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Follow-up to and implementation of the outcome of the 2002 International Conference on Financing for Development and the 2008 Review Conference

Follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development

Report of the Secretary-General**

Summary

Pursuant to General Assembly resolution 67/199, the present report provides an annual assessment of the state of implementation of the Monterrey Consensus and the Doha Declaration on Financing for Development. The recent developments are presented under each of six thematic areas: mobilizing domestic financial resources for development; mobilizing international resources for development: foreign direct investment and other private flows; international trade as an engine for development; increasing international financial and technical cooperation for development; external debt; and addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development. Other developments related to strengthening of the financing for development intergovernmental follow-up process are presented in a section entitled "staying engaged".

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** The present report was prepared in consultation with staff of the major institutional stakeholders involved in the financing for development process. Responsibility for its contents, however, rests solely with the United Nations Secretariat.

I. Mobilizing domestic financial resources for development

1. The Monterrey Consensus and the Doha Declaration on Financing for Development emphasize that mobilizing domestic savings, both public and private, is critical to achieving the common objectives of growth, poverty eradication and sustainable development. The outcome document of the United Nations Conference on Sustainable Development, entitled "The future we want", reiterates the need for domestic resource mobilization to meet the growing needs of sustainable development.

2. Although estimates of the financing needs for sustainable development are necessarily imprecise, studies conclude, without exception, that needs are extremely large. Nonetheless, estimated financing needs still represent a relatively small portion of global savings and assets. Annual global savings are estimated to be around $17 trillion, as of 2012.[1] At the same time global financial assets have reached around $218 trillion, as of 2011.[2] Although reallocating the pool of global financial assets would prove challenging, redirecting a small percentage, say 3-5 per cent, of this investment towards sustainable development could have an enormous impact.

3. As of 2011, the average savings rate in low- and middle-income countries was 32 per cent, compared to 18 per cent in high-income countries,[3] implying a shift in the stock of savings from developed to developing countries. Indeed, a recent World Bank Group study[4] projected that in less than a generation, half the global stock of capital will reside in the developing world, primarily in Brazil, Russia, India, China and South Africa, compared to less than one third today. This underscores the importance of improving the effectiveness of financial systems in developing countries to facilitate long-term investment in sustainable development.

4. The Monterrey Consensus and the Doha Declaration recognize the need to develop and strengthen the domestic financial sector in developing countries, and stress the importance of encouraging the orderly development of domestic capital markets. Indeed, from 2000 to 2013, the ratio of private credit to gross domestic product (GDP) increased from an average of 19 per cent to 33 per cent in low-income countries, and from 52 per cent to 82 per cent in middle-income countries.[5] Nonetheless, in many developing countries, especially low-income countries, commercial banks remain the main provider of credit, and private bond markets are underdeveloped or non-existent. For example, while private debt securities represent an average of 34 per cent of GDP in high-income countries, their share is only 9 per cent in middle-income countries, and are close to zero in low-income countries.[6]

5. Deeper capital markets should provide a conduit for the long-term investment necessary for sustainable development. Nonetheless, there is a risk that such nascent markets will attract international speculative capital, leading to short-term bubbles,

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[1] International Monetary Fund (IMF), *World Economic Outlook 2012* (Washington, D.C., 2012).

[2] TheCityUK, "Fund management 2012". Available from thecityuk.com.

[3] Measured as gross savings as a percentage of gross domestic product; World Bank, World Development Indicators database, 2013.

[4] World Bank, *Capital for the Future: Saving and Investment in an Interdependent World* (Washington, D.C., 2013).

[5] World Bank, *World Development Indicators 2013* (Washington, D.C., 2013).

[6] World Bank, Global Financial Development database, April 2013.

which can reverse when global investor sentiment changes, causing shocks to the real economy. It is therefore important for countries to design a strong macroprudential regulatory framework, potentially in conjunction with capital-account management.

6. A domestic institutional investor base (including, for example, domestic pension funds, insurance companies and sovereign wealth funds) could provide a more stable source of investment. The presence of institutional investors in developing countries is still significantly lower than in high-income countries. There are important exceptions, however, such as South Africa[7] and Chile, where pension assets are substantial at around 60 per cent of GDP, though still below the levels reached in major developed countries, which range from 70 per cent to more than 100 per cent of GDP.[6]

7. In most developing countries, building an institutional investor base will require upgrading expertise and skills as well as reforms in licensing, portfolio requirements and changes to security laws.[8] Moreover, while investment projects require long-term financing, institutional investors, even in advanced economies, do not necessarily invest with a long-term horizon. In particular, pension fund investments in long-term infrastructure assets are less than 1 per cent of their overall investments.[9] Policy measures to build an institutional investor base should therefore consider introducing incentives to encourage longer-term investment.

8. Deepening of financial sectors has frequently been associated with stronger economic performance;[10] however, there are important caveats to this. Preliminary research[11] suggests that, while a larger financial system implies greater productivity growth in countries with shallow financial markets, in more developed markets the relationship is unclear. In particular, financial instability and risk have been found to increase with financial sector depth.[12] One possible explanation is that the growth in credit may not be sufficiently directed towards productive investments, which is linked to an increasingly short-term orientation of financial markets.

9. Deepening of financial sectors is also frequently associated with more financial inclusiveness. Globally, 2.5 billion adults do not have access to formal financial services, with the percentage of adults with at least one account at a formal financial institution at around 90 per cent in high-income countries, but only around

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[7] Organization for Economic Cooperation and Development (OECD), "The role of banks, equity markets and institutional investors in long-term financing for growth and development: report for G20 leaders". Available from oecd.org/finance/lti.

[8] Andrew Sheng, "Outlook for global development finance — excess or shortage?", background paper for the report of the High-level Panel on the Post-2015 Development Agenda, May 2013. Available from post2015hlp.org/the-report.

[9] G. Inderst, "Pension fund investment in infrastructure", OECD Working Papers on Insurance and Private Pensions, No. 32 (Paris, 2009). Available from oecd-ilibrary.org.

[10] R. Levine, "Finance and growth: theory and evidence", in *Handbook of Economic Growth*, Aghion and Durlauf, eds. (Amsterdam, North-Holland Elsevier, 2005).

[11] Stephen Cecchetti and Enisse Kharroubi, "Reassessing the impact of finance on growth", Bank for International Settlements Working Papers, No. 381 (Basel, Switzerland, 2012); Cotarelli and Jaramillio, "Walking hand in hand: fiscal policy and growth in advanced economies", IMF Working Paper (Washington, D.C., 2012).

[12] Martin Chihak, Asli Demirguc-Kunt, Erik Feyen and Ross Levin, "Financial development in 205 economies, 1960 to 2010", National Bureau of Economic Research Working Paper Series, No. 18946 (Cambridge, Mass., 2013).

57 per cent in upper middle-income countries, 28 per cent in lower middle-income countries and 24 per cent in low-income countries, as of 2012.[13] Furthermore, it has been suggested that about 200 million small and medium-sized enterprises in developing and emerging markets lack adequate financing.[14] To tackle lack of access, financial inclusion should be targeted by the overall financial sector policy and regulatory framework and backed by political commitment of the federal, provincial and local governments and relevant sectors.

10. In addition, good governance and an enabling environment are crucial for the effective mobilization of domestic financial resources and the establishment of an inclusive financial system. Though more needs to be done, many developing countries have made progress in that respect, especially in the area of legal and regulatory reform, improving the provision of information and promoting the ease of doing business. For example, since 2005, the average time to start a business has fallen from 50 to 30 days, with the average falling by half in low-income countries.[15]

11. Ultimately, domestic resource mobilization will be driven by inclusive and sustained economic growth, underscoring the importance of effective domestic macroeconomic policymaking. To achieve sustainable development, policies should link economic and social considerations, along with the mobilization of resources and more efficient public spending, to ensure access to basic economic and social infrastructure. The Monterrey Consensus stressed the need for raising public resources.

12. With regard to the capacity to raise public revenues, a significant gap remains between developed and developing countries. In 2008, the tax-to-GDP ratio was 34.5 per cent[16] for countries in the Organization for Economic Cooperation and Development (OECD), compared to 17 per cent for low-income countries,[17] though the OECD rate fell somewhat, to 33.8 per cent, in 2010[16] (updated data was not available for low-income countries). Most OECD countries' tax systems make use of a diverse mix of direct and indirect taxes. Relying on a range of taxes is economically efficient because the marginal cost of collecting any type of tax increases disproportionally after reaching a certain threshold, especially in the context of weak tax administrations. In many developing countries, tax systems tend to rely on a narrow set of taxes, though those vary depending on geography and resource endowment. In general, tax revenues in resource-rich countries stem, to a large extent, from the extractive industries, while landlocked countries generally collect much of their tax revenues at their borders through trade tariffs and import value added taxes (VAT).[18]

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[13] World Bank, Global Financial Inclusion (Global Findex) database.

[14] Special Advocate of the Secretary-General for Inclusive Finance for Development, annual report to the Secretary-General, 2012.

[15] World Bank and the International Finance Corporation, *Doing Business 2013* (Washington, D.C., 2013).

[16] OECD, *Revenue Statistics 2012 Edition* (Paris, 2013). Selected tables and statistics available from oecd.org/tax/tax-policy/revenuestatistics2012edition.htm.

[17] IMF, "Revenue mobilization in developing countries, 2011". Available from imf.org/external/np/pp/eng/2011/030811.pdf.

[18] IMF, OECD, the United Nations and the World Bank, "Supporting the development of more effective tax systems", report to the Group of 20 Development Working Group, 2011. Available from oecd.org/ctp/48993634.pdf.

13. Overall, median government revenue in developing countries as a percentage of GDP has remained relatively stable since the turn of the century; however, tax revenues from VAT increased during the period 2000-2009 to 4 per cent of GDP in low-income countries and to between 6 and 7 per cent in middle-income countries. The steepest increase occurred in upper-middle-income countries, where VAT receipts as a percentage of GDP more than doubled between 1980 and 2009. At the same time, trade taxes have declined significantly, to around 2 per cent of GDP for low- and middle-income countries, which is around half the level from the 1980s.[17] While VAT has proven to be a stable source of income for many countries, VAT revenues have not necessarily compensated for the decline in trade taxes, with the net result of a reduction in overall revenues in many least developed countries.[19] The shortfall may be due to difficulties in administration and collection. A VAT provides opportunities for fraud and corruption that can be difficult to counter for countries with weak administrative capacity.[20] Furthermore, there are concerns about the distributional impact of VAT, as a proportional tax on all consumption is regressive relative to annual income, though the empirical evidence on that is mixed.

14. Corporate income receipts remained stable between 1980 and 2009, amounting to 1.5 per cent of GDP in low-income countries, and almost 3 per cent in lower- and upper-middle-income countries. Receipts from personal income tax also account for around 1.5 per cent of GDP in low-income countries, or less than 10 per cent of all tax revenue. This compares to more than 3 per cent of GDP in high-income countries (or an average of 24 per cent of all tax revenues in OECD countries[21]). In general, less than 5 per cent of a developing country's population pay personal income tax, compared to almost 50 per cent of the population in developed countries.[17] The reasons for the failure of personal income tax to raise more tax revenues in developing countries include weak tax policies, high informal employment and administrations that are unable to expand the tax base to the self-employed, coupled with political resistance. Developing a culture of tax compliance is necessary to circumvent some tax-avoidance behaviours and political resistance.[22]

15. Illicit financial flows (i.e., money that is illegally earned, transferred or utilized) are hampering the ability of many countries to mobilize domestic resources for development.[23] Different components of illicit financial flows such as tax

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[19] M. Keen and M. Mansour, "Revenue mobilization in sub-Saharan Africa: challenges from globalization I — trade reform", *Development Policy Review*, vol. 28, No. 5 (September 2010).

[20] See for example J. Zuleta, A. Leyton and E. Ivanovic, "Combating corruption in the revenue administration: the case of VAT refunds in Bolivia", in *The Many Faces of Corruption*, Campos and Pradhan, eds. (Washington, D.C., World Bank, 2008).

[21] M. Keen, "Taxation and development — again", IMF Working Paper (WP/12/220) (Washington, D.C., 2012).

[22] O. H. Fjeldstad, "Taxation and development", United Nations University-World Institute for Development Economics Research Working Paper No. 2013/010 (Helsinki, 2013).

[23] Christian Aid states that developing countries lose $160 billion annually from transfer mispricing and falsified invoicing alone. Valpy FitzGerald estimates the tax loss for developing countries in the mid-2000s to be between $200 billion and $250 billion annually, while A. Cobham puts the total loss to developing countries from tax evasion and tax avoidance at $385 billion annually. Global Financial Integrity, a non-governmental organization based in Washington, D.C., estimates that the developing world lost $859 billion in illicit outflows in 2010.

evasion and avoidance, trade mispricing and transfer mispricing unfairly deprive countries of tax revenue. For example, trade mispricing is an illegal arrangement in which imports are overinvoiced and/or exports are underinvoiced with the intent to evade taxes. Transfer pricing refers to the mechanism by which cross-border intragroup transactions are priced. This is in itself a normal part of how a multinational enterprise operates. If the intracompany price does not reflect the true value, however, profits might effectively be shifted to low-tax or no-tax jurisdictions, while losses and deductions are shifted to high-tax jurisdictions. There is some evidence that large illicit flows also discourage domestic investment.[24]

16. Transfer mispricing is best addressed by strengthening tax administrations and designing and applying transfer pricing legislation. Although the challenges related to transfer pricing are the same for developed and developing countries, developing countries are often less well-equipped to deal with them. For this reason, the Committee of Experts on International Cooperation in Tax Matters has developed the United Nations Practical Manual on Transfer Pricing for Developing Countries.[25]

17. Tax evasion and avoidance are best countered by well-resourced and independent revenue authorities, and trade mispricing by functioning customs authorities. For resource-rich countries, transparency in the extractive industries, especially during contract negotiations, is pivotal in ensuring that economic activities by multinational enterprises are taxed appropriately. Countries should cooperate to ensure that the pressure of multinational enterprises for favourable fiscal regimes for the extractive industries does not turn into a so-called “race to the bottom”. Given the cross-border nature of most illicit financial flows, strengthened anti-money laundering measures are needed, as well as mutual legal assistance and exchange of information between countries. During the most recent meeting of the Group of Eight, the participating countries concluded that “developing countries should have the information and capacity to collect taxes owed them — and other countries have a duty to help them”.[26] The finance ministers of the Group of 20 echoed that sentiment and reiterated their commitment to extend the practice of automatic exchange of information.

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

18. The Monterrey Consensus stresses the importance of private international capital flows, particularly foreign direct investment (FDI), for national and international development efforts. That was reiterated in the Doha Declaration, which emphasized the need for international private investment to achieve economic, social and environmental sustainable development, and reaffirmed in the outcome document of the United Nations Conference on Sustainable Development, entitled “The future we want”.

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[24] Mick Moore, “The practical political economic of illicit flows”, in *Draining Development? Controlling Flow of Illicit Funds from Developing Countries*, Reuter, ed. (Washington, D.C., World Bank, 2012).

[25] Available from un.org/esa/ffd/documents/UN_Manual_TransferPricing.pdf.

[26] Lough Erne Declaration, available from gov.uk/government/uploads/system/uploads/attachment_data/file/207543/180613_LOUGH_ERNE-DECLARATION.pdf.

19. Cross-border private capital flows are made up of several components: FDI constitutes a major part of private capital flows to developing countries and is considered to be the most stable form of foreign capital. Other flows include equity and debt portfolio investments and international bank loans. In addition, derivative products, which lever short-term flows, particularly in local foreign exchange and money markets, can represent multiples of physical flows.[27]

20. Despite growing financing needs for sustainable development, long-term investment by international investors appears to have been declining. Globally, FDI decreased by around 18 per cent from 2011 to 2012, though the largest drop in inflows was to developed countries.[28] Net FDI flows to developing countries are estimated to have fallen around 4 per cent, from $437 billion in 2011 to approximately $419 billion in 2012,[29] with inflows to developing countries for the first time larger than inflows to developed countries.[28]

21. Despite the overall drop in FDI globally, FDI to least developed countries increased by 20 per cent in 2012. FDI still comprises the dominant share of private capital flows to least developed countries. FDI to least developed countries remains concentrated in a few countries and regions. Flows to Africa, though higher than a decade ago, remain limited; the inflows are still concentrated in resource-rich countries. Recently, there has also been an increase in the share of greenfield investment directed at manufacturing and services in least developed countries, with 28 per cent of greenfield investment in least developed countries going to infrastructure.[28]

22. One concern, however, is that there has been an increase in financial FDI at the expense of more stable greenfield investment.[30] For example, there appears to have been a shift in the composition of FDI from equity to debt components. As became clear during the financial crisis, when a significant portion of FDI is invested in intracompany debt, the parent company can recall that debt on short notice. It is therefore important that policymakers are cognizant of the shorter-term investments included in FDI statistics, which could reverse more quickly than expected in an uncertain economic and financial climate.

23. Outward FDI from developing and transition economies has become increasingly significant, reaching 31 per cent of the world total in 2012. A large proportion has been directed towards other developing and transition economies. Outward FDI from Asian countries accounts for nearly three quarters of outward FDI from developing countries, primarily driven by outflows from China.[30] FDI outflows from Africa, however, nearly tripled in 2012, driven by outflows from South Africa.

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[27] *World Economic Situation and Prospects 2012* (United Nations publication, Sales No. E.12.II.C.2).

[28] *World Investment Report 2013: Global Value Chains, Investment and Trade for Development* (United Nations publication, Sales No. E.13.II.D.5).

[29] IMF, World Economic Outlook database, April 2013, and calculations of the Department of Economic and Social Affairs of the Secretariat. The IMF categorization of “Emerging and developing economies” differs from the Department’s categorization of “Developing economies” in terms of countries included; therefore, the figures on net private financial flows to developing countries are different from those published by IMF on emerging and developing economies in the World Economic Outlook database.

[30] Jonathan D. Ostry, et al., “Managing capital inflows: what tools to use”, IMF Staff Discussion Note (SDN11/06) (Washington, D.C., 2011).

24. The scope for development-enhancing investment arising from South-South FDI is increased by the fact that the technology and skills of multinational enterprises in developing countries are often closer to those used by firms in host countries. In general, technologies for similar emerging economies are easier to diffuse, as local firms are able to absorb them more effectively.

25. More broadly, one of the benefits of FDI over other forms of inflows is its potential to transfer knowledge and technology. Empirical evidence for the effectiveness of knowledge spillovers from FDI is mixed, however.[31] In countries such as Singapore and China, where there is evidence of positive spillovers, they are likely the result of explicit policies pursued by the Government.[32] On the other hand, other countries that did not have such policies in place were less successful in capturing spillovers from FDI.[33]

26. In order to enhance the development impact of FDI, policies that encourage backward production linkages between multinational enterprises and domestic production activities, enhance technology transfer and create training opportunities for the local labour force could be considered.[34] At the same time, policymakers should also address the non-financial impediments to investment, including regulatory risks, and make efforts to set in place a policy environment that is conducive to attracting stable, long-term FDI.

27. Given the large financing needs for long-term investment, particularly in infrastructure, there has been increasing interest in the role institutional investors can play in financing sustainable development. Their investment in sustainable development financing has been limited, however, in part owing to weak regulatory structures and poor governance, as well as general market failures. In addition, misaligned short-term incentives — particularly by financial intermediaries — impede long-term investment and increase systemic risks.

28. To date, much of the institutional investment in developing countries has been in the form of speculative and short-term oriented portfolio flows. Furthermore, during the crisis, many institutional investors experienced difficulty refinancing liabilities, which led them to further reduce their exposure to long-term investments.[35]

29. The increasing volatility of capital flows is shown in recent trends. For example, equity flows to developing countries, primarily from institutional investors, fell in the second half of 2011, increased in the first part of 2012, and then

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[31] Xiolan Fu, Carlo Pietrobelli and Luc Soete, “The role of foreign technology and indigenous innovation in emerging economies: technological change and catching up”, Inter-American Development Bank Technical Notes, No. IDB-TN-166 (Washington, D.C., Inter-American Development Bank, Institutional Capacity and Finance Sector, 2010).

[32] S. Mani, *Government, Innovation and Technology Policy: An International Comparative Analysis* (Cheltenham, United Kingdom, Edward Elgar, 2002). See also Rasmus Lema and Adrian Lema, “Whither technology transfer? The rise of China and India in green technology sectors”, paper prepared for the eighth Globelics International Conference, Kuala Lumpur, November 2010.

[33] K. P. Gallagher and M. Shafaeddin, “Policies for industrial learning in China and Mexico”, *Technology in Society*, vol. 32, No. 2 (2010).

[34] *World Economic and Social Survey 2011: The Great Green Technological Transformation* (United Nations publication, Sales No. E.11.II.C.1).

[35] World Economic Forum, “The future of long-term investing”. Available from weforum.org/ reports/future-long-term-investing-1.

fell again. In mid-2013, speculation regarding a possible slowing of quantitative easing by the Federal Reserve System of the United States of America led to large redemptions from emerging-market equity funds and further capital outflows.[36] Such volatility can have negative impacts on the real economy, leading to high social costs.[37]

30. Commercial bank flows to developing countries have remained subdued as a number of international banks — in particular in Europe — have continued to face deleveraging pressures. Of particular concern is evidence that long-term financing from banks has been constrained during the past few years. Indeed, the total international claims of European banks, including all cross-border and local claims in foreign currency, having a maturity of over two years have been falling, and there is evidence that lending to emerging-market economies has been reallocated towards shorter maturities.[38]

31. The Monterrey Consensus and the Doha Declaration also stress the importance of remittances for development.[39] Official recording estimates that international remittance flows to developing countries totalled $401 billion in 2012, far exceeding official development assistance. India, China, the Philippines and Mexico remain the largest recipients of migrant remittances, though smaller developing countries, such as Tajikistan, Liberia, Kyrgyzstan, Lesotho and the Republic of Moldova receive the most as a share of GDP.[40] The high growth in remittances during the past decade highlights the important role of diaspora communities as providers of a critical source of foreign-exchange earnings. Although remittances have important implications for domestic consumption and poverty alleviation, they have not been a source of long-term investment for development to date. Some Governments and international organizations have taken initiatives in providing incentives for using remittance income for investment purposes. It is also important that source and destination countries collaborate to reduce the transaction costs of remittances and, where possible, to relax legal and funding barriers to remittances and other financial flows by migrants.

III. International trade as an engine for development

32. The recovery in world trade following the financial crisis lost momentum in 2012. World trade grew by only 20 per cent, down from 5.2 per cent in 2011, and trade growth is expected to remain sluggish, at 3.3 per cent, in 2013.[41] The deceleration is associated with weakening demand, in particular in developed

[36] *World Economic Situation and Prospects: Monthly Briefing*, No. 56 (July 2013).

[37] J. A. Ocampo and J. Stiglitz, eds., *Capital Market Liberalization and Development* (New York, Oxford University Press, 2008).

[38] World Bank, et al., "Long-term investment financing for growth and development: umbrella paper", report to the meeting of the Group of 20 Ministers of Finance and Central Bank Governors, February 2013.

[39] Remittances are somewhat different from other types of flows as they are accounted for in the current account, not in the capital account.

[40] World Bank, "Migration and development brief 20", 19 April 2013. Available from worldbank.org.

[41] World Trade Organization (WTO), "World trade 2012, prospects for 2013", press release, 10 April 2013. Available from wto.org/English/news_e/pres13_e/pr688_e.htm.

countries. Import demand contracted sharply in European countries such as Greece, Italy, Portugal and Spain, and also decelerated in Japan and the United States.[42]

33. Merchandise trade in developing countries and economies in transition grew faster than the world average in 2012, at 3.3 per cent, further narrowing the gap between developed and developing countries. As many developing countries are increasingly integrated in global networks of production and trade, however, they are increasingly feeling the effects of the global slowdown. East Asian countries in particular saw their exports decline in much of 2012, while many emerging economies and primary commodity-exporting countries registered export declines in the second half of 2012. Least developed countries experienced a slight fall in their share in global trade, which remains low at only 1.1 per cent. Exports from least developed countries continue to be highly concentrated, both geographically and in terms of products. Furthermore, five least developed countries account for 62 per cent of total merchandise exports.[43]

34. Despite the pledge of countries belonging to the Group of 20 to resist protectionism, many of the trade restrictions introduced since October 2008 remain in place, and only 19 per cent have so far been eliminated,[44] though the number of new measures implemented has continued to decline. A conclusion to the World Trade Organization (WTO) Doha Round of multilateral trade negotiations would help restrain further protectionist measures and would contribute significantly to a faster recovery of the global economy and more equitable and inclusive growth. At this point a comprehensive accord remains out of reach, however, as trade negotiations were formally declared at an impasse in December 2011.[45] The Ninth Ministerial Conference of the WTO, set to take place in December 2013, provides an opportunity to break the impasse and to harvest deals in three areas: trade facilitation, agriculture negotiation and development.

35. With regard to trade facilitation, negotiators seek an agreement that would expedite the movement, release and clearance of goods, clarify and improve agreed rules and disciplines and provide for effective customs cooperation. The implementation by developing countries in that area is linked to the provision of technical assistance and support for capacity-building. In agriculture, a proposal to better accommodate public stockholding for food security in developing countries, the management of tariff rate quotas and the phasing out of highly trade-distorting export subsidies are being discussed. The central issues in the treatment of agriculture are not the subject of any consensus at this stage, however.

36. Progress on development issues at the Ninth Ministerial Conference could include the setting up of a mechanism to monitor the application of the principle of special and differential treatment of developing countries, and a package specific to least developed countries. The proposal on the latter issue concerns four areas: full

[42] *World Economic Situation and Prospects 2013* (United Nations publication, Sales No. E.13.II.C.2).

[43] They are Angola, Bangladesh, Equatorial Guinea, the Sudan and Yemen. See *Least Developed Countries Report 2012: Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities* (United Nations publication, Sales No. E.12.II.D.18).

[44] WTO, OECD and the United Nations Conference on Trade and Development (UNCTAD), *Reports on G20 Trade and Investment Measures: Mid-October 2012 to mid-May 2013*. Available from unctad.org.

[45] WTO, “Chairman’s concluding statement”, 17 December 2011 (WT/MIN(11)/11).

implementation of the Hong Kong Ministerial Declaration on duty-free and quota-free market access for products from least developed countries, preferential access for service exports from least developed countries, and an agreement on cotton. An extension of the transition period for least developed countries to apply provision of the Agreement on Trade-Related Aspects of Intellectual Property Rights until 1 July 2021 has already been agreed upon.[46]

37. As progress on a multilateral trade system has stalled, bilateral, regional and interregional free trade agreements continue to proliferate. Currently, 251 regional free trade agreements are operational, and more are under negotiation.[47] As they allow member countries to depart from the "most favoured nation" principle, they threaten to further fragment trade rules and undermine the consistency of the multilateral system. The rules set in the agreements often go beyond the scope of WTO, and they may contribute to a further marginalization of least developed countries from the global economy, as they are rarely included in free trade agreements.

38. Aid for trade, the category of official development assistance (ODA) that supports developing countries and least developed countries in particular in addressing trade-related constraints and in strengthening their trade capacity, declined significantly in 2011, in line with the overall fall in ODA. Commitments fell to $41.5 billion, 14 per cent lower than in 2010, and are expected to have fallen further in 2012.[48] In July 2013, OECD and WTO undertook the fourth Global Review on Aid for Trade, focusing on strategies to connect developing countries and firms from least developed countries to global value chains.

39. Today, some 80 per cent of global trade is accounted for by intrafirm or interfirm global value chains. Developing countries' share in global value added trade has increased substantially, from 20 per cent in 1990 to more than 40 per cent today.[49] That has led to an increase in the share of developing country trade in global trade more broadly. The full potential benefits from increased participation are far from automatic, however, and developing countries need to put in place national policies and require additional support to benefit from technology dissemination, skill building and upgrading. Moreover, the intensified transport of goods within global value chains produces significant emissions of carbon dioxide. Transport associated with merchandise trade alone may contribute to more than 7 per cent of global carbon dioxide emissions.[42] To ensure coherence between international trade, transport and environmental policies, measures to reduce emissions from freight transport will have to be complemented by more integrated approaches, including through progress in negotiations on environmental goods and services.

40. The prevalence of global production networks also implies that international merchandise trade statistics, statistics of international trade in services and related statistics on foreign affiliates, multinational enterprises and the outsourcing of business functions, FDI and balance of payments need to be better integrated in

[46] Council for TRIPS, "Extension of the transition period under article 66.1 for LDC members", 11 June 2013 (IP/C/64).
[47] WTO, Regional Trade Agreements database, May 2013.
[48] *MDG Gap Task Force Report 2013* (United Nations publication, forthcoming).
[49] *Global Value Chains and Development: Investment and Value Added Trade in the Global Economy* (United Nations publication, forthcoming).

order to accurately measure the economic interdependencies, exposures and vulnerabilities of countries through global value chains. A new measurement framework for international trade and economic globalization is already being discussed in the Statistical Commission. WTO, OECD and the United Nations Conference on Trade and Development (UNCTAD) have also begun to develop new trade in value added datasets.

IV. Increasing international financial and technical cooperation for development

41. The Monterrey Consensus urged developed countries to make concrete efforts towards the target of 0.70 per cent of their gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of their GNP to least developed countries. The United Nations Conference on Sustainable Development reaffirmed the international community's commitment to achieve internationally agreed development goals, including the Millennium Development Goals, and called upon developed countries to meet the 0.70 per cent commitment, as well as the 0.15-0.20 per cent commitment for least developed countries, by 2015.

42. Members of the Development Assistance Committee of OECD, at their high-level meeting in December 2012, emphasized that ODA was essential for providing external financing and leveraging other flows. Committee members also reaffirmed their ODA targets and agreed to make all efforts to achieve them.

43. Nonetheless, ODA fell in real terms for a second consecutive year in 2012. Members of the Development Assistance Committee provided $125.6 billion in ODA in 2012, representing 0.29 per cent of their gross national income (GNI). That represents a 4 per cent decline in real terms in 2012 and a total drop of 6 per cent in real terms since 2010, when ODA had reached its peak.[50] Donors also fell short of the target to aid least developed countries. Aid to least developed countries fell from 0.11 per cent of donors' GNI in 2011 to 0.10 per cent in 2012, with only 10 Committee members reaching the target. The latest available data also show a decline of aid to landlocked developing countries and the small island developing States, two additional priority groups in international development cooperation.[48]

44. Furthermore, global ODA is expected to stagnate over the medium term. The most recent survey on donors' forward spending plans[51] suggests an increase of 9 per cent in ODA in 2013, mainly due to planned increases in country-programmable aid in a few major donor countries and in soft loans from multilateral agencies. ODA growth is expected to stagnate from 2014 to 2016, however, particularly for the poorest countries with the largest implementation gaps in the pursuit of the Millennium Development Goals. Major increases in country-programmable aid are projected only for middle-income countries in Far East and South and Central Asia.

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[50] OECD-Development Assistance Committee, "Aid to poor countries slips further as governments tighten budgets", press release, 3 April 2013. Available from oecd.org/newsroom/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm.

[51] OECD, "Outlook on aid: survey on donors' forward spending plans 2013-2016", 3 April 2013. Available from oecd.org/doc/aid-architecture.

45. Reductions in aid budgets have been largely due to post-crisis austerity policies in a number of donor countries, the largest cuts recorded in the countries most affected by the euro zone crisis. Overall, disbursements of ODA fell in 15 countries. The largest donors — Germany, France, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States — all reduced their aid. These negative developments represent a clear retreat from the internationally agreed aid targets. To date, only Denmark, Luxembourg, the Netherlands, Norway and Sweden continue to exceed the United Nations target, while the United Kingdom is expected to reach it in 2013.

46. Despite difficult budgetary circumstances, some countries maintained or increased their ODA budgets in 2012. Net ODA rose in real terms in nine countries, the largest increases recorded in Australia, Austria, Iceland, Luxembourg and the Republic of Korea. Several donors that are not members of the Development Assistance Committee dramatically scaled up aid, including Turkey and the United Arab Emirates.

47. Overall, aid is declining just as the world commits itself to accelerating progress towards achieving the Millennium Development Goals by the 2015 deadline and aims at elaborating a bold post-2015 development strategy, with poverty eradication and sustainability at its core. Although ODA alone is insufficient to meet the full sustainable development needs, it remains crucial for countries without sufficient resources to fulfil development goals. ODA represents a substantial part of external financing for low-income countries and vulnerable countries, such as the least developed countries, in particular. In the latter, it accounts for about half of all external financing available to close their savings gap.[52] In addition, ODA is increasingly considered to be a means for leveraging private finance for development.

48. The quality of aid has long been recognized as a key determinant of its developmental impact. Countries committed themselves to increasing the effectiveness of aid in the Paris Declaration on Aid Effectiveness adopted in 2005. The track record on the implementation of the Paris Declaration principles on more effective aid is disappointing, however. At the global level, only 1 out of 13 adopted targets has been met, although progress has been made towards achieving many of the remaining targets, especially on indicators for which responsibility lies primarily with developing countries.[53]

49. Of particular importance is the stability of aid disbursements, including its predictability for recipients' development planning. Indeed, the Paris Declaration committed donors to provide aid over a multi-year horizon and disburse it according to schedule. The follow-up Accra Agenda for Action of 2008 mandated actions to improve the availability of information to support medium-term planning, including three- to five-year forward expenditure and implementation plans. Following the Fourth High-level Forum on Aid Effectiveness, held in Busan, Republic of Korea, a global monitoring framework of 10 indicators identified by developing countries as particularly important was drafted to track the implementation of countries' commitments.

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[52] *Least Developed Countries Report 2012.*

[53] OECD, *Aid Effectiveness 2011: Progress in Implementing the Paris Declaration* (Paris, 2012).

50. The Busan Forum commitment to improve aid predictability is unlikely to be met by the target year of 2013, in large part owing to budget cuts in donor countries.[54] The report of the Development Assistance Committee of OECD on predictability finds that in 2010 and 2011 donors disbursed 5 and 8 per cent less aid, respectively, than planned in 2010. That is a marked deterioration compared to 2009.[55] Donor countries need to consider additional mechanisms to increase the predictability of aid flows.

51. South-South cooperation has become an increasingly important complementary source of development financing. It is estimated that South-South development cooperation reached between $12.9 billion and $14.8 billion by 2010, and it is expected to grow further, with major increases planned by China, India and the Bolivarian Republic of Venezuela.[56] Most of the resources come in the form of bilateral programmes of project funding. This form of cooperation emphasizes common interests and partnership rather than compassion (except in cases of emergency assistance), and embraces a broader concept of development effectiveness. A distinctive characteristic of South-South development cooperation is an integrated approach that packages commercial transactions in trade, investment and loans with unidirectional support, for example in education, health and infrastructural aid programmes. Expanding South-South cooperation may help to cushion the fall in aid receipts from traditional donors but should not be seen as a substitute for traditional aid flows. Inasmuch as it is delivered in the form of commercial loans, it is also critical that debt sustainability not be undermined.

52. The international aid system still lacks a global mutual accountability mechanism with universal membership and participation. The Global Partnership for Effective Development Cooperation was established in June 2012, as an outcome of the Fourth High-level Forum on Aid Effectiveness. It has identified a set of priorities, including the interface between development cooperation and domestic resource mobilization, engaging the private sector and sharing knowledge as a form of development cooperation, and is to meet regularly at the ministerial level starting late in 2014. In the Forum’s outcome document, leaders further recognized the importance of complementary United Nations processes and invited the Development Cooperation Forum of the Economic and Social Council to play a role in consulting on the implementation of agreements reached at the High-level Forum.

53. The need for more predictable international public financing has intensified the search for new sources of development financing, both for financing social needs, particularly in least developed countries, but also for leveraging private financing for climate change and other global concerns. The *World Economic and Social Survey 2012* estimates that around $400 billion to $450 billion per year could be raised through taxes on financial transactions and carbon emissions, and through the use of the special drawing rights of the International Monetary Fund (IMF).

[54] OECD, “The global partnership for effective development cooperation: enhancing the future contribution to development by all stakeholders”, paper presented for discussion at the Development Assistance Committee High-level Meeting, London, December 2012.

[55] OECD, “2012 DAC report on aid predictability: survey on donors’ forward spending plans 2012-2015 and efforts since HLF-4”, December 2012. Available from oecd.org/dac/aid-architecture.

[56] United Nations System Task Team on the Post-2015 United Nations Development Agenda, *A Renewed Global Partnership for Development*. Available from un.org/en/development/desa/policy/untaskteam_undf/glob_dev_rep_2013.pdf.

These innovative mechanisms are technically feasible means to raise substantial resources in a predictable manner, and could contribute to tackling emerging global challenges; however, they are politically difficult to implement. The use of special drawing rights in particular faces significant political but also practical and legal hurdles.[57]

54. It is, however, important that such financing be additional and complementary to traditional ODA. One important question is how these measures should eventually be accounted for. For example, the European Parliament has approved the implementation of a financial transaction tax in 11 countries. The development ministers of Belgium, France and Germany have recently called for a part of the proceeds of the financial transaction tax to be dedicated to development and climate change intervention, yet it is unclear how many countries will participate and what proportion of the proceeds will be used for global cooperation. In addition, it is likely that the proceeds of the tax will be included in donor budgets as ODA, which will count towards ODA commitments, making it difficult to monitor whether or not the flows are in addition to existing aid. The increased emphasis on international public finance as a means to leverage private finance raises similar questions, for instance with regard to the accounting of guarantees and other mechanisms.

55. Even if ODA commitments are met, public resources will not suffice to finance the transformative changes needed to ensure sustainable development. Public policy and public finance have to play a leading role in spearheading international resource mobilization efforts to fill the substantial resource gap and to incentivize the investment, research and development, capacity-building and technology transfer that would be needed. To that end, an intergovernmental process is under way at the United Nations, with a view to preparing a report on an effective sustainable development financing strategy by 2014.

V. External debt

56. In 2012, the external debt-to-GDP ratio for developing countries averaged at 24.5 per cent and public debt-to-GDP stood at 45.9 per cent, up only slightly from 2011[58] and still low by historical standards. The aggregate picture, however, hides the extent to which some developing countries remain critically indebted or are at significant risk of debt distress. Although many low-income countries have benefited from comprehensive debt relief programmes, including the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, sovereign debt challenges remain in some small States and low-income countries.

57. The problem is most acute among countries in the Caribbean, where extreme weather events exacerbated already weak fiscal positions in some countries. In addition, those countries were negatively affected by the financial crisis owing to strong links with the United States and Europe, a high dependence on tourism and the erosion of trade preferences. Furthermore, owing to slow economic growth,

[57] IMF, "Enhancing international monetary stability — a role for the SDR?". Available from imf.org/external/np/pp/eng/2011/010711.pdf.

[58] All rations and data presented are based on the IMF World Economic Outlook database, April 2013.

many small States are unlikely to simply "grow out of debt" and may need additional policy measures to reduce their debt burdens.

58. As at March 2013, 35 countries out of a total of 39 heavily indebted poor countries had reached the "completion point" (the point at which comprehensive debt relief becomes irrevocable). In 2012 and 2013, three more countries reached the completion point under the enhanced Heavily Indebted Poor Countries Initiative: the Comoros, Côte d'Ivoire and Guinea. Chad was the only country in the interim stage between decision and completion points, and another three countries — Eritrea, Somalia and the Sudan — are eligible to receive debt relief. Zimbabwe, which remains in severe debt distress, could also be added to the list of eligible countries if future debt assessments confirm that it meets the indebtedness criterion and its eligibility for the Poverty Reduction and Growth Trust is reinstated.

59. Increased borrowing by heavily indebted poor countries, however, including bond finance, lending from non-traditional creditors and concessional finance, is filling the newly created borrowing space. For example, over the last couple of years, 10 African countries, including 3 low-income countries, have issued sovereign bonds on international capital markets, raising a total of $8.1 billion. The new debt has a shorter maturity (11.2 years compared with an average maturity of 28.7 years) and higher coupon rate (of 6.2 per cent, compared with an average coupon rate of only 1.6 per cent) on outstanding foreign debt,[59] much of which is concessional. Analysis by the World Bank Group shows that in eight countries the ratio of public debt to GDP is already one third of the way to pre-debt relief. Despite the increased borrowing, the external risk of debt distress in low-income countries, as assessed in IMF-World Bank debt sustainability analyses of individual countries, has improved or remained stable in 90 per cent of low-income countries since 2009.[60]

60. In addition, the composition of public debt has been changing for all categories of developing countries. In particular, there has been an increase in the share of domestic debt denominated in local currencies, which reduces currency mismatch risk for countries. At the same time, there has been an increase in short-term debt as a proportion of GDP, possibly reflecting the shift in financing in domestic capital markets, which often lack longer-term bond markets.

61. It is clear from the ongoing discussion that, in order to enhance the role of foreign borrowing for growth and development, efforts are needed to strengthen three pillars: responsible lending and borrowing, debt management and a framework for sovereign debt restructuring.

62. Implementing well-designed and responsible debt management strategies becomes increasingly important as the range of creditors and instruments expands. In addition, previous sovereign debt crises were characterized by creditors who lent somewhat irresponsibly to countries with weak fundamentals at relatively low interest rates. It is therefore crucial for creditors to improve their credit screening. Improving the timeliness and coverage of sovereign debt data based on both creditor and debtor reporting systems will lead to more reliable debt sustainability

[59] H. Rashid and J. Stiglitz, "Sub-Saharan Africa's subprime borrowers". Available from project-syndicate.org.

[60] IMF, "Review of the policy on debt limits in fund-supported programs". Available from imf.org/external/np/pp/eng/2013/030113.pdf.

assessments. UNCTAD is spearheading efforts to bring the issue to the forefront of discussions and in 2012 formulated “Principles on promoting responsible sovereign lending and borrowing”.[61] The principles are an important tool of crisis prevention in that they specify the responsibility of both sovereign borrowers and lenders by advocating for good codes of conduct and institutional setup in concluding debt transactions. In addition, the International Financial Architecture Working Group of the Group of 20 continues its work on sustainable lending practices. Technical assistance and capacity-building also have an important role to play.

63. In the case of developing countries and developed countries that are not heavily indebted poor countries, the debt restructuring process lacks a centralized mechanism for dispute resolution, enforceable priority rules for creditors and the organized representation of all stakeholders. Efforts to reform the architecture for debt restructuring have been slow and the incremental steps taken have been inadequate in providing a timely and cost-effective[62] resolution of debt crises.

64. The introduction of collective action clauses in bond contracts were intended to resolve some of the creditor coordination issues in debt restructuring. Collective action clauses do not address, however, all of the complications associated with restructuring sovereign debt, including setting priority rules and ensuring a clean slate for the debtor country to resume growth. In particular, collective action clauses only affect bond debt, and do not encompass the full range of a country’s creditors.

65. The ongoing debt crisis of euro zone members has reinforced the recognition that debt problems can pose systemic risk and that the architecture for debt crisis resolution must be revisited. It is increasingly recognized that the status quo is costly for everyone and that a balance is needed between new financing, standstills, debt restructuring and adjustment programmes.

66. The United Nations Department of Economic and Social Affairs of the Secretariat and UNCTAD have organized a series of high-level panel discussions and expert group meetings to discuss possible measures to enhance the effectiveness of the debt-restructuring process. The meeting reports include both contractual and statutory options for further discussion.[63] UNCTAD is currently coordinating an international working group on the creation of a debt workout mechanism, composed of prominent experts and stakeholders, to examine options for a mechanism. IMF decided to review its sovereign debt restructuring policies and practices following the IMF Board discussion on the report entitled “Sovereign debt restructuring — recent developments and implications for the Fund’s legal and policy framework” in May 2013.[64]

67. The international community should more actively pursue the development of an agreed approach/mechanism for sovereign debt workouts to ensure legal predictability and timely debt restructuring that include a fair burden sharing.

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[61] Available from unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB_Principles_English_Doha_22-04-2012.pdf.

[62] See Udaibir S. Das, Michael G. Papaioannou and Christoph Trebesch, “Sovereign debt restructurings 1950-2010: literature survey, data and stylized facts”, IMF Working Paper (Washington, D.C., 2012), pp. 60-65.

[63] The reports of the panel discussions and expert group meetings are available from un.org/esa/ffd/msc/externaldebt/index.htm and unctad.info/en/Debt-Portal.

[64] Available from imf.org/external/pubs/ft/survey/so/2013/pol052313a.htm.

Convoking an international working group to examine options for enhancing the international architecture for debt restructuring may be a first step in that direction.

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

68. The international community has continued its efforts to reform the international monetary and financial system and architecture in order to improve its functioning, stability and resilience. Despite these efforts, systemic shortcomings persist, which, among other factors, undermine its capacity to mobilize and allocate resources to finance sustainable development needs. Further steps are therefore needed to enhance its coherence and consistency, in particular in the key areas of (a) financial and economic policy coordination and global economic governance; (b) financial regulation; (c) multilateral surveillance; (d) the global financial safety net; and (e) sovereign debt.

69. The global crisis and its aftermath have both highlighted the importance and revealed the shortcomings of global financial and economic policy coordination. In response to the gaps in the institutional architecture of global governance, selected country groupings, such as the Group of 20, have become the premier forum for international economic policy coordination. Leaders of the Group of 20 have committed to addressing short-term vulnerabilities in the financial system and to strengthening medium-term foundations for growth, with a view to safeguarding global financial stability and promoting strong, balanced and sustainable growth in the global economy. Those commitments were reaffirmed at the Group of 20 meetings of finance ministers and central bank governors in Washington, D.C., in April 2013 and in Moscow in July 2013.

70. Global imbalances across major economies have narrowed since the financial crisis,[65] but that was largely due to demand deflation in the global economy, while structural issues still remain. Global imbalances have been interlinked with the accumulation of foreign exchange reserves, in particular in emerging and developing economies, many of which hold reserves as a form of self-insurance against high financial market volatility. Excessive reserve accumulation is costly, however. Most countries hold reserves in United States Treasuries and other safe assets. As such, reserves represent a form of constrained savings that cannot be invested in sustainable development. Furthermore, while reserves might serve as insurance for an individual country, thus reducing risks, in aggregate, they exacerbate global imbalances. The Commission of Experts on Reforms of the International Monetary and Financial System[66] recommended that the international reserve system make greater use of IMF special drawing rights, as they provide a low-cost alternative to accumulation of international reserves for the purpose of self-insurance.

[65] *World Economic Situation and Prospects 2013, midyear update* (E/2013/70).

[66] Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, report dated 21 September 2009. Available from un.org/ga/president/63/commission/financial_commission.shtml.

71. There is a clear need for a further strengthening and a more inclusive framework of global economic governance. This requires a strengthened role and increased effectiveness of the United Nations. The United Nations provides a truly universal and inclusive multilateral forum. In that regard, it is important that the Group of 20 continues to strengthen, enhance and systematize its engagement with the United Nations.

72. Reforming international financial institutions is another important element in making global economic governance more participatory and effective. IMF and the World Bank have taken important steps to move towards a more representative, responsive and accountable governance structure. The ratification process of the IMF quota reform of 2010, which better reflects the changing relative weights of IMF members in the world economy, has advanced. Two of the three thresholds for the reforms to take effect have now been passed. With regard to the remaining condition, as at 10 July 2013, 140 members, representing around 76 per cent of total voting power, had consented to ratify the changes to the IMF Articles of Agreement, falling short of the 85 per cent needed.[67] In addition, the Fund's Executive Board committed to arrive at a new quota formula as part of its work on the fifteenth General Review of Quotas by January 2014.

73. The global financial crisis has revealed fundamental shortcomings of the international financial system. In response, steps have been taken to strengthen international financial regulation, with the primary aim to ensure the safety and soundness of the financial system, centred on the banking sector through the Basel III framework. Additional measures include strengthening oversight of the shadow banking system, addressing problems created by systemically important institutions that are considered "too big to fail", and reforming the over-the-counter derivatives market. There are, however, concerns that tighter regulation and the complexity of the framework might lead to a new wave of regulatory arbitrage. Emerging-market and developing countries, in particular, may encounter serious difficulties in their capacity to implement the regulations, monitor their implementation and address potential unintended consequences for their financial system.[68] Broad-based simple regulations, such as high capital ratios and low leverage ratios, with simple countercyclical rules, would be easier and less costly to administer.[42] In addition, insufficient attention is being given to important criteria for a well-functioning financial sector, particularly in promoting macroeconomic stability and growth, as well as access to credit and other financial services.[69]

74. Both the quality and the coverage of multilateral surveillance to identify risks to financial and economic stability have been strengthened in recent years. In January 2013, IMF implemented the Integrated Surveillance Decision which strengthens the legal framework for surveillance. More importantly, the Integrated

[67] IMF, "Acceptances of the proposed amendment of the Articles of Agreement on reform of the Executive Board and consents to 2010 quota increase". Available from imf.org/external/np/sec/misc/consents.htm.

[68] Financial Stability Board, "Identifying the effects of regulatory reforms on emerging market and developing economies: a review of potential unintended consequences", report to the meeting of Group of 20 Ministers of Finance and Central Bank Governors, June 2013.

[69] Joseph E. Stiglitz, "Principles of regulation", presentation at the Initiative for Policy Dialogue, Financial Markets Reform Task Force Meeting, Manchester, United Kingdom, July 2006. Available from http://policydialogue.org/events/meetings/financial_markets_reform_task_force_meeting_manchester_2006/materials.

Surveillance Decision allows for a more integrated and consistent spillover analysis, including the full range of spillovers from member countries' policies on global economic and financial stability. The analysis is carried out through novel spillover and external sector reports, which expand IMF external stability assessments beyond exchange rates to include assessments of external balance sheets, capital flows and international reserve policies. IMF has also increased its focus on the impact of risks emanating from the financial sector on global stability. A new Financial Surveillance Strategy lays the foundation for developing a unified macrofinancial framework that takes into account the interdependencies of financial sectors and of linkages and interactions between macroeconomic and macroprudential policies in the medium term.

75. Amid continuing financial instabilities, the global financial safety net has been strengthened significantly; yet efforts to fill the gaps revealed by the global financial crisis are still work in progress. IMF has strengthened its instruments for crisis prevention by introducing new flexibility in its lending framework for providing large upfront financing on a precautionary basis, together with increased lending access and simplified terms for borrowing. Since the start of the crisis, it has committed well over $300 billion in loans to its member countries.[70] In addition, regional and bilateral components complement the global financial safety net. Regional financial agreements play an increasingly important role, benefiting from close ties between borrowers and lenders. Most notably, the European Stability Mechanism was established in October 2012, with a maximum lending capacity of €500 billion. As at April 2013, the European Stability Mechanism approved two major Financial Assistance Facility Agreement programmes, in Cyprus and Spain; however, the financial system still lacks a global mechanism to ensure the swift and sufficient availability of resources to stabilize market conditions in times of systemic liquidity crises.

VII. Staying engaged

76. The Economic and Social Council held its special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development on 22 April 2013. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of financing for sustainable development and the post-2015 development agenda". Following the opening statements by the President of the Council and the Deputy Secretary-General, the morning session featured a high-level panel of ministers on the "World economic situation and prospects in the wake of the world financial and economic crisis". The afternoon session consisted of informal thematic debates on: (a) financing for sustainable development, including through the leveraging of private capital, in the context of the follow-up to the outcome of the United Nations Conference on Sustainable Development, and (b) a global partnership for development in the context of the post-2015 development agenda. The outcome of the meeting is contained in the summary by the President of the Council (see A/68/78-E/2013/66).

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[70] IMF, "IMF's response to the global economic crisis". Available from imf.org/external/np/exr/facts/changing.htm.

77. Pursuant to General Assembly resolution 67/198, on 23 April 2013 the Economic and Social Council held a special meeting on the theme "External debt sustainability and development: lessons learned from debt crises and ongoing work on sovereign debt restructuring and debt resolution mechanisms". Following opening statements by the President of the Council, the Secretary-General of UNCTAD and the Assistant Secretary-General for Economic Development, senior staff of the World Bank, UNCTAD and the Department of Economic and Social Affairs led the discussion on the theme of the meeting. The afternoon session featured a keynote address by Professor Joseph Stiglitz, entitled "Gaps in legal and institutional structures for debt restructuring", followed by a panel discussion. More information is available from un.org/esa/ffd.

78. The General Assembly, in its decision 67/559, established the Intergovernmental Committee of Experts on Sustainable Development Financing, as called for in the outcome document of the United Nations Conference on Sustainable Development. The Committee, composed of 30 experts nominated by regional groups, is mandated to prepare a report proposing options on an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives by 2014. It will draw on technical support from the United Nations system and on open and broad consultation with relevant international and regional financial institutions and other relevant stakeholders. A dedicated Working Group on Financing for Sustainable Development, coordinated jointly by the Department of Economic and Social Affairs and the United Nations Development Programme, was set up to provide inputs to the work of the Committee, as appropriate. The substantive secretariat of the Committee, located in the Department, will facilitate coordination with other relevant intergovernmental processes, in particular the Open Working Group on Sustainable Development Goals, the Financing for Development process and the elaboration of the post-2015 development agenda.