterally agreed rules and regulations, and also in this context emphasized that it was important for the United Nations Conference on Trade and Development to strengthen its technical assistance to developing countries, in particular the least developed countries, landlocked developing countries and small island developing States in this area (para. 25).
 10. *Origin:* Executive Committee on Economic and Social Affairs of the United Nations, 21 January 1999 (Report of the Task Force entitled “Towards a new international financial architecture”)
Presented to: General Assembly, United Nations system
Summary of the proposal: “The design of the new (international financial) architecture could thus introduce special incentives to develop (regional financial) institutions. For instance, common reserve funds could be given special automatic access to IMF financing and/or a share in the allocation of SDRs, proportional to the paid-in resources. Indeed, in the long run, IMF could be visualized as part of a network of regional reserve funds, and its operation could then concentrate on relations with these reserve funds rather than on support to specific countries in difficulties. Moreover, regional institutions and peer review could also play a central role in surveillance, both of macroeconomic policies and of domestic financial regulation” (sect. 9, second and third paragraphs).
 11. *Origin:* G-24 ministerial communiqué, Washington, D.C., 27 April 1997
Proposal: “Ministers noted that the principles of good governance of nations include transparency, accountability,

and the rule of law. They stressed that the intergovernmental financial institutions, in following these principles in their own operations, should adhere strictly to the mandates embodied in their respective Articles of Agreement. In addition, they called for the fuller participation of developing countries in the decision-making process of the institutions, as well as in their management and staffing patterns” (para. 8).

12. *Origin: Our Global Neighbourhood* (Oxford, Oxford University Press, 1995), the report of the Commission on Global Governance

Presented to: General Assembly, 1995

Proposal: “To establish an Economic Security Council (ESC) to give political leadership and promote consensus on international economic issues, where there are threats to security in its widest sense. The ESC would have deliberative functions only; its influence will derive from the relevance and quality of its work and the significance of its membership. The ESC should be established as a distinct body within the United Nations family, structured like the Security Council, though not with identical membership and independent of it.” This idea has also been supported by the High-level Panel on Financing for Development in June 2001.

13. *Origin:* G-24 ministerial communiqué, Bangkok, Thailand, 1 October 1994

Proposal: “Ministers also stressed the importance of the Bretton Woods institutions’ broadening their staff recruitment base, so as to reflect varying educational backgrounds and practical experience while maintaining — or even raising — standards of excellence. Such broadening should provide greater opportunities for developing-country candidates to enter the institutions at a variety of staff levels, and should ensure adequate representation of qualified staff from developing countries at senior staff levels” (para. 6).

III. Additional references

6. In the search for the material presented above, several proposals that appeared relevant were identified but, since their relationship to the intergovernmental process was less direct, they were not included in the lists above. What follows are some proposals by high-level authorities and a list of policy-oriented technical papers that deal — at least partially — with the increased and more effective participation of developing countries in the financial and trade-related decision-making processes. Many of the latter proposals were the result of the background technical work prepared at the request of intergovernmental bodies, in particular G-24.

A. Proposals by high-level authorities

1. Supachai Panitchpadki, Deputy Prime Minister and Minister of Commerce, Thailand, “Balancing competing interests: the future role of the WTO” (article in *The Role of the World Trade Organization in Global Governance*, G. Sampson, ed. (Tokyo, United Nations University Press, 2001)). In the same book, a similar proposal is made in the article by P. Sutherland, J. Sewell and D. Weiner entitled “Challenges facing the WTO and policies to address global governance”. Panitchpadki suggests the establishment of a representative executive board in the World Trade Organization (or a representative executive committee arrangement) for balancing the decision-making efficiency and the requirement of consensus. In the same essay, Panitchpadki proposes the establishment in the World Trade Organization of a system by which the state of play of any ongoing negotiation in any group would be immediately communicated to all member countries for information-sharing and ultimate decision.
2. Rubens Ricupero, “Rebuilding confidence in the multilateral trading system: closing the legitimacy gap” (article appeared in *The Role of the WTO in Global Governance*, G. Sampson, ed.). In respect of facilitating the accession to the World Trade Organization, Ricupero

expresses the need for more “streamlined arrangements, particularly for least developed countries, and arrangements to ensure that all acceding developing countries, including least developed countries, benefit from the relevant S&D (special and different treatment) provision of the MTAs (multilateral trade agreements)” (p. 56).

3. Michel Camdessus, then Managing Director of IMF, remarks to the International Graduate School of Management, 27 November 1999 (link: <http://www.imf.org/external/np/speeches/1999/112799.htm>)

Proposal: “... replacing the G-7 Summit every two years by a meeting of the heads of State and Government of the countries — approximately 30 at any one time — who have Executive Directors on the Boards of either IMF or the World Bank. This would provide a fair and legitimate representation of the entire membership of 182 countries. As it would be attended by the heads of the two organizations, the Secretary-General of the United Nations, as well as the heads of the International Labour Organization (ILO) and the World Trade Organization, it would offer a way of establishing a clear and strong link between these institutions and a representative grouping of world leaders with the greatest possible legitimacy.”

B. Policy-oriented technical papers

1. Montek S. Ahluwalia, “The IMF and the World Bank in the new financial architecture”, in UNCTAD, *International Monetary and Financial Issues for the 1990's*, vol. XI (1999) (United Nations publication, Sales No. E.99.II.D.25). Ahluwalia talks about possible steps that could be undertaken in order to reform the IMF Interim Committee (since April 2000, the International Monetary and Financial Committee) and Development Committee with a view to effecting a broader participation of emerging market economies in the decision-making

process. Ahluwalia discusses the creation of a single overarching group at the ministerial level where the Fund and the Bank would be full partners and the World Trade Organization, UNCTAD, BIS and IOSCO could be permanent observers. The country composition of the new forum could be made wider than that of the Interim Committee.

2. Ariel Buria, “Reforming the governance of the Bretton Woods institutions”, paper presented at the G-24 Workshop on Financing for Development, 6 and 7 September 2001, Nigeria House, New York. Buria explains that a restoring of the share of basic votes in IMF “to, say, 11.3 per cent of the total ... would require a more than fivefold increase in the basic vote of every member country (from 250 to 1,323); restoring the proportion of basic votes per member to what it had been in 1945 would raise the total basic votes to nearly half of total voting power ... An intermediate solution that would partially restore the role basic votes were meant to have, would be to assign to basic votes, say, 25 per cent of the total voting rights. In order to prevent the future erosion of the share of basic votes in the total, the Articles could be amended to include a provision by which in every quota review, total basic votes would increase by the same proportion as total quotas.” Moreover, Buria proposes a restructuring of the Executive Board, modalities to protect the rights of minorities and a revision of the quota formulas.
3. Richard Blackhurst, “The capacity of the WTO to fulfil its mandate”, in *The WTO as an International Organization*, Anne Krueger, ed. (Chicago, Illinois, University of Chicago Press, 1998). Blackhurst suggests a larger and more activist Secretariat, in which the smaller and poorer countries would be adequately represented. Another suggestion is that the World Trade Organization should itself provide funding to enable each country to keep a minimum num-

- ber of professionals working full-time on World Trade Organization-related activities.
4. Stephanie Griffith-Jones, and Jenny Kimmis, "The BIS and its role in international financial governance", in UNCTAD, *International Monetary and Financial Issues for the 1990s*, vol. XI (1999). Griffith-Jones and Kimmis come to the conclusion that it is important to ensure the participation of developing countries in the Board of BIS, ensure greater and more formalized participation in monthly meetings of central bank governors, increase participation in the three key Basel Committees on a formal basis, and increase the number and types of developing countries included in BIS and the Committees.
 5. G. K. Helleiner, "Developing countries in global economic governance and negotiation processes", paper for the World Institute for Development Economics Research (WIDER) project on the new role and functions for the United Nations and the Bretton Woods institutions, directed by Professor Deepark Nayyar. After analysing the disproportionate influence of some countries in agenda-setting and choice of forums, Helleiner proposes the revival of the Group of Twenty (with the same number of developed and developing countries). The Group should not function solely as a Committee of the IMF Board as it did in the past but should constitute an inter-governmental task force answerable and reporting not only to the IMF but also to the World Bank, BIS, IOSCO and the Economic and Social Council of the United Nations.
 6. G. K. Helleiner, "A conference on finance and development?", in *International Finance and Developing Countries in a Year of Crisis: 1997 Discussions at the United Nations*, Barry Herman and Krishnan Sharma, eds. (Tokyo, UNU Press, 1998).
 7. Constantine Michalopoulos, "Developing countries' participation in the World Trade Organization", March 1998 (paper available at World Bank). To make their participation more effective, Michalopoulos recommends that the developing countries establish adequately staffed World Trade Organization missions based in Geneva; or, failing this, that they pool their resources and representation in Geneva, and make sure that they pay their dues, which are typically small. He recommends that the international community place higher priority on programmes of assistance in support of institutional development of poorer countries aimed at enhancing their capacity to participate in the international trading system and the World Trade Organization, and that the World Trade Organization review its internal rules and procedures to ensure that, inadvertently, they do not make developing countries' participation more difficult.
 8. Constantine Michalopoulos, "WTO accession for countries in transition", June 1998 (paper available at World Bank). To help expedite the procedural aspects of accession, Michalopoulos suggests that World Trade Organization members "should consider increasing very substantially the resources made available to the World Trade Organization secretariat in assisting acceding Governments in the preparation of the original memorandum and in the design of legislation and regulations that would enable them to meet World Trade Organization obligations. This need not entail large increases in the World Trade Organization secretariat

- staff. It can be done by setting up a special trust fund earmarked for technical assistance in support of accessions, say, of the order of \$4 million-\$5 million for the next three to five years”.
9. Pierre S. Mistry, “Resource mobilisation: policies on borrowings and guarantees”, chap. 3 in *Multilateral Development Banks: An Assessment of their Financial Structures, Policies and Practices* (The Hague, Forum on debt and development (FONDAD), 1995). Mistry proposes a more automatic increase in the capital of the World Bank and regional development banks to do away with the contentious negotiations that take place every five years and that are largely dominated by donor shareholders. He proposes an automatic increase in callable capital which will increase total capital each year by a multiple of retained earnings accumulated that year.
 10. Aziz Ali Mohammed, “The future role of the Monetary Fund”, in *G-24 Discussion Paper Series*, No. 11 (April 2001). Mohammed suggests a change in constituency representation on the Executive Board of IMF by which the European countries would agree to cede one or more of their chairs to the sub-Saharan African countries. Furthermore, Mohammed contemplates changes in the quota formula towards a group-focused approach. A group criterion (rather than a country-focused one) would take into account the degree of volatility in private capital movements and/or the extent of integration into global capital markets as variable(s) in order to give greater weight to the emerging-market economies.
 11. T. Ademola Oyejide, “Interests and options of developing and least developed countries in a new round of multilateral trade negotiations”, in *G-24 Discussion Paper Series*, No. 2, (May 2000). Oyejide calls for a more aggressive use of technical assistance that should be focused on the “key human, knowledge and institutional capacity-building needs of the low-income members of the World Trade Organization”. To this end, he suggests the opening of new World Trade Organization regional offices in Africa, Asia and Latin America.
 12. UNDP, *Human Development Report, 1994* (New York, Oxford University Press, 1994).
 “A further step in strengthening the United Nations role in sustainable human development would be the creation of an Economic Security Council — a decision-making forum at the highest level to review the threats to global human security and agree on required actions.
 “The council must be kept small and manageable. Its membership could consist of 11 permanent members from the main industrialized and more populous developing countries. Another 11 members could be added on a rotating basis from geographical and political constituencies.
 “An intermediate alternative would be to extend the mandate of the present Security Council so that it could consider not just military threats but also threats to peace from economic and social crises. For this purpose, it may be necessary to establish a separate entity within the council — one with an enlarged membership and a new role in socio-economic security.
 “Another possibility would be to use the Economic and Social Council — establishing within it a small and manageable executive board that could meet in permanent session and make decisions to be ratified later by the entire body.
 “The voting system in an Economic Security Council should not include a veto. But to reassure all constituencies that their legitimate interests would be protected, the voting system should be

to have all decisions ratified not just by a majority of all members but also by majorities of the industrialized and developing countries.

“As well as coordinating the activities of the United Nations agencies, the Economic Security Council would act as a watchdog over the policy direction of all international and regional financial institutions. To implement its decisions effectively, the council should have access to the global human security fund proposed earlier. The council would need to be backed by a professional secretariat to prepare policy options for its consideration” chap. 4, sect. entitled “New institutions for the 21st century: Economic Security Council”.

For further related material see Edward

C. Luck, “A review of United Nations reform-related projects supported by the Ford Foundation, 1985-1996”, July 2001; and document WGUNS/CRP.3/Add.3 of the “Open-ended High-level Working Group on the Strengthening of the United Nations System (April 1996).

7. **Note:** The full text of the proposals (and the corresponding quotes) identified above can be found on the financing for developing web site under <http://www.esa.un.org/ffd/policydb/> with the exception of the G-8 proposal (sect. C, proposal No. 1) (which was made before the press and is not part of an official document) and the joint World Bank/IMF proposal (sect. C, proposal No. 6) which is available at <http://www.imf.org/external/news.htm>.

TECHNICAL NOTE NO. 5*:

Existing proposals for improved or new processes for coordinated debt restructuring (prevention and treatment of debt problem) in order to sustain growth and support economic and social development

I. Introduction

1. The typical process for an orderly workout from an external debt crisis begins with the adoption by the Government of the crisis country of a macroeconomic adjustment programme aimed to restore stability and growth after the onset of the crisis. It is accompanied by interim international financing (which possibly includes the short-term rollover of external obligations falling due and/or an accumulation of arrears to specific classes of creditors, as well as new multilateral lending). In time, a restructuring and/or refinancing of accumulated arrears plus future debt-servicing payments are/is normally negotiated with various groups of creditors.

2. The main groups of creditors are private banks (with renegotiation in ad hoc “Advisory Committees” or “London Clubs”), bond holders (with no specific forum), official bilateral creditors (beginning with the “Paris Club” of major creditors, serviced by the French Treasury), and multilateral financial institutions (obligations to these institutions being addressed only in the most extreme situations). Governments of debt-crisis countries usually work closely with and are financially supported by the International Monetary Fund (IMF) and the World Bank during the debt-workout process, often along with the relevant regional development bank. In cases deemed to be “systemically important”, Governments of major countries have also provided substantial financial resources.

3. Restructuring options on individual debts range from a rescheduling of debt-service payments to reduction of interest charges, exchange of one form of debt obligation for another with a lower face value, and out-

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right creditor total or partial cancellation of a debt obligation.¹ There is a central problem that has to be solved: the set of multifaceted negotiations that constitute the debt workout should leave the country at the end of the exercise with a “sustainable” overall schedule of debt servicing.²

4. The present note includes the “existing proposals” that have been discussed recently in one or another intergovernmental forum on how the process of debt restructuring might be reformed or replaced by another process (or how preventive measures might be organized), emphasizing relationships between the debtors, their creditors and the international community. A bibliography of recent papers and publications that contain these and additional proposals is also included at the end of the note.³

II. Proposals

Strengthening the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and other initiatives for low-income countries

5. The international community has developed a special programme for treating the external debt of a group of heavily indebted poor countries (HIPC), which were identified as requiring assistance above and beyond that available to other developing or transition economy countries. The following are proposals that have been made to strengthen the current version of the programme, known as the “enhanced HIPC Initiative”.⁴

6. The General Assembly, in its resolution 55/184 entitled “Enhancing international cooperation towards a durable solution to the external debt problem of developing countries” of 20 December 2000, discussed, inter alia, how the enhanced HIPC Initiative should be implemented. In particular, it

- Stressed the importance of continuing to implement the enhanced HIPC Initiative flexibly, noting the provision of significant interim debt

relief between the decision and completion points and taking due account of the policy performance of the countries concerned in a transparent manner and with the full involvement of the debtor countries, including for the setting of the floating completion point, and in that regard stressed the importance of country-owned poverty reduction strategy papers (PRSPs) (para. 6);

- Noted that it was important for IMF and the World Bank to continue their efforts to strengthen the transparency and integrity of debt sustainability analysis, and also noted the importance of cooperation with debtor countries in order to obtain relevant information (para. 8);
- Welcomed the framework for strengthening the link between debt relief and poverty eradication, and stressed the need for its continued flexible implementation, recognizing that, while the PRSPs should be in place by the decision point, on a transitional basis the decision point could be reached with agreement on an interim PRSP, but that in all cases demonstrable progress in implementing a poverty reduction strategy would be required by the completion point (para. 9);
- Emphasized that poverty reduction programmes as linked to the implementation of the enhanced HIPC Initiative must be country-driven and in accordance with the priorities and programmes of countries eligible under the Initiative, and stressed the importance of a participatory process that involved civil society in that regard (para. 10);
- Stressed the importance of building coalitions with civil society organizations and non-governmental organizations in all countries to ensure in the shortest possible time the implementation of pronouncements of debt forgiveness (para. 11).

7. In the communiqué issued at the end of their joint meeting on 29 April 2001 (IMFC and Development Committee, 2001) the International Monetary and Financial Committee (IMFC) of IMF and the Joint IMF/World Bank Development Committee addressed additional dimensions of implementation of the enhanced HIPC Initiative. The members of the Committees:

- Emphasized the importance for countries to demonstrate strong commitment to reform programmes and reaffirmed the possibility, on a case-by-case basis, for flexibility on track record requirements where such conditions were in

place. While recognizing the special needs of particular developing and low-income transition country creditors, they also urged that all donors and creditors participate in HIPC relief and meet their commitments of financial support (para. 4);

- Agreed that at the completion point there should be a thorough analysis and discussion of the prospects for long-term debt sustainability. More broadly, they agreed on the importance of regular monitoring by HIPCs of their debt situation, with the support of the Bank and IMF, including beyond the completion point. In exceptional circumstances, when exogenous factors caused fundamental changes in a country's circumstances, they reaffirmed that within the HIPC framework the option existed, at the completion point, to consider additional debt relief (para. 7);
 - Agreed on the importance of maintaining a strong focus on performance, including transparency in military spending to ensure that debt relief was used to reduce poverty and was not diverted to military spending. They agreed that the enhanced HIPC Initiative framework had sufficient flexibility to accommodate the special circumstances of post-conflict HIPCs, including with regard to the length of the track record if significant progress had been made towards macroeconomic stability, governance, capacity-building and monitoring (para. 10).
8. At the fourth meeting of HIPC Finance Ministers, on 5 June 2001 in London, 25 HIPC countries agreed to a set of proposals for addressing "common problems which require urgent solutions if HIPC II (another term commonly used for the enhanced HIPC Initiative) is to achieve the desired long-term reduction in poverty".⁵ The process-oriented proposals which went beyond those already noted above included the following:

- The international financial community was urged, inter alia, to accelerate the implementation of agreements on interim relief (by all creditors, but especially multilateral and Paris Club) in order to ensure that fiscal relief was provided almost immediately after the decision point in line with popular expectations created by HIPC II;
- All creditors were urged to accelerate and increase their contribution to HIPC by making more rapid progress on debt relief from non-Paris Club Governments by convening an international conference of such creditors, and by cre-

ating a special window or fund for clearing HIPC debts to other HIPC or International Development Association (IDA)-only countries⁶ through buybacks, funded by resources from within the multilateral system; by accelerating efforts to achieve adequate debt relief from smaller multilateral creditors; by providing capacity-building support to multilateral creditors to ensure they were calculating and interpreting HIPC relief methodologies correctly; and by providing legal and political support to HIPCs in resisting lawsuits by commercial creditors that had not participated in commercial debt reduction operations;

- In addition, the international community was urged, *inter alia*, to acknowledge that the PRSP process had been a learning exercise for everyone, including the development partners, this learning process having to accelerate to fulfil the high popular expectations of reducing severe poverty in most countries; learn and transmit maximum lessons from implementation experience and new international knowledge (from the widest possible range of sources) in order to improve the PRSPs regularly; avoid continuing delay in completion points by streamlining and facilitating the PRSP consultation process to focus on the key issues; support HIPCs in their efforts to lead donor coordination, by encouraging all major donors to focus their support on programme aid for poverty reduction; and provide greater capacity-building resources on poverty reduction for HIPC administrations and civil societies, to ensure leadership of the poverty reduction process;⁷
- Ministers emphasized the importance of continuing to organize exchanges of experience among HIPC countries at both technical and political levels and urged continued rapid decentralization by all international institutions to regional partners.

9. The Lusaka Assembly of Heads of State and Government of the Organization of African Unity (OAU) adopted on 11 July 2001 “A New African Initiative” Organization of African Unity (OAU, 2001), which included a new African Debt Initiative (para. 54.7 (i)) that seeks to extend debt relief beyond its current levels. According to the Initiative, countries would engage with existing debt relief mechanisms — the HIPC and the

Paris Club — before seeking recourse through the African Initiative, which would require agreed poverty reduction strategies, debt strategies and participation in the Economic and Corporate Governance Initiative (para. 54.2) (of the New African Initiative) to ensure that countries were able to absorb the extra resources. The following actions were set forth:

- The African Initiative heads of State would seek to secure an agreement, negotiated with the international community, to provide further debt relief for countries participating in the African Initiative, based on the principles outlined above;
- The African Initiative leadership would establish a forum in which African countries might share experiences and mobilize for the improvement of debt relief strategies. They would exchange ideas that might end the process of reform and qualification in the HIPC process.

10. In the Programme of Action for the Least Developed Countries for the Decade 2001-2010 (United Nations, Third United Nations Conference on the Least Developed Countries (LDC, 2001)) adopted by the Third United Nations Conference on the Least Developed Countries in Brussels on 20 May 2001, least developed countries and their development partners agreed to actions along the following lines:

- *Least Developed Countries*: initiating joint action with their development partners on the debt situation, including a comprehensive assessment of their debt problems and debt sustainability (para. 87 (i) (d)); sustaining and intensifying efforts to improve debt management capability, *inter alia*, by regularly consulting with creditors and development partners on the debt problem (para. 87 (i) (e));
- *Development partners*: reviewing and continuing to monitor least developed countries’ debt sustainability in the appropriate forums on the basis of objective criteria and transparent analysis (para. 87 (ii) (i)); actively assisting least developed countries to build their capacities in the area of debt management (para. 87 (ii) (j)).

11. The Secretary-General in his report to the Preparatory Committee for the International Conference on Financing for Development (United Nations (FfD, 2000)) highlighted one especially difficult situation that sometimes confronted heavily indebted low-income countries:

Low-income countries with fragile economies might find themselves unable to service debt obligations under certain circumstances — no matter how skilled their economic management was. Such circumstances might include natural calamities or economic catastrophes (such as major drops in the price of export commodities or other terms-of-trade shocks). In those circumstances, special measures — even debt cancellation — might be called for. Therefore, steps should also be considered to provide, in exceptional situations and where appropriate, for a moratorium or even for debt cancellations (para. 118).⁸

This issue was considered at the second and third sessions of the Preparatory Committee (see United Nations (FfD, 2001a and 2001b)).

12. The Commission on Human Rights (United Nations, Economic and Social Council, Human Rights, 2001, para. 1) recently welcomed the report submitted by its independent expert on the effects of structural adjustment policies and foreign debt on the full enjoyment of all human rights particularly economic, social and cultural rights (Cheru, 2001). That report, *inter alia*, recommended that the international community:

De-link HIPC debt relief from the PRSP process. Real national ownership of poverty reduction frameworks can happen only if the threat of “conditionality” is removed by IMF and the World Bank from the back of vulnerable Governments. Linking debt relief to the preparation of the PRSP removes the “autonomy” of countries to come up with a framework that clearly makes an explicit connection between macroeconomic policies and poverty reduction goals ... The only connection should be that countries receiving debt relief establish an independent entity, like Uganda’s Poverty Reduction Action Plan, to channel freed resources towards social development. Such an entity — preferably an independent non-governmental body — will manage the fund. This entity must follow important rules ... to ensure that the Government will not be able to draw funds from the debt relief fund for other non-productive purposes. A steering committee composed of representatives of the non-governmental organizations, the Government and the donor community shall oversee the management of the independent entity to ensure financial and programmatic accountability (para. 47 (a)).

Proposals for engagement of debtor countries with their creditors⁹

13. In recent years, negotiating a debt workout for an

individual country has become more complex, owing to the rapid development of international financial markets and the increased access to the financial instruments traded on these markets, as well as to the liberalization of the capital accounts of emerging economies, which increased the types of external finance that their firms and banks, as well as the government, may draw upon. This has prompted a number of proposals for how to negotiate a debt workout when a crisis arises.

14. The General Assembly recommends making fullest use of existing mechanisms and principles in its resolution 55/184 in which the Assembly:

- Called for concerted national and international action to address effectively the debt problems of middle-income developing countries with a view to resolving their potential long-term debt-sustainability problems through various debt-treatment measures, including, as appropriate, existing orderly mechanisms for debt reduction, and encouraged all creditors, both public and private, and debtor countries to utilize to the fullest extent possible, where appropriate, the mechanisms for debt reduction (para. 18);
- Recognized the need for countries, even when experiencing a debt problem, to continue to work with creditors in order to facilitate continued access to international capital markets and, in the event that extraordinary circumstances precluded a country from temporarily meeting its debt-servicing commitments, urged creditors and Governments to work together in a transparent and timely fashion towards an orderly and equitable resolution of the repayment problem, including consideration of temporary debt standstill arrangements in exceptional cases (para. 19).

15. One approach for more effective handling of debt crises in cases in which private creditors hold a major portion of a country’s external debt is to devise a mechanism or framework by which the private creditors and the Government can engage in ongoing dialogue. Such a mechanism is meant to assist in preventing crisis and in helping to resolve one more smoothly when it does occur. Specific proposals have been made in this regard.

16. The Finance Ministers of the Group of 7 (G-7) made a number of recommendations for further work on the framework for private sector involvement in their recent report from Rome to the G-7 Heads of State and Government (Group of 7 (G-7), Finance Ministers, 2001),

which was subsequently endorsed at the Summit in Genoa Group of 7 (G-7, Heads of State and Government, 2001, para. 12). The Finance Ministers

- Stressed the importance of information sharing and enhancing the dialogue between countries and their private creditors, both during normal periods and when addressing emerging pressures in the external account, and encouraged countries to establish mechanisms to support a dialogue with creditors and called on the Fund to support this process (para. 12);
- Agreed on the importance of collective action clauses to facilitate orderly crisis resolution (para. 12);
- Welcomed the agreement by IMF to take forward further work on the framework for private sector involvement. ... In particular, further efforts were needed, inter alia, to:
 - Strengthen the relationship and increase coordination between IMF and the Paris Club in the process of assessing the level and scope of participation of private creditors in debt restructuring cases, especially concerning the comparability of treatment of official and private creditors (para. 13);
 - Ensure that all programmes were subject to transparent ex post monitoring and evaluation, with a view to assessing the involvement of the private sector against the assumptions made in the programme (para. 13).

17. The “collective action clauses” in bond agreements referred to above specify the requirements for changing the financial terms of a bond, such as the percentage of bond holders needed to approve a change. The High-level Panel on Financing for Development elaborated on the usefulness of such clauses, as follows:

The most important outstanding issue in the discussions on a new international financial architecture concerns how to “bail in” the private sector. ... Some helpful elements of a solution can be delineated. Bonds ought to have collective action clauses, permitting a qualified majority of bond holders to approve changes in the payments clauses. Most bonds issued in London already have such provisions, but bonds subject to New York law do not. Other major industrialized countries ought to join Canada and the United Kingdom in introducing such clauses into the bonds they issue, to ease the way for their adoption by emerging markets (United Nations, High-level Panel on Financing for Development (Zedillo,

2001), technical report of the High-level Panel, sect. 3, twelfth paragraph).

18. Regarding the framework for making the private-sector involvement operational, the Ministers of the Intergovernmental Group of Twenty-four (G-24), in their communiqué of 28 April 2001 (Intergovernmental Group of Twenty-four (G-24), 2001, para. 11):

Underscored the catalytic role of IMF and the World Bank in the resolution of financial crises in ways that could effectively help to involve the private sector ... While welcoming the ongoing work on involving the private sector, ... they stressed the need to maintain a voluntary approach under which member countries were ultimately responsible for negotiating with their private creditors.

19. The General Assembly, in its resolution 55/186 of 20 December 2000 entitled “Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development; especially in developing countries, and to the promotion of economic and social equity”, reaffirmed the need to consider appropriate frameworks for the involvement of the private sector in the prevention and resolution of financial crises, including the need to implement and further refine the framework laid down by the International Monetary and Financial Committee at its meeting held on 16 April 2000 (further elaborated at its meeting in Prague in September 2000), and underlined the importance of an equitable distribution of the cost of adjustments between the public and private sectors and among debtors, creditors and investors, concerning, inter alia, highly leveraged operations, as well as the consideration, in exceptional cases, of debt standstill arrangements (para. 22).

20. In June 2000, IMF established the Capital Markets Consultative Group (CMCG) to provide a direct channel of communication between the Fund and the private international financial sector. One of CMCG’s first acts was to create a joint working group of IMF and financial sector staff to consider one approach to the above concerns raised by the private sector as well as by Governments. This was to encourage debtor country Governments to open or strengthen “investor relations programmes” (IRPs).

21. The working group reported to CMCG at its second meeting, in Hong Kong Special Administrative Region (SAR) of China, 31 May 2001, when CMCG strongly recommended that the working group’s report (International Monetary Fund (IMF, 2001a)) be pub-

lished, with which recommendation the IMF Executive Board concurred. While the recommendations are quite detailed, their thrust may be seen in the following excerpt:

Establishing sound relations between authorities and market participants is predicated upon maintaining constructive dialogue between the two parties during bad times as well as good. In this context, the support, commitment, and active involvement of high-level sovereign policy makers is the sine qua non of an effective IRP by countries (para. 22);

IRPs should allow candid, specific, timely and forward-looking dialogue. ... More precisely, the IRP should be based on the premise that the authorities are willing to engage in open and candid discussions with the stakeholders in the investment community, and that it would stand ready to share important and strategic information that is of specific interest to investors in a rapid and timely manner. Bland generalities or over-optimistic assessments will be of little value to the investor community, and would diminish the use they made of the IRP when making investment decisions (para. 23).

22. To rebuild confidence in the bond market of emerging economies and to establish orderly principles to reduce uncertainty, a “round table” of financial professionals met at the Council on Foreign Relations (CFR) and proposed a set of principles for sovereign bond restructuring. The IMF Executive Board considered the proposal, the first of its kind, at its meeting of 24 January 2001.

23. The essence of the proposal is that when a Government is in or near default, it should enter into a formal dialogue with all its creditors. The major private creditors would form an “ad hoc Steering Committee”, with possible subcommittees for specific groups of creditors, in particular for the bond holders. The Government would be expected to cooperate directly and closely with the Steering Committee, which would also consult with the Paris Club, *inter alia*, through the sharing of analyses of the country and in discussing respective public and private creditor contributions to the solution of the debt crisis. All relevant private and Paris Club debt would be included in any restructuring. In addition, creditors would refrain from taking legal action or advancing any pending lawsuits against the sovereign while it is cooperating in resolving the debt crisis. A further proposal is that the cost of legal and financial advisers retained by the Steering Committee and other expenses would be borne by the debtor Government. Finally, the documentation of

new bonds should include collective action clauses and provision for appointment of trustees for the bond holders which would simplify reaching agreement on the restructuring of claims (see Council on Foreign Relations Roundtable on Country Risk (CFR, 2000), chap. 2).

24. During the discussion in the IMF Executive Board, Directors considered what the Fund’s role should be in debt renegotiations:

“While Directors considered that the principles on debtor-creditor negotiations, as proposed by the CFR, could provide one of a number of possible approaches to reaching a collaborative agreement, they generally did not consider it appropriate for the Fund to endorse these principles. Most Directors emphasized that the responsibility for debt negotiations should rest squarely with the debtor and its creditors, while the Fund’s principal role in this regard should be to set out, with the member, the medium-term external prospects for the country and help assess whether the terms of a proposed restructuring are consistent with the programme’s financing needs and the member’s medium-term external financial sustainability. Some Directors, however, considered that the Fund should play a more central role in debtor-creditor negotiations” (“Summing up by the Acting Chairman”, eighth paragraph) (in International Monetary Fund (IMF, 2001)).

25. There is an inherent “collective action problem” in resolving a debt crisis with multiple creditors: each would like the other to make the larger sacrifice in terms of the debt relief given to the crisis country in order to strengthen the recovery of its own claims. Partly in response to the private sector concern about “comparability of treatment” between official and private creditors, the Paris Club is increasing transparency and in April 2001 opened an Internet web site describing its operating procedures and giving details of current and past Paris Club agreements (see <http://www.clubdeparis.org>). In addition, building upon earlier discussions organized by the Institute of International Finance (IIF) with the Paris Club leadership in 1999 and 2000, the Club hosted a meeting on 3 April 2001 with representatives of three international organizations of private sector creditors: IIF, the Emerging Markets Traders Association (EMTA) and the Emerging Markets Creditors Association. While the Paris Club (2001) and IIF (2001) each issued a short press release about the meeting, noting importantly that a further meeting would take place in the autumn of 2001, EMTA made public a fuller account (Emerging Market Traders Association (EMTA, 2001), pp. 5-6, and insert). In addition to hearing a Paris Club briefing about its new

web page, the meeting considered two topics:

- “The second topic ... focused on the desirability of more extensive, ongoing consultations between the Paris Club and the private sector. Following a wide-ranging discussion, Paris Club Co-Chair Stephane Pallez expressed the Paris Club’s willingness for better two-way communications with the private sector and invited proposals for such consultations ...
- “The third topic, comparable treatment, involved the most spirited discussion. Paris Club representatives explained some of the history and philosophy of the principle and provided their analysis of its application to Pakistan in 1999 and Ecuador in 1999/2000. ... Various private sector representatives pointed out difficulties in the principle and its application.”

26. EMTA went on to say that ongoing dialogue was very important “because we believe it is key to Paris Club decision-making, both understanding it better and improving it”. It further saw “serious questions that require further discussion” regarding the principle of comparable treatment and that much of the coming dialogue would focus on this issue.

27. One key policy issue is that in the sets of separate but interdependent negotiations of the debtor with its various classes of public and private creditors, it is not always clear who ensures that the process moves forward expeditiously, that the terms of relief meet the financial, economic and social needs of the country, and that there is comparability of treatment of different creditors. One approach would seek to strengthen the support that IMF could give to the process of debt restructuring without its own staff’s taking a proactive stand vis-à-vis any group of creditors in a particular negotiation. The Secretary-General made a proposal (see United Nations (FfD, 2000) para. 125) in this regard to the Preparatory Committee for the International Conference on Financing for Development, which considered that proposal at its second and third sessions (see United Nations (FfD, 2001a and 2001b)). The proposal was to appoint an independent mediator, who would be assisted by IMF and other experts, and ask him or her to devise a “simultaneous, fair and full treatment of all of a country’s debt obligations, along with the provision of required new funds by the international community or other creditors” and to place the proposal before the debtor, its groups of creditors and others whose agreement would be necessary for its approval. It continued:

“The use of such a mechanism, which could be invoked under specified conditions by a country already cooperating with IMF and other international financial institutions, would bring together committees representing bank creditors, bond holders, the Paris Club and other bilateral official creditors, as appropriate, plus the debtor Government. ... The aim would be to ensure fairness, reduce financial uncertainties quickly and lower the cost to creditors as well as to the debtor of arriving at a final debt restructuring agreement. ... (Thus,) to complement other initiatives under way, the potential value of a mediation-type mechanism deserves particular attention. Such a mechanism could be made available to debtor countries as an additional, voluntary option for restructuring debt from private and official creditors”.

Proposals for other approaches to resolving debt problems

28. The proposals indicated thus far presume an essentially cooperative approach between the Government of the debt-crisis country and its creditors. A number of proposals have also been made for the international community to tackle debt crises of developing countries in different ways, some of which may differ significantly from some of the current approaches.

29. One proposal has been suggested by the United Nations Conference on Trade and Development (UNCTAD), presented in several issues of its *Trade and Development Report*, namely, that an “insolvency principle” for sovereigns, under which a Government would be warranted to impose a temporary standstill on foreign debt servicing (and possibly on domestic capital outflows) at the onset of a crisis, should be adopted internationally. To avoid abuse of this authority, it has been proposed that an independent panel of experts convoked for the purpose should quickly assess the seriousness of the situation and sanction the decision.

30. The proposal aims, in the first instance, to accord the debtor a breathing space by stemming the outflow of resources from the country during its crisis, which can seriously worsen the cost of its ultimate resolution, especially if the debtor country has fully liberalized its balance of payments. After the standstill is imposed, the insolvency principle would follow the standard track of adoption of an adjustment programme, which would be supported with liquidity from IMF and possibly other resources, followed by a negotiated restructuring of obligations owed to the country’s various creditors. Considered as a whole, this proposal would “combine

voluntary mechanisms designed to facilitate debt restructuring with internationally sanctioned temporary standstills to be used when needed” (see United Nations Conference on Trade and Development (UNCTAD, 2001), part two, chap. VI, sect. F).

31. The General Assembly has recognized the possible greater use of standstills in its resolutions 55/184 and 55/186 (paras. 19 and 22, respectively). Standstills have also been discussed in the IMF Executive Board, where attention focused on the kinds of situations in which an involuntary standstill might be warranted, and the pros and cons of establishing a clear framework for the situations in which a standstill would be invoked (see International Monetary Fund (IMF, 2000)).

32. International principles as now embodied in IMF policy also offer some options for dealing with cases in which there is a less harmonious initiation of a crisis, in particular when private creditors do not seek to cooperate with the debtor in resolving its crisis. In such a case, IMF may cooperate with the country in seeking to resolve its crisis and “lend into arrears”, that is to say, informally sanction the accumulation of arrears to non-cooperating creditors while IMF itself provides foreign exchange resources to the country.

33. Another proposal is to replace the debt restructuring negotiations with an arbitration process. Such a proposal was made in the hearings with civil society that the Preparatory Committee held on 6 and 7 November 2000 and was commented upon by a number of delegates and civil society participants (see United Nations (FfD, 2000 (a)), paras. 80-100). It was argued there that the chapter 9 bankruptcy procedures for municipalities in the United States of America could be adopted to international conditions. The United States procedures were designed, it was said, to protect both creditors’ rights and the debtor’s governmental powers, which extend to protection of the population under the Government. However, whereas the workout from a municipal bankruptcy in the United States would be overseen by a court, there is no comparable institution at the global level for debtor countries. Instead, it is suggested that an arbitration panel should be convoked to serve this purpose, with the creditors and the debtor each nominating an equal number of arbitrators and the panel together choosing an additional arbitrator who would break any tie votes. The arbitration panel would gather information from all relevant stakeholders in the country’s situation, including its citizens, for example, through civil society organizations. It was also suggested that the United Nations could serve

as facilitator for the arbitration process, receiving requests for arbitration and organizing the nomination of arbitrators (see Raffer, 2001).

34. The Commission on Human Rights has made explicit some of the linkages between human rights and debt problems. The Commission in its resolution 2001/27:

- Affirmed that the exercise of the basic rights of the people of debtor countries to food, housing, clothing, employment, education, health services and a healthy environment could not be subordinated to the implementation of structural adjustment policies, growth programmes and economic reforms arising from their external debt (para. 7);
- Reiterated its view that, in order to find a durable solution to the debt problem, there was a need for a political dialogue between creditor and debtor countries and the multilateral financial institutions, within the United Nations system, based on the principle of shared interests and responsibilities (para. 18).

35. African Ministers of Finance at the African Regional Consultative Meeting on Financing for Development, held in Addis Ababa from 15 to 17 November 2000, endorsed two proposals put forward by UNCTAD. The first was a call for the establishment of an “independent body that would not be unduly influenced by the interest of creditors” (United Nations Conference on Trade and Development (UNCTAD, 1998), overview, sect. entitled “African development in a comparative perspective”, ninth paragraph), which would examine the situation of HIPCs and other debt-distressed low- and middle-income countries with respect to debt sustainability, eligibility for debt reduction programmes, amount of debt reduction warranted, conditionality, and modalities for the provision of multilateral and other needed funds. The second proposal was that there should be an agreed suspension on debt-servicing payments by HIPCs, without further interest accruing during the moratorium period, which should last until the panel had made its recommendations. The Ministers of Finance in their Ministerial Statement (United Nations (FfD, 2001), annex) declared:

“We also call on our development partners to provide a debt-servicing moratorium, including accrued interest, in order to allow African countries to find durable solutions to their debt problems. We further call on the donor community to seriously consider the idea of referring the issue of the sustainability of Africa’s debt to an independent body composed of eminent persons con-

versant with financial, social and development problems. Such persons would be selected by mutual agreement between creditors and debtors, with creditors committing themselves to considering the cancellation of such debt as is deemed unpayable” (para. 12).

36. At the end of the second session of the Preparatory Committee, the Co-Chairmen listed a number of proposals (United Nations (FfD, 2001a), annex I) that they believed some members of the Preparatory Committee had an interest in considering further. One of those was “a proposal that debtor countries should form a ‘debtors’ club’ and negotiate their debt relief terms together, rather than on a case-by-case basis” (para. 21, “Convergence of views”, thirteenth paragraph).

Notes

1 With implicit or explicit creditor approval, Governments have also reduced their debt through swaps of debt instruments for equity investment or for commitments to make domestic public expenditures for environmental or social purposes.

2 How the notion of “sustainable” should be defined in practice remains evidently under discussion. In addition, whatever definition is used, its actual application depends on economic projections and assumptions about international trade and financial flows of the indebted country and assessments of domestic socio-economic conditions in the present and medium-term future.

3 While the attempt has been made to cast a wide net for materials to include in this note, the literature is vast and therefore it cannot be certain that every existing proposal has been identified.

4 In the enhanced HIPC process, after a period of years in which a crisis country demonstrates its commitment to macro-economic adjustment and poverty eradication, it reaches the “decision point”, at which coordinated commitments are made to provide appropriate overall debt relief. Following a further period in which the “track record” of sound policies continues to build, the full relief is granted at what is called the “completion point” (see IMF, 2000a).

5 The meeting was jointly organized by Debt Relief International (a non-profit organization funded by the Governments of Austria, Denmark, Sweden, Switzerland and the United Kingdom of Great Britain and Northern Ireland) and the United Kingdom Department for International Development (see HIPC Finance Ministers, 2001).

6 These are low-income countries whose World Bank borrowing is exclusively through the highly concessional International Development Association (IDA).

7 Ministers made specific proposals with respect to capacity-building in the areas of institutions, operational management of development finance, debt renegotiation, new financing policy, macroeconomic forecasting, poverty reduction programmes and computerized analysis of financial sustainability.

8 The HIPC Finance Ministers, at the meeting noted above,

also urged the international community to take much more account of shocks that hit economies, in two ways:

(1) Introduce a range of new measures to combat them (advance contingency and rapid compensatory financing; accelerating the recommendations of the World Bank Task Force on Commodity Risk Management; reinforcing insurance mechanisms such as those of the Commonwealth Disaster Management Agency; and providing more predictability and stability in donor aid flows) rather than inadequate and delayed additional disbursements of donor grants or multilateral loans (sect. I, para. 1);

(2) Take account of shocks in interpreting more flexibly compliance with conditionality (sect. I, para. 2).

9 See also technical note No. 8 (A/AC.257/27/Add.8) entitled “Existing proposals on financial crisis prevention including operation of early warning systems and transparent and predictable international financial markets”, sect. entitled “Private sector role in crisis prevention”.

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TECHNICAL NOTE NO. 6*:

Existing proposals to increase market access to exports of developing countries

I. Introduction

1. Given the exceptionally wide interest regarding market access emanating from intergovernmental as well as non-governmental organizations or gatherings, the list of proposals presented in the present note does not pretend to be exhaustive, in particular as regards proposals made by regional groups and numerous non-governmental organizations, and is limited to the most recent proposals or declarations.

2. Developing countries' concerns within the World Trade Organization can be summarized in three main linked areas: **implementation** of the current World Trade Organization Agreements;¹ **market access** for agricultural and industrial products, and for services; and the development or refinement of **World Trade Organization rules** for goods and services. Although these can with difficulty be separated, the proposals mentioned in this note refer only to "classic" access issues for goods and services. Thus, access-related issues raised in the context of the implementation of the existing World Trade Organization disciplines other than the tariff and non-tariff commitments agreed upon during the Uruguay Round of multilateral trade negotiations (such as, for instance, the Agreement on Subsidies and Countervailing Measures, the Agreement on the Application of Sanitary and Phytosanitary Measures, and the Agreement on Technical Barriers to Trade) are not included. However, in some of the proposals quoted here, other areas or issues may appear insofar as they are essential to the understanding of the proposal.²

II. Negotiating proposals submitted to the World Trade Organization

3. Given the large number of negotiating proposals submitted by World Trade Organization member coun-

* The preparation of the present technical note was coordinated by the United Nations Conference on Trade and Development (UNCTAD). Staff from the following entities collaborated, in a personal capacity, in its preparation: the World Trade Organization, the World Bank, the International Monetary Fund (IMF), the International Trade Centre (ITC), the Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Development Programme (UNDP).

tries or groups of countries in the framework of the mandated negotiations on agriculture and services, this technical note limits itself to a summary of the state of play in these two areas. However, the detailed lists of these proposals are presented in annexes I and II which indicate the relevant World Trade Organization document.

A. Agriculture

4. The negotiations on agriculture under the Built-In Agenda have gone furthest in receiving negotiating proposals. A large number of proposals have been made to the Special Sessions (the Negotiating Group) of the Committee on Agriculture (see annex I). Individual proposals can be accessed through the World Trade Organization "Documents Online".

5. Developing countries have been very active participants in the agricultural negotiations. Market access figures strongly among their concerns, with focus on three main aspects: substantial tariff cuts, reduction or elimination of tariff peaks and escalation, and improvements in the administration of tariff quotas. However, these are not the only concerns of developing countries. While many, particularly the 15 developing countries that are members of the "Cairns" Group, see market access and the substantial reduction of trade barriers in developing countries, as well as the elimination of export and domestic subsidies, as key to the negotiations, developing countries' interests are diverse. Some emphasize the need for World Trade Organization rules on agriculture to be more flexible so that developing countries can better support and protect their agricultural and rural development; this is often linked with "food security" concerns. Some smaller developing countries have emphasized the need to retain preferences for their access to developed markets, either on a transitional or a longer-term basis.

6. Groups of countries have worked closely together to present proposals reflecting their interests. For example, a group of 11 developing countries has argued for the creation of a "Development Box" in the Agreement on Agriculture to provide for greater policy flexibility for developing countries, and a related group of 12 developing countries has made a proposal concerning market access. A group of 27 members (including developing and developed countries) has put forward a

paper on non-trade concerns, while the Southern Cone Common Market (MERCOSUR) and various other developing countries have made proposals on the reduction of export subsidies, on export credits and on State trading enterprises. Net food-importing countries, which are concerned about possible rises in world food prices as a result of reductions in export subsidies, indicate the need to address their concerns more effectively. The World Trade Organization African Group in March 2001 presented a comprehensive proposal covering market access (including reduction of tariff peaks, tariff escalation, duty- and quota-free access for least developed countries, preferences, and other aspects), export competition, domestic support, special concerns of least developed countries and net food-importing developing countries, and policy coherence. Other group proposals have come from small island developing States, the Caribbean Community (CARICOM) and transition economies.

B. Services

7. Negotiating proposals have been made by the following developing countries and groups: the Andean Community (horizontal issues), Brazil (audio-visual services), Chile (professional, telecommunications, construction, distribution, energy, maritime, air transport and horizontal issues), Colombia (professional services, financial services and movement of natural persons), India (movement of natural persons); Hong Kong Special Administrative Region (SAR) of China (postal and courier communications, maritime transport and logistics); the Republic of Korea (telecommunications, construction, distribution, financial services and maritime transport), MERCOSUR (computer services and distribution), Mexico (telecommunications), Venezuela (energy services), and a group of developing countries led by the Dominican Republic (tourism). A complete list of negotiating proposals made up until July 2001 is contained in annex II.

8. It should be noted that negotiating proposals made by developing countries and others in the services context take place against the background of agreed procedures and guidelines for the services negotiations, concluded in March 2001 (World Trade Organization document S/L/93, available on the World Trade Organization web site). Developing countries participated successfully in defining these procedures and guidelines, which refer at virtually every stage to developing countries' interests.

C. Market access for least developed countries³

9. Recent developments show significant and concrete improvements in market access opportunities for least developed countries. However, there is still scope for further improvements.

10. Since the World Trade Organization Singapore Ministerial Conference in 1996, many World Trade Organization members have taken or proposed measures to provide duty- and quota-free access to all or essentially all products exported by least developed countries:

- At the high-level meeting held on 27 and 28 October 1997, 20 entities representing 35 members announced new or additional preferential market access measures for least developed countries that they had taken, or proposed to take. Others made important statements drawing attention to existing liberal market access for least developed countries under Generalized System of Preferences (GSP) or Global System of Trade Preferences among Developing Countries (GSTP) regimes and other preferential arrangements;⁴
- Twenty-eight Members announced measures that they had taken or proposed to take to improve market access opportunities for least developed countries at the General Council meeting held on 3 and 8 May 2000.⁵ Annex III summarizes the status of preferential access for least developed countries exports, based on notifications or announcements made by those 28 members.⁶

III. Proposals agreed or submitted in other intergovernmental organizations or meetings

11. The proposals are presented directly below.

1. *Originator of the proposal:* Group of 77: Marrakesh Declaration, September 1999 (ninth ministerial meeting of the Group of 77 and China) (A/54/392, annex)

Body to which the proposal was made: Third World Trade Organization Ministerial Conference (November 1999) and tenth session of the United Nations Conference on Trade and Development (UNCTAD) (February 2000)

Summary of the proposal: "We believe that negotiations provided for under the 'Built-in Agenda'

should be launched without delay responding to the priorities of developing countries:

- “• In agriculture, the objective should be to incorporate the sector within normal World Trade Organization rules, addressing the particular problems of predominantly agrarian and small island developing economies and net food-importing developing countries;
- “• Negotiations on trade in services should be carried out within the existing architecture of the General Agreement on Trade in Services (GATS) and aim at the liberalization of sectors of special interest to developing countries and the movement of natural persons, while taking account of the impact of electronic commerce;
- “• The mandated reviews under the World Trade Organization multilateral trade agreements (MTAs) ought to redress imbalances and to ensure that provisions in favour of developing countries are effectively implemented” (para. 15).

“We call upon developed countries to demonstrate a firm and unequivocal commitment to opening their markets to the exports of developing countries, and to provide duty-free and quota-free access for the exports of the least developed countries. This should not affect World Trade Organization members’ existing commitments relating to preferential schemes. Any future negotiations should address the elimination of tariff peaks and tariff escalation and should introduce further disciplines to prevent the abuse of measures such as anti-dumping, countervailing duties and safeguard actions, sanitary and phytosanitary regulations and technical barriers to trade, as well as to prevent the apparent revival of the use of voluntary export restraints. The work programme on the harmonization of non-preferential rules of origin should be achieved rapidly, to attain simplified, harmonized and more transparent rules” (para. 16).

“We are convinced of the need for differential and more favourable treatment of developing countries. This includes assistance to developing countries to assist them in overcom-

ing transitional costs and to allow time for achieving development goals and enhancing competitiveness. The concept of special and differential treatment should be reviewed and strengthened to take account of the changing realities of world trade and of globalized production, and must be accompanied by capacity-building, enhanced market access and measures taken by industrialized countries to encourage their enterprises and institutions to transfer technology and know-how and invest in developing countries” (para. 19).

2. *Originator of the proposal:* UNCTAD at its tenth session, Bangkok Plan of Action (TD/390; part II)

Body to which the proposal was made: UNCTAD at its tenth session (adopted in Bangkok, February 2000)

Summary of the proposal: “... many developing countries face problems when trying to diversify into higher value added and manufactured exports with more dynamic demand prospects. Barriers to entry in those sectors where they should have the best chance of exporting need to be addressed, such as textiles, clothing, and the food industry” (para. 57).

“Market access conditions for agricultural and industrial products of export interest to least developed countries should be improved on as broad and liberal a basis as possible and urgent consideration should be given to the proposal for a possible commitment by developed countries to grant duty-free and quota-free market access for essentially all exports originating in least developed countries and other proposals to maximize market access for least developed countries. Consideration should also be given to proposals for developing countries to contribute to improved market access for least developed countries’ exports. All countries that announced market access commitments at the High-level Meeting on Integrated Initiatives for Least Developed Countries’ Trade Development in October 1997 are invited to implement these commitments fully and expeditiously” (para. 58).

3. *Originator of the proposal:* Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24) (23 September 2000)

Body to which the proposal was presented and date: Development Committee, Prague, September 2000

Summary of the proposal: “Ministers express concern that protectionist measures employed by industrialized countries vis-à-vis developing countries impede global employment growth and poverty reduction opportunities ... Furthermore, tariff and non-tariff trade barriers are especially significant in areas in which developing countries have a comparative advantage, including labour-intensive activities such as textiles and services, as well as agricultural products ... Ministers also call for rapid trade liberalization and elimination of distorting domestic subsidies by developed countries, in particular to promote growth and strengthen poverty reduction efforts in developing countries” (para. 5).

4. *Originator of the proposal:* Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development at its second substantive session in February 2001 (A/AC.257/12 of 18 December 2000)

Body to which the proposal was presented and date: Preparatory Committee, February 2001

Summary of the proposal: “All trading partners should liberalize trade in goods and services of particular interest to developing economies, seeking to achieve bound, expanded and commercially meaningful market access for such goods and services. Particular attention should be given, in the first instance, to the full integration of textiles and clothing into the World Trade Organization; the reduction of barriers of trade in agricultural products; the removal of tariff peaks and escalation affecting the export products of developing countries; and the expansion, where appropriate, of GSP schemes” (boxed boldface text between paras. 70 and 71).

“All developed countries should immediately provide duty-free, quota-free market access to all non-arms exports of least developed countries and highly indebted poor countries (HIPC) and consider doing the same for other developing countries, particularly the countries of Africa, small island developing States, landlocked and transit developing countries, and

other developing countries, as well as countries with economies in transition with special difficulties in attracting financing for development” (boxed boldface text between paras. 71 and 72).

“World Trade Organization members should also not use contingency measures and restrictive rules of origin, and should ensure that standards, technical regulations and Sanitary and Phytosanitary Standards (SPS) measures are not used to obstruct trade, that they can be adequately observed by developing countries, and that appropriate assistance is provided to enable them to do so” (boxed boldface text between paras. 73 and 74).

5. *Originator of the proposal:* Third United Nations Conference on the Least Developed Countries: Programme of Action for the Least Developed Countries for the Decade 2001-2010 (Brussels, May 2001) (A/CONF.191/11)

Body to which the proposal was made: Third United Nations Conference on the Least Developed Countries (adopted at the Conference)

Summary of the proposal: “Improving preferential market access for least developed countries by working towards the objective of duty-free and quota-free market access for all least developed countries’ products. This will apply in the markets of developed countries. Improvements in market access for least developed countries should be granted on a secure and predictable basis. They should be combined with simplified rules of origin that provide transparency and predictability so as to help ensure that least developed countries benefit from the market access granted, and multi-donor programmes, such as the Integrated Framework for Trade-related Technical Assistance (IF), to upgrade least developed countries production and export capacities and capabilities. Consideration should also be given to proposals for developing countries to contribute to improved market access for least developed countries’ exports” (para. 68 (h)).

6. *Originator of the proposal:* Group of Fifteen (G-15): Summit-level Group of Developing Countries, Eleventh Summit of the Heads of State and Government of the Group of Fifteen, Jakarta, Indonesia, 25-31 May 2001 (joint communiqué)

Body to which the proposal was made: Summit of the Heads of State and Government of the Group of Fifteen (adopted at the Summit)

Summary of the proposal: “We reaffirm that a rules-based, open, just, equitable and non-discriminatory multilateral trading system is a prerequisite of a sound and balanced international economy and the credibility of the multilateral trading system. ... We have sustained our efforts to open our markets, strengthen our institutions and orient our economies to the challenges of the new global economy. We note, however, that the high tariffs peaks, tariff escalations and non-tariff barriers, including new restrictions under the pretext of sanitary and phytosanitary measures, persisting in industrialized countries on products of export interest to developing countries, have adversely impacted on the export performance of these products and industrialization growth in developing countries” (para. 17).

“We are against the use of subsidies, anti-dumping and safeguards provisions as protectionist and trade distorting measures by developed countries ... We urge the developed countries to demonstrate their true commitment to free trade by promoting substantial liberalization in agriculture and textiles and in other sectors and modes of supply of services of export interest to developing countries, in particular the movement of natural persons, as envisaged in the General Agreement on Trade in Services. Real progress in mandated negotiations and review is essential to the future of a fair and free trading system. We also stress the importance of commodities exports for the development of developing countries” (para. 18).

“We strongly stress the need for a meaningful solution to the Implementation Issues pertaining to the Uruguay Round Agreements and Decisions by the Fourth Ministerial Conference in Doha, Qatar, in accordance with the decision of the General Council of the World Trade Organization, and for the operationalization of the special and differential provisions in favour of developing countries as a binding commitment” (para. 19).

“We further express our concern on the deterioration of preferential schemes, especially the imposition of additional conditionalities on developing countries under the Generalized

System of Preferences (GSP). Accordingly, we call for the exclusion of conditionalities, particularly labour, health, safety and environmental standards, in the implementation of GSP schemes. ... A dynamic multilateral trading system should be responsive to the needs of developing countries, particularly including small and vulnerable economies as well as least developed countries. We call for the creation of a favourable international environment to facilitate their beneficial integration into the global trading system. In this regard, we take note of the recent initiative to grant improved market access to products originating from least developed countries. We note further that measures should be taken to avoid possible negative impact from these initiatives on other developing countries” (paras. 23 and 24).

7. *Originator of the proposal:* Report of the High-level Panel on Financing for Development (executive summary) (26 June 2001) (A/55/1000)

Body to which the proposal was presented and date: Preparatory Committee for the International Conference on Financing for Development, June 2001

Summary of the proposal:

- “• *Liberalization in agriculture:* In this field, it is vital for developing countries to discuss and get from industrialized countries a significant improvement in market access, an elimination of export subsidies, and a tightening of support to domestic producers;
- “• *The total elimination of remaining trade barriers in manufacturing.* Existing barriers in this sector are mostly at the expense of developing countries. An obvious, but sadly not unique, example of this injustice is protection on textiles and clothing. Some Panel members consider that welfare gains for all parties would be even greater if the new round also liberalized trade in services.”

8. *Originator of the proposal:* Zanzibar Declaration: Meeting of the Ministers Responsible for Trade of the Least Developed Countries, Zanzibar, United Republic of Tanzania, 24 July 2001

Body to which the proposal was presented: Fourth World Trade Organization Ministerial Conference, Doha, November 2001

Summary of the proposal: The Ministers “call upon the Fourth World Trade Organization Ministerial Conference to agree on:

- “• Binding commitment on duty-free and quota-free market access for all products from least developed countries on a secure long-term and predictable basis with realistic and flexible Rules of Origin to match the industrial capacity of the least developed countries;
- “• Full implementation of the commitments made in the Marrakesh Declaration and the Ministerial Decision on Measures in Favour of least developed countries and the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries;
- “• Binding and full implementation of the provisions of Special and Differential treatment, including adoption of new Special and Differential measures to take into account problems encountered by least developed countries in implementation” (para. 4).

9. *Originator (or origin) of the proposal:* G-8 Summit 2001 (Genoa) (final official notice)

Body to which the proposals was presented and date: Global community, July 2001

Summary of the proposal: “While opening markets through global negotiations provides the greatest economic benefit for developing countries, we fully endorse measures already taken to improve market access for the least developed countries, such as Everything But Arms, the Generalized System of Preferences and all other initiatives that address the same objectives. We confirm our pledge made at the Third United Nations Conference on the Least Developed Countries to work towards duty-free and quota-free access for all products originating in the least developed countries. We support efforts made by least developed countries to enter the global trading system and to take advantage of opportunities for trade-based growth” (para. 11).

“Increased market access must be coupled with the capacity to take advantage of it. Thus, to help developing countries benefit from open markets, we will better coordinate our trade-related assistance to:

- Provide bilateral assistance on technical standards, customs systems, legislation needed for World Trade Organization membership, the protection of intellectual property rights, and human resource development;
- Support the work of the Integrated Framework for Trade-related Technical Assistance;
- Encourage the international financial institutions to help remove obstacles to trade and investment, and establish the institutions and policies essential for trade to flourish;
- Urge countries to mainstream trade expansion by including it in their poverty reduction strategies” (para. 12).

10. *Originator (or origin) of the proposal:* G-7 Summit 2001 (Genoa)

Body to which the proposals was presented and date: Global community, July 2001

Summary of the proposal: “Sustained economic growth worldwide requires a renewed commitment to free trade. Opening markets globally and strengthening the World Trade Organization as the bedrock of the multilateral trading system is therefore an economic imperative. It is for this reason that we pledge today to engage personally and jointly in the launch of a new ambitious Round of global trade negotiations at the Fourth World Trade Organization Ministerial Conference in Doha, Qatar, this November” (para. 6).

“We are committed to working with developing countries, including the least developed, to ensure that the new Round addresses their priorities through improved market access and sounder, more transparent trade rules. We recognize that there are legitimate concerns in implementing the Uruguay Round Agreements. We welcome the steady progress made so far on implementation issues and are ready to examine ways to make further progress in connection with the launch of a new Round. Capacity-building is

essential to integrate developing countries into the trading system, and we are intensifying our efforts to assist in this area, inter alia, with international institutions” (para. 7).

“In the interests of all, the new Round should be based on a balanced agenda, while clarifying, strengthening and extending multilateral rules. An improved dispute settlement mechanism is central to this effort. Increased transparency in the World Trade Organization itself is also important to strengthen confidence in the global trading system. The World Trade Organization should continue to respond to the legitimate expectations of civil society, and ensure that the new Round supports sustainable development” (para. 8).

11. *Originator (or origin) of the proposal:* International Monetary and Financial Committee of the Board of Governors (IMFC) of the International Monetary Fund (IMF) (communiqué of 16 April 2000)

Body to which the proposal was presented and date: Global community, April 2000

Summary of the proposal: “The Committee reiterates the critical importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy and to reduce poverty. Improving access to industrialized country markets for products of developing countries will be crucial to support their reform efforts. The Committee welcomes the initiation of World Trade Organization negotiations in agriculture and services, and supports the early launch of a new round of multilateral trade negotiations, which would bring benefits to all countries, including the poorest” (para. 6).

12. *Originator (or origin) of the proposal:* International Monetary and Financial Committee of the Board of Governors (IMFC) of the International Monetary Fund (IMF) (communiqué of 24 September 2000)

Body to which the proposal was presented and date: Global community, September 2000

Summary of the proposal: “The Committee also considers that international trade is critical for development and poverty reduction. To help

ensure that the fruits of globalization are shared by all, it will be crucial that access of developing countries, particularly the poorest, to industrialized country markets continues to improve” (para. 12).

13. *Originator (or origin) of the proposal:* International Monetary and Financial Committee of the Board of Governors (IMFC) of the International Monetary Fund (IMF) (communiqué of 29 April 2001)

Body to which the proposal was presented and date: Global community, April 2001

Summary of the proposal: “The Committee underscores more broadly the importance of open markets for strengthening the global economy and for enhancing the growth prospects of developing countries. It urges all countries — developed and developing — to find common ground for the launch of new multilateral trade negotiations this year. The Committee is unanimous in its view that recourse to protectionism would be the wrong response to the global economic slowdown and the attendant difficulties in particular sectors. The Committee calls upon all countries to resist protectionist pressures and to reduce or eliminate trade barriers and trade-distorting subsidies” (para. 7).

14. *Originator (or origin) of the proposal:* Joint communiqué: IMFC and Development Committee (29 April 2001)

Body to which the proposal was presented and date: adopted in April 2001

Summary of the proposal: “We strongly reaffirm the importance of greater access for developing countries to world markets, and particularly call upon countries to open their markets further to the exports of the poorest countries. In this context, we welcome the recent initiatives taken by a number of countries. Furthermore, the industrialized countries have a major role to play by following policies that ensure sustainable, non-inflationary growth for the world economy. Such concerted actions by both rich and poor countries are needed to achieve the International Development Goals” (para. 9).

Notes

1 See *Legal Instruments Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994* (GATT secretariat publication, Sales No. GATT/1994-7).

2 A recent description of the background and the overall state of play as regards market access and Uruguay Round commitments can be found in World Trade Organization, *Market Access: Unfinished Business* (Geneva, 2001).

3 The present section draws on document WT/LDC/SWG/IF/14/Rev.1 of 20 April 2001, which was an input by the World Trade Organization to the Third United Nations Conference on the Least Developed Countries.

4 See WT/COMTD/12 and WT/LDC/HL/M/1. Members that elaborated on existing measures or proposed new measures for market access in favour of least developed countries at the high-level meeting were: Australia, Bulgaria, Canada, Chile, Egypt, European Communities, Hungary, India, Indonesia, Japan, Malaysia, Mauritius, Morocco, Norway, Republic of Korea, Singapore, Switzerland, Thailand, Turkey and United States of America.

5 See WT/GC/M/55. Argentina (on behalf of MERCOSUR), Canada, Chile, Czech Republic, European Communities, Hungary, Iceland, Japan, Norway, New Zealand, Republic of Korea, Slovakia, Slovenia, Switzerland and United States of America reported that they had taken, or intended to take, additional measures to further improve access of least developed countries to their markets. Hong Kong SAR of China confirmed its duty-free treatment on a most-favoured-nation (MFN) basis to imports from all sources.

6 World Trade Organization notifications of preferences as listed in annex III have been accorded by developed countries under the 1979 Enabling Clause (L/4903) and by developing countries either under the Enabling Clause or the 1999 Waiver on Preferential Tariff Treatment for least developed countries (WT/L/304).

Annex I

Committee on Agriculture: Special Session Negotiating Proposals and Other Submissions

(Issued to date: 20 July 2001)

G/AG/NG/W/11	Proposal by Cairns Group — Export Competition — 16 June 2000
G/AG/NG/W/12	Proposal by Canada — Market Access — 19 June 2000
G/AG/NG/W/13	Proposal by Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador — Special and Differential Treatment and a Development Box — 23 June 2000
G/AG/NG/W/14	Proposal by Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador — Green Box/Annex 2 Subsidies — 23 June 2000
G/AG/NG/W/15 (Derestricted 30 June 2000)	Proposal by United States of America — Comprehensive Long-Term Agricultural Trade Reform — 23 June 2000
G/AG/NG/W/16 (Derestricted 30 June 2000)	Submission by United States of America — Note on Domestic Support Reform — 23 June 2000
G/AG/NG/W/17	Proposal by European Communities — The Blue Box and Other Support Measures to Agriculture — 28 June 2000
G/AG/NG/W/18	Proposal by European Communities — Food Quality: Improvement of Market Access Opportunities — 28 June 2000
G/AG/NG/W/19	Proposal by European Communities — Animal Welfare and Trade in Agriculture — 28 June 2000
G/AG/NG/W/34	Proposal by European Communities — Export Competition — 18 September 2000
G/AG/NG/W/35	Proposal by Cairns Group — Domestic Support — 22 September 2000
G/AG/NG/W/36/Rev.1	Submission by Barbados, Burundi, Cyprus, Czech Republic, Dominica, Estonia, European Communities, Fiji, Iceland, Israel, Japan, Latvia, Liechtenstein, Madagascar, Malta, Mauritania, Mauritius, Mongolia, Norway, Poland, Republic of Korea, Romania, Saint Lucia, Slovakia, Slovenia, Switzerland, and Trinidad and Tobago on Non-Trade Concerns — Revision — 9 November 2000

- G/AG/NG/W/37 and
Corr.1 Proposal on Market Access by Cuba, Dominican Republic,
El Salvador, Haiti, Honduras, Kenya, India, Nigeria, Pakistan,
Sri Lanka, Uganda and Zimbabwe — 28 September 2000
- G/AG/NG/W/38 Discussion paper by Argentina, Brazil, Paraguay and Uruguay
(MERCOSUR), Chile, Bolivia and Costa Rica on Export
Subsidies — Food Security or Food Dependency? —
27 September 2000
- G/AG/NG/W/54 Proposal by Cairns Group — Market Access —
10 November 2000
- G/AG/NG/W/55 Submission by Association of Southeast Asian Nations
(ASEAN) — Special and Differential Treatment for Developing
Countries in World Agricultural Trade — 10 November 2000
- G/AG/NG/W/56 Proposal by Albania, Bulgaria, Croatia, Czech Republic, Georgia,
Hungary, Kyrgyzstan, Latvia, Lithuania, Mongolia, Slovakia and
Slovenia on Domestic Support — Additional Flexibility for
Transition Economies — 14 November 2000
- G/AG/NG/W/57 Proposal by Bulgaria, Czech Republic, Estonia, Georgia,
Hungary, Kyrgyzstan, Latvia, Slovakia, Slovenia, Croatia and
Lithuania on Market Access — 14 November 2000
- G/AG/NG/W/58 Proposal for Tariff Rate Quota Reform — Submission from
United States of America — 14 November 2000
- G/AG/NG/W/88 Technical Submission by Argentina on Legitimate Non-Trade
Concerns — 30 November 2000
- G/AG/NG/W/90 European Communities — Comprehensive Negotiating
Proposal — 14 December 2000
- G/AG/NG/W/91 Japan — Negotiating Proposal on World Trade Organization
Agricultural Negotiations — 21 December 2000
- G/AG/NG/W/92 Canada — Proposal — Domestic Support — 21 December 2000
- G/AG/NG/W/93 Cairns Group — Proposal — Export Restrictions and Taxes —
21 December 2000
- G/AG/NG/W/94 Switzerland — Proposal — 21 December 2000
- G/AG/NG/W/95 Swaziland — Market Access under Special and Differential
Treatment for Small Developing Countries — Proposal by
Swaziland — 22 December 2000
- G/AG/NG/W/96 Mauritius — Negotiating Proposal — 28 December 2000
- G/AG/NG/W/97 and
Corr.1 Barbados, Cuba, Dominica, Jamaica, Mauritius, Saint Kitts and
Nevis, Saint Lucia, Saint Vincent and the Grenadines and
Trinidad and Tobago — Proposals by Small Island Developing
States — 29 December 2000

G/AG/NG/W/98	Republic of Korea — Negotiating Proposal — 9 January 2001
G/AG/NG/W/99	Mali — Proposals for the Future Negotiations on Agriculture — 11 January 2001
G/AG/NG/W/100	Caribbean Community (CARICOM) — Negotiating Proposal — Market Access — 15 January 2001
G/AG/NG/W/101	Norway — Proposal — 16 January 2001
G/AG/NG/W/102	India — Proposals — 15 January 2001
G/AG/NG/W/103	Poland — Proposal — 19 January 2001
G/AG/NG/W/104 and Corr.1	Proposal by Argentina, Brazil, Paraguay and Uruguay (MERCOSUR), Bolivia, Chile and Colombia — State Trading Enterprises — 23 January 2001
G/AG/NG/W/105	Morocco — Proposal — 2 February 2001
G/AG/NG/W/106 and Corr.1	Turkey — Proposal — 5 February 2001
G/AG/NG/W/107/Rev.1	Egypt — Proposal — Revision — 21 March 2001
G/AG/NG/W/130	Nigeria — Proposal — 14 February 2001
G/AG/NG/W/135	Democratic Republic of the Congo — Proposal — 12 March 2001
G/AG/NG/W/136	Kenya — Proposal — 12 March 2001
G/AG/NG/W/137	Senegal — Proposal — 16 March 2001
G/AG/NG/W/138	Mexico — Proposal — 19 March 2001
G/AG/NG/W/139	MERCOSUR, Bolivia, Chile, Costa Rica, Guatemala, India and Malaysia — Proposal on Export Credits for Agricultural Products — 20 March 2001
G/AG/NG/W/140	Jordan — Proposal — 21 March 2001
G/AG/NG/W/141	Submission by Croatia — 23 March 2001
G/AG/NG/W/142	World Trade Organization African Group — Joint Proposal on the Negotiations on Agriculture — 23 March 2001
G/AG/NG/W/143	Namibia — Proposal — 23 March 2001
G/AG/NG/W/185	Burkina Faso — Proposal — 16 May 2001
G/AG/NG/W/186	Mauritius — Communication — 20 July 2001

Annex II**Council for Trade in Services: Special Session****Sectoral/Modal/Horizontal Negotiating Proposals
(S/CSS/W __, as at 12 July 2001)**

<i>Proposals</i>	<i>Dominican Republic and others</i>	<i>India</i>	<i>United States of America</i>	<i>European Communities</i>	<i>Japan</i>	<i>Canada</i>	<i>Norway</i>	<i>Australia</i>	<i>Hong Kong SAR of China</i>	<i>Venezuela</i>
Business services							W/59			
Business (non-professional)				W/34	W/42	W/55				
Advertising			W/100							
Professional				W/33	W/42	W/52				
Legal			W/28					W/67 and S.1		
Accounting			W/20					W/62		
Architectural								W/63		
Engineering								W/65		
Computer				W/34	W/42	W/56				
Communication										
Postal/Courier			W/26	W/61					W/68	
Telecom			W/30	W/35	W/42	W/53	W/59	W/17		
Audio-visual			W/21		W/42					
Construction				W/36	W/42			W/64		
Distribution			W/22	W/37	W/42	W/57				
Education			W/23							
Energy			W/24	W/60		W/58	W/59			W/69
Environmental			W/25	W/38		W/51				
Financial			W/27	W/39	W/42	W/50	W/59	W/66		
Tourism	S/C/W/127 and Corr.1; S/CSS/W/19		W/31	W/40	W/42	W/54/R.1				
Transport				W/41						
Maritime					W/42		W/59		W/68	

<i>Proposals</i>	<i>Dominican Republic and others</i>	<i>India</i>	<i>United States of America</i>	<i>European Communities</i>	<i>Japan</i>	<i>Canada</i>	<i>Norway</i>	<i>Australia</i>	<i>Hong Kong SAR of China</i>	<i>Venezuela</i>
Air							W/59			
Land (rail and road)					W/42					
Other transport										
Logistics									W/68	
Mode 4		W/12 and Corr.1	W/29	W/45	W/42/S.2	W/48				
							(W/46 and Corr.1)			
							W/47;			
Horizontal issues		W/102		(W/32)	W/42/S.1	W/49				

Note: Proposals in parentheses () address general objectives for the negotiations.

<i>Proposals</i>	<i>Switzerland</i>	<i>MERCOSUR</i>	<i>Republic of Korea</i>	<i>Chile</i>	<i>Andean Community</i>	<i>New Zealand</i>	<i>Colombia</i>	<i>Brazil</i>	<i>Mexico</i>
Business services									
Business (non-professional)									
Professional	W/75			W/88			W/98		
Legal									
Accounting									
Architectural									
Engineering									
Computer		W/95							
Communication									
Postal/Courier	W/73								
Telecom	W/72		W/83	W/88					W/101
Audio-visual	W/74							W/99	
Construction			W/84	W/88		W/91			
Distribution	W/77	W/80	W/85	W/88					
Education						W/93			

<i>Proposals</i>	<i>Switzerland</i>	<i>MERCOSUR</i>	<i>Republic of Korea</i>	<i>Chile</i>	<i>Andean Community</i>	<i>New Zealand</i>	<i>Colombia</i>	<i>Brazil</i>	<i>Mexico</i>
Energy				W/88					
Environmental	W/76								
Financial	W/71		W/86 and Corr.1				W/96		
Tourism	W/79								
Recreational									
Sporting							W/94		
Transport									
Maritime			W/87	W/88					
Air				W/88			W/92		
Land (rail and road)									
Other transport	W/78								
Logistics									
Mode 4								W/97	
Horizontal issues	(W/70)			(W/82)	W/89		(W/90)		

Note: Proposals in parentheses () address general objectives for the negotiations.

Annex III

Summary of existing or proposed market access measures for least developed countries

<i>Member</i>	<i>Market access for least developed countries</i>	<i>World Trade Organization document reference (notifications in bold)</i>
Argentina	In May 2000, Argentina (on behalf of the Southern Core Common Market (MERCOSUR)) announced that it provided tariff preferences for least developed countries under the Global System of Trade Preferences among Developing Countries (GSTP) scheme, and following completion of the ratification process for the offers made in the context of the second round of GSTP negotiations, the countries concerned would be in a position to enhance their preferences.	WT/GC/M/55 (2000)
Australia	Reported liberal existing market access conditions under the Generalized System of Preferences (GSP) scheme. In 1997, 98 per cent of least developed country exports entered duty-free. Additional duty-free entry granted to Pacific Islands Forum island countries under the South Pacific regional trade and economic cooperation agreement (SPARTECA Agreement). In May 2000, provided duty- and quota-free access on 93.2 per cent of least developed country exports to its market. In terms of tariff rates, nearly 84 per cent of tariff lines were duty-free for least developed countries and included preferential rates of duty in products of interest, including agriculture, fish, textiles and clothing.	WT/GC/M/55 (2000) WT/LDC/HL/M/1 (1997)
Bulgaria	Continued to grant duty- and quota-free access to its market for a wide range of products from least developed countries. In 1997, all least developed country exports entered duty-free.	WT/GC/M/55 (2000) WT/LDC/HL/M/1 (1997)
Canada	At the high-level meeting, Canada announced changes to its Generalized Preferential Treatment (GPT). Preferential rates of duty were lowered on over 3,000 products from developing countries and coverage was broadened to include an additional 200 tariff lines. Over 80 per cent of its product lines were GPT-eligible and these products from least developed countries entered Canada duty-free. Moreover, Canada accelerated most of the Uruguay Round tariff reductions scheduled for implementation on 1 January 1999 to 1 January 1998. From 1 January 1998, Canada moved beyond its commitments in the	WT/COMTD/N/15 (2000) WT/GC/M/55 (2000) WT/COMTD/LDC/M/11 (1998) WT/LDC/HL/M/1 (1997)

Member	Market access for least developed countries	World Trade Organization document reference (notifications in bold)
	<p>Agreement on Textiles and Clothing to integrate textile products and remove quotas on a number of specific products, as notified to the World Trade Organization Textiles Monitoring Body.</p> <p>Canada notified further improvements to the GSP for least developed countries effective 1 September 2000, with an additional 570 tariff lines (Harmonized Commodity Description and Coding System (HS) eight-digit level) added to the list of duty-free items. Duty-free access to least developed country exports now cover approximately 90 per cent of tariff lines. Canada has also liberalized rules of origin requirements that apply to least developed country imports with effect from 23 August 2000 by permitting cumulation from least developed countries. Canada and up to half of the required minimum 40 per cent content sourcing from developing countries.</p>	
Chile	<p>In May 2000, the Government was in the process of evaluating preferential treatment for products originating in least developed countries within its legal requirements. It also announced its intention to consider or finalize initiatives of market access for least developed countries at the high-level meeting in 1997.</p>	<p>WT/GC/M/55 (2000) WT/LDC/HL/M/1 (1997)</p>
Czech Republic	<p>In May 2000, imports originating in least developed countries through its national GSP scheme enjoyed duty-free treatment.</p>	<p>WT/GC/M/55 (2000)</p>
Egypt	<p>Following the high-level meeting, Egypt through the GSTP in 1998 notified tariff reductions at HS eight-digit level, ranging from 10 to 20 per cent of existing applied duties, for 77 products of export interest to least developed countries, and provided duty-free access for about 50 products imported into Egypt. In addition, Egypt bound customs duties, with a 10 per cent reduction for industrial products imported from least developed countries.</p>	<p>WT/COMTD/W/47 and Add.1 WT/LDC/HL/M/1 (1997)</p>
European Union (EU)	<p>At the high-level meeting in 1997, the European Communities (EC) announced the extension of preferences under the Fourth African, Caribbean and Pacific Group of States — European Communities (ACP-EC) Convention to non-ACP least developed countries, which was notified and effective from 1 January 1998.^a Rules of origin requirements were also simplified allowing for derogations and promoting regional cumulation. Already in 2000,</p>	<p>WT/COMTD/M/30 WT/COMTD/LDC/M/12 WT/GC/M/55 (2000) WT/COMTD/W/41 WT/LDC/HL/M/1 (1997)</p>

<i>Member</i>	<i>Market access for least developed countries</i>	<i>World Trade Organization document reference (notifications in bold)</i>
	<p>about 99 per cent of least developed countries' exports by value entered the EU market duty-free. Already in 2000, about 99 per cent of least developed countries' exports by value entered the EU market duty-free.</p> <p>EU's Everything But Arms (EBA) initiative in favour of least developed countries became effective in March 2001. Duty-free and quota-free access is provided for all goods except arms. Bananas, sugar and rice are subject to transition periods before full free access is reached (2006 for bananas, 2009 for sugar and rice). In the interim, duty-free quotas are established based initially on the best figures for least developed country exports during the 1990s plus 15 per cent, and increasing by 15 per cent annually.</p>	
Hong Kong, Special Administrative Region (SAR) of China	Confirmed application of duty- and quota-free access on a most-favoured-nation (MFN) basis to imports from all sources including least developed countries.	WT/GC/M/55 (2000)
Hungary	All least developed country exports enter duty-free and quota-free under existing GSP. Customs Law-1996, through legal guarantees, strengthened predictability of the preferential market access to least developed countries. Liberal application of rules of origin requirements.	WT/GC/M/55 (2000) WT/LDC/HL/M/1 (1997)
Iceland	In May 2000, Government proposed to implement both tariff-free and quota-free treatment for essentially all products originating in least developed countries. An appropriate notification would be submitted at the earliest convenience. This treatment would apply to products of export interest to least developed countries including textiles.	WT/GC/M/55 (2000)
India	Preferences granted under the South Asian Preferential Trade Arrangement (SAPTA) to least developed country contracting States. In 1997, India granted tariff concessions on 574 tariff lines exclusively for the least developed country members of the South Asian Association for Regional Cooperation (SAARC), and had removed quantitative restrictions on 180 lines exclusively in favour of SAARC least developed countries. Further, under the existing GSTP, India provided preferential access to seven least developed countries, namely, Bangladesh, the United Republic of Tanzania, Benin, Guinea, Haiti, Mozambique and the Sudan. Under the	WT/LDC/HL/M/1 (1997)

<i>Member</i>	<i>Market access for least developed countries</i>	<i>World Trade Organization document reference (notifications in bold)</i>
	Bangkok Agreement, Bangladesh was given preferential access, and Myanmar and Nepal had preferential access to India under bilateral agreements.	
Indonesia	Announced at the high-level meeting in 1997 its intention to consider initiatives to improve market access for least developed countries.	WT/LDC/HL/M/1 (1997)
Japan	In 1997, under its GSP scheme, Japan applied zero tariffs to 80 per cent of the products that were of major export interest to the least developed countries. From 1 April 2001, a further 360 products (at HS nine-digit level) from least developed countries were made eligible for duty-free and quota-free treatment. About 99 per cent of industrial products, including textiles and clothing, are covered by the scheme. Japan would review further extension of coverage.	WT/COMTD/29 WT/LDC/SWG/IF/12 (2001) WT/GC/M/55 (2000) WT/COMTD/N/2/ Add.1-9 WT/LDC/HL/M/1 (1997)
Korea, Republic of	In January 2000, the Republic of Korea notified preferential duty-free access on 80 items (HS six-digit level) originating from and of major export interest to least developed countries, effective from 1 January 2000. ^b In May 2000, it indicated that it would consider further expanding its existing preferential tariff regime for least developed countries.	WT/COMTD/N/12/ Rev.1 WT/LDC/HL/M/1 (1997) WT/GC/M/55 (2000)
Malaysia	Malaysia announced at the high-level meeting in 1997 the intention to consider initiatives to improve market access for least developed countries.	WT/LDC/HL/M/1 (1997)
Mauritius	Notified effective September 1998, duty-free access for five tariff lines originating from least developed countries. The products comprise certain crustaceans; guavas, mangoes and mangosteens; axes and billhooks; handsaws; and files.	WT/COMTD/W/53 WT/LDC/HL/M/1 (1997)
Morocco	Morocco proposed at the high-level meeting in 1997 preferential access to African least developed countries.	WT/LDC/HL/M/1 (1997)
New Zealand	New Zealand, in November 2000, notified its decision to offer duty- and quota-free access to all imports from least developed countries effective from 1 July 2001. Prior to this, in 1999, 96.7 per cent of its tariff lines and 99.3 per cent of its imports from least developed countries had entered duty-free.	WT/COMTD/27 WT/GC/36 WT/GC/M/55 (2000)

<i>Member</i>	<i>Market access for least developed countries</i>	<i>World Trade Organization document reference (notifications in bold)</i>
Norway	<p>At the high-level meeting, Norway announced that it had, on a MFN basis, accelerated its Uruguay Round tariff cuts on agricultural products by implementing them from 1 January 1995 instead of 1999. Similarly, it had phased out almost all restrictions on textiles and clothing by 1997-1998 instead of 2004. Following harmonization in the application of rules of origin with EC and Switzerland, from 1 March 1998, bilateral cumulation was permitted and the possibility of future diagonal cumulation of origin was being considered.</p> <p>Amendments and improvements to Norway's GSP scheme were notified in 2000-2001. It accords duty-free and quota-free access to all industrial and agricultural imports from least developed countries covered by the GSP programme, with the exception of flour, grains and feeding stuffs; these products are given a preferential margin of 30 per cent within indicative tariff ceilings. Rules of origin requirements have been revised and progressively simplified.</p>	<p>WT/COMTD/N/6/Add.1-2</p> <p>WT/GC/M/55 (2000)</p> <p>WT/LDC/HL/M/1 (1997)</p>
Poland	<p>Since 1990, Poland has applied preferential treatment for products originating from least developed countries and, in May 2000, it announced that it was examining autonomous improvements to the existing preferential system with a view to providing duty-free and quota-free market access for essentially all products originating in least developed countries, in conformity with national legislation and international agreements.</p>	WT/GC/M/55 (2000)
Singapore	<p>Singapore notified, at the high-level meeting, duty-free treatment on 107 items (HS six-digit level) of export interest to least developed countries in addition to the almost duty-free regime accorded on a MFN basis.</p>	WT/LDC/HL/M/1, annex 1
Slovakia	<p>Slovakia provided duty- and quota-free access to all imports from least developed countries through its GSP. It confirmed, in May 2000, that this system would be maintained in the future.</p>	WT/GC/M/55 (2000)

<i>Member</i>	<i>Market access for least developed countries</i>	<i>World Trade Organization document reference (notifications in bold)</i>
Slovenia	In May 2000, Slovenia announced that it was prepared to provide tariff- and quota-free access for essentially all products originating in least developed countries, independent of World Trade Organization membership, consistent with its domestic requirements and international agreements under its newly established preferential scheme. The Government had taken this general decision which would be confirmed through decrees issued.	WT/GC/M/55 (2000)
Switzerland	Switzerland undertook a revision of its preferential tariff schedule and, since its entry into force on 1 March 1997, least developed countries have been able to benefit from zero tariffs for all industrial and most agricultural products. Some 98 per cent of least developed country products have entered Switzerland duty-free under its notified preferential scheme and improvements thereof. Rules of origin for goods benefiting from preferential access were also simplified. Switzerland harmonized its regulations with those of EU and in the near future materials originating not only from Switzerland but also from EU and Norway will enjoy the right of cumulation treatment. Under the new rules of origin, regional economic groupings in developing countries also enjoy the right of cumulation treatment.	WT/COMTD/N/7^c WT/COMTD/W/34 WT/GC/M/55 (2000) WT/LDC/HL/M/1 (1997)
Thailand	At the high-level meeting in 1997, Thailand announced tariff preferences on 74 product groups (at the HS six-digit level), through which some products would be exempted from import duty and others would be given a margin of preference of 20 per cent from the applied rates. This would be subject to an annual review process.	WT/LDC/HL/M/1 (1997)
Turkey	Notified additional preferential tariff rates for imports from least developed countries, effective from 1 January 1998. These unilateral preferential rates apply to 556 products at the HS 12-digit level. All these products except coffee are given duty-free access.	WT/COMTD/W/39 and Corr.1 WT/LDC/HL/M/1 (1997)

<i>Member</i>	<i>Market access for least developed countries</i>	<i>World Trade Organization document reference (notifications in bold)</i>
United States of America	Under the existing GSP system, duty-free access is offered on nearly half the 9,000 products in the United States harmonized tariff schedule. Least developed country-specific improvements to the scheme were notified with the addition of 1,783 tariff lines to GSP treatment for least developed countries as from 30 May 1997, under the GSP Renewal Act of 1996. Under the African Growth and Opportunity Act (AGOA), adopted in May 2000, 34 sub-Saharan countries (including 23 least developed countries) were designated as beneficiaries in October 2000, ^d and can access new GSP benefits for 1,835 tariff lines as from December 2000. ^e AGOA is subject to eligibility criteria including continuous progress towards establishing a market-based economy, maintenance of the rule of law, the elimination of barriers to United States trade and investment, poverty alleviation economic policies, protection of internationally recognized worker rights and a system to combat corruption. Customs-related eligibility requirements also have to be met. The Act establishes a United States Sub-Saharan Africa Trade and Economic Cooperation Forum (ATECF) to facilitate regular trade and investment policy discussions and to promote the use of technical assistance to strengthen economic reforms and development.	WT/COMTD/N/1/Add.3 WT/GC/M/55 (2000) WT/COMTD/N/1/Add.2 WT/LDC/HL/M/1 (1997)

^a Request for a World Trade Organization Waiver for the New ACP-EC Partnership Agreement is currently under consideration (G/C/W/187/Add.3).

^b The preferential scheme was notified and made under the provisions of the waiver adopted by World Trade Organization members in 1999 (WT/L/304).

^c The coverage of the Swiss scheme, particularly in agriculture, was extended considerably to other developing countries.

^d The 34 beneficiaries designated were: Benin, Botswana, Cape Verde, Cameroon, Central African Republic, Chad, Congo, Djibouti, Eritrea, Ethiopia, Gabon, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Uganda, United Republic of Tanzania and Zambia.

^e See WT/COMTD/N/1/Add.3 for product list.

TECHNICAL NOTE NO. 7:*

Existing proposals on bilateral and multilateral investment agreements and practices as regards codes of conduct for transnational corporations and Governments with respect to foreign direct investment

I. Introduction

1. International rule-making on or directly relating to investment issues is multifaceted and spans the bilateral, regional, interregional and multilateral levels. It can take the form of binding or voluntary instruments creating different degrees of obligations.¹

2. **Bilateral** investment treaty making has been particularly active over the past decade.² Bilateral investment treaties (BITs) are designed to promote, protect and facilitate foreign investment. Since the adoption of the first BIT in 1959, the number of such treaties had grown steadily to 385 by the end of 1989 and jumped to 1,941 by the end of 2000. Parallel to BITs, countries are also increasingly concluding agreements for the avoidance of double taxation, the number of which had reached 2,118 by the end of 2000. They address, among other things, the allocation of taxable income, inter alia, with a view to reducing incidents of double taxation. In recent years, bilateral trade agreements have also increasingly addressed investment issues (for example, agreements between Australia and New Zealand, Japan and Singapore, Canada and Chile, and Mexico with Chile, Costa Rica and Nicaragua respectively), as have the association agreements of the European Community.

3. BITs constitute to date the most widely used instrument for the international protection of foreign direct investment (FDI). Their main provisions typically deal with the scope and definition of foreign investment (which in most cases includes tangible and intangible

assets, direct as well as portfolio investments, and existing as well as new investments); entry of investments; national and most-favoured-nation treatment; fair and equitable treatment; guarantees and compensation in respect of expropriation and compensation for war and civil disturbances; guarantees of free transfer of funds and repatriation of capital and profits; subrogation on insurance claims; and dispute settlement provisions, both State-to-State and investor-to-State. In addition, some BITs include provisions regarding transparency of national laws; performance requirements; entry and sojourn of foreign personnel; general exceptions; and extension of national and most-favoured-nation-treatment to the entry and establishment of investments. The exact content of BIT provisions, however, varies considerably, even between BITs signed by the same country.³ BITs have traditionally been negotiated between developing countries seeking to attract international investment and developed countries as the principal homes to foreign investors. Developing countries, as hosts to FDI, concluded BITs in order to create a favourable climate and in some cases to become eligible to participate in political risk insurance programmes organized by capital-exporting countries. The BIT network grew rapidly in the 1990s, as more developing countries and economies in transition signed treaties with a wider range of developed countries and started to sign BITs between themselves.

4. At the **regional** level, only a few instruments are entirely devoted to investment. Particularly well known are the Framework Agreement on the Association of Southeast Asian Nations (ASEAN) Investment Area and the Andean Community's Decision 291. In addition, regional trade agreements have included in recent years investment-related provisions of various kinds. The North American Free Trade Agreement (NAFTA), the Southern Cone Common Market (MERCOSUR) Protocols and the Common Market for Eastern and Southern Africa (COMESA) Treaty are examples. The general aim of these agreements is to create a more favourable investment climate, with a view to increasing the flow of investment within or between regions.

* The preparation of the present technical note was coordinated by the United Nations Conference on Trade and Development (UNCTAD). Staff from the following entities collaborated, in a personal capacity, in its preparation: the Andean Group, the Association of Southeast Asian Nations (ASEAN), the International Centre for Settlement of Investment Disputes (ICSID), the International Monetary Fund (IMF), the Multilateral Investment Guarantee Agency (MIGA), the Organization of American States (OAS), the Organisation for Economic Cooperation and Development (OECD), the South Asian Association for Regional Cooperation (SAARC), the World Bank and the World Trade Organization.

5. At the **interregional** level, the Organisation for Economic Cooperation and Development (OECD) Declaration on International Investment and Multinational Enterprises is perhaps the best-known example. It sets forth non-binding principles and standards addressed to both Governments and enterprises in a framework designed to create a favourable climate for international investment and maximize the positive contribution that transnational corporations (TNCs) can make to economic, social and environmental progress. The OECD Guidelines for Multinational Enterprises, which form an integral part of the Declaration, make recommendations to enterprises on a wide range of business activities, including employment and industrial relations, environment, consumer interests, combating bribery, information disclosure, science and technology, competition and taxation. Their aim is to help TNCs operate in harmony with government policies and with societal expectations wherever they operate. Revised and updated in June 2000, in consultation with business, labour and representatives of other non-governmental bodies, the OECD Guidelines are supported by implementation procedures in the participating countries. The other parts of the Declaration contain commitments by adhering Governments to provide national treatment to established foreign affiliates, to avoid imposing conflicting requirements on enterprises and to cooperate regarding investment incentives and disincentives. All 30 OECD member countries and 3 non-OECD countries (Argentina, Brazil and Chile) adhere to the Declaration. OECD encourages other countries to join the Declaration, and seven countries (Estonia, Latvia, Lithuania, Israel, Singapore, Slovenia and Venezuela) are engaged in adherence proceedings.

6. The OECD Code of Liberalisation of Capital Movements and Code of Liberalisation of Current Invisible Operations constitute legally binding rules, stipulating progressive, non-discriminatory liberalization of capital movements, the right of establishment and current invisible transactions (mostly services). All non-conforming measures must be listed in country reservations against the Codes. The Codes are implemented through policy reviews and country examinations, relying on “peer pressure” to encourage unilateral rather than negotiated liberalization. The Codes were initially adopted in 1961 but have since been revised and expanded in scope. Important recent additions were the right of establishment (1986) and cross-border financial services (1992). For most member countries, remaining reservations against the obligations set out in the Codes relate to FDI, the purchase of real estate by non-residents and the prohibitions

of certain types of securities operations.

7. From 1995 until 1998, negotiations on a Multilateral Agreement on Investment (MAI) took place at OECD. Negotiating countries consisted of all OECD members plus eight other economies from South America, Europe and Asia. The negotiations were unsuccessful.

8. The Energy Charter Treaty and the Asia-Pacific Economic Cooperation (APEC) Non-Binding Investment Principles are other important instruments spanning more than one region.

9. At the **multilateral** level, a number of rules bear on international investment, some binding, others not. The World Trade Organization Agreement on Trade-related Investment Measures (TRIMs),⁴ which entered into force on 1 January 1995, prohibits any TRIM that is inconsistent with the provisions of article III or article XI of the General Agreement on Tariffs and Trade (GATT) 1994. The World Trade Organization General Agreement on Trade in Services (GATS) sets out general principles, obligations, commitments and exemptions governing international trade in services. The World Trade Organization Agreement on Subsidies and Countervailing Measures provides a comprehensive framework of disciplines in this area.

10. The Multilateral Investment Guarantee Agency (MIGA) offers insurance against political risks to foreign investors, and the International Centre for Settlement of Investment Disputes (ICSID) offers a forum for the settlement of investment disputes. Over the past decade, MIGA has provided over \$8 billion in guarantees covering investments in nearly 80 countries and facilitating investments in excess of \$40 billion. ICSID has registered a total of 85 arbitration cases, of which 42 were brought to ICSID under bilateral and multilateral investment protection treaties. The World Bank Guidelines on the Treatment of Foreign Direct Investment, submitted to the Development Committee for its consideration in September 1992, are a non-binding instrument.

11. The International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy addresses issues related to employment, training, conditions of work and life, and industrial relations, and also includes a procedure for the examination of disputes concerning the application of this agreement by means of interpretation of its provisions. Of relevance also are the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices

(A/C.2/35/6, annex), which provide non-binding principles and rules for the adoption, improvement and enforcement of appropriate legislation and procedures for the control of restrictive business practices by domestic firms as well as TNCs. Efforts during the 1980s to adopt a United Nations code of conduct on transnational corporations were unsuccessful.

12. The 1999 Global Compact of the United Nations Secretary-General takes a different approach. It is not a regulatory instrument or code of conduct, but a value-based platform designed to promote institutional learning. It provides a framework for better interaction between TNCs and host countries, utilizing transparency and dialogue to identify and disseminate good practices based on universal principles. The Compact encompasses nine such principles, drawn from the Universal Declaration of Human Rights,⁵ the ILO's Declaration on Fundamental Principles and Rights at Work and the principles contained in the Rio Declaration on Environment and Development.⁶ The Compact asks companies to act on these principles in their own corporate domains. The Compact also supports efforts to enhance the contribution of FDI to development.

II. Proposals

13. It is virtually impossible to establish a comprehensive listing of proposed bilateral instruments containing investment-related provisions; in particular, a large number of BITs and double taxation agreements are negotiated every year. At the regional and multilateral levels a number of initiatives are announced, and are under discussion or negotiation; some details are provided below on a selected number of them. There are also a number of proposals by groups of civil society as regards international investment instruments.⁷

Free Trade Area of the Americas

14. The Free Trade Area of the Americas (FTAA) process was initiated at the First Summit of the Americas held in Miami in December of 1994.⁸ From September 1995 to March 1998, a total of 12 working groups, including a Working Group on Investment, met on a regular basis to prepare the negotiations, which were launched at the Second Summit held in Santiago, Chile, in April 1998. At their Third Summit held in Quebec City from 20 to 22 April 2001, the leaders of FTAA participating countries (in the Declaration of Quebec City, 22 April 2001), directed their ministers responsible for trade

“to ensure that negotiations of the FTAA Agreement are concluded no later than January 2005 and to seek its entry into force as soon as possible thereafter, but in any case, no later than December 2005”.

15. Countries are currently negotiating on a draft agreement dated 3 July 2001. As part of the draft FTAA Agreement, an Investment Chapter is being negotiated. The Negotiating Group on Investment is called upon to develop a framework incorporating comprehensive rights and obligations on investment, taking into consideration the substantive areas already identified by the earlier Working Group on Investment, as well as to develop a methodology to consider potential reservations and exceptions to the obligations. The Negotiating Group on Investment has completed two negotiating rounds and prepared a consolidated draft text of the Investment Chapter. Issues covered in this preliminary version of the Investment Chapter include scope, basic definitions, national treatment, most-favoured-nation treatment, fair and equitable treatment, performance requirements, key personnel, transfers, expropriation, compensation for losses, general exceptions and reservations, dispute settlement, transparency, and the commitments neither to relax domestic environmental laws nor to relax domestic labour laws to attract investment. At their sixth meeting held in Buenos Aires, on 7 April 2001, FTAA Ministers of Trade agreed to publish the first draft of the FTAA Agreement. They instructed the Negotiating Groups “to continue working under the general principle that any delegation has the right to present the text proposals it deems relevant for the effective progress of the process, which may eventually be placed in brackets (Ministerial Declaration, annex I, General Instructions, para. 1)”. Ministers of Trade also recognized that “environment and labour should not be utilized as conditionalities nor subject to disciplines, the non-compliance of which can be subject to trade restrictions or sanctions (ibid.)”. FTAA Ministers of Trade instructed the Negotiating Groups “to intensify efforts to resolve existing divergences and reach consensus, with a view to eliminating the brackets from draft texts, to the maximum extent possible” (Ministerial Declaration, para. 10) and to submit a new version of their respective chapter no later than eight weeks prior to the next Ministerial Meeting, to be held in Ecuador in October 2002. To comply with the second part of its mandate, namely, to develop a methodology to consider potential reservations and exceptions, the Negotiating Group on Investment was instructed “to submit ... its recommendations on modalities and procedures ... in order

to initiate negotiations no later than 15 May 2002 (ibid., annex I, sect. C, para. 1)”.

SAARC Regional Agreement on Investment Promotion and Protection

16. The South Asian Association for Regional Cooperation (SAARC) comprises Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. At the seventh meeting of the Committee on Economic Cooperation of SAARC, held in 1996, the Council of Ministers agreed to initiate specific steps to promote and protect investment and joint venture efforts. Pursuant to that decision, a meeting on Promotion and Protection of Investment had been held in New Delhi on 29 and 30 September 1997 during which modalities for increasing intraregional investment were considered and a draft “SAARC Regional Agreement on Investment Promotion and Protection” was circulated. At the eleventh meeting of the Committee, held in Dhaka, in February 1999, it was decided to convene a second meeting on Promotion and Protection of Investment in India to examine the draft investment agreement and consider the possibility of establishing a SAARC Arbitration Council. A Standing Group on Standards, Measurement and Quality Control has been constituted with a view towards upgrading national standards and evolving harmonized regional standards. In addition, a Regional Agreement on the Avoidance of Double Taxation is being considered.

Southern African Development Community (SADC) Protocol on Finance and Investment

17. The Southern African Development Community (SADC) includes the following countries: Angola, Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe. The Protocol, drafted in March 1998, sets out the basic principles of investment policy. These include, among others, that the pace of privatization in the region should be increased and private-public partnerships encouraged; that foreign and domestic investors should have equal access; that simple, transparent and non-discriminatory procedures for the approval, entry and operation of investment needed to be established; and that investment promotion agencies should shift attention from incentives measures towards policy and administrative reform in order to attract investment.

Resolution of the European Parliament on European Union (EU) Standards for European Enterprises Operating in Developing Countries: Towards a European Code of Conduct

18. This resolution was adopted on 15 January 1999. In it, the European Parliament reiterated its request to the European Commission and the European Council “to make proposals, as a matter of urgency, to develop the right legal basis for establishing a European multilateral framework governing companies’ operations worldwide and to organize for this purpose consultations with companies’ representatives, the social partners and those groups in society that would be covered by the code” (para. 11).⁹

The proposal of the Group of Seven Finance Ministers to the Group of Eight Heads of State and Government

19. At the 2001 Genoa Summit, the Group of Seven (G-7) Finance Ministers made the following proposal:

“The implementation of investment-related best practices as well as the development of international principles, codes and standards can provide guidance for and underpin domestic reform efforts by developing countries. We call on the international financial institutions (IFIs) and other relevant multilateral bodies to intensify their effort to promote implementation of international codes and standards in the context of the policy dialogue with partner countries. We call on the World Bank, in cooperation with other relevant bodies, to step up its work to produce ROSC (Reports on the Observance of Standards and Codes) assessment modules of compliance with corporate governance and accounting standards. Progress in the implementation of standards must be visible in order to allow for the private sector actors to adjust their risk assessment and risk ratings. At the multilateral level, a stable and non-discriminatory investment regime could be brought about and maintained through the establishment of a high-standards framework of investment rules. We also encourage the continued discussion on investment in the World Trade Organization working group and urge the relevant international institutions, in particular the World Bank, OECD, the World Trade Organization and UNCTAD, to continue their cooperative efforts

focusing on best practices with respect to the protection of property rights, investor protection, investment policies, competition-enhancing policies and transparent tax regimes.”¹⁰

Review of the operation of the World Trade Organization Agreement on Trade-related Investment Measures (TRIMs)

20. The TRIMs Agreement provides in article 9 for a review of its operation by the Council for Trade in Goods no later than five years after the date of entry into force of the Agreement Establishing the World Trade Organization. Article 9 envisages that in the context of that review consideration shall be given to whether the Agreement should be complemented with provisions on investment policy and competition policy. The Council had initiated this review in October 1999, in connection with which it recently decided to request the secretariats of the World Trade Organization and UNCTAD to prepare a study of the use of TRIMs and other performance requirements and their effects on trade and development. In the context of the preparatory process for the World Trade Organization Third Ministerial Conference held in Seattle, proposals were made in 1999 regarding possible changes to the TRIMs Agreement. Some of these proposals would have expanded the scope of the Agreement while others would have provided for exemptions for developing countries and for a general extension of the period within which developing countries were required to eliminate TRIMs of which they had notified to the Council. In July 2001, the Council for Trade in Goods adopted decisions under article 5.3 of the TRIMs Agreement that extended the transition period until 31 December 2001 and provided for the possibility of a further extension of that period until 31 December 2003. These decisions apply to Argentina, Colombia, Malaysia, Mexico, Pakistan, the Philippines and Romania. At the same time, the General Council adopted a waiver under article 9 of the World Trade Organization Agreement that accorded a similar extension of the transition period to Thailand.

The General Agreement on Trade in Services (GATS): built-in agenda

21. As part of the built-in agenda of the Uruguay Round of multilateral trade negotiations agreements, negotiations on services have resumed. The first stage of negotiations on services was completed at a stocktaking at the March 2001 meeting of the Council for Trade in Services, which resulted in the adoption of the “Guidelines and Procedures for the Negotiations on Trade

in Services” (S/L/93). These guidelines emphasize development aspects as part of the objectives and principles for negotiations. The “request and offer” approach in the negotiations remains the main method, but other approaches may also be utilized. More than 80 proposals have been submitted to the Special Session of the Council, the majority of them by developed countries. The review of these proposals is at the core of the services negotiations leading into the World Trade Organization Ministerial Conference in Doha.

Further discussions on international investment matters in the World Trade Organization

22. The 1996 World Trade Organization Ministerial Conference, held in Singapore, agreed to begin work of an analytical nature on the “Relationship between trade and investment”. The World Trade Organization Working Group on the Relationship between Trade and Investment, established to undertake this work, examines the links between trade and investment (with regard to FDI and foreign portfolio investment) from several angles, including (a) the implications of the relationship between trade and investment for development and economic growth; (b) the economic relationship between trade and investment; (c) stocktaking and analysis of existing international instruments and activities regarding trade and investment; and (d) the advantages and disadvantages for World Trade Organization members of bilateral, regional and multilateral rules on investment.

23. At the 1999 World Trade Organization Ministerial Conference in Seattle, several World Trade Organization members from developed countries, supported by some developing countries, proposed that a new multilateral framework of rules be negotiated in the World Trade Organization on foreign investment, to complement BITs and regional investment arrangements where these already existed. No consensus on these proposals was reached in Seattle.

24. Discussions among members on this subject continue in the World Trade Organization (including in the Working Group). While the Working Group has concentrated on continuing its examinations of the economic and development impact of FDI, in the context of discussions in the World Trade Organization General Council to prepare for the fourth World Trade Organization Ministerial Conference, a number of members have proposed that negotiations be launched on multilateral investment rules in the World Trade Organization. Other members have

opposed this proposal. Other proposals that were made concern a plurilateral approach to the issue of investment in the World Trade Organization, and a continuation of the study process before entering into discussions of elements for the possible inclusion of investment on the World Trade Organization agenda could be considered. As of the writing of the present technical note, no consensus had been reached.

25. In the light of the multitude and variety of proposals and instruments under discussion and negotiation, the Secretary-General proposed in his report to the Preparatory Committee for the High-Level International Intergovernmental Event on Financing for Development at its second substantive session (A/AC.257/12) that "Member States should consider the convening of ad hoc global hearings to discuss the issues surrounding international investment agreements, in particular the extent to which such agreements can further the development of developing countries" (see boxed boldface text between paras. 51 and 52).

III. Bibliography

26. While there is a considerable literature on existing investment instruments, the literature on proposals for such instruments is limited. UNCTAD regularly reports on developments in this area in its annual *World Investment Reports*. A number of key issues are also addressed in UNCTAD's Series on Issues on International Investment Agreements (which has covered so far: illicit payments; home country operational measures; host country operational measures; social responsibility; environment; transfer of funds; employment; taxation; international investment agreements: flexibility for development; taking of property; trends in international investment agreements: an overview; lessons from the Multilateral Agreement on Investment (MAI); national treatment; fair and equitable treatment; investment-related measures; most-favoured-nation treatment; admission and establishment; scope and definition; transfer pricing; and foreign direct investment and development). The executive summaries of these studies are available on the Internet (at <http://www.unctad.org/iia>).

27. Useful background information can also be found in:

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Notes

- 1 For a complete collection of existing instruments in this area see UNCTAD (1996, 2000a and forthcoming).
- 2 For a survey of the existing network of BITs, see UNCTAD (2000b).
- 3 For an in-depth comparative analysis of BIT clauses, see UNCTAD (1998).
- 4 See *Legal Instruments Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh on 15 April 1994* (GATT secretariat publication, Sales No. GATT/1994-7).
- 5 General Assembly resolution 217 A (111).
- 6 *Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992*, vol. I, *Resolutions Adopted by the Conference* (United Nations publication, Sales No. E.93.I.8 and corrigendum), resolution, annex I.
- 7 For examples, see UNCTAD (1996, 2000a, forthcoming).
- 8 This initiative involves the following 34 countries: Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and Grenadines, Suriname, Trinidad and Tobago, Uruguay, the United States of America and Venezuela.
- 9 UNCTAD (2000a).
- 10 Paragraph 24 of the report on “Debt relief and beyond”, transmitted by the Group of Seven Finance Ministers to the Group of Eight Heads of State and Government at the Group of Eight Summit held in Genoa in July 2001.

TECHNICAL NOTE NO. 8*:

Existing proposals on financial crisis prevention, including operation of early warning systems and transparent and predictable international financial markets

I. Introduction

1. Financial crises pose very serious problems for economies everywhere, but they are especially damaging for developing and transition economies. Not only can financial crises slow growth, but they can also lead to declines in output and investment, increase poverty and unemployment, and undermine the credibility of national and international institutions. Thus, policies to enhance financing for development should include ways to help reduce the number and severity of such crises.

2. The 1997-1999 crisis, which began in Asia but spread to many parts of the world, led to numerous calls for creating a “new international financial architecture”. While such a large-scale overhaul did not occur, a number of important changes have taken place. Some of the most significant innovations relating to crisis prevention include: (a) an increase in the information available about countries’ economic and financial situation, especially through the International Monetary Fund (IMF) Special Data Dissemination Standard, which is in the process of being strengthened through guidelines on debt and reserves; (b) an increase in information on the international financial institutions’ own programmes and activities; (c) agreement to implement 11 “standards and codes” on monetary and financial policy transparency, fiscal transparency, banking supervision, securities, insurance, payments systems, corporate governance, accounting, auditing, and insolvency and creditors’ rights; (d) proposals — whose implementation has been postponed — for a revision of the Basel Capital Accord; (e) greater recognition by the international financial institutions (IFIs) that financial and capital-account liberalization needs to be a gradual process, accompanied by

adequate regulation and supervision; (f) greater recognition by all actors that the private sector must be incorporated into efforts towards crisis prevention; and (g) increased funding for the IFIs and new credit facilities, including the Contingent Credit Line (CCL) which was designed specifically to combat contagion, although it has yet to be used.

II. Proposals

3. Despite these developments, many challenges remain with respect to preventing financial crises. The proposals that are listed below involve a number of levels for action: financial and economic management for both developed and developing countries, international surveillance and regulation, regional innovations to complement measures at the international level, the role of the private sector, and early warning and data issues. They are arranged roughly according to these categories, although there is often overlap within a given proposal.

4. Given the plethora of new ideas that have emerged since the Asian crisis, and the changes that have occurred, the present note focuses on proposals presented in more recent years. In the list that follows, the origin of the proposal and the intergovernmental body to which the proposal has been presented have been identified except in the case of ministerial communiqués (for example, the Intergovernmental Group of Twenty-four (G-24) ministerial communiqués are regularly presented to the IMF International Monetary and Financial Committee and the joint IMF/World Bank Development Committee and the results of the United Nations conferences are regularly presented to the General Assembly).

Financial and economic management

1. *Origin:* Meeting of Group of Seven (G-7) Finance Ministers, Rome, Italy, July 2001

Proposal: “Opening access to capital markets is a complex process that cannot be addressed by a standardized, one-size-fits-all approach. The goal of the

* The preparation of the present technical note was coordinated by the Economic Commission for Latin America and the Caribbean (ECLAC). Staff from the following entities collaborated, in a personal capacity, in its preparation: other United Nations regional commissions, the Department of Economic and Social Affairs of the United Nations Secretariat, the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) and various academic institutions.

- international community should be to help countries adopt the appropriate policies towards gaining sustained access to global capital markets, while the final responsibility for adopting those policies rests with the individual countries” (report of G-7 Finance Ministers and Central Bank Governors, 7 July 2001, para. 26).
2. *Origin:* United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report, 2001*
Presented to: UNCTAD Trade and Development Board
Summary of the proposal: The report proposes that “controls on capital inflows should be a permanent feature of policy, to be used flexibly and in the light of circumstances. The techniques available to control inflows are well known and have been discussed at length in past issues of *Trade and Development Report*” (United Nations publication, Sales No. E.01.II.D.10).
 3. *Origin:* Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, December 2000 (A/AC.257/15)
Presented to: Preparatory Committee
Proposal: “The general view was that exchange-rate regimes cannot be discussed independently of the underlying capital-account regime. Any recommendations for exchange-rate regimes have to take into account the economic conditions in each individual country. Given that these differ, the appropriate regime will also differ across countries. Between the extremes of freely floating exchange rates on the one hand and strictly fixed exchange rates on the other, there exists a range of intermediate solutions which may fit the specific circumstances of individual countries” (paras. 57 and 58).
 4. *Origin:* Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, December 2000 (A/AC.257/15)
- Presented to:* Preparatory Committee
Proposal: “The strengthening and restructuring of the financial sector will not be possible without a coherent national regulatory framework. Regulatory reform is therefore a necessary condition for reducing the probability of financial crises and, when they occur, limiting their adverse effects” (para. 53).
5. *Origin:* Economic Commission for Latin America and the Caribbean (ECLAC) secretariat, “Growth with stability: financing for development in the new international context” (LC/G.2117 (CONF.89/3))
Presented to: Governments of Latin America and the Caribbean at the Regional Consultation on Financing for Development, Bogota, Colombia, November 2000 (A/AC.257/17)
Proposal: “The first element of any crisis prevention policy is consistent and flexible macroeconomic management of booms. This management should be oriented towards preventing public and private agents from accumulating large debts, and towards avoiding imbalances in the most important prices, especially the exchange rate and prices of national assets (financial assets and real estate) ... The authorities must strive to establish a structural balance — and even a surplus — in public finances in order to help strengthen the economy’s capacity to save and to give themselves more room to manoeuvre in managing the business cycle ... Monetary and exchange-rate policies should be geared towards preventing short-term booms from leading to excessively rapid increases in external and internal credit to the private sector and unsustainable surges in real exchange rates. These measures will be more effective if they are accompanied by prudential regulations on capital inflows, the prudential regulation and supervision of financial systems, and an explicit ‘liability poli-

- cy' aimed at improving the time profile of public and private debt" (see sect. II).
6. *Origin:* Financial Stability Forum (FSF), Working Group on Capital Flows
Presented to: Member Governments of FSF, April 2000
Proposal: "The need for the development of domestic bond markets has been highlighted by recent financial crises. The risky debt structure of the sovereign and corporate sectors, characterized by heavy concentration in short-term and foreign currency debts as a result of the lack of developed domestic bond markets, has often been blamed as the cause of many crises. In the absence of developed domestic financial markets, even countries without a net external financing requirement can incur external or foreign currency mismatches ... The Government can, in normal times, benefit by having a full array of instruments that it can use for funding, so that it will not have to rely on money creation or foreign currency borrowing. Moreover, debt financing needs rise rapidly in the aftermath of financial crises, as corporate and bank restructuring entails huge costs ... In the case of corporations, equity markets have a great role to play as a provider of risk-absorbing long-term capital to finance the firm. Financing through equity issuance will in some cases allow for a better match between the assets and liabilities of the firm than the match available through bond financing. Clearly, well-functioning equity markets are important for the management of risks" (report of the Working Group, 5 April 2000, paras. 120-122).
7. *Origin:* Financial Stability Forum, Working Group on Capital Flows
Presented to: Member Governments of FSF, April 2000
Proposal: "Many developed and emerging countries have benefited from capital mobility. However, large-scale inflows may have adverse effects on an economy if, by putting unwelcome upward pressure on the exchange rate, they complicate the conduct of domestic monetary policy. Large-scale inflows of short-term claims are also a source of potential vulnerability, as new inflows may cease or existing claims may not be rolled over ... The use of controls on capital inflows may be justified for a transitional period in the face of very strong inflows or as countries strengthen the institutional and regulatory environment in their domestic financial systems ... But it is vital that controls should not be seen as providing a way of allowing countries to pursue unsound macroeconomic policies or to delay activities to strengthen the financial system" (ibid., paras. 110 and 115).
8. *Origin:* Towards a new international financial architecture: report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations, United Nations 1999
Proposal: "The crisis has made evident the need to enhance the coherence of macroeconomic policies in industrialized countries, in order to avoid both inflationary and deflationary biases at the global level. The design of international institutions and policies must include, in the first place, clear incentives for national authorities in the industrialized world to maintain their economies at close to full employment while at the same time avoiding inflation. This will have favourable effects not only for these economies, but also for the world at large" (see sect. 4, first paragraph).
- International surveillance, standards and codes**
9. *Origin:* Managing Director, IMF
Presented to: International Monetary and Financial Committee, April 2001
Proposal: "IMF needs to work even harder to put crisis prevention at the heart of its activities. In particular, we

have to find ways to sharpen our analysis, reach concrete conclusions, and use these more effectively in the Fund's policy advice, as well as in underpinning members' political will and ability to take early and pre-emptive action. In this context, the risks for the global financial system from possible imbalances in advanced economies need to be addressed with the same vigour as those posed by developments in emerging market economies."

10. *Origin:* Intergovernmental Group of Twenty-four on Monetary Affairs (G-24), ministerial communiqué, Washington, D.C., 23 September 2000 and April 2001

Proposal: "Ministers recognize the positive aspects of the development of international codes, standards, and best practices in the spheres of data dissemination, fiscal transparency and transparency in monetary and financial policies, and the management of debt as well as reserves. However, they note that the participation of developing countries in discussions on the development of these standards and codes has been limited, and they call for a more inclusive process. Ministers continue to underline the voluntary nature of implementing such codes and standards, taking into account the particular institutional capacities and stage of development of each country. They also stress the importance of the availability of appropriate technical assistance where needed. Ministers find the application of codes and standards to be highly asymmetric. Standards in the area of transparency are being pressed upon developing countries without a commensurate application of corresponding obligations for disclosure by financial institutions, including currently unregulated highly leveraged institutions. Ministers would insist that any monitoring of standards and codes within the corresponding competencies of the Bretton Woods institutions should be done on a strictly

symmetric basis. Moreover, compliance with such standards and codes should not be prematurely integrated into the Article IV consultation process and must not become a conditions for use of IMF resources" (ministerial communiqué of 23 September 2000, para. 14).

11. *Origin:* Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development at its second substantive session (A/AC.257/12), United Nations, 18 December 2000

Presented to: Preparatory Committee

Proposal: "The high-level event should underline the importance of full and symmetric surveillance of all national and regional economies by IMF on behalf of the international community. Such surveillance should continue to emphasize the systemic consequences of national economic developments and policies, taking into account the differences in circumstances among countries. The content and nature of multilateral surveillance should continue to be kept under review, adapted and strengthened as the world economic and financial environment evolves" (boxed boldface text between paras. 154 and 155).

12. *Origin:* Governments at the Regional Consultative Meeting on Financing for Development in the Asia and Pacific Region, August 2000, Jakarta, Indonesia (A/AC.257/13)

Presented to: Preparatory Committee

Proposal: "It was suggested that IMF surveillance over the macroeconomic and financial policies of major industrialized countries must be strengthened, particularly with a view to their impact on international capital flows, exchange rates and the debt burden of developing countries" (para. 45).

13. *Origin:* Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, November 2000 (A/AC.257/16)

- Presented to:* Preparatory Committee
Proposal: “In view of the growing size and integration of financial markets, the prevention of a crisis is a concern for many countries and not only for the one immediately affected. Global surveillance of national policies is therefore called for ... A major factor in the failure of IMF surveillance procedures so far has been their unbalanced nature that gives too little recognition to the disproportionately large global impact of monetary policies of major industrialized countries. In fact, financial crises in emerging countries are often connected to major shifts in monetary and exchange-rate policies of industrialized countries. Even though these shifts affect their development policies, developing countries lack mechanisms under the existing system to redress their negative impact” (para. 63).
14. *Origin:* Report of the Regional Consultative Meeting on Financing for Development in the African Region, and Preparatory Meeting for the Third United Nations Conference on the Least Developed Countries, Addis Ababa, Ethiopia, November 2000 (A/AC.257/14)
Presented to: Preparatory Committee
Proposal: “While the proposed measures to reform the international architecture were acknowledged, such as early provision of information, the need to strengthen accountability and transparency, and the need to improve regulation and supervision, it was noted that reform should be undertaken with a view to developing a level playing field in the implementation of a rule-based system in the management of international capital flows. African countries should have a greater say in the functioning of a more transparent international financial system. The main priority for African countries is to ensure that the new international financial system facilitates efficient capital flows from developed countries to Africa” (para. 34).
15. *Origin:* Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, November 2000 (A/AC.257/16)
Presented to: Preparatory Committee
Proposal: “The current practice in financial regulation and supervision is for the Bank for International Settlements (BIS) to formulate standards expected to be applied by national authorities, rather than to establish a global regulatory agency. There are, however, three sets of problems with this procedure. First, BIS standards do not properly account for risks in international lending. Second, BIS standards are designed to protect the international banking system, not the debtor developing countries. Third, there are potential problems for developing countries in this approach, which applies indiscriminately to all countries irrespective of their levels of development and different institutions. It was advocated that the adoption of such standards should be voluntary and that it should recognize variations among countries. Moreover, the adherence to such standards should not become part of the IMF conditionality” (para. 60).
16. *Origin:* UNCTAD *Trade and Development Report, 1999*
Presented to: UNCTAD Trade and Development Board
Summary of the proposal: The Report suggests that a remedy for the asymmetries in existing surveillance practices might be to use “a mechanism analogous to that used for settling disputes in international trade, where disagreements over the impact of macroeconomic and financial policies could be taken up and their resolution sought” (United Nations publication, Sales No. E.99.II.D.1).
- Regional role in crisis prevention**
17. *Origin:* Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for

Development at its second substantive session, December 2000 (A/AC.257/12)

Presented to: Preparatory Committee

Proposal: “The high-level event should endorse the principle that arrangements among groups of countries for mutual surveillance are a useful supplement to multilateral surveillance, and should encourage developing and transition economy countries to engage in such exercises. The international financial institutions and such other entities should work closely together to mutually reinforce their respective surveillance and policy coordination endeavours” (boxed boldface text between paras. 155 and 156).

18. *Origin:* Asia and the Pacific Region Governments at the Regional Consultative Meeting on Financing for Development, August 2000, Jakarta, Indonesia (A/AC.257/13)

Presented to: Preparatory Committee

Proposal: “Strong support was expressed for increasing regional cooperation in monetary and financial matters as a means of promoting development and improving prevention and management of financial crises. Measures to increase cooperation were viewed as being complementary to the process of reforming international financial architecture. The discussions on reform so far have tended to ignore the importance of developing a regional financial architecture. It was generally felt that the Asia and Pacific region had great potential for increasing regional cooperation.

- “• Implementation of regional cooperation should be a phased process, beginning with those measures that are easiest to implement.
- “• The use of the inter-bank swap arrangements agreed in Chiang Mai, Thailand (at a meeting of Finance Ministers of the Association of South-East

Asian Nations (ASEAN) Countries, China, Japan and the Republic of Korea held on 6 May 2000), should allow for the participation of countries at different levels of openness and development in regional arrangements. They provide the potential for deeper cooperation in this area.

- “• Another area for regional cooperation involves establishing a level and regulatory framework for international banks operating in the region” (paras. 49-50).
19. *Origin:* Towards a new international financial architecture: report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations, January 1999
- Proposal:* “Most proposals for the reform of the international financial architecture involve strengthening a few international institutions. It can be argued that stronger regional and sub-regional institutions can play a significant role, in terms of both the stability of the world financial system and the balance-of-power relations at the international level. The experience of Western Europe, from the Payments Union in the early post-war years to the European Union (EU) and the euro today, suggests that regional financial organizations and arrangements can play an essential stabilizing role. More limited experiences at a regional level, including regional and subregional development banks and a few reserve funds, indicate that they can also play an important role in a new international financial architecture ... Strong regional reserve funds would at least partially deter would-be speculators from attacking the currencies of individual countries and thus, among other dire effects, from threatening regional trade and financial relations. They could also supplement the IMF

funds in times of difficulty ... The design of the new architecture could thus introduce special incentives to develop such institutions. For instance, common reserve funds could be given special automatic access to IMF financing and/or a share in the allocation of special drawing rights (SDRs)” (sect. 9, first and second paragraphs).

20. *Origin:* Asian Finance and Central Bank Deputies, member Governments of the Manila Framework, 18 and 19 November 1997 (Agreed summary of discussions)

Proposal: “Deputies agreed on the need and desirability of a framework for regional cooperation to enhance the prospects for financial stability. This framework, which recognizes the central role of IMF in the international monetary system, includes the following initiatives: (a) a mechanism for regional surveillance to complement global surveillance by IMF; (b) enhanced economic and technical cooperation, particularly in strengthening domestic financial systems and regulatory capacities; (c) measures to strengthen IMF’s capacity to respond to financial crises; and (d) a cooperative financing arrangement that would supplement IMF resources” (para. 3).

Private sector role in crisis prevention¹

21. *Origin:* Communiqué of the International Monetary and Financial Committee

Presented to: IMF, Washington, D.C., 16 April 2000

Proposal: “The Committee underscores the importance of prevention as the first line of defence against crises. Countries participating in international capital markets and their private creditors should seek, in normal times, to establish a strong, continuous dialogue. Collective action clauses could have an important role to play in facilitating orderly crisis resolution” (para. 12).

22. *Origin:* Commonwealth Finance Ministers, Grand Cayman, Cayman Islands, 21-23 September 1999 (communiqué)

Proposal: “Ministers emphasized the importance of ensuring stability in the global financial system through increased transparency and disclosure by financial institutions, particularly relating to the activities associated with heavily leveraged institutions (HLIs); and continuing to consider closer oversight of institutions lending to HLIs. They stressed the importance of action to alter banking regulations that encouraged excessive short-term lending to countries” (para. 17).

23. *Origin:* G-24, ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: “Ministers recognize that the role of private capital flows will continue to expand in an increasingly integrated global economy. Therefore, it is difficult to visualize the prevention or resolution of financial crises without direct and timely private sector involvement. In this regard, the major challenge for the international community is to develop a market-friendly strategy for involving the private sector in a manner that does not disrupt or unduly raise the cost of capital flows to developing countries. Ministers suggest that any strategy should minimize spillover effects on other borrowers. They encourage further progress towards voluntary arrangements for private sector participation before crises arise, such as through contingent credit lines, embedded call options, and debt-service insurance. Other provisions are also needed to cover both crises prevention as well as resolution, including bankruptcy procedures, the establishment of creditor-debtor councils, and in extreme cases the possibility of a standstill of debt repayments. In addition, Ministers stress the importance of symmetric disclosure of relevant information as between the private and public sectors” (para. 4).

Early warning systems and other data issues

24. *Origin:* Managing Director, International Monetary Fund, International Monetary and Financial Committee, April 2001

Proposal: “Highest on our agenda for the coming months should be further work on early warning systems. There is a need to combine quantitative indicators of vulnerability with judgement from the field and from the markets.”

25. *Origin:* ECLAC secretariat, “Growth with stability: financing for development in the new international context”

Presented to: Governments at the Regional Consultation on Financing for Development in the Latin American and Caribbean Region, Bogotá, Colombia, November 2000 (see A/AC.257/17 for summary)

Proposal: “Rating agencies are among the main private institutions responsible for providing information to investors. Their performance during the financial crisis was unsatisfactory ... Rather than mitigate financial cycles (which is what a good information system should do), they have tended to exacerbate them. For this reason, the Governments of developed countries, perhaps with the support of multilateral financial institutions, must spur private institutions to rate sovereign risk using strict and objective parameters that are known to the public.”

26. *Origin:* Financial Stability Forum (FSF), Working Group on Capital Flows (report (5 April 2000))

Presented to: Member Governments of FSF

Proposal: “Serious efforts have been made by the international community to enhance aggregate data on external debt and capital flows, which are key ingredients for the assessment of vulnerabilities. These efforts must be supported, and the importance of their success highlighted, if they are to maintain the

needed momentum. However, while significant progress has been made, there remain gaps in the availability of data necessary for comprehensive risk analysis, as well as apparent inconsistencies in data from different sources ... Important gaps remain in national external debt statistics, especially regarding the assessment of liquidity risk: data by residual maturity rather than original maturity; by face value as well as market value; with a distinction by currency as well as residency; information on embedded put options in bond contracts; and amortization schedules (including interest payments)” (paras. 138 and 151).

27. *Origin:* International Organization of Securities Commissions (IOSCO)/ Emerging Markets Committee (EMC), “Causes, Effects and Regulatory Implications of Financial and Economic Turbulence in Emerging Markets”, Montreal, Canada, November 1999

Presented to: Member Governments

Proposal: “Economists, analysts, and credit rating agencies play an important role in highlighting potential fault lines in the corporate and financial sectors. That credit rating agencies could have done a better job at predicting the crisis, for example, points to the need for more effective early warning systems ... Among the areas that may merit regular and comprehensive examination are institutional control mechanisms and risk management systems, asset concentration and exposures, disclosure requirements, activities requiring specific approval, and accounting and regulatory standards compliance.”

Notes

1 See also technical note by the Secretary-General entitled “Existing proposals for improved or new processes for coordinated debt restructuring (prevention and treatment of debt problems) in order to sustain growth and support economic and social development” (A/AC.257/27/Add.5), sect. entitled “Proposals for engagement of debtor countries with their creditors”.

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TECHNICAL NOTE NO. 9:*

Existing proposals to ensure availability of sufficient international liquidity in order, inter alia, to avoid unnecessary recessive adjustment process

I. Introduction

1. Even with appropriate preventive policies adopted at the international and national levels, it is very probable that financial crises will continue to arise. Calls are made for the creation of adequate multilateral mechanisms to manage them, which preferably should also have a preventive function. Equally important are the domestic measures that should accompany international action.

2. There are essentially three ways to confront international financial crises. The first would be to create an emergency financing service, which partially replicates, on the international level, the “lender of last resort” functions of central banks. The second option is to accept that the countries affected by the crisis have to temporarily suspend their debt service and outflows of portfolio capital. An alternative to unilateral measures by crisis countries is defining orderly multilateral rules for this type of action. The two options are not mutually exclusive. Indeed, the second may be necessary to ensure adequate distribution of the adjustment burdens between debtors and creditors and to avoid the “moral hazard” problems associated with emergency financing. A third way (which would also reduce moral hazard) is that of macroeconomic adjustment by the crisis country, often associated with an International Monetary Fund (IMF) programme. The proposals below address the three ways mentioned here.

II. List of proposals

3. In the list that follows, the origin of the proposal and the intergovernmental body to which the proposal was presented have been identified except in the case of

* The preparation of the present technical note was coordinated by the Economic Commission in Latin America and the Caribbean (ECLAC). Staff from the following entities collaborated, in a personal capacity, in its preparation: other United Nations regional commissions, the Department of Economic and Social Affairs of the United Nations Secretariat, the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD).

ministerial communiqués (for example, the Intergovernmental Group of Twenty-four on International Monetary Affairs (G-24) ministerial communiqués are regularly presented to the IMF International Monetary and Financial Committee and the joint IMF/World Bank Development Committee and the results of the United Nations conferences are regularly presented to the General Assembly).

On international liquidity

Reviving special drawing rights (SDRs)

1. *Origin:* Report of the High-level Panel on Financing for Development, United Nations, June 2001 (see A/55/1000)

Presented to: Secretary-General of the United Nations

Proposal: “Consideration should also be given to reviving the special drawing rights (SDRs) created by IMF in 1970. The original intent of the SDR system was to allow international reserves to be increased, in line with need, without imposing real costs on the average country. In effect, no allocation has been made since 1981. Developing countries have had a strong need in recent years to build up reserves to reduce their vulnerability to crises, and have financed this build-up either by running current-account surpluses or by borrowing on terms much more onerous than those associated with SDRs. The result is a large flow of what is sometimes called ‘reverse aid’. To prevent it or at least reduce it, IMF ought to resume SDR allocations” (see recommendations of the Panel, sect. entitled “Systemic issues: innovative sources of finance”).

2. *Origin:* Report of the Secretary-General to the Preparatory Committee for the

High-level International Intergovernmental Event on Financing for Development at its second substantive session, United Nations, 18 December 2000 (A/AC.257/12)

Presented to: Preparatory Committee

Proposal: “The high-level event should suggest that, in view of the possibility of multiple and simultaneous financial crises, IMF, in cooperation with other relevant international institutions, undertake an assessment of the global capacity to respond to emergency needs for international liquidity, including the feasibility of temporary allocations of special drawing rights” (boxed boldface text between paras. 159 and 160).

3. *Origin:* Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

Presented to: Preparatory Committee

Proposal: “The practice so far has been to provide assistance coordinated by IMF, to countries facing capital-account problems, after the collapse of currencies, in the form of bail-outs designed to meet the demand of creditors, maintain capital-account convertibility and prevent default. Such assistance has been associated with policy conditionality that went at times beyond macroeconomic adjustment. In other words, efforts have aimed at sparing hazard for international lenders and investors by putting the burden on debtors. To redress this situation, in addition to the role of IMF in providing current-account financing, ensuring systemic stability also requires contingency financing to countries experiencing payment difficulties linked to the capital account. Issuing reversible SDRs for use in the provision of international liquidity should be considered. The terms under which IMF would play the role of lender of last resort should be worked out” (para. 65).

4. *Origin:* Economic Commission for Latin

American and the Caribbean (ECLAC) secretariat, “Growth with stability: financing for development in the new international context” (LC/G.2117 (CONF.89/3))

Presented to: Latin American and Caribbean Governments at the Regional Consultation on Financing for Development in the Latin America and the Caribbean Region, Bogotá, 9 and 10 November 2000 (see A/AC.257/17 for summary)

Proposal: “To respond flexibly to financing needs during times of crisis, IMF’s resources should be expanded considerably. Among the available alternatives, the most appropriate one is the temporary allocation of SDRs to member countries during crises. Those that do not face financing needs would keep these resources on deposit with the Fund itself in interest-bearing accounts. These temporary allocations could later be destroyed in order to avoid generating permanent liquidity. Another option would be to allocate the SDRs exclusively to member countries in crisis, which would repay IMF after the crisis subsides, at which time the SDRs would be destroyed. The third possibility is for IMF to make an allocation of SDRs to itself for use during times of crises. The latter two options would require the amendment of the IMF Articles of Agreement.¹ Of course, greater use of SDRs in the international financial system is an end in itself, which has long been advocated by developing countries” (chap. 2, sect. 4 (a), last paragraph).

5. *Origin:* G-24 ministerial communiqué, 23 September 2000, Washington, D.C.

Proposal: “Ministers reiterate their support for the study of a systemic emergency facility that could decisively underpin confidence in the international system when confronting extremely severe market crises. In this regard, Ministers recall proposals for IMF to be authorized in the event of a systemic liq-

uidity crises to provide, through the temporary creation of SDRs, additional liquidity as needed — and to withdraw it when the need has passed. Ministers reiterate their call for a study of this matter and propose its discussion at the autumn 2001 International Monetary and Financial Committee meeting” (para. 23).

6. *Origin:* G-24, ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: “Ministers consider that the SDR instrument should be more readily used to supplement members’ reserves at times of liquidity uncertainties. The present circumstances, in which developing countries are faced with a sharp contraction in capital flows and very high interest rate spreads, justify in our view a sizeable general SDR allocation. Such a strengthening of members’ reserves would also give more confidence to members seeking a greater integration into the world economy” (para. 15).

7. *Origin:* Report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations entitled “Towards a new international financial architecture”, 21 January 1999
Presented to: General Assembly and Economic and Social Affairs

Proposal: “IMF resources should be enlarged in order to enable it to enhance the stability of the international financial system. Three channels can be considered. First, effective and swift mechanisms should be devised to increase its access to official funds in times of crises. Second, it could be granted authorization to borrow directly from financial markets under those circumstances. Third, and perhaps most importantly, SDRs could be created when several members face financial difficulties. The SDRs thus created would be destroyed as borrowings were paid. These mechanisms would facilitate the creation of additional liquidity at times of crises, without the

painstaking negotiations of quota increases or arrangements to borrow. Moreover, current arrangements to borrow exhibit the shortcoming that they are activated only under systemic threat and after the approval of the suppliers of funds, with the corresponding delays in making new funds available to the Fund and the countries in distress. Indeed, the anticyclical use of SDRs to manage financial cycles should be part of a broader process aimed at enhancing their use as an appropriate international currency for a globalized world” (sect. 5, third paragraph).

Improved IMF facilities

8. *Origin:* United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report, 2001* (United Nations publication, Sales No. E.01.II.D.10)

Presented to: UNCTAD Trade and Development Board

Proposal: “Given the increased instability of the external trading and financing environment of developing countries, an effective reform of the Bretton Woods institutions should seek to improve, not eliminate, counter-cyclical and emergency financing for trade and other current transaction” (overview, sect. entitled “Reforming the international financial architecture”, seventeenth paragraph).

9. *Origin:* Report of the Managing Director to the International Monetary and Financial Committee on IMF in the process of change, 25 April 2001

Presented to: International Monetary and Financial Committee

Proposal: “Executive Directors agreed that less intensive monitoring arrangements than under other Fund facilities would be appropriate for members that had strong track records on policies and qualified for the CCL (Contingent Credit Lines). Executive Directors also agreed that the conditions for comple-

menting the activation review should be simplified to ensure the member using the CCL of greater automaticity in the disbursement of resources. In addition, the Board reduced the initial rate of charge to half of the surcharge under the Supplemental Reserve Facility (SRF) and also reduced the commitment fee on CCL resources” (para. 18).

10. *Origin:* President of the Inter-American Development Bank

Presented to: Eighty-second meeting of the Committee of the Board of Governors, Santiago de Chile, 18 March 2001

Proposal: “Emergency assistance: the bank should provide support in emergency situations caused by financial market volatility, as has occurred during recent years. It should be noted, though, that it is not the responsibility of multilateral development banks to take an active part in resolving financial crises, which should mainly be dealt with by IMF. However, alleviating the impact such crises have on the masses directly concerns development banks’ responsibilities. One of the main factors in the setback in the fight against poverty over the past few years has been the dramatic impact of recent crises on the standard of living of the working class, massive disappearance of small and medium-sized enterprises, and the resulting increase in unemployment.”

11. *Origin:* G-24 ministerial communiqué, 23 September 2000

Proposal: “Ministers note the intensive efforts currently under way for reforming IMF facilities and hope that the latest decisions of IMF’s Executive Board — especially the elements relating to making the CCL more attractive — would constitute an important improvement in the operation of the facilities. They note, in particular, that the preventative character of the CCL has been considerably strengthened by the proposed greater automaticity of its activa-

tion by countries faced with contagion. Ministers also welcome the increased incentives that the CCL could provide to eligible countries to maintain good policies. They urge the international community to support the early eligibility of interested members. Ministers underscore the following imperatives in the future evolution of IMF’s various facilities. First, there should be sufficient flexibility in the administration of the facilities to meet the diverse requirements of IMF’s heterogeneous membership, given their different stages of development and the variety of shocks affecting them. In this context, Ministers propose that, should the present level of oil prices be sustained, access under the Compensatory Financing Facility and the Poverty Reduction and Growth Facility (PRGF) should be more flexible. Second, changes in the facilities must not jeopardize the fundamental cooperative character of IMF. Third, IMF financing should be complementary to borrowing from capital markets rather than a substitute, in view of the fact that structural reforms take relatively longer to formulate, implement, and bear fruit, depending on the country’s degree of integration into the global economy” (para. 19).

12. *Origin:* G-24 ministerial communiqué, 15 April 2000, Washington, D.C.

Proposal: “Ministers express serious concern about proposals for the reform of the Bretton Woods institutions in ways that would deprive access to either IMF or World Bank Group resources for any group of members, and especially for the poorer members whose eligibility for other sources of assistance is dependent upon the catalytic role performed by the Bretton Woods institutions. They regard proposals for raising the cost of access to the Bretton Woods institution facilities as shifting the burden of resource provision from one set of developing countries to another. In this context, Ministers have strong

reservations regarding any significant shortening of maturities for IMF facilities that are provided in support of members experiencing balance-of-payments disequilibria of a structural character and that could not be corrected in short order. They call for further work on how the CCL could be modified to improve incentives for its use through moderating its cost, reducing the potential risk of sending negative signals to markets, and simplifying procedures on its activation. Ministers underscore the importance for the Bretton Woods institutions to maintain a range of instruments to address the needs of their diverse memberships” (para. 8).

Regional monetary funds

13. *Origin:* Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, 6 and 7 December 2000 (A/AC.257/15)

Presented to: Preparatory Committee

Proposal: “... the recent financial crises in Asia and the Russian Federation have also shown that international capital movements are inherently unstable and can trigger severe financial (banking, currency, debt) crises, with attendant severe economic and social costs. In view of their strong dependence on foreign capital, developing countries and transition economies are especially vulnerable to the excessive volatility of such flows. Efforts to mitigate or prevent such financial crises should therefore be at the top of the policy agenda. This is all the more urgent because such crises reflect the impact of both policy failures and market failures” (para. 50).

14. *Origin:* ECLAC secretariat, “Growth with stability: financing for development in the new international context” (LC/G.2117 (CONF.89/3)) (see A/AC.257/17 for a summary thereof)

Presented to: Latin American and Caribbean Governments at Regional

Consultation on Financing for Development in the Latin American and the Caribbean Region, Bogotá, 9 and 10 November 2000

Proposal: “Considering that financial contagion has a significant regional component, the existence of regional funds would have important advantages over an architecture with only a global fund. The first advantage lies in the possibility of changing financial agents’ expectations and behaviour towards the region as a whole, thus preventing contagion. With expanded international reserves provided by other members of the fund, and perhaps also lines of credit (including contingent lines) obtained by the fund on international markets on better terms and in larger quantities than individual countries, the participating countries would have much stronger defences against crises. As has already been noted, the fund could also play a major role in the efforts to coordinate macroeconomic policies and prudential norms” (chap. 2).

15. *Origin:* Asia and the Pacific Region Governments at Regional Consultation on Financing for Development in the Asia and Pacific Region, 2-5 August, 2000, Jakarta, Indonesia

Presented to: Preparatory Committee

Proposal: “It was generally felt that the Asia and Pacific region had great potential for increasing regional cooperation.

- “• Implementation of regional cooperation should be a phased process, beginning with those measures that are easiest to implement.
- “• The measures agreed by the Finance Ministers of the Association of South-East Asian Nations countries, China, Japan and the Republic of Korea (ASEAN+3) in Chiang Mai, Thailand, were good examples, and strong support was expressed in favour of pursuing actions in this direction.

- “• The use of the inter-bank swap arrangements agreed in Chiang Mai should allow for the participation of countries at different levels of openness and development in regional arrangements. They provide the potential for deeper cooperation in this area.
 - “• Another area for regional cooperation involves establishing a legal regulatory framework for international banks operating in the region” (para. 50).
16. *Origin:* Asia and the Pacific Region Governments at Regional Consultation on Financing for Development in the Asia and Pacific Region, 2-5 August 2000, Jakarta, Indonesia
Presented to: Preparatory Committee
Proposal: “The proposal for the establishment of an Asia Monetary Fund needs to be pursued; such an institution could be an important step towards the prevention and management of financial crisis” (see para. 51, third bulleted subparagraph).
17. *Origin:* Meeting of Asian Finance and Central Bank Deputies, agreed summary of discussions, Manila, Philippines 18 and 19 November 1997
Proposal: “Deputies agreed on the need and desirability of a framework for regional cooperation to enhance the prospects for financial stability. This framework, which recognizes the central role of IMF in the international monetary system, includes the following initiatives: (a) a mechanism for regional surveillance to complement global surveillance by IMF; (b) enhanced economic and technical cooperation particularly in strengthening domestic financial systems and regulatory capacities; (c) measures to strengthen IMF’s capacity to respond to financial crises; and (d) a cooperative financing arrangement that would supplement IMF resources” (para. 3).
- Streamlining conditionality in adjustment programmes**
18. *Origin:* Report of the High-level Panel on Financing for Development, United Nations, June 2001 (A/55/1000)
Presented to: Secretary-General of the United Nations
Proposal: “In IMF, the shift to crisis prevention, including the timely detection of external vulnerability, is yet to be completed. Another important pending issue is the streamlining of the Fund’s conditionally.” The Fund frequently imposes too many conditions and unrealistic demands on borrowing countries, exceeding its core mandate and taking insufficient account of domestic authorities’ willingness and capacity to execute its demands. “Without impairing the Fund’s ability to comply with its core mandate, borrowing countries should be given the opportunity to choose their own path to reform” (see recommendations of the Panel, sect. entitled “Systemic issues: faster reform of the international financial architecture”).
19. *Origin:* Managing Director, IMF, statement on the occasion of the Spring Meeting of the International Monetary and Financial Committee 29 April 2001, Washington, D.C.
Presented to: Spring Meeting of the International Monetary and Financial Committee, 29 April 2001, Washington, D.C.
Proposal: “Conditionality remains indispensable for safeguarding the Fund’s resources by ensuring that they are used appropriately to promote adjustment. It is also clear that structural change is indispensable for sustained growth. But countries cannot do everything overnight. Thus, there is a need to decide on priorities, focusing the Fund’s conditionality on those measures that are critical to the macroeconomic objectives of country programmes. The aim of streamlining should be to leave member countries’ scope to make their own policy choices

- and thus develop the political support necessary for a sustained reform process, while tackling vigorously the main problems that have brought them to IMF for financial support” (sect. 5, first paragraph).
20. *Origin:* G-24 ministerial communiqué, 28 April 2001, Washington, D.C.
Proposal: “Ministers note that IMF conditionality has become excessive during the last decades in both magnitude and scope, particularly in areas that lie outside the Fund’s mandate and expertise. They emphasize the need to take into account the institutional capacity and domestic legislative processes of programme countries in implementing conditionality. Furthermore, excessively broad and detailed conditionality undermines the national ownership of programmes, which is essential for their successful implementation, and hinders compliance with the Fund’s conditionality. The conditions applied to low-income country programmes seriously strain their administrative capacity, especially when they are combined with additional conditions included in programmes with the World Bank, the regional development institutions and bilateral donors. Ministers welcome the review initiated by the Managing Director of IMF of the scope of conditionality in Fund-supported programmes and the decision of the Fund Board to implement the proposed shift from broad coverage to a more selective application of conditionality. They emphasize that the objective is not to weaken, but to streamline conditionality and make it better focused, more effective, and less intrusive, as well as to enhance programme ownership. Ministers stress the importance of the principle of uniformity of treatment of all countries, while taking into account the particular circumstances of each country. In addition, they underline the importance of a comprehensive revision of Fund programme design. They stress
- the need for technical assistance for the development of institutional capacities in these countries. Ministers note that efforts to streamline conditionality should also address the issue of how to better define the division of labour between the Fund and the World Bank, while preventing cross-conditionality. Conditionality in areas outside the Fund mandate should not be included in Fund-supported programmes” (para. 12).
21. *Origin:* Report of the Regional Consultative Meeting on Financing for Development in the European Region, Geneva, 6 and 7 December 2000 (A/AC.257/15)
Presented to: Preparatory Committee
Proposal: “The overriding principle of international financial institution (IFI) assistance, including in the field of finance, must be ‘country ownership’. Conditionality is an essential part of concessional lending, but the nature of conditionality should be reviewed in the context of prevailing domestic economic fundamentals, which will differ across countries. It was noted that conditionality is an important indicator for private investors and lenders” (para. 54).
22. *Origin:* Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)
Presented to: Preparatory Committee
Proposal: “The second theme is crisis resolution and management, through a rationalization of the role of IMF by focusing on its core functions and simplifying its facilities structure, streamlining conditionality, greater transparency in the Fund’s own operation and stronger safeguards on the use of its resources, wider involvement of stakeholders in the design of adjustment programmes and closer involvement of the private sector in crisis resolution” (para. 51).
23. *Origin:* G-24 ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: “Ministers express concern about the intrusiveness into socio-political matters — stretching beyond the mandate of the Bretton Woods institutions — as reflected in the increasing tendency to extend conditionality to issues of governance and social policy. New layers of conditionality are being added with respect to private sector involvement in crisis resolution that are likely to raise the costs of access to markets, if not prevent access altogether. Ministers express their strong reservation to applying Enhanced Structural Adjustment Facility (ESAF) and International Development Association (IDA) conditionality to the regular operations of the Bretton Woods institutions” (para. 11).

On private sector-related issues

Collective action clauses

24. *Origin:* Report of the High-level Panel on Financing for Development, United Nations, June 2001 (A/55/1000)

Presented to: Secretary-General of the United Nations

Proposal: “In the discussions on a new financial international architecture, an important outstanding issue concerns how to prevent lenders from calling in their capital if confidence erodes. For this purpose, bonds should have collective clauses that permit a qualified majority of bond holders to approve changes in their payment clauses. Major industrialized countries should join Canada and the United Kingdom of Great Britain and Northern Ireland in introducing such clauses into the bonds they issue, to ease the way for the adoption of these clauses in bonds issued by emerging markets” (recommendations of the Panel, section entitled “Private capital flows: actions by industrialized countries”).

25. *Origin:* G-24 ministerial communiqué, 25 September 1999, Washington, D.C.

Proposal: “Ministers note that some

industrialized countries have indicated their willingness to incorporate majority restructuring and majority enforcement provisions in bond issues in their markets, and they encourage other industrialized countries to follow this lead, while reiterating their concern about the possible adverse impact on interest rate spreads of developing countries’ bonds” (para. 7).

26. *Origin:* Declaration of G-7 Finance Ministers and Central Bank Governors, Birmingham, United Kingdom of Great Britain and Northern Ireland, 30 October 1998

Proposal: “In addition, as part of the process of developing better ways to respond to crises, we call upon:

“(i) The private sector to facilitate ‘collective action clauses’ for more orderly workout arrangements and we will consider the use of such clauses in our own sovereign and quasi-sovereign bond issues;

“(ii) The World Bank in cooperation with IMF and other multilateral development banks to work with the members to put in place effective insolvency and debtor-creditors regimes;

“(iii) IMF to move ahead, under carefully designed conditions and on a case-by-case basis, with its recently reaffirmed policy of lending into arrears. We will instruct our Executive Director to monitor application of this policy carefully in the current environment;

“(iv) The private sector to build upon its experience with some emerging market countries in developing market-based contingent financing mechanisms, the conditions of which might provide either greater payments flexibility or the assurance of new financing in the event of

adverse market development. The private sector also needs to be involved appropriately in crisis management and resolution” (section entitled “Stability of the international financial system”).

Standstill, debt renegotiation and arbitration

27. *Origin:* Report of G-7 Finance Ministers and Central Bank Governors on strengthening the international financial system and the multilateral development banks, 7 July 2001, Rome, Italy

Proposal: “We welcome the progress that has been made recently to involve the private sector in the resolution of financial crises and underscore the need for further progress. We agree on the need for further efforts to implement a range of measures, in particular:

- “• We stress the importance of information-sharing and enhancing the dialogue between countries and their private creditors, both during normal periods and when addressing emerging pressures in the external account;
- “• We encourage countries to establish mechanisms to support a dialogue with creditors and call on the Fund to support this process;
- “• We also agree on the importance of collective action clauses to facilitate orderly crisis resolution. The international financial institutions should encourage the use of such clauses through their operations” (para. 12).

28. *Origin:* Report of G-7 Finance Ministers and Central Bank Governors on strengthening the international financial system and the multilateral development banks, 7 July 2001, Rome, Italy

Proposal: “We welcome the agreement by IMF to take further work on the

framework for private sector involvement with a view to achieving greater clarity, taking into account the need for operational flexibility. In particular, further efforts are needed to:

- “• Review the requirements and procedures used to determine access to IMF financing, including clarifying and strengthening them as necessary in order to reinforce the exceptional character of large official rescue packages. Exceptional financing, through any IMF facility, requires extensive justification. For instance, there should be evidence that the country has experienced a sudden, disruptive loss of confidence; that an early correction of difficulties is expected; and that there is a risk of contagion that could pose a wider threat to the stability of the international financial system. It should also take into account efforts by the debtor country to secure participation by private investors;
- “• Enhance the analytical basis for the Fund’s assessment of a country’s financial position. Programmes should include thorough analysis of the country’s medium-term debt and balance-of-payments profile, and prospects for regaining market access. To this end, the Fund should also provide detailed information and programme assumptions about sources of private financing and reinforce the monitoring and assessment, as appropriate, of private flows during programme implementation;
- “• Review the experience with the Fund’s policy for lending into arrears;
- “• Strengthen the relationship and

increase coordination between IMF and the Paris Club in the process of assessing the level and scope of participation of private creditors in debt restructuring cases, especially concerning comparability of treatment;

- “• Ensure that all programmes are subject to transparent ex post monitoring and evaluation, with a view to assessing the involvement of the private sector against the assumptions made in the programme” (para. 13).

29. *Origin:* Report of the Regional Consultation on Financing for Development in the Western Asia Region, Beirut, 23 and 24 November 2000 (A/AC.257/16)

Presented to: Preparatory Committee

Proposal: “To face up to financial crises, funds required for bail-outs have been continuously increasing. In order to secure them, ‘involving’ or ‘bailing in’ the private sector has been contemplated. Creditors should share in bearing burdens and be made responsible for their actions. Orderly debt workouts, associated with standstill on servicing, could be considered. They may include reorganization of assets and liabilities of the debtor, including extension of maturities, and, where needed, debt equity conversion and debt write-off. Involuntary mechanisms have been resisted, but it should be emphasized that the need for mandatory provision has arisen precisely because voluntary approaches have not worked in stemming debt runs. Fearing that mandated automatic triggers could reduce their access to financial markets, developing countries have insisted that they first be introduced in sovereign bonds of industrialized countries” (para. 67).

30. *Origin:* ECLAC secretariat, “Growth with stability: financing for development in the new international context” (LC/G.2117 (CONF.89/3))

Presented to: Latin American and Caribbean Governments at the Regional Consultation on Financing for Development in the Latin American and the Caribbean Region, Bogotá, 9 and 10 November 2000

Proposal: “Multilateral rules should be established for contending with the two basic problems of coordination that negotiations of this type entail: the possibility that some creditors (and, eventually, debtors) will resist participating in solutions (the free rider problem), and the slow pace of the process or repeated negotiations, generating high costs for debtors and creditors (‘negative sum game’).

“To solve the first of these problems, collective action clauses must be included in debt contracts (be they for government bonds, bonds issued by private institutions, or private bank loans) to authorize the countries where the debtors are located to defer payment (as interest accrues) for a limited period, in cases of capital flight for reasons beyond their control, or to unilaterally declare a longer moratorium if their payment capacity is clearly insufficient. These clauses should be universal, applied equally to debt contracts entered into by industrialized countries, so that markets will not penalize countries that introduce such clauses with higher interest rates or more restricted access to funds. Temporary payment suspensions could also be extended to outflows of portfolio capital.

“A solution to the second problem noted above might be the setting up of mutually agreed multilateral arbitration mechanisms to resolve disputes in debt renegotiation or refinancing

processes. Further, it would be appropriate to promote flexible agreements so that relatively foreseeable contingencies could be accounted for, with a view to avoiding renegotiations and explicitly encouraging creditors to continue providing resources to countries facing difficulties during critical periods.

“Whatever systems are devised should be applicable to all countries, regardless of their level of development” (chap. 2, sect. 4 (b)).

31. *Origin:* News release of G-20 Finance Ministers and Central Bank Governors, Montreal, 25 October 2000
Proposal: “We believe that encouraging the wider use of mechanism to improve communication between debtors and creditors will help to ensure that debtors countries and private creditors participate cooperatively in restructurings” (annex, sect. 3, fifth paragraph).
32. *Origin:* Managing Director of IMF, Prague, 26 September 2000 (address)
Presented to: Board of Governors of the Fund, Prague, 26 September 2000
Proposal: “There is broad agreement that the operational framework for private sector involvement should rely as much as possible on market-oriented solutions and on voluntary approaches. It is also undisputed that there may be exceptionally difficult cases that call for more concerted approaches to involve the private sector, including the possibility of standstills as a truly last resort.”
33. *Origin:* G-24 ministerial communiqué, 23 September 2000, Washington, D.C.
Proposal: “Ministers propose that the Fund deepen its studies of proposals for engaging, in a case-by-case manner, the private sector in the resolution of financial crises, including the development at the international level of equitable procedures for debt settlement as already exist at national levels” (para. 22).
34. *Origin:* Asia and the Pacific region Governments at Regional Consultation on Financing for Development in the Asia and Pacific Region, 2-5 August 2000, Jakarta, Indonesia (A/AC.257/13)
Presented to: Preparatory Committee
Proposal: “A number of views were expressed on the question of involving the private sector.
 “• Greater participation of the private sector was imperative to ensure an equitable distribution of the costs of financial crises between debtors and creditors, but there is no agreement yet on how to ‘bail in’ private lenders;
 “• Such measures as conditionality clauses in bond contracts, standstill and improved bankruptcy legislation are desirable but not exhaustive;
 “• Since most of lenders are in developed countries, a suggestion was made that greater transparency, supervision and regulation of international lenders and investors by these countries themselves were needed” (para. 48).
35. *Origin:* G-24 ministerial communiqué, 25 September 1999, Washington, D.C.
Proposal: “Ministers recognize that the role of private capital flows will continue to expand in an increasingly integrated global economy. Therefore, it is difficult to visualize the prevention or resolution of financial crises without direct and timely private sector involvement. In this regard, the major challenge for the international community is to develop a market-friendly strategy for involving the private sector in a manner that does not disrupt or unduly raise the cost of capital flows to developing countries. Ministers suggest that any strategy should minimize spillover effects on other borrowers. They encourage further progress towards voluntary arrangements for private sector participation

before crises arise, such as through contingent credit lines, embedded call options, and debt-service insurance. Other provisions are also needed to cover both crises prevention, as well as resolution, including bankruptcy procedures, the establishment of creditor-debtor councils, and in extreme cases the possibility of a standstill of debt repayments. In addition, Ministers stress the importance of symmetrical disclosure of relevant information as between the private and public sectors” (para. 4).

Notes

1 See different variations of the first of these proposals in United Nations (1999), Council on Foreign Relations (1999), Meltzer and others (2000) and IMF (2000a). Regarding the latter two, see Ezkiel (1998) and Ahluwalia (1999).

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TECHNICAL NOTE NO. 10:*

Existing proposals on strategies for expanding access to microcredit and for assisting current microcredit beneficiaries in gaining access to the formal domestic banking sector

I. Introduction

1. The discussions on microfinance¹ in recent years have focused on the challenge of expanding access to growing numbers of low-income borrowers and savers, and of harnessing the resources available within the formal financial sector towards that end. The present technical note will therefore respond to the request from the Preparatory Committee for the International Conference on Financing for Development to provide an inventory of existing proposals on the issue (that is to say, those brought before intergovernmental bodies or amply debated in other forums), and will include a bibliography that provides a sampling of the extensive work that has been conducted in providing a theoretical underpinning to the issue, and in documenting the remarkable successes and continued challenges facing those in the industry.

2. *Microcredit*, in this note, is assumed to be the provision of credit to the poor and the very poor who lack access to credit provided by traditional formal financial institutions. *Microfinance* is often defined to include a broader range of services (including credit, savings and insurance, and even remittances). Typical microfinance clients are low-income clients, usually but not exclusively women, who are self-employed, often household-based entrepreneurs; who have a relatively stable source of income, however small; whose sole source of credit is the informal moneylender; who lack secure, convenient and reliable saving services; and who depend on informal systems as a hedge against emergencies or large life-cycle expenditures.

3. Subsidized credit schemes, particularly for the rural poor, were the early attempts at extending credit to the under-served. They were created with the best of

intentions but were fundamentally flawed: the capital-constrained organizations they created were limited in their breadth and scope; the below-market interest rates led to loans going primarily to local elites and excluding the intended poor clients; and their portfolios were characterized by large losses and high arrears.

4. Subsequent attempts to support microfinance have identified a number of successful models. Non-governmental organizations have been in the forefront, starting at modest levels to address the credit needs of the poor, particularly women, and using lessons learned from their experiences to refine, revamp and reform their models. A rare few formal financial institutions, particularly in Latin America, have joined that effort, providing appropriate and adequate financial services, and reaping benefits including substantial profits and healthy portfolios.

5. As a result, microfinance has proved that, under the right circumstances, it can reduce the poor's vulnerability to external shocks, smooth out their incomes, offer higher returns on their investments, increase their incomes and offer improved quality of life for them and for their households. Women have been disproportionately represented among the low-income poor who, for a number of well-documented reasons, have been unable to access formal credit. Microfinance activities, therefore, even under those programmes where they were not specifically the target population, have been of critical importance for the economic empowerment of women.

Issues in microfinance

6. Although there are specific factors that are relevant to the circumstances in particular regions, countries and populations, there are several issues that relate directly to the two objectives of expanding access and integrating microfinance into the formal financial sector.

7. **The perceived trade-off between outreach and sustainability.** There are two main approaches to securing financial services for the poor: the first, the *poverty lending approach* associated with the Grameen Bank of Bangladesh and others, promotes donor- or Government-

* The preparation of the present technical note was coordinated in the Financing for Development Coordinating secretariat, by an official appointed by the World Bank. Staff from the following entities collaborated, in a personal capacity, in its preparation: the 29-donor-agency Consultative Group to Assist the Poorest (CGAP), the United Nations Capital Development Fund (UNCDF) and various non-governmental organizations.

funded credit for the poor, and particularly for the poorest; the second, often called the *financial systems approach* and associated with Indonesia's BRI (Banu Rakyat Indonesia) or Bolivia's BancoSol, advocates commercial microfinance for the economically active poor. This approach is based on the premise that the funds needed to grow microfinance institutions and expand their reach on a large scale can come only from the vast resources of the financial system, with self-sufficient institutions playing the role of financial intermediators that facilitate the efficient movement of capital between savers and borrowers.

8. These approaches are still being refined. The poverty lending approach, though successful in some instances, may not be universally applicable, particularly as donor fatigue reduces the resources available even for the most successful of such models. The financial systems model does not often tackle the social and institutional issues that may affect the ability of the poor to become economically active in order to take advantage of its services. Therefore, rather than focus on whether one or the other approach is "better", it is critical to find the approach (or an appropriate combination of the two) that best addresses the particular needs of each community and country.

9. **Tailoring a diverse set of products to client needs.** The microcredit institutions focusing on poverty lending do not typically offer voluntary savings services to the general public. The commercially oriented microfinance institutions, though committed to providing cost-effective financial services to their clients, have not yet developed an array of products to meet the many needs. Initially, microfinance provided by non-governmental organizations was limited to micro-loans, usually provided through solidarity groups because this posed less of a risk for the loan-making institution. However, with increased competition among microcredit-granting non-governmental organizations, and with formal financial institutions entering the industry (especially in Latin America), institutions have to offer a range of diversified, flexible products to their clients in order to remain competitive. Thus, microfinance has evolved from being a mono-product industry to an increasingly multi-products one.²

10. **Supervision and regulations.** For microentrepreneurs to have greater access to the formal financial system, one of two things will have to occur with respect to the institutions that serve them: either microfinance institutions will have to become licensed and access for-

mal financial resources directly (this is often called *upscaling*) or existing financial institutions will have to offer microfinance services (*downscaling*). In addition, with changes in the financial environment, such as financial liberalization in Latin America, there are important market changes that have directly or indirectly affected microfinance. These include entry by foreign banks into domestic markets, interest rate deregulation, development of capital markets, and decline of subsidized national development banks and rural credit institutions. Evidence from Indonesia as well as Bolivia has shown that, in times of financial crises, microfinance institutions were some of the most stable in the sector. For these and other reasons, new entrants seeking profit sources in that changing environment are contributing to the continuing evolution of the microfinance industry. These entrants include private as well as State-owned banks, consumer lenders, development banks, mutual or community banks, finance companies, savings and credit associations, and credit unions and cooperatives.

11. Given these changes, the question whether or how much to supervise and regulate these institutions is one that many Governments face. Within the context of each country's circumstances, therefore, the benefits of regulation and supervision should be weighed against both the financial cost of mandating them, and the non-financial costs they impose by stifling innovation and service provision.

12. There are undoubtedly other key issues to consider. It is hoped, however, that by considering these issues and consulting the many resources available, the dialogue around microfinancing will continue to expand and evolve.

II. Existing proposals and initiatives

13. In order to fully capture the richness of the debate around microfinance in recent years, the following list includes existing proposals that have not yet been associated with initiatives and programmes, as well as those initiatives that, owing to the commitment of the development partners involved, are currently under implementation.

14. There have been hundreds of such initiatives on microfinance at the national, regional and international levels. Notably, the Secretary-General in his report to the Preparatory Committee for the International Conference on Financing for Development at its second session (A/AC.257/12) had the following recommendations:

All countries should facilitate access to finance by small and medium-sized enterprises through the provision of credit — particularly microcredit — and appropriate guarantee schemes, as well as through the introduction of segments of stock markets that are adapted to the needs of small and medium-sized enterprises and where more flexible rules apply. The emphasis should be on transparency of enterprises, on innovative, market-based financing mechanisms and on modalities appropriate to small enterprises, such as venture capital, leasing companies and insurance products (box between paras. 39 and 40).

All countries should facilitate access to financial services for the poor and vulnerable by fostering a wide range of financial intermediaries that target small savers and small borrowers, microenterprises, including microfinance institutions, cooperatives, credit unions and postal savings. To this end, countries should strive to remove institutional and regulatory obstacles, such as restrictions on cost recovery, lack of secure transaction laws and weak property registries. Countries should also seek to improve women's access to mainstream sources of financing, including by strengthening their rights to pledge collateral. Governments and donors should provide resources and explore venues to reach people living in poverty, including through international public-private partnership funds to encourage research and applications on innovative financial tools (box between paras. 41 and 42).

15. The following list cannot begin to capture even a large minority of the ongoing or proposed initiatives. Rather, these are but a few examples of such in-depth discussions of microfinance issues between Governments, donors, and domestic and international non-governmental organizations. In addition, given the importance that international conferences in the 1990s and beyond have given to access to credit, a list of those conferences is also provided. Finally, this list also includes consortia or joint efforts put into place to backstop regional and/or international efforts to support microfinance. Web site references are provided for perusal of full texts of these statements wherever possible.

A. Existing proposals that have not yet emerged as initiatives or programmes

1. *Report of the High-level Panel on Financing for Development (see A/55/1000) (Chair: Ernesto Zedillo): 26 June 2001*

16. Every developing country needs to set its economic fundamentals in order. No country can expect to achieve equitable growth, or to meet the International Development Goals, unless it focuses on building effective domestic institutions and adopting sound policies, including a financial system that intermediates savings to those capable of investing efficiently, including microfinance borrowers, women and the rural sector (executive summary, principal recommendation No. 1).

Micro-credit promotion agency: (<http://www.globalcentres.org/docs/MicroCredit.pdf>), June 2001

17. To address the lack of a central organization capable of inspiring, coordinating and supporting many microfinance institutions (MFIs) and non-governmental organizations (NGOs) involved in microcredit, there is a proposal from the Center for Global Studies at the University of Victoria to create a Micro-credit Promotion Agency (MPA). Such a body would act as a central body that would accumulate and distribute significant support to MFIs and other organizations advocating local wholesale funds for microcredit activities. Under the guidance of the United Nations Development Programme (UNDP), such a facility would:

- Establish a clear mandate regarding, inter alia, its role in seeking financial contributions, promotion of microfinancing as a low-risk and high-success business to attract private capital, establishing partnerships with existing lead MFIs, creating a Board of Directors and decision-making guidelines;
- Establish a committee of experts to use as advisers and participants in an on-line forum;
- Establish a non-governmental organization/civil society working group to act as a Board of Directors;
- Establish a MPA Secretary-General and secretariat staff, with possibilities for additional field offices;

- Establish a neutral methodology and “standard terms of reference” for evaluation, audits, definition of standard monitoring and impact assessments without taking on the role of a regulatory or enforcement agency;
- Provide a database of best practices, full impact assessment and evaluation of MFIs, a comprehensive list of existing MFIs, programmes, funders, resources and technical support.

18. This proposal has been circulated among leading microfinance institutions, and will be discussed at length at an upcoming Visioning Exercise to be held on 27 and 28 August 2001 in Victoria, Canada. That meeting is part of a larger project supported by the Canadian International Development Agency, the Ford and Rockefeller Foundations, the Canadian Department of Finance and the International Development Research Centre (IDRC).

B. Existing proposals and initiatives that are linked to already established programmes

United Nations Capital Development Fund (UNCDF)/Special Unit for Microfinance (SUM) and UNDP Africa Global Meeting on Young, Promising MFIs, 30 May-1 June 2001

19. More than 50 leaders of MFIs, staff of donor agencies, UNDP Country Offices, and UNCDF’s Special Unit for Microfinance (SUM) gathered at the United Nations in New York from 30 May to 1 June 2001 to discuss, debate and deliberate how best to support “breakthroughs” in microfinance. A “breakthrough organization” is one “that becomes a major service provider in its geographical area, attaining substantial independence from donors through financial viability and influencing other providers”. Key topics that were the focus of papers and discussion included: (a) identifying promising MFIs; (b) fostering successful technical assistance partnerships; and (c) building effective financial structures for fast-growing MFIs, including equity investments.

20. The papers and proceedings from the meeting will be available soon on the UNCDF/SUM web site (<http://www.uncdf.org/sum>).

Microfinance Rating and Assessment Fund: May 2001

21. A joint Inter-American Development Bank (IDB)-Consultative Group to Assist the Poorest (CGAP)

initiative was launched, aimed at improving the quality, reliability and availability of information on the risk and performance of MFIs. Its primary objectives are to (a) stimulate improvements in MFI performance; (b) encourage shared information and transparency of financial information on MFIs; (c) increase access of MFIs to domestic and international financial markets; and (d) encourage expansion of capacity to perform MFI assessments.

22. The pilot would start on 1 May 2001, with financing for a limited number of assessments/ratings for MFIs. The lessons learned from that test would be used for a larger and more structured Rating Fund, set to begin in the first quarter of 2002.

Global Network for Banking Innovation, New York, 9 April 2001

23. This network, the newest one for Women’s World Banking, brings together 21 regulated financial institutions from Latin America, Asia, Europe, North America and Africa that have demonstrated how providing financial services to the poor is both good business and a means to change the way the world works (<http://www.swwb.org/english/1000/gnbi/index.htm>).

The Africa Microfinance Network (AFMIN), http://www.swwb.org/english/1000/afmin/index.htm December 2000

24. This initiative was launched in December 2000 in Cotonou, Benin, by leaders of microfinance networks from 13 African countries as an international non-governmental organization with the core objective of achieving recognition by all the Governments of participating members. These networks represent 326 institutions and almost 2 million poor clients, most of whom are women. This comes from the initial Africa Microfinance Network Initiative, born at the joint Women’s World Banking-UNDP Practitioners Forum and CGAP-Women’s World Banking Policy Forum held in 1996 in Mali, and launched in 1997. The Initiative mobilized African microfinance leaders in building and reinforcing country-level microfinance experience and establishing microfinance networks at country and regional levels.

Microfinance Capacity-Building Programme: Building World Class Excellence in Africa’s Microfinance Industry (AFCAP), January 2000 (<http://afcap.or.ke/home.asp>)

25. This is a three-year initiative financed jointly by CGAP and the British Department for International Development (DFID). The vision is of a commercially

viable, client-responsive and developmentally sound sector of financial institutions, serving micro- and small enterprises and poor communities at scale throughout the region. The mission is to build a core of internationally competitive African professional service providers from the private sector, who, in turn, will deliver appropriate, high-quality products and services to the microfinance industry.

Department for International Development (DFID), Financial Development Challenge Fund (<http://www.enterplan.co.uk/CFindex.htm>)

26. The objectives of the Financial Development Challenge Fund (FDCF) are to: (a) mobilize the international financial sector to invest in and develop financial sector capacity in target countries; and (b) catalyse the financial services sector in target countries to widen the range of products, improve efficiency of intermediation and extend services to the poor.

Towards an Asian Development Bank (ADB) Microfinance Development Strategy: Proceedings of the Regional Workshop on ADB's Microfinance Development Strategy, Manila, Philippines, 1-3 September 1999 (see full text at <http://www.adb.org/documents/conference/microfinance/chap%202.pdf>)

27. The workshop yielded numerous insights into the opportunities and challenges offered by microfinance, and had panel discussions on a number of issues relevant to the microfinance industry, particularly in Asia. Its recommendations were in the following areas:

- Fostering a conducive policy environment: (a) interest rate reforms; (b) refining the role of the State in microfinance to facilitate participation of private sector institutions; and (c) encouraging the entry of a wide array of institutions;
- Developing financial infrastructure: (a) developing a facilitating legal framework for microfinance; (b) performance standards; (c) regulatory and supervisory systems for MFIs; and (d) facilitating resource mobilization for MFIs;
- Pro-poor innovations;
- Institutional development: (a) savings product development; (b) research and training facilities in microfinance; and (c) information systems for microfinance;

- Role of ADB;
- Roles of donors.

The MicroStart Global Pilot Programme, UNCDF/SUM

28. The MicroStart Global Pilot Programme was formally launched at the Microcredit Summit in 1997. As of 31 March 2001, MicroStart began operations in 20 countries and, by 2001, 62 MFIs in 14 countries had received grants. A mid-term evaluation carried out in late 1999 concluded that MicroStart is a successful microfinance strategy for UNDP, and that its focus on young organizations in new countries fills a niche that other donors have neglected. An Action Plan to implement the recommendations of the evaluation was prepared in 2000, and UNCDF/SUM has retooled the programme accordingly. MicroStart is now ready for further expansion within a broader country co-investment programme.

Microcredit Summit Campaign, February 1997, Washington, D.C. (<http://www.microcreditsummit.org/>)

29. The first of its kind, this Summit developed a charter that affirmed that “credit is a human right”. A commitment was made at that Summit to ensure that 100 million of the world’s poorest families, especially the women of those families, received credit for self-employment and other financial and business services by the year 2005, and that this would be done by raising \$21.6 billion (see A/52/113-E/1997/18, annex I, sect. IV.A, first para.). A basic building block of the Microcredit Summit Campaign will be the institutional action plan — containing quantitative goals, description of methods and a timetable — that will come from donor agencies, microcredit practitioners, United Nations agencies and international financial institutions. (A second summit was held in New York in 1998.)

Committee of Donor Agencies for Small Enterprise Development: Donor's Working Group on Financial Sector Development — Donor Guidelines for Microfinance International Best Practice, June 1995 (http://www.undp.org/sum/sum_reports/donor_guidelines.html)

30. Largely consistent with the recommended standards for support set out by a United Nations expert group of leading small and microenterprise practitioners convened by Women’s World Banking in January 1994, this meeting established common standards for donor agencies to apply in supporting broader access to finan-

cial services for micro- and small enterprises. The framework rests on two equally important and complementary objectives: first, **outreach**, which embodies the aim of expanding access to increasing numbers of low-income clients. Second, **sustainability**, which provides the means to expand and maintain outreach. The guiding principles first help identify characteristics that donors should seek in selecting institutions to support. They then describe appropriate forms of donor support. In addition, an annex lists reporting standards on outreach and financial performance.

31. The guidelines include institutional performance standards and plans: institutional strengths; quality of service outreach, financial performance, and strategies for donor support: appropriate uses for grants; appropriate uses for loans; commercial sourcing of funds; and coherence of donor policies.

C. Multilateral and regional conferences and meetings: a number of global conferences included the issue of microfinance for low-income people in their resolutions, political declarations and action plans

Declaration on Cities and Other Human Settlements in the New Millennium (General Assembly resolution S-25/2 of 9 June 2001, annex) (twenty-fifth special session of the Assembly for an overall review and appraisal of the implementation of the outcome of the United Nations Conference on Human Settlements (Habitat II)), 6-8 June 2001 (full text available at <http://www.un.org/ga/habitat/>)

32. In section D of the Declaration entitled "Taking further actions", the representatives of Governments meeting at the special session, "recognizing that those living in poverty are in fact rich in innovative faculties and that microcredit plays an important role in eradicating poverty and improving human settlements, and following success stories of some countries in this field ... encourage Governments, within their legal framework, and both national and international financial institutions, to strengthen the institutional frameworks by which it would be possible to extend microcredit, without collateral or security, to those living in poverty, in particular women" (para. 64).

Third United Nations Conference on the Least Developed Countries for the Decade 2001-2010: Programme of Action for the Least Developed Countries (A/CONF.191/11), 14-20 May 2001, Brussels, Belgium (full text available at: <http://www.unctad.org/en/docs/aconf191d11.en.pdf>)

33. As set forth in the Programme of Action:

Commitment 1: Fostering a people-centred policy framework

24. Actions by least developed countries and the development partners will be along the following lines:

- (i) *Actions by least developed countries*
- (b) Building on successful policy reforms and continuing efforts towards sound economic management with a view to attaining levels of economic growth necessary for reaching the objectives of the Programme of Action, including through focusing efforts in the areas of fiscal and financial sector reform and promotion of microcredit;
- (e) Improving linkages between different economic activities, particularly between agriculture and micro- and small enterprises, and integrating sectoral reforms within broader development objectives.

Commitment 3: Building human and institutional capacities

E. Social integration

41. Actions by least developed countries and the development partners will be along the following lines:

- (i) *Actions by least developed countries*
- (e) Establishing and strengthening microcredit institutions in view of their capacity to make available credit, mobilize savings and provide related financial and business services for an increasing number of people living in poverty, particularly women;
- (ii) *Actions by development partners*
- (c) Supporting the strengthening of existing and emerging microcredit institutions in least developed countries.

Commitment 4: Building productive capacities to make globalization work for least developed countries

C. Enterprise development

52. The private sector can play a crucial role in poverty eradication by contributing to economic growth and creating employment. Specific attention should be given to the needs of micro-, small and medium-sized enterprises, including enterprises owned by female entrepreneurs, and to the development of a sustainable financial sector.

53. Actions by least developed countries and the development partners will be along the following lines:

(i) *Actions by least developed countries*

(a) Creating an enabling environment for the development of entrepreneurship, including by providing access to finance, including new and innovative forms of financing, as well as targeted business support services to micro-, small and medium-sized enterprises in rural and urban areas, including female entrepreneurs;

(b) Promoting the informal sector through an appropriate legal and institutional framework, including property rights, that facilitates their graduation to the formal sector and improves access to energy, land, water and credit;

(ii) *Actions by development partners*

(a) Complementing the domestic efforts of least developed countries by supporting programmes to improve access of informal, small and medium-sized enterprises to financial and business services, inter alia, through public and private venture capital funds and partnerships as well as microcredit mechanisms, and to build the capacity of local sectoral trade support institutions in both the private and public sectors, as a means of transferring and diffusing technology;

(b) Providing support to strengthen managerial and technical skills and other business support services, including access to information.

D. Energy

56. Actions by least developed countries and the development partners will be along the following lines:

(i) *Actions by least developed countries*

(a) Facilitating the availability of affordable energy, including through the introduction and promotion of innovative financing schemes in rural areas, such as microfinancing and cooperative arrangements for credit and licensing agreements, in order to encourage the involvement of the private sector in providing energy services.

Commitment 7: Mobilizing financial resources

A. Domestic resource mobilization

80. The key to increasing domestic resource mobilization and reducing dependence on external finance lies in achieving a firm structural basis which would sustain high per capita growth rates:

(i) *Action by least developed countries*

(b) Developing efficient and appropriate financial systems, including microfinance, and an appropriate legal and regulatory framework;

(d) Promoting innovative financial mechanisms such as microcredit programmes to mobilize savings and deliver financial services to the poor, including smallholders and the self-employed, particularly women, within an appropriate legal and regulatory framework.

Twenty-fourth special session of the United Nations General Assembly entitled "World Summit for Social Development and beyond: achieving social development for all in a globalizing world", Geneva, 26 June-1 July 2000

34. Section III of the annex to General Assembly resolution S-24/2, entitled "Further initiatives for social development", recommends taking further initiatives for the further implementation of the 10 commitments adopted at the World Summit for Social Development, inter alia:

Commitment 2: To eradicate poverty in the world, through decisive national actions and international cooperation, as an ethical, social, political and economic imperative of humankind

27. In the context of comprehensive national strategies on poverty eradication, integrate policies at all levels, including economic and fiscal policies, capacity-building and institution-building, giving priority to

investments in education and health, social protection and basic social services, in order to help to empower people living in poverty, by:

- (f) Improving access for people living in poverty to productive resources by implementing measures, such as skills training and microcredit schemes;
- (i) Devising ways and means to allow for better acknowledgement of the nature of the informal sector so as to evaluate its share in the national economy and, where appropriate, to improve its productivity by increasing training and access to capital, including microcredit, to progressively improve working conditions through respect for basic workers' rights, to enhance social protection and to facilitate its eventual integration into the formal economy;
- (j) Establishing, strengthening and expanding microcredit and other financial instruments adapted to the needs and potentials of marginalized people and vulnerable groups in order to make microcredit available to a greater number of people, particularly women, and disadvantaged groups, especially people living in poverty, and to make information and training on its effective operation and benefits widely available.

28. Develop and implement sustainable pro-poor growth strategies that enhance the potential and increase the ability of women and men living in poverty to improve their lives; such strategies could include improving access to productive resources and microfinance and establishing programmes to raise productivity and improve knowledge, skills and capabilities.

Commitment 9: To increase significantly and/or utilize more efficiently the resources allocated to social development in order to achieve the goals of the Summit through national action and regional and international cooperation

141. Promote, through national action, the mobilization of new and additional resources for social development, inter alia, by: (a) extending access to microcredit and other financial instruments to people living in poverty, particularly women.

142. Promote, through international action, the mobi-

lization of new and additional resources for social development, inter alia, by:

- (h) Exploring ways and means of promoting the micro- and small enterprise sector whereby it becomes a possible vehicle for a new development model.

We the Peoples Millennium Forum, Declaration and Agenda for Action, 22-26 May 2000, United Nations Headquarters, New York (full text available at <http://www.millenniumforum.org/html/pap>)

35. In the Agenda for Action:

A. Eradication of poverty, including social development and debt cancellation

The Forum urges the United Nations (para. 3): to immediately establish at the United Nations, a Global Poverty Eradication Fund, which will ensure that poor people have access to credit, with contributions from Governments, corporations, and the World Bank and other sources.

The Forum urges Governments (para. 2): to strengthen the entrepreneurial capacity of women, indigenous people and people in the informal productive sector, ensuring access to credit, to enable them to become self-employed. This is the sure way of creating jobs for all and a sustainable way of eradicating poverty.

E. Sustainable development and the environment

The Forum urges Governments (para. 7): to promote the establishment of microcredit facilities, especially for farmers and women, and to promote their access to forms of land tenure that facilitate access to and ownership of land.

General Assembly resolution 54/204 entitled "Business and development" adopted on 22 December 1999, United Nations Headquarters, New York (<http://www.esa.un.org/ffd/policydb/PolicyTexts/GA-5.htm>)

36. In its resolution 54/204, the General Assembly, recognizing the important role of small and medium-

sized enterprises and microfinancing in supporting economic and social development (eighth preambular paragraph), valued the promotion of entrepreneurship, inter alia, through the informal sector and microenterprises, in the development of small and medium-sized enterprises and industries by various actors throughout civil society, and of privatization, demonopolization and the simplification of administrative procedures (para. 11).

General Assembly resolution 54/198 entitled “International trade and development” adopted on 22 December 1999, United Nations Headquarters, New York (full text available at <http://www.esa.un.org/ffd/policydb/PolicyTexts/GA-3.htm>)

37. In its resolution 54/198, the General Assembly stressed the importance of assisting developing countries and interested countries with economies in transition in improving the efficiency of trade-supporting services, inter alia, through the elimination of procedural barriers and by greater use of trade facilitating mechanisms, particularly in the areas of transport, customs, banking and insurance, and business information, especially in the case of small and medium-sized enterprises, and in that respect invited the United Nations Conference on Trade and Development, within its mandate, in collaboration with other relevant bodies of the United Nations, including the regional commissions, to continue to assist those countries in those areas (para. 27).

Asian Development Bank, policy statement: private sector development, 2000, Manila, Philippines (full text available at <http://www.esa.un.org/ffd/policydb/PolicyTexts/AsDB-2.htm>)

38. According to the policy statement in respect of financing microenterprises: Microfinance is an important tool for promoting small-scale entrepreneurial development. In 1999, ADB initiated several projects to expand microfinance services in its developing member countries (DMCs). A regional microfinance strategy was developed under a technical assistance grant designed to carry out in-country consultations in 12 countries, conduct regional workshops, and recommend how DMC Governments could promote microfinance institutions. In August 1999, ADB supported the Women’s World Banking (WWB) Asia Regional Meeting and the Best Practice Workshop for Microfinance Practitioners. These twin events were attended by leaders and members of WWB microfinance affiliates in Asia that offered access to finance, information, and markets to poor women entrepreneurs in Asia.

Inter-American Development Bank: Mandate for the Eighth Replenishment of Resources, 2000, Washington, D.C. (full text available at <http://www.esa.un.org/ffd/policydb/PolicyTexts/IADB-1.htm>)

39. As indicated in the mandate:

2.35 (c) Ensuring a friendly environment for small and medium-sized firms.

An important element in the modernization and social integration process is the creation of an environment in which small and medium-sized business can flourish. Experience in other parts of the world has demonstrated that this sector is well suited to channelling entrepreneurial creativity, effective at putting new technologies to use, and often the most dynamic source of new employment opportunities. The aim is twofold: to create the conditions for existing businesses to flourish and grow, fostering a dynamic small and medium-sized business sector; and to extend these conditions to ensure that microenterprises also have scope to develop, so that economic activity in the informal sectors can be gradually assimilated. Key to business-base expansion will be a modern financial sector that supports entrepreneurial creativity by providing small and medium-sized businesses access to appropriate financing.

Heads of State and Government from the Southern Cone Common Market (MERCOSUR) and Chile and from the European Union (EU), Latin America and the Caribbean: European Union Summit Priorities for Action, 28 and 29 June 1999, Rio de Janeiro, Brazil (full text available at <http://www.esa.un.org/ffd/policydb/PolicyTexts/EU-LA-2.htm>)

40. Among the priorities for action was the following: to promote programmes and mechanisms to support small and medium-sized enterprises in the fields of financing, including better access to financial guarantees and risk capital, management training, technology and inter-business cooperation, with the aim of raising competitiveness and achieving better insertion into international markets. In particular, to promote joint ventures for the establishment of enterprises in both regions (para. 30).

Fourth World Conference on Women: Platform for Action (Report of the Fourth World Conference on Women, Beijing, 4-15 September 1995 (United Nations publication, Sales No. E.96.IV.13), chap. I, resolution 1, annex II), chap. IV.F entitled "Strategic objectives and actions: women and the economy" (full text available at <http://www.un.org/womenwatch/daw/beijing/platform/economy.htm>)

41. As set forth in chapter IV.F of the Beijing Platform for Action:

Strategic objective F.2. Facilitate women's equal access to resources, employment, markets and trade

Actions to be taken

166. By Governments:

- (d) Promote and strengthen microenterprises, new small businesses, cooperative enterprises, expanded markets and other employment opportunities and, where appropriate, facilitate the transition from the informal to the formal sector, especially in rural areas;
- (h) Review, reformulate, if necessary, and implement policies, including business, commercial and contract law and government regulations, to ensure that they do not discriminate against micro-, small and medium-scale enterprises owned by women in rural and urban areas.

167. By Governments, central banks and national development banks, and private banking institutions, as appropriate:

- (c) Structure services to reach rural and urban women involved in micro-, small and medium-scale enterprises, with special attention to young women, low-income women, those belonging to ethnic and racial minorities, and indigenous women who lack access to capital and assets; and expand women's access to financial markets by

identifying and encouraging financial supervisory and regulatory reforms that support financial institutions' direct and indirect efforts to better meet the credit and other financial needs of the micro-, small and medium-scale enterprises of women.

169. By multilateral funders and regional development banks, as well as bilateral and private funding agencies, at the international, regional and subregional levels:

- (c) Develop strategies to consolidate and strengthen their assistance to the micro-, small and medium-scale enterprise sector, in order to enhance the opportunities for women to participate fully and equally and work together to coordinate and enhance the effectiveness of this sector, drawing upon expertise and financial resources from within their own organizations as well as from bilateral agencies, Governments and non-governmental organizations.

170. By international, multilateral and bilateral development cooperation organizations:

Support, through the provision of capital and/or resources, financial institutions that serve low-income, small and micro-scale women entrepreneurs and producers in both the formal and informal sectors.

Strategic objective F.4. Strengthen women's economic capacity and commercial networks

175. Actions to be taken by Governments:

- (i) Ensure that policies and regulations do not discriminate against micro-, small and medium-scale enterprises run by women.

176. Actions to be taken by financial intermediaries, national training institutes,

credit unions, non-governmental organizations, women's associations, professional organizations and the private sector, as appropriate:

- (e) Promote and strengthen women's microenterprises, new small businesses, cooperative enterprises, expanded markets and other employment opportunities and, where appropriate, facilitate the transition from the informal to the formal sector, in rural and urban areas.

III. Bibliography

42. There are hundreds, if not thousands, of articles, books, periodicals and web sites that deal directly with all aspects of microfinance. Therefore, this bibliography aims to identify only some of these myriad sources.

Sites with extensive bibliographies and reference resources

43. The following have extensive bibliographies and reference resources:

Development Gateway: (http://www.developmentgateway.org/topic/unbox?page_id=3733&type_key=program)

Enterprise Development Network: (<http://www.enterweb.org/microcre.htm>)

Microfinance Gateway: Gateway to extensive resources (see especially **Library** link): (<http://www.nt1.ids.ac.uk/cgap/index.htm>)

MicroFinance Network: (<http://www.bellanet.org/partners/mfn/>)

United Nations Capital Development Fund (UNCDF)/Special Unit for Microfinance (SUM): (<http://www.uncdf.org/links/mcfc.html>)

Virtual Library on Micro-Credit: (<http://www.gdrc.org/icm/icm-bibliography.html>)

For a collection of web FAQs (frequently asked questions) about microfinance, see: (<http://www.nt1.ids.ac.uk/cgap/html/faq.htm>)

Donor and international organization micro-finance sites

44. Although almost all donors have projects or activities in this subject area, several have articulated strategies for microfinance and put into place substantial programmes and initiatives. These include:

Asian Development Bank: (<http://www.adb.org/Documents/Policies/Microfinance/>)

Canadian International Development Agency:

(<http://www.acdi-cida.gc.ca/microcredit>)

Consultative Group to Assist the Poorest (CGAP): Consortium of 27 donor Governments, non-governmental organizations, and private contributors: (<http://www.cgap.org/>)

European Union: (http://www.europa.eu.int/comm/development/lex/en/1998/com_98_0527_04.htm)

Food and Agriculture Organization of the United Nations (FAO): Rural Finance site: (<http://www.fao.org/WAI-CENT/FaoInfo/Agricult/ags/agism/ruralfin.htm>)

Inter-American Development Bank (IDB): Micro, Small and Medium Enterprise Division: (http://www.iadb.org/sds/mic/index_mic_e.htm)

Multilateral Investment Fund — Microenterprise Development Program: (<http://www.iadb.org/mif/eng/strategies/microenterprise.htm>)

International Fund for Agricultural Development (IFAD): (<http://www.ifad.org/operations/policy/policydocs.htm>)

International Labour Organization (ILO): (<http://www.ilo.org/public/english/employment/finance/index.htm>)

Committee of Donor Agencies for Small Enterprise Development: (<http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>)

United States Agency for International Development (USAID) Microenterprise Innovation Project: (<http://www.mip.org/>)

World Bank's Sustainable Banking with the Poor: (<http://www.esd.worldbank.org/html/esd/agr/sbp/home.htm>)

Non-governmental organization sites

45. Given below is just a sample of the considerable resources on non-governmental organization work available on the Internet.

ACCION: (<http://www.accion.org/main.asp>)

Banking with the Poor: (<http://www.bwtp.org/>)

BRAC (formerly Bangladesh Rural Advancement Committee): (<http://www.brac.net/pov3.htm#Microfinance>)

Capacity Building for Microfinance: (<http://www.gdrc.org/icm/ppp/ppp.html>)

The Foundation for International Community Assistance (FINCA): (<http://www.villagebanking.org/>)

Grameen Bank: (<http://www.grameen-info.org/>)

MicroSave-Africa: (<http://www.undp.org/microsave/about.html>)

Women's World Banking: (<http://www.swwb.org/>)

Books, articles and other references

46. Given below is a very small selection of the extensive resources available on microfinance. The items selected below were of particular use in the drafting of this technical note.

CGAP (2000). *The Rush to Regulate: Legal Frameworks for Microfinance*, Occasional papers. Washington, D.C., April.

- _____ (2001). *Commercialization and Mission Drift: The Transformation of Microfinance in Latin America*, Occasional papers. Washington, D.C., January.
- Countdown 2005: Newsletter of the Microcredit Summit Campaign. (<http://www.microcreditsummit.org/newsletter/resources.htm>)
- Finance and Development Research Project: Working papers. (<http://www.devinit.org/findev/papers.htm>)
- Matin, Imran, David Hulme and Stuart Rutherford (1999). *Financial Services for the Poor and Poorest: Deepening Understanding to Improve Provision*. Manchester, United Kingdom: Institute of Development Policy Management. (<http://www.devinit.org/findev/Working Paper9.htm>)
- Microbanking Bulletin. (http://www.calmeadow.com/mbb2_index.html)
- Rhynne, Elisabeth (1998). *The yin and yang of microfinance: reaching the poor and sustainability*. *Microbanking Bulletin* (University of Colorado at Boulder), July 1998.
- _____, and Robert Peck Christen (1999). *Microfinance Enters the Marketplace*. Washington, D.C.: USAID. (<http://www.mip.org/pdfs/usaids/microfinancecenters.pdf>)
- Robinson, Marguerite (2001). *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington, D.C.: IBRD.
- Rosenberg, Richard (1998). *Independent Review of UNCDF Microfinance Activities*. UNCDF. May.
- Rutherford, Stuart (2000). *The Poor and Their Money*. New Delhi: Oxford University Press.
- United Nations (1999). *World Economic and Social Survey, 1999: Trends and Policies in the World Economy*. Sales No. E.99.II.C.1. Chapter VII, Bringing financial services to the poor.
- Wright, Graham (1999). *Beyond Basic Credit and Savings: Developing New Financial Service Products for the Poor*. Eschborn, Germany: CGAP/Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).

Notes

- 1 The term “microfinance” is used in lieu of “microcredit” throughout this note, given its inclusion not only of credit but of other services such as savings and insurance. More detailed frequently asked questions (FAQs) can be found at http://www.cgap.org/html/mi_faq.html.
- 2 An example of what good financial services require can be found in Rutherford (2000, p. 114).