

Regional Consultations in Preparation for the Financing for Development Global Review Conference in Doha

Executive Summary

The member States of the UNECE believe that the principles enshrined in the Monterrey Consensus are important and wish to reconfirm their commitment to them this autumn in Doha. Many of the economies in the UNECE region have been experiencing significant structural changes and development challenges; in response, they have relied extensively on reforming their internal economies and obtaining significant assistance from abroad – the two basic themes incorporated in the Monterrey Consensus. From these experiences many important lessons have been learned; there are numerous successes and a number of quite significant remaining challenges. These lessons and challenges are explained in more detail in the complete Findings of the Regional Consultations, but the eighteen most important conclusions which are particularly specific to the UNECE region are summarized below.

Mobilizing Domestic Resources

1. Significant structural change brought on by reform or globalization can create surpluses and shortages of labour simultaneously; increased labour market flexibility is needed to address the surpluses, and incentives to stimulate increased labour force participation are needed for the shortages. These labour policies must increase women's labour market opportunities, assess the role of migration, and anticipate how upcoming demographic changes will impact labour markets and societal needs.
2. Privatization of economic activities can enhance efficiency but the process must address equity concerns and the markets created must be competitive and properly regulated. The institutional innovation of Public-Private Partnerships can be used successfully to finance large infrastructure projects when public funds are limited, but these must be designed appropriately.
3. Integration into the global economy significantly incapacitates the ability to use national macroeconomic policies to promote domestic resource utilization; as a result more emphasis must be placed on creating flexible product and labour markets. However, increased labour market flexibility must be accompanied by improved safety nets; but these must incorporate incentives for the displaced to re-enter the labour market.
4. The financing of new enterprises, particularly small and medium-sized enterprises (SMEs), often faces significant market failures, and therefore innovative mechanisms, often with public financing or support, are sometimes required. This is especially true of a firm's earliest stages, which are financed by venture capital markets. Support for female entrepreneurs can support a number of other desirable social objectives simultaneously.

International Financial Flows and External Debt

5. Creating the right investment climate can attract large capital inflows; however, these can be too large and can create excessive credit creation, asset market bubbles and

other vulnerabilities. Policies may be needed to ensure that the inflows support investment and not excessive consumption.

6. FDI is the most desirable form of capital inflow and can provide the most benefits when it triggers spillovers or linkages; these can be especially large when there is FDI in the banking sector. However, foreign banks introduce new risks for an economy and these must be properly managed.

7. Low taxes can stimulate private investment activity and promote development, but they can also attract capital away from other higher tax localities. However, governments are dependent on tax revenue to finance their activities including the provision of educational services and infrastructure which are critical for economic development. To avoid an unproductive “race to the bottom,” it may be desirable to have some form of regional harmonization of tax rates.

8. Workers’ remittances are an increasingly important type of financial flow. Measures are needed to properly regulate these flows of migrant workers, ensure that these workers are properly paid and have appropriate working conditions, and can transfer their savings back home in a cheap and safe manner. There are a number of policies that can be implemented which can maximize the development impact of these flows.

9. Sovereign wealth funds are an increasingly important participant in global capital markets. Further study is needed to determine a set of best practices that can ensure that they achieve their primary responsibility to their domestic populations while also considering what impact they may have in promoting global development objectives and compromising the national sovereignty of the host economy.

10. Although rapid economic growth, constrained government expenditures, and debt cancellation initiatives have reduced the levels of external public debt, there is the potential that these gains can be negated by the large increases in private sector external debt. Appropriate action is needed to improve the monitoring of private debt and ensure that it does not become unmanageable.

Trade

11. Regional preferential trade areas that promote open regionalism stimulate investment and growth. Policy, however, must address the negative distributional outcomes associated with increased trade integration if public support for the process is to be maintained.

12. Progress in obtaining universal WTO membership has been disappointing. The Aid for Trade initiative can address important constraints and should include all of the developing/transition economies. More flexibility is encouraged to finalize the Doha Trade Round given its importance for developing economies.

Aid and Technical Assistance

13. Innovative approaches for obtaining additional aid resources are needed; a promising approach is to obtain more aid from middle-income countries. The EU

schedule requiring its new members to become donors and the UNDP programme to develop donor capacities are worth emulating elsewhere.

14. Technical assistance from other developing/transition economies can be particularly effective as they have more similar conditions to those of the aid-recipient countries.

15. Private charities and NGOs have an increasingly important role and need to be better integrated into the global development assistance network.

16. Long-run donor-recipient partnerships that develop intensive institutional checks with strong conditionality can promote the better absorption of aid resources.

Enhancing the Coherence of the International Economic System

17. There is still much to be done to make the international organizations fully representative of their membership and to make the world trading and financial system more development friendly.

Further Recommendations

18. As gender is an important crosscutting issue central to the objectives of the Monterrey Consensus, a special side event should be held in Doha to publicize its importance.

The Findings of the UNECE Financing for Development Regional Consultations

The following findings of the UNECE Regional Consultations are submitted to the President of the United Nations General Assembly and the facilitators of the preparatory process (Ambassador Maged A. Adbelaziz of Egypt and Ambassador John L. Lovald of Norway) for consideration as inputs for the Doha November 2008 Follow-Up International Conference to review the implementation of the Monterrey Consensus. These conclusions are based upon a series of discussions between the UNECE, its regional partner organizations, academics and inputs from its member States; they are the result of an assessment of what the region has accomplished in terms of addressing the commitments made at Monterrey and what remains as significant challenges.

Mobilizing Domestic Resources

The 56 member States comprising the Economic Commission of Europe are a diverse group of economies with remarkably different social customs, living standards, endowments, and histories which are facing a diversity of different challenges. Achieving the full mobilization of domestic resources has been an ongoing problem for many of them where unemployment has been too high, labor force participation rates unsatisfactory and domestic savings too low. Despite these difficulties there have been numerous successes in addressing these problems. Based upon these ongoing challenges and the lessons learned, the experiences of the region suggest that:

The Development Model

1. There is no one economic model for achieving high economic growth and addressing the social needs of a population. A fairly large diversity of economic models have proven to be successful in achieving high growth; this is especially true in regard to how growth has been financed. Some successful countries have relied extensively on foreign capital to finance their development while others have relied almost solely on domestic savings. Some have followed a quite liberalized free market model while others have relied much more extensively on state directed investment and oversight of economic activities.
2. Privatization of economic activities can stimulate efficiency and encourage investment but these efforts must be accompanied by appropriate competitive measures and the proper regulatory frameworks. Privatization of some activities such as utilities requires special attention to ensure that distributional considerations are properly addressed.

Government Institutions and Public Finance

3. Good governance based upon the rule of law, transparency, and minimal corruption is essential for development. The implementation of the UN Convention Against Corruption should be implemented and further enhanced. Good governance also requires the protection of human rights, fairly remunerated productive employment opportunities, respect for core labour standards, equal opportunities for all races and genders, and the provision of effective public services especially education.

4. Countries have to allocate sufficient domestic resources or raise external finance in order to ensure the necessary investments are undertaken in developing a country's physical infrastructure. Public-Private Partnerships (PPPs) are an important institutional innovation that has proven useful as a way of financing infrastructure development without straining public resources. The successful use of PPPs, however, requires an appropriate complementary legal and regulatory environment to ensure that businesses fulfill their obligations appropriately. The design of the partnership should also consider its social, gender, distributional, and environmental implications. Pricing of services based upon more "private sector" cost recovery standards may negatively impact low income or geographically disadvantaged persons and may require some additional compensational schemes.

5. In order to implement development policies properly, the government, the business sector, and international partners need to accurately understand the current economic and social conditions of an economy. To properly monitor these conditions, there is a fundamental need for governments to maintain a professional staff with the sufficient capacity to properly collect and analyze economic and social statistics. National statistical systems that function according to the UN Fundamental Principles of Official Statistics and that use international professional standards are indispensable elements in this regard. International organizations can and should be further encouraged to provide technical assistance so that all countries can meet these standards.

Macroeconomic and Employment Policy

6. An economy's potential can only be achieved if its human resources are used fully and efficiently. Appropriate macroeconomic policies are a precondition for achieving this objective. Reducing unemployment can have a large and immediate impact on poverty. In addition, workers need to be properly nourished, healthy, educated and trained; education and employment opportunities need to be available to the entire population regardless of race or gender. Social safety nets and retirement systems are important components of any economic system for addressing unemployment and inequality but they must include incentives encouraging labour market participation; these labour market policies need to consider their gender implications as women's employment conditions differ from men's.

7. The increased trade and financial integration of the global economy has reduced the effectiveness of national macroeconomic policy as a tool for increasing the domestic utilization of resources and employment. As a result, the ability of countries to maintain full employment is increasingly dependent on the creation of flexible product and labour markets. A number of regulations and institutional structures which were created in the past to address distributional concerns that arose from perceived inequalities of market-based incomes have proven to be increasingly costly (as globalization intensifies) in terms of creating higher unemployment or lower labour force participation rates. The solution involves not simply the relaxation of these regulations but instead requires their replacement by better-designed mechanisms that can achieve both the equity and full-utilization objectives simultaneously.

8. Labour market rigidities can create a situation where there are labour shortages and unemployment at the same time; this is particularly likely when an economy is subject to large structural adjustments. In order to correct these outcomes, labour and product

markets need to be more flexible and training and educational systems need to better anticipate labour force needs. Geographical mobility is also important and policy action may be needed in areas such as housing markets in order to lower the financial costs of moving. International labour migration, in both directions, can contribute to eliminating these market disequilibria.

Creating an Inclusive Society

9. For economic growth to fully contribute to achieving developmental objectives including those incorporated into the Millennium Development Goals (MDGs), growth must be as inclusive as possible for all segments of a society. One way to ensure that economic growth benefits the disadvantaged segments of a society is to ensure that these segments of the population have a voice in the political process that governs economic policy. One way this can be achieved is through the promotion of democracy combined with other political freedoms including the access to information.

10. Although economic growth is essential for addressing poverty alleviation, it is usually not sufficient; social safety nets, income redistribution, and the provision of public services are generally needed to properly address poverty. If market-based wages fail to allocate sufficient incomes in a manner that eliminates poverty and malnutrition and are insufficient to purchase appropriate health care, social safety nets consisting of monetary transfers or other government provided benefits need to be used to complement market-based income. Generally it is difficult to achieve a high level of equity in a market-based economy without progressive tax policies. Central to achieving a more equitable society in the longer-term is a broad-based publicly-financed educational system that allows each individual, regardless of ethnicities or gender, to reach their full potential.

11. The failure to address rising inequality can create a divisive political environment and, if the divisions are geographically or ethnically based, can even result in armed conflict. Increased inequality can also reduce the public's support for domestic policies needed to increase efficiency and for a liberal international trade regime.

Gender Policy and Rights

12. There is a strong link between women's participation in economic activities and economic growth; women bring important skills to the labour force and have significant entrepreneurial potential. Increasing women's employment is particularly important in addressing labour shortages in ageing societies. Women's potential, however, remains largely untapped if there are gender differences in overall participation rates, educational achievements, and presence in the higher skilled and management positions; the existence of a persistent wage gap or a mismatch between women's educational levels and their occupational positions are suggestive that current labour policies are not sufficiently supportive of this objective. In order to properly monitor these trends, governments need to collect statistics on these variables.

13. In order to ensure that women have full equality in terms of economic and labour market opportunities, they must have equality in legal rights for all aspects of social activity including educational opportunities, political rights, the right to own property and assets, pensions and inheritance. Even when there is equality in legal terms, there

can be de facto inequality due to a systematic bias in the design of social institutions based upon a traditional view of women's role in a society. Given the difficulty in overcoming traditional social norms or traditions that may have developed in periods when women did not have full legal equality for economic opportunities, a more proactive policy agenda (including subsidies for childcare, affirmative action, quotas, etc.) may be necessary in addition to simply granting legal equality.

14. Mobilizing the full potential of women requires the implementation of gender-sensitive economic policies. These policies, however, are still poorly designed in terms of mechanisms, concrete measures, and incentives as well as the responsibilities of key actors in both governments and the private sector. Making progress requires an extensive dialogue on economic policy choices based on the analysis of their impact on men and women. These policies are based not just on equity or human rights objectives but are promoted from an efficiency perspective (gender equality as "smart economics"). Macroeconomic policies and public expenditures often have a differential effect on women and these implications need to be considered in the formulation of a wide range of policy areas including budget allocations. The main objective of gender budgets is to work towards closing the gender gap in access to assets, income, power and education and employment opportunities.

15. In order to ensure that women have access to finance for starting and running a business, there must be a focus not only on microcredit but there must be a recognition of their entrepreneurship and their need for venture capital and numerous other types of financing. Gender-sensitive economic policies are especially important for countries with development strategies based upon the MDGs and Poverty Reduction Strategy Papers. The role of women as caretakers and the necessity of their often having to choose between family and work need to be addressed with appropriate policies.

Domestic Financial Markets

16. A financial system that is capable of efficiently intermediating savings into investment is essential for economic development. Stable financial institutions that provide security for household wealth and provide a real return are necessary to achieve the appropriate level of savings. Capital flight represents an important drain on national savings and can be reduced through the promotion of the rule of law, legal rights for depositors, an independent judiciary, appropriate financial sector regulations, transparency of government activities, macroeconomic stability, and an appropriate level of international reserves. The achievement of full currency convertibility is generally a sign that these conditions have largely been met. Although financial deepening can increase the use of the formal banking sector as a depositor for savings, this does not always result in an increase in national savings (and investment) as these funds may be borrowed by consumers for consumption purchases.

17. A central task of a financial system involves the proper allocation of financial resources to competing activities. A proper supervisory regulatory system governing financial institutions (and their corporate governance) is necessary to ensure investment funds are properly dispersed honestly and efficiently. The risks involved in the provision of loans need to be properly distributed and there needs to be transparency as to where these risks lie. Adoption of international accounting and banking standards promotes confidence and stability in the financial sector. Foreign firms can provide

much needed technical and managerial competence but regulatory systems must be designed to ensure that their activities are consistent with the country's development strategy.

18. The promotion of small and medium sized business enterprises (SMEs) is important in that they provide not only important goods and services to their consumers but benefit society more generally by creating employment and innovation. However, due to market failures and the relatively high costs of making and monitoring loans to SMEs, the financial system often fails to properly fund them. Government policy is therefore needed to support the development and financing of SMEs.

19. As economies develop, entrepreneurial activity and financing new enterprises become increasingly important components of any growth strategy, and the ability to self-finance these activities out of personal savings becomes more difficult. Public intervention in addressing the financing problems of innovative enterprises is essential, given the positive externalities associated with innovation and the market failures surrounding the financing of these enterprises. Comprehensive measures that address the needs of enterprises through all the early stages of development are required. These instruments include grants and other public support measures, assistance in the development of a formal venture capital industry, and other interventions that create an environment conducive to the emergence of new enterprises. A suitable framework for cross-border investments is necessary to facilitate the internationalization of innovative companies and their access to risk capital.

20. Housing is an important sector of an economy and directly affects the quality of life of its members; housing affordability is a significant problem for lower and middle-income groups. Due to the complex interdependencies in this market (insurance, credit ratings, real estate brokers, legal, banking, etc.) and market failures, housing finance systems are often inadequate. Their design and development within an economy can benefit from technical cooperation provided by international agencies and from a comparative analysis of the operation of these markets in other economies.

Infrastructure

21. A nation's physical infrastructure, especially its transport network, has many public goods characteristics, provides important linkages amongst different sectors and is essential in maintaining and enhancing national economic growth, competitiveness, productivity, and quality of life. As such, regional development banks and the international financial institutions have a role in helping to develop these systems. For financing these projects, there must be transparency and sound coordination between the various sources of financing and especially between the various international financial institutions (IFIs) involved. Although the private sector and the IFIs can contribute to financing, a very substantial part comes from national public funds and it is therefore important to stabilize the national sources of financing, notably against political changes or budgetary constraints.

22. An efficient transport infrastructure and customs agency is important not only for the country itself but for its neighbours that must cross its borders in order to trade with other regional partners; this is an especially important consideration for landlocked economies. As such regional cooperation and coordination in developing the regional

transport infrastructure is a necessity. In this regard, an emphasis should be given to promoting harmonization, interoperability and intermodality so as to reduce transport costs and improve efficiency. More specifically, regional transport networks should attempt to create a coherent system based upon a legal and technical framework of commonly agreed upon technical norms and standards which ensures interoperability between the various transport modes and amongst countries. Mutually agreed upon international transport routes enable countries to finance the national sections of these transport networks through their national infrastructure investment strategies. Given the difficulty in assessing what might be the fair distribution of costs when there are widespread regional external benefits, external aid (as under the Aid for Trade Initiative) in developing these systems can be important in facilitating the implementation of these projects.

23. The development of regional transport systems must also address safety hazards, security threats and environmental concerns. Relevant international conventions on transport facilitation, vehicle standards and transport of dangerous goods address those challenges and their implementation is an effective means of promoting further regional and global integration.

24. Complementary to regional infrastructure development is the need to minimize the costs and time for border crossings and improve traffic management on transport systems. Harmonizing border documents and improving their efficiency through the use of information and communication (ICT) technology can greatly improve the efficiency of border procedures.

25. The development of dynamic innovative economies requires that sufficient resources be allocated to addressing the digital divide that has developed between countries, regions, income levels, age cohorts, and gender. Investment in the infrastructure and institutions governing information communications technology (ICT) can play a significant role in addressing the social and economic needs incorporated in the MDGs. Given the importance of technical standards in this area, regional cooperation and harmonization of standards should be given high priority.

Environmental Policy

26. Although addressing environmental challenges, especially those of a transboundary nature, often impose costs upon society and its business firms and as such may be viewed as negatively impacting competitiveness, the costs of addressing these challenges must be shared amongst countries in an equitable manner; it is improper for countries to attempt to gain competitiveness or shift the costs burdens on to others from their failure to properly address transboundary environmental costs. The provision of aid and technical cooperation to support the fulfillment of these environmental objectives can help ensure that they are properly addressed.

27. The trade-off between environmental standards and competitiveness is more nuanced than is commonly believed. Environmental standards are usually only a minor factor affecting competitiveness and higher standards can actually promote long-term competitiveness by encouraging technological upgrading, the efficient use of resources, lower future adjustment costs, avoidance of future environmental rehabilitation costs,

increased tourism, improved public health, and increased prospects for joining international trade agreements.

Attracting and Using International Capital and other Financial Resources

The European emerging markets have been extremely successful in attracting external private capital inflows and have therefore been able to achieve what was one of the fundamental objectives of the Monterrey Consensus. Their experience contrasts rather sharply with that of most other emerging markets, which have over the last decade become exporters of capital. However, questions are beginning to be raised as to whether the European economies have been too successful and that their large dependence on capital inflows has now created a financial vulnerability. This experience suggests:

International Monetary System

28. The ability of countries to rely on external sources of finance is dependent on having an international financial system that is stable and where lending to developing/transition countries has less pro-cyclically than it has historically. Further efforts are needed to strengthen the stability of the international monetary system in this regard. The IMF has an important role in strengthening its ability to provide surveillance, highlighting developing problems of systemic risks, and suggesting the appropriate policy actions needed either by individual economies or in the design of the international financial system.

29. The fact that such a large slice of global savings appears to be flowing “uphill” from developing to developed economies is counter to the basic objective of the Monterrey Consensus which was concerned with increasing the external resources available to developing countries. To some degree this trend reflects ongoing concerns about the fundamental instability of the international monetary system and the inability of the IMF to properly assist countries when crises arise. This trend requires further examination and a policy package needs to be designed to reverse this trend if the basic objective of the Monterrey Consensus is to be achieved.

30. Raising capital for large infrastructure projects can be difficult due to the long-term nature of these projects and the existence of market failures including their often public goods nature. Regional development banks can play an important role in providing long-term finance and technical expertise for these projects; their expertise in regard to regional problems and issues, and their geographical proximity can promote a more efficient use of funds.

Attracting External Capital Flows

31. Foreign capital inflows are attracted to economies with the proper institutional and economic environment; this includes high levels of human capital, good physical infrastructure, exploitable natural resources, and honest and transparent governments. For some industries the protection of intellectual property rights may be a priority. In addition to the needed capital, foreign direct investment (FDI) can provide technology and managerial know-how. UNCTAD’s Investment Policy Reviews can help countries increase inward foreign investment by designing an appropriate investment climate.

32. A major objective in obtaining the maximum benefits from foreign investment, including from FDI, is to encourage linkages and externalities for domestic firms and workers. One sector in which these positive linkages and economy-wide benefits are potentially quite large is the financial and banking sector. Foreign banking enterprises can introduce new technology and expertise in allocating credit, and improve access to additional external funds. However, foreign-owned banks may under-invest in SMEs due to their lack of knowledge of local market conditions and may excessively promote mortgages and other products for which there is more marketable collateral. Foreign banks appear to have an increased propensity to borrow from abroad (often from their parent banks) and an increased propensity to make foreign-currency denominated loans; these may increase the vulnerability of the economy to a currency crisis.

33. The creation of preferential trading areas can stimulate capital inflows as the larger market size justifies the upfront costs of entering a market area and allows firms to reap the gains from economies of scale.

34. Increased tourism has the potential to provide significant amounts of foreign exchange and can create additional employment. Efforts should be made to determine how these flows and the benefits from them can be increased and how the negative social and environmental impacts of these activities can be minimized.

Minimizing Vulnerabilities Created by Capital Inflows

35. The integration of emerging markets into global financial markets can improve the access of business and households to capital. However, relying on extensive capital inflows can make a country vulnerable to a “sudden stop” that requires rapid adjustment costs which can be quite costly in terms of economic growth and employment. The poorer segments of a population are particularly harmed by these episodes. These risks can be minimized if policy ensures that these inflows do not exceed prudent levels and consist primarily of FDI and not short-term debt. Anticipated yearly principal and interest payments should not significantly exceed existing foreign exchange reserves.

36. When there are extensive capital inflows, households may be particularly likely to increase their borrowing as they attempt to borrow off their anticipated rising future incomes. As a result external debt can increase while few resources are allocated to ensuring that the country will have the foreign exchange to repay these loans. This process can create a financial vulnerability for an economy. Increasing household consumption may be consistent with national objectives, but it may nevertheless be necessary to direct foreign borrowing into investment projects, especially those in the export industry, with the appropriate tax and regulatory policies if the development objective is primarily to use foreign capital to finance increased investment.

37. Low business taxes can stimulate investment, including foreign investment. However, the social gains from increased investment must be weighed against the social losses that result from lower government revenues and therefore likely lower investment in infrastructure and educational spending and fewer services for the disadvantaged segments of the population. In addition, although the pool of FDI funds is not fixed, when a country sets its tax rates to marginally equate its increased investment benefits with the losses from decreased revenue, it does not consider the implications on another

economy from which the funds might have otherwise been invested. As such, there may be some advantage in countries agreeing on some form of regional or global standards to avoid an undesirable “race to the bottom” in tax rates.

38. Obtaining foreign capital from external markets that use different currencies generally requires some economic agent to assume the foreign exchange risks. To whom these risks are allocated, has important implications for economic stability, and government policy must carefully consider the various tradeoffs involved. Governments can reduce their potential vulnerability to unexpected adverse developments by borrowing in domestic currency (and thus forcing the foreign lenders to assume the exchange risks), although this may require payment of a higher interest rate. If the financial sector contains a significant number of foreign banks, they may prefer to make foreign-currency denominated loans; a significant vulnerability can develop if these are made to households or businesses in the non-trade sectors which have no hedge against exchange rate movements. Domestic legislation may be inadequate for dealing with this problem if capital markets are liberalized; a solution may require some form of cross-border regulation and banking regulation may require regional cooperation and harmonization.

Remittances: Many of the European emerging markets receive quite sizable inflows of workers' remittances. For a number of the poorer economies these inflows are several times greater than the amount of official aid or private capital inflows. Despite the significance of these financial flows, remittances appear in only one sentence in the Monterrey Consensus. Given that there are a number of important issues that surround the migration of workers including their working conditions, their ability to transfer funds home, and the best utilization of the funds for developmental purposes, the region's experience suggests:

39. The migration of workers can benefit both the sending and receiving economies. Migrants can relieve labour shortages and help offset natural population decline in destination economies and can relieve unemployment and provide remittances to source economies. Remittances are an important source of external finance that can relieve poverty by providing badly needed income to low-income families, promote human capital formation by financing family education and health care, or finance investment in entrepreneurial activities and SMEs. The emigration of skilled workers however can result in a brain drain which can negatively affect development; overall migration is a second best alternative to providing decent jobs domestically.

40. Given the significant implications that the migration of workers have for both the receiving and sending economy, migration flows should be conducted within some type of formal framework that controls the levels and conditions for their work. Depending on circumstances, this could optimally be either a bilateral or regional agreement. These agreements should ensure that migrant workers are provided decent working conditions and are subject to roughly the same regulations and rights as domestic workers. ILO conventions 97 and 143 address these concerns and their implementation should be considered as a complement to domestic regulations governing these issues. These agreements may need to address where workers are taxed and what social benefits are provided.

41. Mechanisms to ensure that migrants can transfer remittances through formal financial channels in a safe, transparent, and efficient manner are important and in many cases need to be improved. Although countries have different needs and objectives, and there are often trade-offs between making it cheaper and easier to transfer funds and the needs of governments to ensure the financial integrity of money transfer enterprises and to properly limit illegal and terrorist transfers, the guidelines provided in the BIS/World Bank 2007 General Principles for International Remittance Services provide a useful framework for addressing these issues.

42. Remittances have the potential to be an important source of finance and/or foreign exchange. Further development of formal financial channels for remittance transfers can encourage that these savings remain in financial markets and are therefore available for investment. Given that remittances are privately owned funds, the objective should be to further increase the options available to their owners instead of further restricting the use of these funds.

43. In order that countries can properly monitor remittance flows, control their macroeconomic implications, and best use them for developmental purposes, it is important that their levels be properly recorded in official government statistics. Currently remittance flows are poorly estimated and often inconsistent between sending and receiving countries. The recommendations of the Luxembourg Group (composed of a number of statistical agencies including Eurostat, the World Bank, and the IMF) should be given serious consideration in attempting how best to address these data issues.

Sovereign Wealth Funds: The UNECE region has a number of sovereign wealth funds, some dating back almost two decades and others recently created; their experience with establishing and managing these funds suggests:

44. Because of very large increases in the price of non-renewable natural resources, especially oil, gas, and metals, many governments have established or significantly enlarged asset or stabilization funds as a way to smooth consumption over the commodity pricing cycle or to provide some intergenerational equity. A proposal for the IMF to study the management practices of these funds is encouraged as it can establish a set of “best practices” so that these funds are used most effectively to enhance the welfare of their populations. In addition this study should examine the potential of these funds for promoting global development while also examining the degree to which these funds pose risks to the financial stability of the global economy or the political sovereignty of the countries in which they are invested.

Trade

The member States of UNECE have been at the forefront in promoting a non-discriminatory multilateral trading system and in creating regional trading areas (EU, NAFTA, CEFTA, EurAsEC) that further liberalize trade while also encouraging multilateral openness. Nevertheless, trade issues remain a high priority for its members; these include the completion of the Doha Round, WTO accession for a number of its members, and the further development or enlargement of existing regional trade areas. The UNECE member States, however, face a number of significant challenges in addressing global competition and ensuring that their populations benefit

from globalization in an inclusive manner. In addition, the region includes a number of landlocked economies as well as many with extremely high border-crossing costs; as a result numerous regional initiatives have been established to address these problems. Based upon these experiences and remaining challenges, it is important that:

45. The creation of regional preferential trade areas (PTA) has the potential to benefit their members through a number of channels in addition to the standard gains from trade. These include the dynamic benefits from scale economies and the fact that a larger unified market may attract additional investment inflows and can reduce the costs associated with border crossings. PTAs designed to promote open regionalism have generally provided more benefits than those designed to encourage import substitution. The design and implementation of PTAs in the various stages of their negotiation and development can benefit from including international organizations that have technical capabilities in this regard.

46. Renewed emphasis needs to be placed on obtaining WTO accession for the current non-members. Although basic disciplines need to be fulfilled by those wishing to join the WTO system, the requirements for new members have become overly cumbersome and more demanding than those that were required for members who joined earlier. Some existing members are using their insider status to attempt to extract “excessive” concessions. Making the WTO inclusive of all countries is an important step in increasing the legitimacy of the organization and making the world trade system more responsive to the needs of its members.

47. The increases in commodity prices for oil and food reflect to some degree the lack of competitive markets for these items. Ensuring that these commodities are produced and traded using competitive market-based prices can help ensure that these items are produced in sufficient quantities to address world needs and distributed in an efficient manner. The WTO should attempt to better address these issues.

48. Increased trade has the potential to increase national income and provide significant opportunities for speeding development in the developing/transition economies. Increased trade, however, can negatively affect particular segments of a population and as a result there is often political pressure to limit liberalization. Addressing these distributional concerns more pro-actively through labour market and transfer policies can help reduce these political pressures and create a further impetus for further trade liberalization. As a result the benefits of globalization can be made more inclusive both within and amongst countries.

49. Trade agreements involve more than tariff negotiations; increasingly domestic legislative issues must be addressed. In particular, technical standards are increasingly important and must be addressed in trade agreements. Adopting internationally agreed upon standards can facilitate this process while also making the economies more globally competitive at the same time. The developing/transition economies should be fully integrated into these standard-setting exercises and the standards created should consider their needs and preferences. Capacity building to help their domestic enterprises comply with international standards should be encouraged.

50. The Aid for Trade initiative should be encouraged (and addressed in all the geographical regions) as it targets a number of developmental constraints that are

particularly acute and could especially benefit from external concessionary funding. These types of projects have faced difficulties in being privately or publicly financed because they often have a public goods characteristic, or involve regional externalities, or require a long time for repayment and have not been undertaken because of capital market imperfections. By improving the integration of these economies into the world economy, the donors are likely to also reap a substantial gain.

Financial Aid and Technical Cooperation

The UNECE member States include both donors and recipients of financial aid and technical assistance. As such the recommendations of the region attempt to address the interests of both. The region has been innovative in proposing creative sources of additional financing. The EU has established a schedule for its new member states to become aid donors and UNDP has a capacity building program to enhance the ability of these countries to become successful donors.

Financial Assistance

51. Given the wide disparities that exist in global living standards and the numerous humanitarian crises, the higher income economies should be encouraged to provide more aid. Achievement of the MDGs is dependent on increasing ODA. The 0.7 per cent of GDP target has wide global support and the donor nations which have yet to reach that target should strive to do so. ODA as a percentage of the GNI of the DAC donors has increased from only 23 per cent in 2002 to 25 per cent in 2007; this is below the levels in the 1990s. Increased efforts need to be made to ensure that ODA is used effectively and is targeted towards the most needy. When possible, ODA should be used to leverage additional development financing. Aid effectiveness can be increased by increasing the local ownership of projects and increasing the predictability of resource transfers.

52. Innovative sources of new aid need to be explored. One promising area is to increase contributions from current non-DAC middle-income countries. These donors bring new perspectives and objectives to the development agenda. These may be particularly valuable given that they have economic conditions more similar to the recipients. However, to ensure that this aid is used effectively, the new donors should attempt to meet current international standards for reporting and delivery and should be encouraged to participate in existing bilateral and multilateral donor initiatives. Programmes such as those of UNDP that promote the participation and effective delivery of aid should be further developed. Trilateral approaches may be a useful procedure where a new donor works with an established donor in planning, financing, and monitoring a project. Technical assistance from middle-income economies, which have more similar economic conditions, also needs to be further encouraged.

53. Capital funding of regional and multilateral development banks is an important component of assistance. They provide important finance for long-term and public goods projects for which there are often market failures in obtaining finance. Their technical expertise is of equal importance. Projects financed by these institutions can also promote environmental, regional, and social objectives (i.e., gender equality) more than might be the case if they were financed solely from domestic sources.

54. Since private capital markets seem to inadequately finance human capital development especially for the poorer segments of the population, foreign aid used for health and education of these segments can contribute significantly to economic development while addressing equity concerns as well. Creating a more inclusive society is further likely to contribute to development by increasing political stability.

55. A Poverty Reduction Strategy Paper (PRSP) has proven to be a useful mechanism that is complementary to IFI loans for focusing national efforts on poverty reduction. Further integration of the MDGs into the PRSP is desirable. The recommendations included in the Paris Declaration on Aid Effectiveness should be more widely adopted. Aid programmes should attempt to assess their differential impact on different ethnic groups and genders and from this information attempt to design programmes that will produce outcomes consistent with a country's objectives in these areas.

56. The recent increases in the prices of food products have created a humanitarian crisis in a number of poor food-importing economies. Increased assistance in the short-run is required to avoid increased starvation and hunger. In the longer-run this problem is best addressed by the implementation of policies to encourage the increased supply of food products. Generally this can best be achieved by liberalizing markets and eliminating existing policies that serve to restrict output. Increasing output will also require increased infrastructure investment in irrigation projects, roads, ports and storage facilities. The development banks have an important role in helping to fund these and should give priority to these projects. Productivity gains in crop yields have been on a downward trend and funds for scientific research to increase yields need to be restored to levels of earlier decades. Although the production of biofuels is a worthy endeavor to help the world address its environmental problems, their negative implications on food markets need to be properly considered in the formulation of public policy.

Cooperation and Technical Assistance

57. Economic development is unlikely in situations with ongoing conflicts and unresolved or frozen political conflicts. Regional initiatives that provide incentives for conflict resolution can be useful in encouraging compromises and increasing the awareness of the long-term gains in economic prosperity that can come from the peaceful political resolution of disputes. Regional initiatives that promote economic cooperation, transnational infrastructure development, cultural and educational exchange programmes can contribute to building partnerships and trust that can ultimately help in resolving political conflicts. Development aid and the activities of the international organizations should focus more on assisting the poorest economies and those fragile countries facing security and political challenges.

58. The adoption of foreign technology is central to development for catching-up economies. There are a number of policies that can promote technological transfer or increase the absorptive capacity of an economy. Encouragement of foreign direct investment brings in technology, and policies can be implemented to promote the transfer of this technology and to increase the linkages to additional sectors. Protection for intellectual property can encourage firms to transfer more advanced technology. Having an educated workforce including one that speaks the languages of technologically advanced economies can further increase technological transfer.

Promotion of exchange programmes for students, scholars, managers and ordinary workers can also increase the pace of transfers.

59. The spread of infectious diseases such as AIDS/HIV and tuberculosis can have serious negative consequences for human resource utilization and their control is a global public good. As such, all countries should contribute towards achieving this objective.

60. Regional transport, energy, and telecommunications infrastructure may have a significant public goods component and as such may not receive adequate funding from national authorities. Regional cooperation is therefore of paramount importance and externally (internationally) provided concessionary finance or aid can be an important ingredient or solution towards overcoming the inherent difficulties in allocating costs amongst countries.

61. The increasing importance of private charities and non-governmental organizations must be recognized. The implications of this development require study to see if their activities are being integrated fully into global and national development plans.

Aid Conditionality: The EU has provided extensive assistance through its Structural and Cohesion Funds to its poorer regions in order to promote their development and convergence with the rest of the EU. There is a general feeling that the principles and procedures that have been established to transfer, monitor and evaluate this aid have been relatively successful in ensuring its efficient use. Based upon this experience:

62. Although it is important for recipient countries to have ownership of aid projects, experience suggests that extensive donor involvement, including comprehensive planning and detailed mechanisms to monitor and evaluate projects, can contribute towards a better utilization of transfers. Although setting up these institutional arrangements for monitoring transfer programmes involves significant costs, when transfers are of a significant size and duration they appear to be cost effective. The benefits of this additional conditionality are especially present when the required public procurement and audit processes, having been established, are more widely applied to public sector projects.

External Debt

The problem of excessive external debt, which existed for a number of the UNECE economies, has greatly diminished over the last five years due to the rapid economic growth in the region, fiscal spending restraint, and debt cancellation under global initiatives established by the international financial institutions. The type of external debt owed by the region's emerging markets has shifted from being mostly public debt to being mostly private debt incurred by banks and corporations. As a result the nature of the vulnerabilities inherent in this debt have changed and the previously established global initiatives may no longer be applicable. As such:

63. The public debt levels of many economies have improved significantly over the last five years due to rapid economic growth, the debt cancellation programmes (i.e., Multilateral Development Relief Initiative (MDRI) and the Heavily Indebted Poor Country Initiative (HIPC)) of the international financial institutions, a shift from loans

to grants by the IFIs, and more constrained spending by emerging and developing economy governments (sometimes as a result of IMF/World Bank conditionality). The Paris Club agreements have contributed to a more orderly resolution of the external debts of those economies not eligible under the MDRI and HIPC; non-Paris Club creditors should also be encouraged to contribute to debt relief. There is a risk, however, that this reduction in public debt has been negated to some degree by increases in private debts undertaken by private businesses, banks and households. The evolution of these trends in private debt levels needs to be monitored and appropriate action needs to be implemented to ensure that the private debt levels do not become unmanageable or unsustainable; debt sustainability analysis should fully address these trends.

Enhancing the Coherence of the International Economic System

The UNECE economies largely created the current international trade, financial and political institutions and still exert extensive influence over them. As such they have a special responsibility to ensure that these institutions remain flexible and can adjust to changing global circumstances while also remaining legitimate by adjusting their governance structures as needed. This requires that:

64. The mandates and management structures of international organizations need to be flexible so that they can adjust to changing economic challenges and the changing distribution of economic activity and populations. The activities of these organizations need to be open, transparent and serve the interests of their membership.

65. In order that international organizations achieve the highest levels of legitimacy and efficiency, their senior management needs to be recruited from a global pool of the most qualified candidates. The selection process should be based upon merit and not upon gender or race. However, ensuring that there is some geographical balance either across organizations or through time is also considered to be a worthy objective. The selected officials need to be held accountable to the highest standards of public service.

66. Reform in the governance of the international financial institutions is needed to make them more representative of its members' economic weight and their role in the global economy. This will increase the legitimacy and effectiveness of the organizations and ensure that their activities appropriately correspond to the needs of the world community. Developing/transition countries also need to have a larger role in shaping the world trading system by being able to participate more fully in WTO negotiations. The importance of UNCTAD in continuing to promote this capability is important.

67. Policy coherence between the Bretton Woods organizations, the WTO, OECD, regional development banks, and the UN agencies has significantly improved and should be further developed. Regular discussions between these institutions are important in terms of setting the policy agenda, analysis and research of issues, technical cooperation and other capacity building activities.

68. The ability of developing/transition countries to achieve their development goals is dependent on the availability of regional or international public goods such as an efficient and stable international trade and monetary system, the advancement of technology, the control of global environmental pollution and climate change, control of infectious diseases, international terrorism and world peace, and human migrations. Given the

public goods nature of these, the level of resources devoted towards their production or achievement is likely to be below what is economically optimal. As such, there is a need to address this global resource shortfall and to also ensure that the proper international institutional structures exist to deal properly with these issues.

Further recommendations regarding the Doha Review Conference

69. Gender is recognized as an important crosscutting issue and many of the primary objectives addressed in the Monterrey Consensus have a gender dimension. Although gender issues are raised in that document, more emphasis on this topic should be included in the final report from the Doha Conference. Having a special session or a side-event at the Doha conference addressing the various dimensions of this issue should be considered.
