

## Chapter IV

# Official development financing

The architects of the post-war international economic system had recognized the need for official financing to counteract the insufficiency of private capital flows and, since the 1960s, there has been an increasing perception of the need to support developing countries, an issue that became embedded in the politics of decolonization and the cold war. The surge of private financing to developing countries beginning in the 1970s and the end of the cold war generated an increasing realization that the era of official development financing had passed. However, the vagaries of private capital flows during the 1980s and, again, since the 1997 Asian crisis, in addition to the increasing marginalization of the poorest countries from the world economy, have led to a renewed focus on the critical role of official development finance. The International Conference on Financing for Development was a landmark in this process. The present chapter explores the issues involved. It looks first at official development assistance (ODA), then at the multilateral development banks and South-South cooperation, and lastly at an array of alternatives that should be grouped under the heading of “innovative sources of financing”.

### Official development assistance

The transfer of resources from developed to developing countries has been at the centre of policies to promote development in the United Nations since the 1950s. In its resolution 400 (V) of 20 November 1950, the General Assembly had noted that the domestic financial resources of the underdeveloped countries, together with the international flow of capital for investment, had not been sufficient to assure the desired rate of economic development, and that the accelerated economic development of underdeveloped countries required a more effective and sustained mobilization of domestic savings and an expanded and more stable flow of foreign capital investment. Two years later, the Assembly, in its resolution 520 A (VI) of 12 January 1952, called on the Economic and Social Council to draw up plans for a special capital fund to provide grants-in-aid and low-interest long-term loans to underdeveloped countries; and in 1954, the Assembly, in its resolution 823 (IX) of 11 December 1954, requested the International Bank for Reconstruction and Development (IBRD) to proceed with the creation of the International Finance Corporation (IFC).

To generate additional aid to that provided within the United Nations system and its specialized agencies, in 1958, the World Council of Churches proposed that developed countries dedicate 1 per cent of their gross domestic product (GDP) as aid for developing countries in the form of grants and concessional loans. This figure was incorporated in the objectives of the First United Nations Development Decade and reconfirmed at the first session of the United Nations Conference on Trade and Development (UNCTAD), held in Geneva in 1964. UNCTAD at its second session, held in New Delhi in 1968, set a target of three quarters of 1 per cent of external flows for ODA. Analysis of the external financial flows required to meet the Second United Nations Development Decade growth

ODA is a crucial supplement to mobilization of domestic resources for development

ODA target of 0.7 per cent of developed-country GNI established by the United Nations in the 1960s

goal of at least 6 per cent per annum by the head of the Committee for Development Planning produced an estimate of 1 per cent of developed-country GDP. Since it was expected that private flows could provide only about 0.3 per cent, it was understood that the remaining sums would have to be met by official flows (Emmerij, Jolly and Weiss, 2001, pp. 55-57).

Already at its eighteenth session in 1963, the General Assembly had noted the slow progress in meeting this objective and by the twenty-first session in 1966 noted with concern the trend towards an increased outflow of capital from developing countries (Assembly resolution 2169 (XXI) of 6 December 1966) and noted with deep concern the fact that, with a few exceptions, the transfer of external resources to the developing countries had not only failed to reach the minimum target of 1 per cent net of individual national income of the developed countries but that the trend since 1961 had been one of continuous decline (Assembly resolution 2170 (XXI) of 6 December 1966). In the mid-term assessment of the Second United Nations Development Decade, the Assembly noted that the performance of countries members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) under the ODA target had been even less satisfactory as a whole. The ratio of ODA to their combined gross national product (GNP) had declined from 0.53 per cent during the early 1960s to about 0.39 per cent during the period 1966-1969 and to 0.32 per cent during the period 1970-1973. The poor performance of most of the developed market economy countries with regard to the target of 0.7 per cent of gross national income (GNI) for ODA was due, inter alia, to a lack of political will to reach that target by the middle of the decade (Assembly resolution 3517 (XXX) of 15 December 1975, annex, para. 26).

Concern that external flows to developing countries would decline further in a system of flexible exchange rates led to a recommendation by the Committee of Twenty on reform of the international monetary and financial system to propose the creation of a Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries to study and recommend measures on the broad question of the transfer of real resources to developing countries, which the Committee agreed should be given encouragement.<sup>1</sup> The expectation of a decline in aid was confirmed as ODA for 1982-1983 had averaged 0.35 per cent but further fell to a historic low of 0.21 per cent of developed-country GNI at the beginning of the new millennium.

As a result of this historic declining trend, the Monterrey Consensus of the International Conference on Financing for Development (United Nations, 2002b, annex) sought to restore the central role of ODA, in particular in supporting the poorest countries, and thus reaffirmed the 0.7 per cent target. During and after the Monterrey Conference, many member countries of the OECD/DAC raised their ODA contributions, and many pledged to meet fixed target dates for reaching the 0.7 per cent goal.

## Magnitude and composition of ODA

As a result of the Monterrey commitments, the decline in the share of ODA in developed-country GNI was reversed, as it rose to 0.25 per cent in 2003 and 2004. Moreover, if all commitments are met by the target date of 2006, total ODA is projected to reach \$88 billion, an increase of almost 50 per cent in nominal terms from the total recorded in 2002. If these pledges, together with additional commitments made by DAC member countries to increase ODA after 2006 are met, ODA is projected to reach \$108 billion in 2010

ODA exceeded 0.5 per cent of GNI in the 1960s but then fell back

Monterrey Consensus sought to reverse long-term decline in ODA

(Organization for Economic Cooperation and Development, Development Assistance Committee, 2005).

Despite the positive trend since 2002, the current and projected levels of ODA for 2006-2010 still fall far short of the various estimates (United Nations, 2001; UN Millennium Project, 2005; Commission for Africa, 2005) of about \$150 billion deemed necessary for the developing countries to attain the Millennium Development Goals (World Bank and International Monetary Fund, 2005). Furthermore, as can be seen from figure IV.1, when corrected for price and exchange-rate changes, the recent reversal of the decline in aid flows has barely brought real assistance back to the levels of 1990.

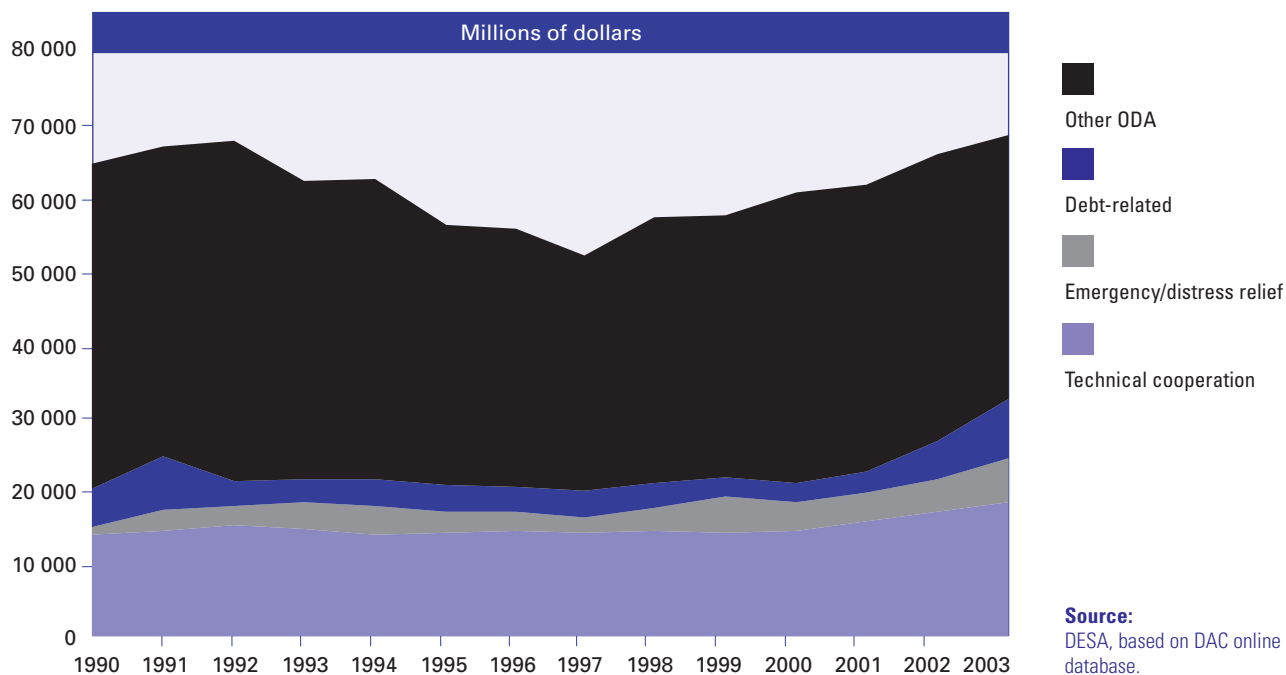
The European Union (EU) and its member States continue to be the largest source of aid, providing more than half of total ODA. Denmark, Luxembourg, the Netherlands, Norway and Sweden already meet or exceed the 0.7 per cent target of their national incomes dedicated to official assistance. In mid-2005, all member States of EU undertook to achieve or maintain the 0.7 per cent ODA/GNI target by 2015. Those member States which joined EU after 2002 will strive to increase or maintain an ODA/GNI ratio of 0.33 per cent. The Secretary-General of the United Nations has urged that other developed countries establish fixed timetables for achieving the 0.7 per cent target of GNI for ODA by 2015 at the latest.

As noted above, the original intention of the United Nations official assistance target was to generate increased external resources in the form of grants and concessional loans to be used to supplement domestic resources so that countries could finance aggregate growth targets in the United Nations Development Decades. Although developing countries succeeded in meeting the modest growth objectives of the First and Second United Nations Development Decades, since the 1980s growth performance in many

The success of the Monterrey Consensus in reversing the decline in ODA is insufficient to meet the financing requirements of the Millennium Development Goals

The Millennium Declaration marked a shift in approach compared with that of the United Nations Development Decades

Figure IV.1.  
**Composition of official development assistance, 1990-2003**  
 (corrected for inflation and exchange rates)



developing countries has been disappointing and ODA has declined. The United Nations Millennium Declaration (see General Assembly resolution 55/2) marked a sharp change in approach to the United Nations development goals from those subscribed to in the four United Nations Development Decades. The increasing evidence that the growth and aid targets were not being met, and the continued increase in disparity in the distribution of the benefits of growth in a globalizing international economic system, led to the specification of much more precise targets represented by the Millennium Development Goals. The idea was to set precise, measurable targets that would provide visible improvements in the living conditions of the poorest within a precise time frame.

As the UN Millennium Project report (UN Millennium Project, 2005) makes clear, this will necessitate expenditure lines that require specific amounts of funding over specific time periods. The composition of ODA must thus be changed to finance the specific expenditures needed to achieve the Millennium Development Goals. Figure IV.1 shows that over the 1990s, the shares of debt relief, emergency aid and technical assistance in total aid flows were increasing. While these flows have important objectives, emergency aid is not designed to assist long-term development, and debt relief does not generally provide fresh money to debtor countries. Technical cooperation, in turn, provides a variety of inputs towards development results but its impact in closing financial gaps is hard to gauge.<sup>2</sup> Consequently, despite the recent recovery in recorded donor contributions, ODA has been a declining source of budgetary resources for the developing countries, limiting their efforts to pursue the Millennium Development Goals. The call to increase ODA must thus be qualified to refer to real cash increases to support the Goals.

Moreover, not only does ODA have to increase substantially in order for the developing countries to have a better chance of achieving the Millennium Development Goals but it is essential that ODA be directed to the poorest and least developed among the developing countries. With the adoption of the Programme of Action for the Least Developed Countries for the 1990s by the Second United Nations Conference on the Least Developed Countries in Paris in September 1990 (United Nations, 1991), developed countries had agreed that, within their 0.7 per cent overall ODA target, they would provide at least 0.15-0.20 per cent of their GNI to assist the least developed countries. A few individual donors met this target but aggregate ODA flows to the least developed countries declined to about half the target during the 1990s. The reversal in trend since Monterrey has been more positive: ODA to least developed countries has increased sharply in recent years. However, a careful look at the composition indicates that the amount of aid for least developed countries in 2003, after exclusion of the emergency, debt relief and reconstruction components, was also only marginally higher than the figure for 1990 (see figure IV.2).

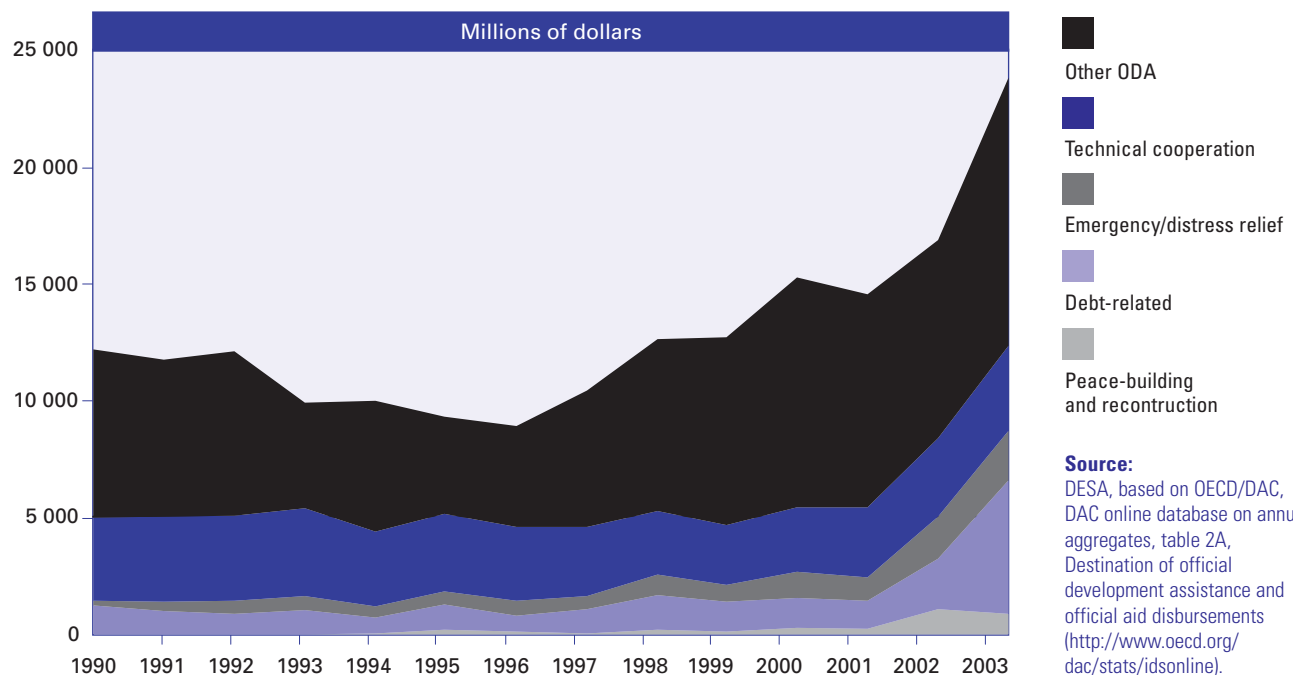
ODA needs to be targeted to the poorest and least developed countries

## Volatility and conditionality of aid flows

Size is not the only important aspect of ODA—predictability is equally important

There are a number of other factors that must be considered in order to determine the real impact of aid in achieving the Millennium Development Goals. First, predictability of aid flows over time is a precondition for their effective use. However, aid flows tend to rise and fall with economic cycles in donor countries, with policy assessments of the recipient countries, and with a shift in donor policies. This uncertainty has a negative impact on public investment and thus on growth, as well as on the conduct of monetary and fiscal policy. Empirical work suggests that the volatility of aid flows exceeds that of other macroeconomic variables, such as GDP or fiscal revenue. Aid is significantly more volatile than fis-

Figure IV.2.  
**Composition of official development  
 assistance to least developed countries, 1990-2003**



cal revenue, and tends to be procyclical on average (Gemmell and McGillivray, 1998). When aid falls, it leads to costly fiscal adjustments in the form of increased taxation and spending cuts that reinforce the cyclical impact of declining aid flows (Pallage and Robe, 2001; Bulír and Hamann, 2003; 2005). In this respect, the volatility in aid flows has a similar impact to volatility in commodity prices in countries that are dependent upon the exports of a single commodity. Indeed, countries receiving aid flows seem to be no better off than emerging market economies receiving private flows for, as shown in table IV.1, the volatility of both types of flows as measured by their standard deviation relative to the mean value is very similar.

Surges in donor flows can also cause macroeconomic problems. In small country recipients, these problems are compounded by low absorptive capacity and the presence of a small and often underdeveloped financial sector. Deeper financial markets in aid-recipient countries have been shown to be associated with more efficient management of aid flows, and to enhance the impact of ODA on growth. They have a positive direct impact on private investment in recipient countries, and diminish negative indirect effects resulting from the impact of ODA on domestic prices, interest rates and the exchange rate (Nkusu and Sayek, 2004). Surges in donor flows may produce exchange-rate appreciation and, if sustained over a length of time, the kind of overvaluation phenomenon known as the “Dutch disease”. Attempts to sterilize the monetary effects of foreign exchange inflows can be costly. Increased donor flows may be accompanied by negative private flows or excess reserve accumulation. As a result, the beneficial impact of the aid inflows on growth and poverty reduction may be offset or even reversed.

**Surges in donor flows  
 create special  
 problems for small  
 countries**

Table IV.1.  
**Volatility of financial flows and bilateral  
 DAC ODA, top 10 recipients, 1999-2003**

Top 10 emerging market countries (Weighted GDP volume)	Financial flows (Standard deviation/mean)
Brazil	0.35
China	0.77
Hong Kong, SAR <sup>a</sup>	0.34
Korea, Republic of	0.08
Malaysia	0.11
Mexico	0.18
Poland	0.24
Singapore	0.41
Thailand	0.42
Turkey	0.52
<i>Average</i>	0.34
Top 10 net bilateral DAC ODA recipients <sup>b</sup>	Net bilateral ODA (Standard deviation/mean)
Bangladesh	0.12
China	0.35
Egypt	0.22
India	0.32
Indonesia	0.28
Mozambique	0.46
Pakistan	0.43
Serbia and Montenegro	0.55
United Republic of Tanzania	0.11
Viet Nam	0.27
<i>Average</i>	0.31

**Sources:** DESA calculations on OECD/DAC database; and World Bank, *Global Development Finance 2005* (Washington, D.C., 2005).

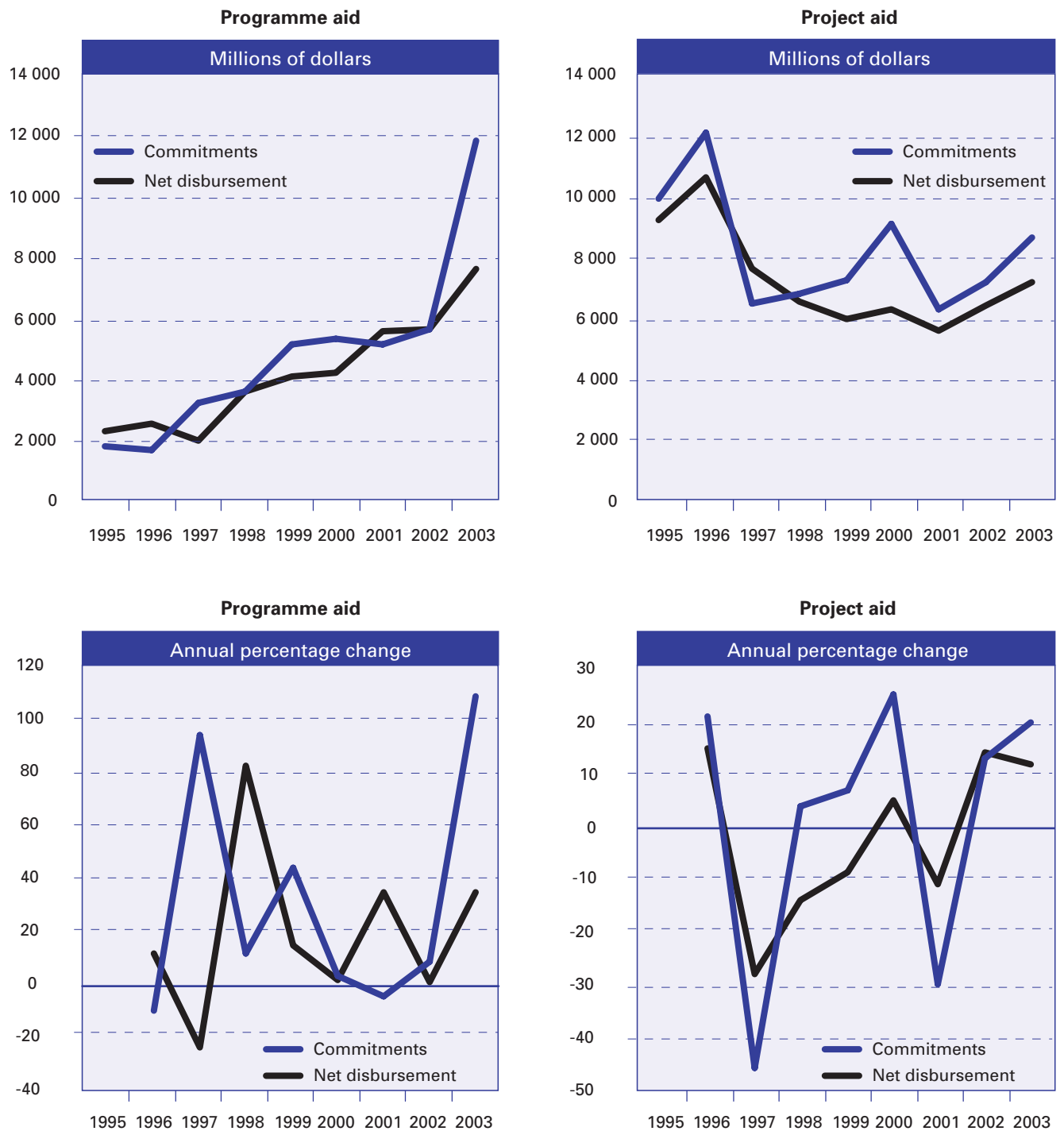
**a** Special Administrative Region of China.

**b** Excluding the Democratic Republic of the Congo.

The gap between aid  
 commitment and aid  
 disbursement also  
 reduces predictability

Volatility of ODA results from more than the year-on-year variability due to donor budget cycles. There is often a large gap between budgeted aid commitments and their actual disbursement in the recipient country. Figure IV.3 shows the divergence between commitments and disbursements for programme and project aid.<sup>3</sup> Further, the actual disbursement of aid, as distinct from its budgetary commitment, tends to be concentrated in periods of high domestic revenue and output. Not only are ODA flows more volatile than either fiscal revenue or GDP, but their relative volatility increases with the degree of aid dependency. It has also been found that countries that suffer from high revenue volatility are also countries that suffer from higher aid volatility, suggesting that aid

Figure IV.3.  
**Commitments and disbursements of programme and project aid, 1995-2003**



Source: DESA, based on data in World Bank, *Global Development Finance 2005* (Washington, D.C., 2005) and IMF HIPC Initiative-Statistical Update April 11, 2005.

Aid conditionality is also a source of volatility in aid flows

tends to enhance budgetary and overall economic instability (Bulir and Hamann, 2001). Donors have to consider how to reduce these patterns to enable recipient countries to plan their fiscal arrangements in a budget year as well as within the context of a longer-term fiscal policy framework. The erratic behaviour of both budgeted flows and aid disbursement needs to be stabilized if aid is to finance a sustained path of growth and poverty reduction.

Aid conditionality is another source of volatility. This is due not only to the types of specific conditions required by donors, but also to the frequent requirement that aid recipients have the seal of approval of an International Monetary Fund (IMF) programme that is on track. When these programmes go off-track, the negative impact is intensified by the withdrawal of aid flows by donors.

The now conventional view is that conditionality is an ineffective or at least an inefficient means to attain objectives that donors wish to attach to financial support of partner countries. So long as there is no true “ownership” of the policies involved by partner countries—that is to say, so long as they are not backed by strong domestic support—they are unlikely to be sustained. This is strongly associated with the fact that ownership is essential to institution-building, which is generally recognized today as the key to successful development policies. Some authors (Morrissey, 2001) have suggested that donors should support policy processes rather than impose specific policy conditions.

Following this view, some donors have announced radical shifts away from aid conditionality. One of the most significant has been that described in a recent policy announcement by the Government of the United Kingdom. A new policy on conditionality was launched early in March 2005 that will stop making the United Kingdom’s aid conditional on specific policies, including in sensitive areas like privatization and trade liberalization. Conditionality is to be limited to fiduciary concerns only and to ensuring that aid is not diverted for purposes other than those intended.

## Selectivity of aid flows

Donor selection of recipients reduces predictability of aid

Donor selection of aid recipients has tended to be concentrated in a relatively small number of countries. Figure IV.4 shows that, since the 1980s, the top 20 countries have received more than half of net bilateral aid and that fewer than 50 per cent of aid recipients have received 90 per cent of all aid from DAC donors.<sup>4</sup> This suggests that variations in aid allocations are in large part the result of donors’ selection of top aid recipients.

The concentration of aid in a few countries leads to the question whether donors tend to move as a group. Evidence suggests that concentration of aid produces herding behaviour on the part of donors. Thus, donor selectivity compounds the impact of volatility. This similarity in donor behaviour may be the result of the view that aid efficiency is highest in those countries that have made the most positive reform efforts (see below). As a result, aid flows tend to be concentrated in those countries that are viewed by donors as the most successful. Although selectivity of aid has always been present, its impact seems to have increased since the late 1990s. This is partly due to the signalling mechanism set in motion through the processes associated with the Poverty Reduction Strategy Papers (PRSP) and the Heavily Indebted Poor Countries (HIPC) Initiative.

Donor mimetism can be measured

Herding behaviour among donors can also be detected by means of a measure (denoted LSV) devised by Lakonishok, Shleifer and Vishny (1992) and based on the divergence of actual changes in ODA relative to average behaviour. If all donors follow the average behaviour, the difference between actual and average behaviour is zero and there is no

Figure IV.4.  
**Concentration of official development assistance in recipient countries, 1981-2003**

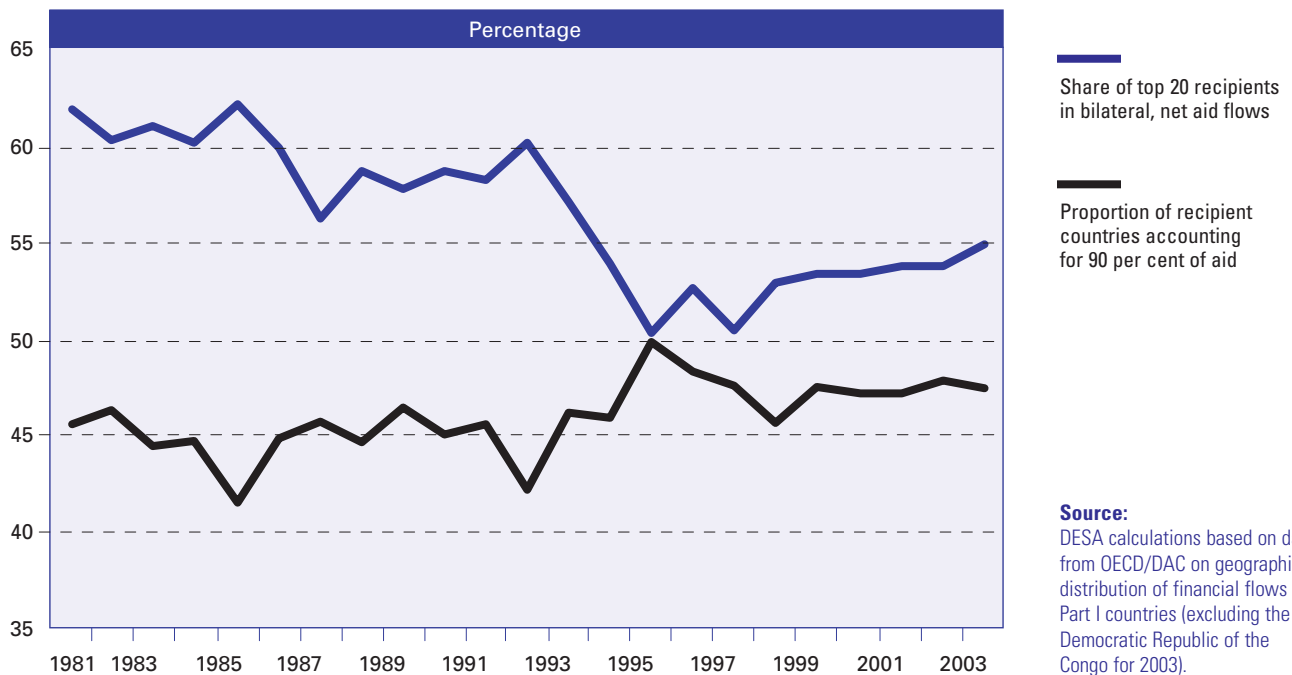
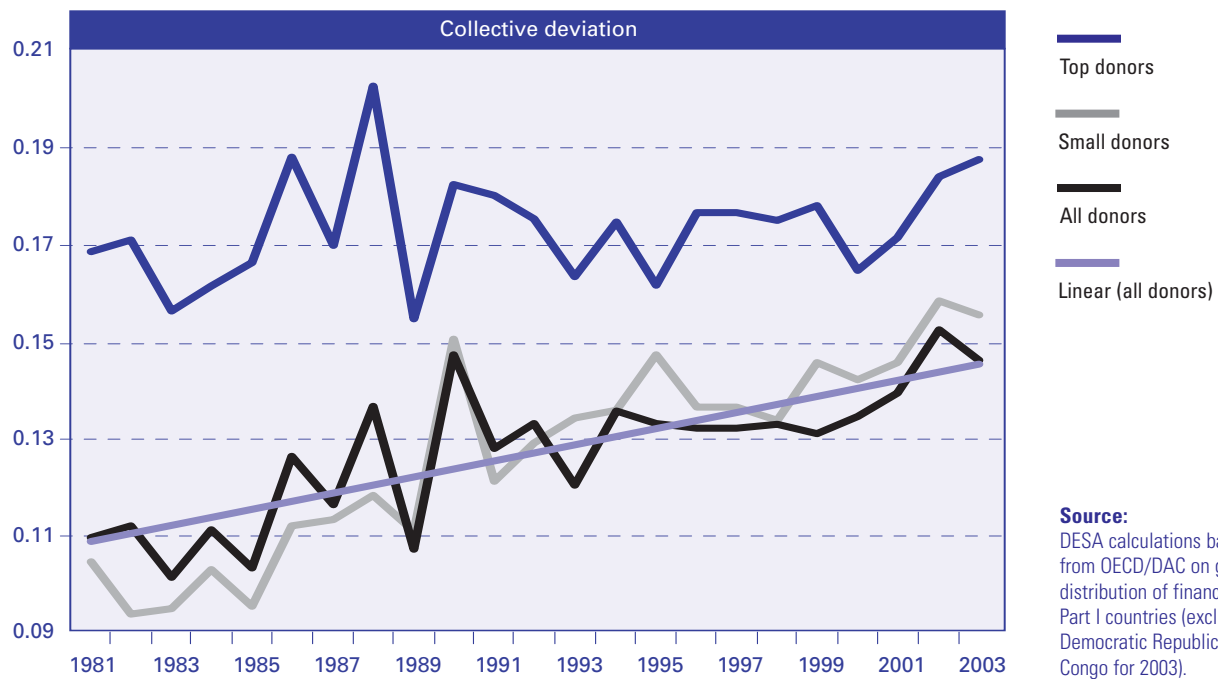


Figure IV.5.  
**Collective deviation of flows of official development assistance among donors, 1981-2003**



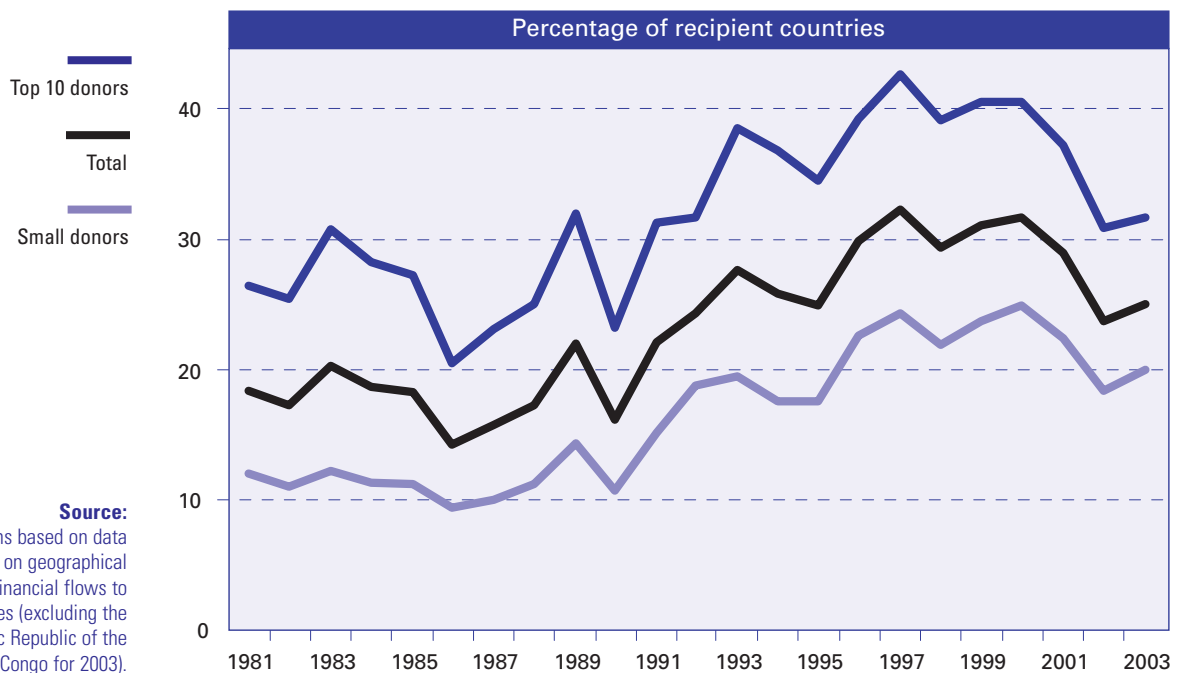
herding. A value of LSV greater than 0.1 indicates significant herding. Figure IV.5 analyses the behaviour of 10 large and 13 small donors and confirms the existence of herding, especially with respect to the behaviour of small donors, with an average of collective deviation of close to 13 per cent.

Bigger and smaller donors tend to move together both when they increase and when they decrease aid. Overall, historical evidence suggests that a developing country may expect to experience a reduction in net nominal bilateral ODA volumes with a probability of about 25 per cent in any given year (see figure IV.6).

Although the factors that cause co-movement in bilateral selectivity of countries are different compared with the factors that cause herding in private capital markets, the ensuing macroeconomic instability is similar. While many of the discussions on the effectiveness of aid have tended to concentrate on the effects of governance and the domestic policy environment in the recipient countries, the economic costs due to problems in the supply side and limitations to the financial intermediation of donor funds are not insignificant.

Figure IV.6.

**Proportion of countries experiencing a decline in bilateral aid volume, by donor grouping, 1981-2003**



**Source:**

DESA calculations based on data from OECD/DAC on geographical distribution of financial flows to Part I countries (excluding the Democratic Republic of the Congo for 2003).

## Aid and economic growth in support of the Millennium Development Goals

Aid in support of growth and aid in support of poverty reduction

The specification of official assistance targets to support the International Development Strategies for the United Nations Development Decades assumed that increased aid would contribute to increasing growth in developing countries; since the adoption of the United Nations Millennium Declaration, it has been argued that increased aid would allow countries to achieve the Millennium Development Goals. Nonetheless, sustaining the Millennium

Development Goals will require a sustained increase in growth. However, the experience with official assistance in promoting economic growth in developing countries is, at best, a mixed one. The World Bank (1998) is forthright in recognizing that “if foreign aid has at times been a spectacular success ... (it) has also been, at times, an unmitigated failure”. This sentence encapsulates the evidence that aid has often had weak effects on growth and poverty reduction.<sup>5</sup> A growing understanding of the factors that constrain the effectiveness of aid has helped identify problems in respect of both the supply of donor funds and the limitations in recipient countries.<sup>6</sup> The challenge for the official donor community, as well as policymakers in developing countries, has thus been to recognize the weaknesses of the earlier approaches in aid delivery and to work towards new frameworks to enhance aid effectiveness.

There are two dominant views on the factors that hinder aid effectiveness in promoting growth and reducing poverty. The first, and more dominant view, is that aid works only when government policies are effective: a more selective allocation of aid to “good policy-high poverty” countries will thus lead to larger poverty reductions at the global level. The second view argues that aid effectiveness is not conditional on domestic policy effectiveness so that more selective allocation may generate other problems, including “aid orphans” and deepening crises in countries regarded by the donor community as “aid pariahs”.

The first view is based on an influential body of evidence generated by research at the World Bank (1998) indicating that policies matter for aid effectiveness. The implications for aid policy are straightforward: allocate more aid to a country with “good” policies. This message has turned out to be fairly influential and recent empirical work (Collier and Dollar, 1999, 2001; Burnside and Dollar, 1997; 2000) appears to support this view. Using the “Country Policy and Institutional Assessment” (CPIA) as a measure of good policy, these studies estimate that the impact of growth on poverty reduction across countries is higher for countries with better CPIA scores. If aid allocations between countries are directed to countries where the correlation is highest, this will maximize the number of people lifted out of poverty. The studies suggest that a more efficient targeting of aid towards countries with high rates of poverty pursuing good policies could double the number of people lifted out of poverty, this being as much as could be achieved by tripling present aid budgets at the level of their current country allocations. The World Bank research has also revealed that the pattern of the actual aid allocations—particularly bilateral aid—has been highly inefficient, being only weakly targeted to poor countries and even more weakly directed to well-managed countries.

Other studies have reached different conclusions. Some of them question the definition and assessment of “good policies” implicit in the CPIA ratings.<sup>7</sup> Some (Beynon, 2003) provide alternative policy interpretations of the World Bank studies,<sup>8</sup> while others (Hansen and Tarp, 2000; and Beynon, 2003) challenge the results on methodological and econometric grounds, in terms, for example, of sensitivity to model specification. They suggest that since aid assists countries in adjusting to external shocks, this may explain why some studies show no significant impact of aid on growth. Another difficulty in measuring the efficiency of aid flows is caused by the fact that aid flows include debt relief and, as suggested above, do not measure the real contribution of cash resources to supporting growth. Furthermore, bilateral flows are often used to clear arrears at the multilateral institutions. An analysis that looks at the composition of aid and focuses on assistance that, plausibly, could stimulate growth, including budget and balance-of-payments support, investments in infrastructure, and aid for productive sectors such as agriculture and industry, finds a positive, causal relationship between this type of aid and economic growth (with diminishing returns) over a four-year period. The impact is large: at least two to three times larger than

Views on the relationships between aid, growth and poverty reduction differ

One view is that good policies increase the beneficial impacts of aid on growth and poverty reduction ...

... but others argue that appropriate measurement finds a more general benefit of aid

the impact found in studies that consider only aggregate aid. Even at a conservatively high discount rate, a \$1 increase in short-impact aid raises output (and income) by \$1.64 in present value in a typical country (Clemens, Radelet and Bhavnani, 2004).

Any econometric exercise that measures aid effectiveness should thus be based on data of aid flows that are net of debt relief and aid flows utilized for clearance of arrears. Alternative research suggests that the impact on growth is positive irrespective of the policy environment (Morrissey, 2001) while still other research suggests that a range of other variables are significant such as economic vulnerability (Chauvet and Guillaumont, 2002), external shocks (Collier and Dehn, 2001), recovery from conflict (Collier and Hoeffler, 2002) and geographical factors (Dalgaard and others 2001). Despite these findings, the emphasis on good governance and institutional change continues to dominate the discussion.

## Donor efforts to increase effectiveness

The effectiveness of ODA is as important as the amount of ODA

Developed-country donors have been increasingly concerned with the impact of their aid. Initiatives introduced since the late 1990s to strengthen coordination among donors, improve the design of programmes, and improve domestic policy implementation include the Poverty Reduction and Growth Facility (PRGF) and the HIPC Initiative. However, they do not seem to have decreased the erratic nature of the availability of funds (Bulír and Hamann, 2005). The effectiveness of increased use of aid to provide budgetary support for countries that have embarked on the PRSP and entered the HIPC Initiative has also been affected by the volatility of aid disbursements.

Measures to increase effectiveness are receiving increased attention

At the Rome High-level Forum on Harmonization held on 24 and 25 February 2003, a plan of action was elaborated to harmonize aid policies, procedures and practices of donors with those of their developing partner countries. At the second High-level Forum on Joint Progress towards Enhanced Aid Effectiveness, held in Paris from 28 February to 2 March 2005, twice as many countries and new donor countries participated, and for the first time civil society representatives and parliamentarians were also involved. Over 100 countries as well as development institutions committed to a practical blueprint to provide aid in more streamlined ways, and to improve accountability by monitoring the blueprint's implementation. The Paris Declaration on Aid Effectiveness set out five major principles of aid effectiveness: (a) ownership of development strategies by partner countries; (b) alignment of donor support with those strategies; (c) harmonization of donor actions; (d) managing for results; and (e) mutual accountability of donors and partners. The Declaration also contained some 50 commitments to improve aid quality which were to be monitored by 12 indicators. Participants agreed to preliminary quantitative targets for only five of them, and the Declaration is particularly weak on commitments to improve alignment (no target for reliable recipient country systems, for coordinated donor capacity support or for untying of aid) and agreed to set targets for the other indicators by the Summit meeting of the General Assembly in September 2005. The five quantitative targets for 2010 are: (a) at least 75 per cent of partner countries should have operational development strategies; (b) 85 per cent of aid flows should be reported on budgets; (c) at least 75 per cent of aid agreed with time framework should be released on schedule; (d) at least 25 per cent of aid should be provided as "programme-based approaches"; and (e) 75 per cent of partner countries should have results-oriented frameworks. EU announced its own additional set of targets, including reducing the num-

ber of uncoordinated missions by 50 per cent, channelling half of government assistance through country assistance, providing all capacity-building through coordinated programmes, resorting more frequently to multi-donor arrangements, and avoiding the establishment of new project implementation units.

In addition to areas covered by the Paris Declaration targets, there are several other areas for improvement in respect of aid effectiveness. First, a follow-up to the commitments made at the World Summit for Social Development (1995), where donors pledged to spend 20 per cent of ODA on basic social services in developing countries, is still needed. Also, despite the evidence on the adverse effects of tied aid which has been available for several decades, this issue remains to be effectively tackled. Although there is an indicator (8) in the Paris Declaration on untying aid, it is the only one on which agreement could not be reached with respect to defining a target by September 2005. While substantial progress has been made in untying aid, it continues to have a high cost: in 2002, it reduced bilateral aid's value by at least \$5 billion (Organization for Economic Cooperation and Development, Development Assistance Committee, 2004).

Other aspects of aid effectiveness remain to be tackled

## The multilateral development banks

The architects of the post-war international financial system were, in the early years, more concerned with reconstruction than with development finance, but they were clear in their belief that both types of finance should be channelled through multilateral institutions subject to intergovernmental control. The International Bank for Reconstruction and Development (IBRD), established in 1944, was to play this role. (IBRD and the International Finance Corporation (IFC) (established 1956), the International Development Corporation (established 1960), the Multilateral Investment Guarantee Agency (established 1988) and the International Centre for Settlement of Investment Disputes (established 1966) now constitute the World Bank Group.) The World Bank was complemented during the 1950s and 1960s by a number of regional development banks: the Inter-American Development Bank; the Asian Development Bank, the African Development Bank and the European Investment Bank (EIB). The European Bank for Reconstruction and Development (EBRD) was added in 1991. There are also several subregional development banks, particularly in the Latin American and Caribbean region, as well as several Arab institutions, some with a regional reach and others with a broader one.

The multilateral development banks are an important, but unrecognized, source of development assistance

Regional and subregional development banks experienced major shifts and reforms during the 1990s. In general, the financial base of these institutions grew substantially, allowing them to expand their lending activities and to increase their weight, influence and importance. The expanded role of these institutions led to both enhanced cooperation and partnerships with the World Bank, but also to more competition in the provision of services (Sagasti, Bezanson and Prada, 2005). The implementation of a more systemic perspective in the operations of the multilateral development banks and the World Bank, as well as a division of labour between them, will be of fundamental importance for the future of development finance.

Regional development banks are of increasing importance

In this regard, paragraph 45 of the Monterrey Consensus highlighted the vital role that multilateral and regional development banks continue to play “in serving the development needs of developing countries and countries with economies in transition”. The paragraph went on to make the following observations:

*They should contribute to providing an adequate supply of finance to countries that are challenged by poverty, follow sound economic policies and may lack adequate access to capital markets. They should also mitigate the impact of excessive volatility of financial markets. Strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency. They also serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries.*

Despite this call, and with the exception of the recent recapitalization of IDA and the African Development Bank, only limited commitments have been made to enhancing the role that multilateral development banks play in the international financial system since the International Conference on Financing for Development.

## The role of multilateral development banks

Multilateral development banks contribute to development in a variety of ways

Structurally, most multilateral development banks contain a core bank or “hard window” that operates on commercial principles and a “soft-loan” window to support lending to low-income country borrowers. They may also contain private sector financing arms and guarantee agencies (Mistry, 1995). Through these facilities, multilateral development banks fulfil a vast array of financial functions, namely: (a) channelling funds to low-income countries; (b) lending to middle-income countries, and correcting market failures associated with the overpricing of risks, which lead to inadequate access to long-term financing by many middle-income developing countries; (c) acting as a counter-cyclical balance to fluctuations in private capital markets; and (d) facilitating the functioning of private markets by signalling creditworthiness and acting as catalysts for private sector investment. There are also several non-financial functions encompassing (a) the traditional “value added” of multilateral financing, lending related technical assistance, and its capacity-building and institutional development effects; (b) knowledge generation and brokering; and (c) the provision of global and regional public goods, including, in the case of most regional and subregional development banks, their support to regional integration processes.

Regional banks have specific functions determined by regional development needs

Not each and every multilateral development bank is involved in all these functions, but the multilateral development banks as a whole cover all of them. The central role in satisfying the first function is played by IDA, while several regional development banks play a role in concessional lending, particularly the African Development Bank (44 per cent of total lending) and the Asian Development Bank (27 per cent); the Inter-American Development Bank has also a concessional fund for special operations which amounts to 7 per cent of total lending (see World Bank and International Monetary Fund, 2005).

IDA is a special source of aid for the poorest developing countries

In contrast with traditional World Bank lending, IDA lending is mainly funded by donor official development assistance, supplemented by IDA loan repayments and net income from IDA lending and from the operations of the World Bank. In its recently completed fourteenth replenishment (IDA-14), donors contributed \$18 billion of new funds to the \$34 billion that will be available to the world’s poorest developing countries under IDA for the period 1 July 2005-30 June 2008. To improve efficiency, IDA policy will take into account the vulnerability to debt problems of the recipient countries through a forward-looking debt sustainability analysis (see chap. V) while the most heavily debt-distressed countries, mainly in sub-Saharan Africa, will receive all of their IDA assistance on grant terms.

The relative roles of loans and grants in development assistance has long been debated. A number of major donors believe that the discipline of loan repayment sharpens the focus on the costs/benefits of prospective projects, and provides an incentive to ensuring that funds are used effectively. Further, timely servicing of loans for development creates a revolving fund that can form a basis for permanent support, while grants require fresh budget allocations by donors which may depend on political and economic conditions. In this respect, it is important that donor countries agree on measures to cushion the effect of the loss of repayment flows (as grants replace loans) on IDA capacity to support the poor developing countries in the future. Forgone reimbursements will be financed through additional donor contributions on a pay-as-you-go basis. Participants in the fourteenth replenishment of IDA have cautioned, however, against the possibility of grants' leading to excessive new borrowing from other sources by recipient countries, and warned that they could be disqualified from receiving grants if they are found to have engaged in "excessive or unsustainable" borrowing. Millennium Development Goals-based indicators will monitor overall development progress, thereby making possible a better assessment of country performance as well as aid delivery and management. IDA will make financial support contingent on the performance of the recipient country in the areas of economic policy, governance and poverty reduction efforts.

It is hoped that these measures will enhance the ability of countries to "graduate" from IDA support. Since 1960, 32 countries have graduated but 10 of the 32 countries subsequently re-entered the list at one time or another (these are known as "reverse graduates") and, after re-entry, some graduated again (see table IV.2).

Recently, more attention has been given to the possible benefits of combining concessional IDA flows with other types of assistance so as to gain leverage and provide financing tailored to meet different needs between and within countries. Many developing countries receive IDA resources as well as cheap loans and grants from the concessional facility windows of the various regional development banks and from developed-country aid agencies. Concessional loans and grants can help the poorest (IDA-only) countries to scale up investment and spending to meet the Millennium Development Goals without undermining debt sustainability. As highlighted in the *Global Monitoring Report 2005* (World Bank, 2005e), the poorest countries face the largest gaps in financing needs so as to meet the Millennium Development Goals and must rely on external official financing to a substantial extent in covering those needs. There is broad agreement that the poorest countries should receive highly concessional resources, with amounts adjusted to take performance and absorptive capacity into account. IDA-only countries with per capita incomes below the IDA cut-off have traditionally received grants from bilateral donors and highly concessional loans from multilateral agencies.

The second and third financial functions of multilateral development banks listed above emphasize the role that official development financing continues to play even for middle-income countries. The evolution of multilateral development bank lending in recent years shows that, whereas financing to low-income countries is steadier, lending to middle-income countries is strongly counter-cyclical: it increased substantially during the first half of the 1980s and during the critical years following the Asian crisis (figure IV.7). It is important to emphasize that this counter-cyclical function is distinct from that of IMF, and refers basically to the access of developing countries to long-term borrowing during times of crisis, particularly to maintain critical public sector investment and social spending. The strong contraction in recent years, although consistent with the counter-cyclical function, has been

Negotiations on the replenishment of IDA have addressed the respective pros and cons of the roles of loans and grants

New approach aims to increase IDA "graduates"

Multilateral development banks also have important roles in middle-income countries

Table IV.2.  
**Graduates from IDA assistance**

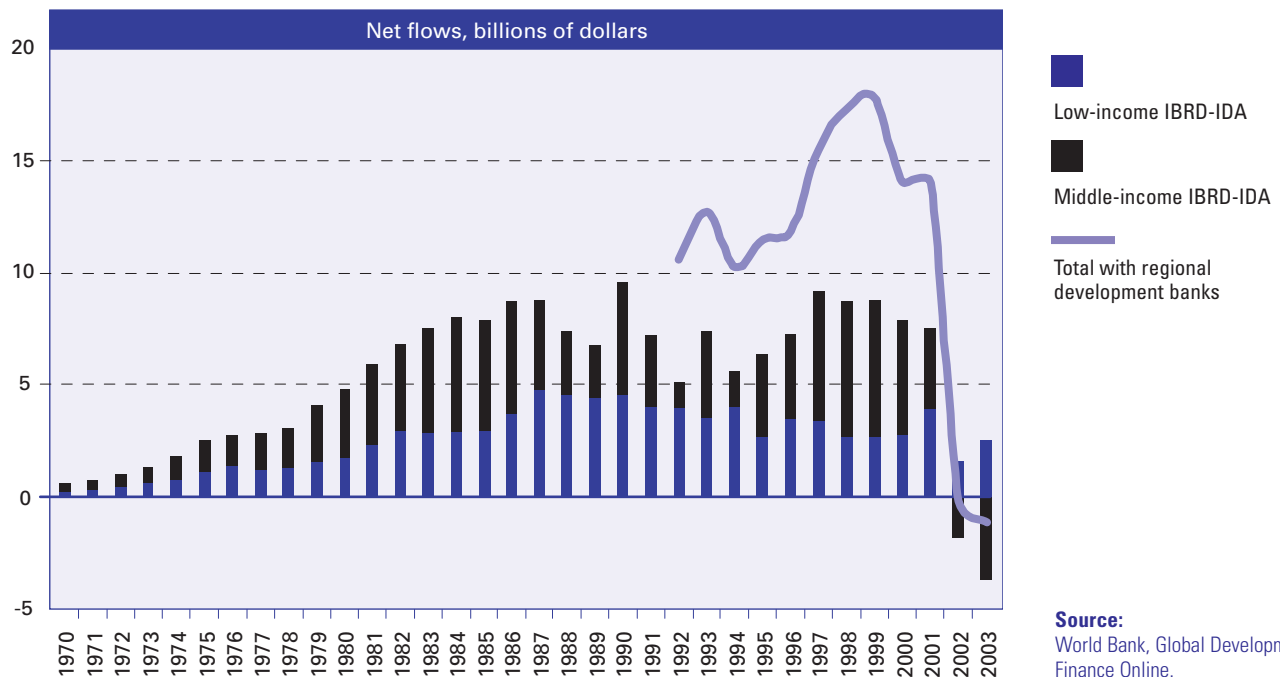
Country	Fiscal year of last IDA credit	Reverse graduate (year re-entered)
1. Botswana	1974	-
2. Cameroon	1981	1994
3. Chile	1961	-
4. China	1999	-
5. Colombia	1962	-
6. Congo	1982	1994
7. Costa Rica	1962	-
8. Côte d'Ivoire	1973	1992
9. Dominican Republic	1973	-
10. Ecuador	1974	-
11. Egypt	1981, 1999	1991
12. El Salvador	1977	-
13. Equatorial Guinea	1993	-
14. Honduras	1980	1991
15. Indonesia	1980	1999
16. Jordan	1978	-
17. Mauritius	1975	-
18. Morocco	1975	-
19. Nicaragua	1981	1991
20. Nigeria	1965	1989
21. Papua New Guinea	1983	-
22. Paraguay	1977	-
23. Philippines	1979, 1993	1991
24. Republic of Korea	1973	-
25. Saint Kitts and Nevis	1994	-
26. Swaziland	1975	-
27. Syrian Arab Republic	1974	-
28. Thailand	1979	-
29. The former Yugoslav Republic of Macedonia	2002	-
30. Tunisia	1977	-
31. Turkey	1973	-
32. Zimbabwe	1983	1992

**Source:** IDA, "Countries ceasing to borrow from IDA, 1960-2001" ([www.worldbank.org/ida](http://www.worldbank.org/ida)).

very strong, leading to negative net flows in 2002 and 2003, and has been accompanied by a significant reduction in net flows to low-income countries.

Excellent access to capital markets associated with high capital/asset ratios, a large ratio of subscribed to paid-in capital, and the capacity to draw on the high risk-ratings of developed-country members allow multilateral development banks to offer excellent credit conditions even to middle-income countries. Even those without developed-country members use risk pooling and good risk management practices to achieve better credit ratings and risk premiums than their individual members (for example, the Andean Development Corporation). The preferential relation of multilateral development banks with borrowers, which has resulted in very low loan losses, represents another advantage

Figure IV.7.  
**The counter-cyclical character of the lending  
of multilateral development banks, 1970-2003**



(The Central American Bank for Economic Integration and the African Development Bank are among the few exceptions in this regard). The fact that borrowing countries are also investors, that credit costs are low relative to market rates, and that those countries have access to borrowing from multilateral development banks even when access to private capital markets is unavailable or available only at high costs, explains this preferred creditor status. In turn, the high quality of the portfolios and the access to capital markets with minimum premiums are reflected in low costs of funding, which is passed on to their borrowers. In terms of both costs and maturities, these institutions are thus able to lend on much better terms than private agents (see table IV.3).

The fourth function, direct financing or co-financing to the private sector (by banks or their associated financial corporations) and provision of guarantee schemes to support public-private partnerships or public infrastructure projects, is of fairly recent origin. However, it has been gaining in importance since the 1990s and should become one of the priorities for multilateral financing in future. It has also been used in recent years in a modest way to support developing countries' efforts to return to markets after crises, but with only limited success in terms of improving the terms of borrowing for developing countries in private capital markets. It could be used to support initial bond issues by developing (particularly poor) countries seeking to position themselves in private capital markets. The full development of these schemes would call for a radical change in the management of guarantees by development banks since their current treatment as being equivalent to lending severely restricts their use.

Multilateral development banks can act as a catalyst for private finance for development

Table IV.3.

## Developing countries: average terms of new commitments, 1990-2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Average maturity (years)</b>														
<b>Official</b>														
All developing countries	22.4	21	21.3	21.5	22.1	19.2	21.6	19.8	16.2	19.8	20	21	22.7	19.8
Income group														
Low-income	28.1	28.2	29.1	28.7	29.2	28.5	29.6	29.7	31.5	30.9	30.4	31.5	30.4	32.1
Middle-income	19.8	18.8	18.3	19.2	19.6	16.9	18.8	17.1	13.3	17.6	16.8	16.9	18.6	15.8
<b>Private</b>														
All developing countries	11.4	9.7	10.3	9.7	9.1	7.8	8.3	10.6	10.1	8.7	10.5	9.3	25.3	9.9
Income group														
Low-income	13.8	8.2	11.4	9.9	8.8	7.1	7.1	8.1	6.6	8	5.2	7.3	4.8	5.7
Middle-income	11.1	9.8	10.2	9.7	9.1	7.8	8.4	10.7	10.5	8.7	11	9.4	25.9	10
<b>Average interest rate (percentage)</b>														
<b>Official</b>														
All developing countries	5.5	5.5	5.3	4.8	4.8	5.8	4.8	5.2	5.2	4.3	4.9	3.9	3.1	2.9
Income group														
Low-income	3.6	3.7	3.0	2.9	2.8	2.9	3.0	3.0	2.4	2.3	3.0	2.0	2.4	1.3
Middle-income	6.3	6.0	6.1	5.4	5.6	6.5	5.4	5.9	5.7	4.7	5.4	4.7	3.5	3.4
<b>Private</b>														
All developing countries	8.5	7.8	6.7	6.2	6.4	6.6	7.3	7.4	7.6	8.1	8.0	6.8	6.7	5.7
Income group														
Low-income	7.2	8.7	6.8	7.1	6.8	6.3	6.0	6.7	3.7	5.7	4.4	4.9	4.1	3.6
Middle-income	8.7	7.7	6.7	6.2	6.4	6.6	7.4	7.5	8.1	8.1	8.4	6.9	6.8	5.8

Source: World Bank, Global Development Finance Online.

### Regional development banks also provide regional public goods

The services that are bundled with lending also help to support objectives of the global community: poverty reduction, human development, protection of the environment, financial accountability and better public management standards (Gurría and Volcker, 2001). This indicates that these institutions also play a role in the provision of regional and global public goods. Although regional and subregional institutions are not as important as the World Bank in the provision and financing of such goods, in the 1990s the regional development banks entered into the provision of regional public goods (see below).

## Structure and trends

### Development banks are an important source of long- and medium-term finance ...

The level of resources provided by multilateral development banks to developing countries is low in comparison with other official flows and (during periods of ample external financing) with private financial flows. The share of different multilateral development banks in

total net flows from multilateral sources varies across regions and level of income. Net flows from the World Bank and regional development banks to developing countries represent, respectively, 50 per cent and 41 per cent of total long- and medium-term net flows to developing countries from multilateral sources, with other institutions providing the rest.

However, as table IV.4 indicates, there are crucial regional differences with regard to the role played by different multilateral development banks. The expansion of the regional development banks has focused on middle-income countries where their com-

... but their importance varies across regions

Table IV.4.

**Net flows from multilateral development banks by region, 1991-2002**

Billions of dollars							
Multilateral financing sources <sup>a</sup>		1991-1994	1995-1998	1999-2002	Total 1991-2002	Relative participation 1991-2002	
All developing countries	World Bank	25.42	31.51	23.95	80.87	0.50	
	RDBs	20.53	24.65	21.55	66.73	0.41	
	Other	6.62	8.55	0.16	15.33	0.09	
Income level							
	Low-income	World Bank	17.04	12.42	11.46	40.92	0.60
		RDBs	10.74	8.01	5.47	24.23	0.36
Other		1.30	1.11	0.62	3.02	0.04	
Middle-income	World Bank	8.38	19.08	12.49	39.95	0.42	
	RDBs	9.79	16.63	16.08	42.50	0.45	
	Other	5.33	7.45	-0.47	12.31	0.13	
Region							
	East Asia and the Pacific	World Bank	7.13	8.12	3.46	18.71	0.61
		RDBs	3.11	5.30	3.15	11.55	0.38
Other		0.13	0.30	0.08	0.51	0.02	
Europe and Central Asia	World Bank	3.17	9.47	7.02	19.66	0.79	
	RDBs	0.35	1.94	0.71	2.99	0.12	
	Other	3.50	-1.29	0.12	2.33	0.09	
Latin America and the Caribbean	World Bank	-1.29	3.46	5.10	7.27	0.17	
	RDBs	5.17	10.24	15.93	31.34	0.72	
	Other	0.64	6.04	-1.64	5.04	0.12	
Middle East and Northern Africa	World Bank	1.15	0.29	-0.37	1.07	0.11	
	RDBs	2.27	0.99	-0.26	3.01	0.32	
	Other	1.41	2.94	1.03	5.38	0.57	
South Asia	World Bank	8.07	3.94	2.14	14.15	0.55	
	RDBs	5.09	4.43	1.53	11.05	0.43	
	Other	-0.01	0.24	0.28	0.51	0.02	
Sub-Saharan Africa	World Bank	7.18	6.23	6.60	20.01	0.71	
	RDBs	4.55	1.74	0.49	6.79	0.24	
	Other	0.94	0.33	0.28	1.55	0.05	

**Source:** Sagasti and Prada (2005), table 2.

<sup>a</sup> Other multilateral sources are export credit and rescheduling operations with the Paris Club.

bined net flows surpass those of the World Bank. This is particularly true in Latin America and the Caribbean, where net flows from the Inter-American Development Bank have steadily and significantly expanded, and surpass by far those of the World Bank. The Middle East and Northern Africa constitute the only region where net flows from “other” institutions, basically the Arab institutions, surpass those of the World Bank and the regional development banks. At the subregional level, the Andean region in South America offers the interesting case in which the net flows from a subregional institution totally owned by member countries, namely, the Andean Development Corporation, surpass those of both the World Bank and the Inter-American Development Bank. More subregional development banks could be created. The lack of this kind of institution in Asia stands in clear contrast with the situation in other regions. Proposals for a development bank for the Middle East and Central Asia and for North-eastern Asia are being discussed.

The emphasis placed on certain operations by regional and subregional institutions reflects the diversity of their constituencies’ financial needs. Institutions serving the African region are more focused on concessional loans and grants. Central Asian and European institutions are more focused on private sector activities; this is particularly true of the European Bank for Reconstruction and Development. These differences among regional development banks also apply at the subregional level. For example, the Caribbean Development Bank operates in some of the poorest Caribbean countries and has a larger proportion of concessional lending in comparison with the Central American Bank for Economic Integration, which has a clear mandate to improve intraregional trade (reflected in its higher proportion of trade finance and infrastructure operations). The Andean Development Corporation, operating mainly in middle-income countries, has specialized in other types of operations such as infrastructure projects for regional integration and for improving competitiveness. This supports the general idea behind the creation of regional and subregional institutions: they play specific and localized roles, which are not always covered adequately by global or even by regional institutions (Sagasti, Bezanson and Prada, 2005).

With different regional needs, regional bank portfolios differ

As a result, the loan portfolios of regional and subregional banks also differ. The sectoral evolution of the lending of multilateral development banks has followed two main patterns. The first involves the increasing importance of the social sectors<sup>9</sup> and governance reforms during the 1990s and the current decade, and, to a lesser extent, the environment; and second, the progressive reduction of involvement in the productive sectors through State-owned financial intermediaries which has been partially compensated by the introduction of new financial instruments that directly support private sector investments and private-public partnerships. These include operations with private banks and the development of domestic capital markets that fall under the category of “financial infrastructure”, according to the OECD classification.

Along with providing financial sector and capital market support, the regional and subregional banks entered into new areas during the 1990s such as the provision of regional public goods, especially those related to regional transport, energy and communication infrastructure and environmental programmes. ESCAP has proposed the creation of an Asian Investment Bank to finance the region’s infrastructure needs (ESCAP, 2005). Initiatives such as the New Partnership for Africa’s Development (NEPAD) (document A/57/304, annex), the Initiative for the Integration of South American Regional Infrastructure and the Plan Puebla-Panama (involving Mexico and Central America) will certainly increase the proportion of such undertakings. This is probably a field for the expansion of regional development banks in the future.

The large and ever-growing role of regional and subregional development banks in the international financial system has received limited attention in the literature on international financial reform.<sup>10</sup> Regional and subregional development banks, even those made up entirely of developing countries, are likely to face lower risks than individual members. On the other hand, competition between world and regional organizations in the provision of development bank services and technical services is undoubtedly a desirable arrangement for small and medium-sized countries. The fact that developing countries are better represented in these banks than in the global financial institutions also creates a strong sense of “ownership” and establishes a special relationship between them and member countries that helps to reduce the risks faced by regional and subregional development banks, further encouraging the virtues of risk pooling (Ocampo, 2002a).

The combination of collective action problems and the absence of supranational institutions indicates how important the regional and subregional development banks can be in supporting regional strategies. They can provide member countries with a coordination mechanism through which to plan and finance the provision of regional transborder infrastructure and other regional public goods requiring large initial investments. They also have the ability to provide a regional public good essential for development: the transmission and utilization of region-specific knowledge. That ability positions them to help countries within their respective regions design specific policies most appropriate to their economic needs and political constraints (Birdsall and Rojas-Suarez, 2004).

## The debate around the multilateral development banks

The multilateral development banks came under criticism after the financial crises of the 1990s. In particular, the Meltzer Commission proposed phasing out multilateral bank lending to developing countries with access to private capital markets, and transforming the World Bank into a world development agency focused on low-income countries, with grants as the essential financing instrument (Meltzer and others, 2000). Other analysts argued, in turn, that the occurrence of capital market failures could not be used to defend the existence of the World Bank but only its role as a “knowledge bank”, that is to say, a repository of best practices in development assistance (Gilbert and Vines, 2000).

In contrast, the United States Department of the Treasury (2000) defended the *financial* role of multilateral development banks vis-à-vis not only poor but also middle-income countries, given the fragile access of the latter to private capital markets. It also defended large-scale lending during crises to support fiscal expenditure in critical social services and financial sector restructuring. It argued, however, that multilateral development banks should improve coordination among themselves, and should focus their activities on areas of high development priority, be more selective in their lending to emerging economies and encourage eventual graduation of these countries from development assistance. Finally it defended the role of multilateral development banks lending as a catalyst for private lending.

Two independent reports have also underscored the essential role that multilateral development banks will continue to play in the international financial system. The report by the Institute of Development Studies of the University of Sussex (2000) emphasized three essential roles of these institutions: financial resource mobilization; capacity-building, institutional development and knowledge-brokering; and provision of global and

The regional banks have room to expand their actions to provide development aid ...

... particularly in supporting regional strategies

The role of development banks was criticized in the 1990s ...

... but also defended

Multilateral development banks play a key role in the international financial system

regional public goods. It also underscored the need for multilateral development banks to embrace intellectual diversity in their role as knowledge brokers, an issue that has also been emphasized by Stiglitz (1999).

In turn, the report of the Commission on the Role of the Multilateral Development Banks in Emerging Markets (Gurría and Volcker, 2001) emphasized, in terms similar to those of the United States Treasury, that volatility of financial markets implied that the access of emerging markets to private capital markets could be “unreliable, limited and costly”. As crises hurt the poor, the counter-cyclical character of multilateral development bank financing is consistent with the role in poverty reduction of the multilateral development banks. The Commission nonetheless suggested that pricing of loans by multilateral development banks should be set in a differential way so as to encourage graduation and correct the pro-cyclical effects of credit ratings. It also emphasized the need to strengthen the relationship between multilateral development banks and the private sector, particularly to encourage private infrastructure financing in developing countries. The catalytic role that multilateral development banks can play in this regard should be based on guarantee schemes, through which multilateral development banks help to cover the government and regulatory risks that private investors are likely to face.

Among other issues that have been the subject of concern to developing countries are the high costs of doing business with many multilateral development banks caused by long negotiation processes and conditionalities attached to lending. Indeed, some developing countries have decided to prepay loans from multilateral development banks with funds borrowed in private capital markets when such financing is available (a mechanism that is equivalent to an automatic “graduation”). This may explain the negative net transfers from several of these institutions in recent years (see figure IV.7). Mohammed (2004) has recommended reviewing the pricing of loans, the conditions attached to them and the complex body of safeguard/fiduciary policies that have accumulated over the years for “ring-fencing” the World Bank from risk, as well as the restraints applied to the purposes for which the World Bank lends, in order to reverse the erosion of the competitiveness of the Bank as a development lender.

The Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development, in its communiqué on its April 2005 Ministerial meeting, noted with concern “the sharp increase in recent years in net negative transfers to developing countries from the multilateral development banks, particularly the World Bank” (para. 17). Furthermore, it urged the Bank “to take effective action to reduce the financial and non-financial costs of doing business with the Bank, including by clarifying policies, simplifying procedures, streamlining internal processes, and reducing conditionality in lending operations” (para. 18). The fact that operations of multilateral development banks are financed by net income generated mainly from lending operations conducted with middle-income countries has also been a subject of concern. Retained earnings have also increased their share in the capital of many multilateral development banks, including IBRD, as the share of paid-in capital has declined over the years.

The most controversial issue since the 1980s has been, however, the role of lending-associated conditionalities, particularly structural conditionalities, and the most recent governance conditionalities. A World Bank study recognized in 1998 that conditionality had not influenced the success or failure of its programmes.<sup>11</sup> Nonetheless, and following the debate on aid effectiveness, the report argued that such success or failure was not independent of the economic policies that countries followed.

Multilateral development banks need to improve efficiency and reduce costs of providing development finance

World Bank has unused loan capacity as repayments exceed new lending

Of particular interest in this regard are the conclusions of the World Bank Operations Evaluation Department (World Bank, Operations Evaluation Department, 2004e) about the World Bank's role in poverty reduction strategies. This report indicated that this initiative had enhanced the focus on poverty reduction of national strategies and the Bank's country programmes, bolstered the role of already robust Governments in aid coordination, and involved new actors in the development dialogue. At the same time, it underscored the fact that there was "an inherent tension in the design of a BWI-driven initiative involving conditionality that is simultaneously meant to foster a country-driven process", and made the following point: "The Bank management's process for presenting a PRSP to the Board undermines ownership. Stakeholders perceive this practice as Washington signing off on a supposedly country-owned strategy." It thus recommended "that management develop a review procedure that is more transparently supportive of ownership and more effectively linked to decisions about the Bank's programme". The Development Committee, in its 17 April 2005 communiqué, recognized once again the significance of these issues, underlining the importance of "aligning assistance better with medium-term country strategies, streamlining conditionality, building institutional capacity and strengthening the focus on development results (para. 12)."

The World Bank's approach to poverty reduction has highlighted the tensions between ownership and conditionality

## The way forward

The recognition by the Monterrey Consensus of the need to strengthen the role of multilateral development banks in the service of developing countries should lead to concrete actions. They may be associated to past practices, particularly the strong support to low-income countries, but they should also be linked to emerging issues. In respect of the latter, as noted in chapter III, the trade financing facilities of multilateral development banks can play a role, for example, in counteracting the collapse of trade finance during crises. Operations in this area include guarantees of trade instruments issued by local banks and on-lending facilities through commercial banks that have been used in recent crises in Asia, the Russian Federation and Brazil.

This issue is closely associated to the counter-cyclical role of multilateral development banks in financing. However, expanding this role vis-à-vis emerging economies would require a significant increase in resources or a more active use of co-financing and credit guarantees by these institutions. These facilities could be activated in periods of sharp decline in capital flows and could aim to catalyse long-term private financing and investment. Existing guarantee mechanisms may need to be improved or enhanced and/or new mechanisms may need to be created. Existing problems—such as excessive restrictiveness of criteria and approval processes for granting guarantees and other related costs—would need to be addressed. Most importantly, the resources of the multilateral development banks should also be better leveraged in providing guarantees, eliminating the practice of equating guarantees with loans in terms of the accounting of the associated programmes. Guarantees should also be better targeted, for example, by focusing on later stages of long-term projects. Counter-cyclical lending facilities could also be devised, inter alia, by explicitly managing counterpart funds in a counter-cyclical way, or by allowing developing countries to "save" those counterpart funds in the multilateral development banks (for example, for social protection programmes) and use them when they were required during crises.

The Multilateral development banks could play a greater role in creating economic and financial stability

The role of multilateral development banks as “market makers” has grown in recent years as reflected in the support to public-private partnerships in infrastructure, and in the issuance of long-term bonds in the domestic markets of some developing countries and the subsequent lending to those countries in their own currencies. The Asian Development Bank is already providing extensive support to the ASEAN+3 Asian Bond Markets Initiative. A more active role could be taken in lending in domestic currencies of developing countries, and in extending the benchmark “yield curve” in their domestic bond markets. These market-making activities could be extended to commodity- or GDP-linked bonds; the associated lending could be securitized to be sold in international private capital markets. However, since these institutions are assumed to be “risk-free”, it should be emphasized that this innovation, as well as the more active use of guarantees, would involve a major change in the underlying principles involved in the management of multilateral development banks.<sup>12</sup> The expertise developed by the World Bank as market maker for the sale of carbon credits under the provisions of the Kyoto Protocol could provide a basis for these activities. Although the strong portfolio is clearly one of the strengths of multilateral development banks, they also have an essential function in correcting market failures that may involve some risks.

The revealed success of several regional and subregional development banks clearly indicates that this is a promising area of cooperation among developing countries. There are successful financial institutions that have operated with a good credit rating without capital from industrialized countries. Furthermore, more appropriate conditionality makes these institutions attractive to borrowing countries (Sagasti, Bezanson and Prada, 2005). This should thus become a priority for South-South cooperation.

## South-South cooperation

South-South cooperation is mainly technical cooperation ...

Development banking is one form of cooperation among developing countries that has made some progress but has still an untapped potential. The association of the activities of these institutions with trade and other integration processes is particularly promising. The same is true of monetary and macroeconomic cooperation, where initiatives are more limited (see chap. VI). These are thus areas where South-South cooperation can make major strides in the future.

The major form of South-South development cooperation is technical cooperation. A recent multinational initiative in this regard is the India-Brazil-South Africa (IBSA) Dialogue Forum. The IBSA Dialogue Forum serves as a mechanism for political consultation and coordination, as well as for strengthening cooperation in particular economic and sectoral areas, and for improving economic relations among the three participating countries.<sup>13</sup>

China is one of the leading proponents among developing countries of South-South cooperation and was the first developing country donor to the Voluntary Trust Fund for the Promotion of South-South Cooperation. With its Technical Cooperation and Development network comprising of 26 centres of excellence, China has begun to establish the appropriate national policy and institutions to advance South-South cooperation. China launched its first South-South Cooperation Demonstration base in Fuzhou with the support of the United Nations Development Programme (UNDP) Special Unit for Technical Cooperation among Developing Countries. China’s development cooperation policy with developing countries also focuses on human resource development. As at December 2003, it had trained some 7,000 African personnel in a wide range of professions in a variety of training programmes.<sup>14</sup>

India has spent over \$2 billion over the years in wide-ranging programmes in the area of South-South cooperation. Under the India Development Initiative, founded in March 2003, India plans to provide financial and technical support to other developing countries through the sharing of development experiences and institutional capacity. Grants and loans from India to other developing countries have grown markedly, from \$83 million to \$140 million since 2000 (World Bank, 2005d, p. 100).

Brazil and Morocco underwrite scholarships to various universities and support technical and professional training for students of developing countries. Singapore offers a wide array of training programmes, and Sri Lanka offers training on indigenously developed technology (crab breeding, use of banana fibre, etc.). Cuba has provided medical training as well as experts and support for health-care systems in and outside of Latin America and the Caribbean.

Nigeria, since 1976, has promoted South-South cooperation through the Nigeria Trust Fund, under the administration of the African Development Fund. The South-South development cooperation policy of the Republic of Korea centres on promoting sustainable economic development, through, inter alia, the transfer of technology and information related to its development experiences in human resource and communications. Over the past few years, Turkey has allotted, on average, 80 per cent of its development cooperation budget to South-South initiatives.<sup>15</sup>

Some technical cooperation agreements have been concluded with the support of developed countries. For instance, Japan, through the Japan International Cooperation Agency (JICA), has been an active supporter of the Third Country Training Programme (TCTP) since its introduction in 1975. TCTP activities are located mainly in Central and South America and the countries members of the Association of Southeast Asian Nations (ASEAN).

South-South cooperation can also take the form of providing debt relief to debt-distressed developing countries. For instance, Mexico and Costa Rica have offered major debt relief to the HIPC countries in Central America. In 2000, China provided debt relief of RMB 10.5 billion (\$1.27 billion) to 31 African countries and pledged to continue in the future to offer assistance to other developing countries.<sup>16</sup> India and many other developing countries have made significant contributions to the HIPC Initiative. In early 2005, developing countries pledged about \$200 million in emergency assistance to the victims of the Asian tsunami.

To a limited extent, some developing countries have also been donors of ODA to other developing countries. Among the developing countries in Western Asia, Saudi Arabia has been, for many years, the largest ODA donor, followed by the United Arab Emirates and Kuwait. Total ODA contributions (almost all bilateral ODA) from this group has risen threefold since 1999. The ODA of the Republic of Korea has risen by almost one third since 2002, owing to contributions to the regional development banks and the replenishment of IDA. One third of bilateral ODA went to regions outside of Asia.

... but financial cooperation is playing an increasing role

There is also some financial support in the form of debt relief ...

... and ODA

## Innovative sources of financing

As noted at the beginning of this chapter, the weak political will to meet the official assistance target of 0.7 per cent of GNI as ODA to developing countries was already noticeable in the mid-term review of the Second Development Decade. In recent years, a focus of attention has been the decreasing efficiency of official aid flows in providing real cash financing

for meeting the Millennium Development Goals. This has led to a search for other sources of financing. In the context of the five-year review of the implementation of the outcome of the World Summit for Social Development, the General Assembly, in its resolution S-24/2 of 1 July 2000, called for a rigorous analysis of the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding, both public and private (para. 142(g)). Paragraph 44 of the Monterrey Consensus further called upon member States to pursue the consideration of innovative sources of financing.

Significant steps have been taken in response. At the request of the General Assembly, the Department of Economic and Social Affairs of the United Nations Secretariat commissioned the World Institute for Development Economics Research (WIDER) of the United Nations University (UNU) to consider existing proposals, which led to the publication of a study (Atkinson, 2004). At the Summit of World Leaders for Action against Hunger and Poverty held at United Nations Headquarters in September 2004, a report by the Technical Group on Innovative Financing Mechanisms<sup>17</sup> was presented and is being actively followed up by its members. Other important analyses had been carried out for the Development Committee<sup>18</sup> and were discussed at its 2004 fall and 2005 spring meetings. A report was also presented to French President Jacques Chirac by the Working Group on New International Contributions to Finance Development,<sup>19</sup> on the possible bases, allocation and management of new development resources.

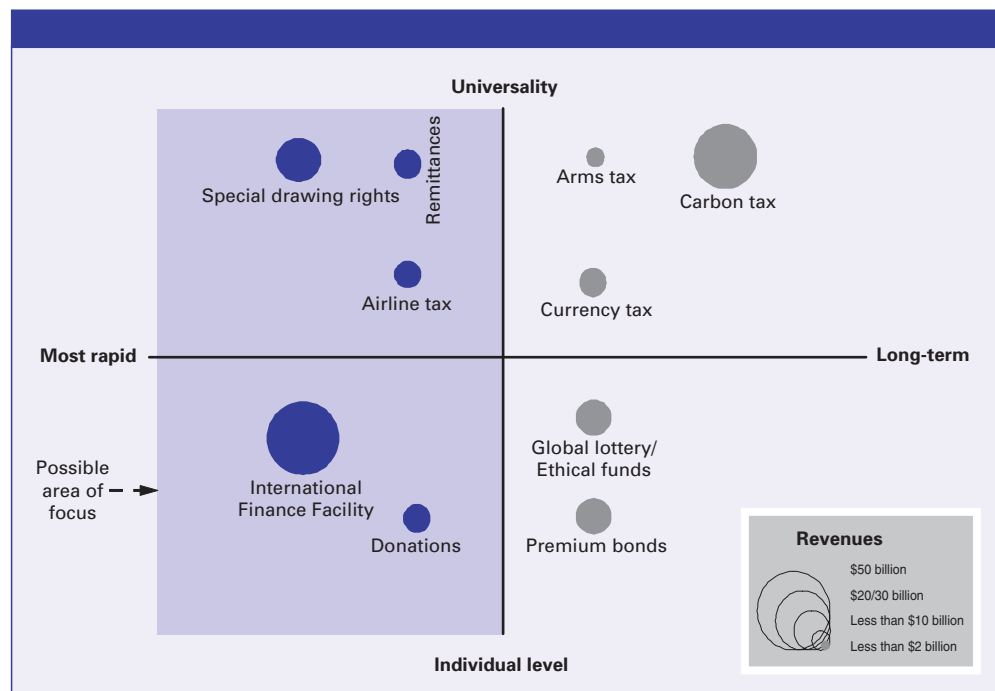
The economic and social impact of the proposals for additional flows, and for aid in general, would be enhanced if they were designed so as to be stable and predictable, with a view to enabling recipient countries to focus on human and physical capital investment needs. Such proposals may be distinguished according to their feasibility and potential revenue. The vertical axis in figure IV.8 measures whether a specific initiative can be

Recent initiatives to increase aid flows have involved innovative approaches

The proposals vary in the participation and time required for their implementation and in their potential revenue

Figure IV.8.

### Map of main proposals on innovative sources of financing



Source:  
DESA calculations.

implemented by an individual country or requires broader participation for success including, at the extreme, universal participation. The horizontal axis measures the time frame required for adoption and implementation, running from most rapid to long-term. The mix of these two dimensions indicates what could be areas of focus so as to allow some proposals to be adopted rapidly without requiring universal acceptance. The size of the circle estimates, in turn, the magnitude of the potential revenue from a given financial source.

## Major mechanisms in the short run

Taxing air transport makes economic sense, as underscored by the World Bank and International Monetary Fund (2005). In fact, the level of taxation on air transport is lower than on other means of transport, since aviation fuel is tax-exempt. Aircraft play a major role in global warming; however, they are not covered by the Kyoto Protocol<sup>20</sup> to the United Nations Framework Convention on Climate Change.<sup>21</sup> Several options seem to be technically feasible. Taxing aviation fuel would have a major positive environmental impact. As for a tax on airline tickets, it could easily be instituted and would present no legal obstacles, as the World Bank points out. However, considering the still fragile situation of the airline industry, some suggest instead that a small contribution be levied on ticket prices, with the airlines' support. The favourable perception by passengers of such a contribution, for which there are reasonable prospects of feasibility in the short term, could be achieved through its being allocated to a precise fund. In view of the small size of this levy, it is expected that there would be minimal impact on the activity of airlines. A 5 per cent rate applied to first-class and business class tickets would yield \$8 billion per annum, while a \$1 contribution on each ticket issued would yield about \$3 billion per annum. Another alternative would involve the indirect taxation of air flight corridors: revenues could reach \$10 billion per annum. An indirect tax on passenger transportation could reach \$20 billion per annum. Germany and France have recently proposed creating a pilot project for an international solidarity levy based on air transport.

The International Finance Facility (IFF) was initially proposed by the United Kingdom of Great Britain and Northern Ireland in 2003. The Secretary-General has called upon the international community to launch it in 2005.<sup>22</sup> It builds on commitments to reach the 0.7 per cent of GNI for ODA target no later than 2015. Its particular feature is that it enables front-loading aid flows through a bond mechanism guaranteed by participating Governments, allowing aid commitments to be spent before they are budgeted. The British proposal shows that with an initial \$16 billion payment and regular increases through triennial pledging rounds over a 15-year period, donors can reach a \$50 billion financing objective. If disbursements were to begin in 2006 (\$10 billion), they would reach \$50 billion by 2010, decrease after 2015 and end by 2020, with IFF drawing down donor pledges to pay off its bonds until 2032.

As the IFF mechanism seems to show great potential, it should now be examined experimentally before larger-scale implementation is undertaken. In this regard, the pilot project that will be launched in 2005, joining a small-scale facility ("IFFIm") of \$4 billion over 10 years to the public-private partnership of the Global Alliance for Vaccines and Immunization (GAVI), should be scrutinized. The analysis of its financial architecture is likely to show a straightforward absorption by financial markets and a low-cost financing, as issuances of government-backed bonds will certainly obtain the highest ratings (AAA). To insure additionality, longer-term support should be considered to supplement the Facility through refinancing mechanisms.

A levy on air transport could be a pilot project

Short-term measures include the International Finance Facility

The response to the 2004 tsunami crisis shows the growing importance of voluntary giving

Donations may also be fostered in the short run, as they account for a small but growing share of funds geared towards development. Voluntary contributions by individuals channelled through non-governmental organizations have doubled since 1990 in nominal terms, from \$5 billion to \$10 billion. The will of private citizens to participate in global poverty reduction initiatives is strong too, as was recently observed after the Asian tsunami of 2004, which led to the perception of a “globalization of solidarity”. Gifts may not, however, be mixed with ODA in as much as they are a complement to, rather than a substitute for, the latter.

Donations can be encouraged through tax deductions: the usefulness of this procedure rests on the assumption that reduction in tax revenues will be more than compensated by the donations they encourage. Mechanisms suggested in this perspective generally include voluntary contributions that are paid together with the income tax slip, either through an opt-in system in which taxpayers choose to pay the tax, or an opt-out in which taxpayers can refuse the tax. Donations on acts of consumption have also been suggested, either through credit card payments or through utility bills. Within EU, the yield of credit card gifts equivalent to 1 per cent of Visa debits would reach \$10 billion per annum. It is important to note in this regard that mechanisms linked to voluntary contributions benefit from but do not require international coordination.

Remittances have been growing and can be better utilized to support development

Facilitating transfers of remittances offers a significant means of gearing new resources towards development financing. Although remittances can hardly be considered an innovative source of finance with which to complement ODA, they do possess a number of crucial features for recipient countries in the developing world. First, they amount to vast sums: \$93 billion for developing countries in 2003 according to current estimates. Second, they reach the population and, even though they are geared towards consumption, they may serve as tools to foster some forms of investment. It has been suggested in this regard that the cost of transfers through regulated financial institutions can be reduced. This could be achieved on the sending side by facilitating the access to banking institutions of foreign workers—including by “formalizing” their status—and by creating banks and products designed for their needs. On the recipient side, this could be achieved with the support of local financial institutions to the launching of joint procedures with institutions in sending countries in order to reduce transfer costs. At both ends of the transfer, remittances could also be used to “bank” the poor. Another approach to increasing the gains of remittances for development would consist in diffusing the flows more adequately, by fostering investments in housing, in micro enterprises and small enterprises, or in financial instruments in the recipient countries. Such measures might require international coordination which could be obtained within the United Nations framework.

Using special drawing rights (SDRs) for development purposes (Soros, 2002) would involve the allocation by developed countries of SDRs to a dedicated trust fund, either by gift or through a redistribution of quotas, which would require amending the IMF Articles of Agreement. An amendment was approved in 1997 by the IMF Board of Governors for a special and unique allocation to double cumulated allocations to SDR 43 billion (\$65 billion); however, the consensus for a modification has yet to be achieved. Other major innovative financing proposals include a global lottery and global premium bonds, and various taxes that could be earmarked for development objectives.

## Major mechanisms in the longer run

Global taxation in support of development has a long history (Jenks, 1942; Stoessinger, 1964) and it is often criticized on grounds of feasibility. Thus, to avert their being perceived as encroachments on participating countries' fiscal sovereignty or as mechanisms triggering new international bureaucracies—which would undermine the possibility of a large consensus among stakeholders—these taxes need to be designed as financing tools that are nationally applied and internationally coordinated, and that entail limited management and process costs. While universal participation is not indispensable, it would serve the interest of development, as more resources would be raised. This should be the ultimate goal, but in the short term, progress can be made with the participation of a smaller group of countries.

One type of tax that has been commonly suggested is the currency transaction tax, for which estimated revenues would range from \$30.6 billion to \$35.4 billion per annum if it was equivalent to two basis points of market currency transactions, and from \$16.8 billion to \$19.2 billion if it was equivalent to one basis point (Nissanke, 2003). Other estimates, considering that the negative impact of the tax on volumes would be minimal or nil, yield even higher revenues, namely, \$60 billion per annum (Clunies-Ross, 2004). However attractive the tax might be in terms of revenue potential its implementation is constrained by a number of obstacles. The tax base will have to be defined so as to exclude transactions by market-makers and special treatment for derivatives to avoid duplicate taxation (Spahn, 2002). It will also have to be protected from erosion, for even if all major financial centers participate, there is a risk that smaller centres will attract an increasing volume of activity from those wishing to evade the tax. Finally, strong opposition by a number of stakeholders must be overcome.

Another suggested tax, which can be defended on environmental efficiency grounds, would be applied to carbon emissions. It would build on the dynamic launched by the United Nations Framework Convention on Climate Change, adopted on 9 May 1992 by the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change, inviting partner States to decrease greenhouse gas emissions. Carbon dioxide is the main gas at stake and its emissions might be moderated through a tax that would thus have the advantage of correcting negative externalities in addition to being a significant source of development financing. On the basis of a figure of \$21 per ton (5 cents per gallon of gasoline), revenues would reach \$130 billion per annum and \$61 billion per annum in the case where the tax was restricted to rich countries. Governments would levy the tax and dispense it to an international agency, according to a procedure that remains to be defined. However, several challenges would need to be addressed including: the need to consider “free-riding” risks presented by countries not applying the tax and of tax evasion at the company or the country level; the need to coordinate the tax with the current practice involving negotiable emissions permits established by the Kyoto Protocol, adopted by the Conference of the Parties to the Framework Convention at its third session in 1997; and redistributive effects which might require an international agreement on compensations.

A tax on the arms trade could yield between \$2.5 billion and \$8 billion per annum. This tax is advocated as a means to secure resources to finance development while discouraging military expenditures (Clunies-Ross, 2000). However, if its full potential is to be realized, it is important to ensure that the tax is passed through from the seller to the buyer so that the cost of acquiring arms is effectively increased. Also, if the mechanism is to be efficient, it would be crucial to obtain a large coalition of participants, including all major arms producers and exporters.

Taxes applied to domestic financial transactions in many countries could be applied to international financial transactions

Carbon emissions taxation has also been considered

## A United Nations development fund?

Given that the previously described proposals do not entail investing the United Nations with the authority to impose taxes, it is legitimate to consider a development fund that could encourage a significant stepping up of voluntary contributions. One option would be to establish a new fund, like the “special fund to combat hunger and poverty”, called for by the World Leaders for Action against Hunger and Poverty in January 2004. This would also fit with new SDR allocations-related proposals for a development trust fund, as mentioned earlier.

Another option would be to use an existing fund such as the World Solidarity Fund. The General Assembly at its fifty seventh session (in resolution 57/265 of 20 December 2002) endorsed the decision of the World Summit on Sustainable Development to establish the Fund. The Fund is currently subject to the financial rules and regulations of the Executive Board of UNDP and the United Nations Population Fund (UNFPA). Making the Fund fully operational would require, inter alia, adapting those financial rules and regulations.

## Notes

- 1 The Development Committee, as it has come to be called, was established by parallel resolutions of the Boards of Governors of the World Bank and the International Monetary Fund at their annual meetings in October 1974.
- 2 Statement by Richard Manning, Chairman, OECD Development Assistance Committee (DAC), to Development Committee Spring Meeting, Washington, 17 April 2005, para. 5.
- 3 The problem can be traced to donors’ own budgetary procedures. It is linked to the way donors’ budgets are approved and administered. In many of the donor countries, there is a disconnect between donor development agencies and those that approve and disburse budgets.
- 4 Data excludes the Democratic Republic of the Congo for 2003, as important debt relief operations made this country an outlier for that year. (Including the Democratic Republic of the Congo, the share of the top 20 recipients would have been 59 per cent, and 46 per cent of countries would have accounted for 90 per cent of net bilateral aid in 2003.)
- 5 In this regard, Boone (1996) provides evidence that, on average, aid does not foster economic growth. On the other hand, Burnside and Dollar (2000) and Collier and Dollar (2002) qualify the Boone-type results to indicate that aid promotes growth in good policy environments. Hansen and Tarp (2001) disagree with this view and provide a contrary perspective.
- 6 At times aid allocations are not guided by development objectives and, in such cases, it would be very difficult to establish the links among aid, growth and poverty reduction. The discussion in the present section does not focus on such cases. Nor does it focus on some extreme cases of leakages through outright corruption and rent-seeking.
- 7 Critics of this approach question the definition and assessment of good policy implicit in the CPIA ratings (see, for example, European Network on Debt and Development (Eurodad, 2002). In the view of these critics, performance-based allocation puts too much emphasis on old Washington consensus types of policies. The approach ignores bad performance due to structural factors such as the inability to withstand commodity price shocks.
- 8 Among these alternative interpretations, we should include the following points: (a) Collier and Dollar’s model confirms that the impact of reallocating aid on the basis of poverty criteria is greater than that of reallocating aid on the basis of policy; (b) World Bank evidence that aid is fungible and

that ex ante conditionality is ineffective can also be questioned; (c) growth is not the only route to poverty reduction nor is growth the only benefit of aid: other benefits include, inter alia, health, educational and distributional effects, environmental development, empowerment and security and; (d) adopting the poverty reduction strategy at the level of each country as opposed to having a single global target could significantly alter the pattern of poverty-efficient aid allocations.

- 9** From its creation through the 1960s, the World Bank financed mainly infrastructure projects (representing 75 per cent of its total portfolio). The creation of the first regional development bank, the Inter-American Development Bank, in 1959, could be seen partly as a reaction by Latin American countries to World Bank lending policies which had given little attention to the social and agriculture sectors (which represented only 3 per cent of the World Bank's portfolio). In the first 10 years of Inter-American Development Bank operations, those sectors received almost 50 per cent of total Inter-American Development Bank disbursements (Kapur, Lewis and Webb, 1997).
- 10** Some exceptions are United Nations (2001a), Ocampo (2002a), Ocampo and Griffith-Jones (2003) and Birdsall and Rojas-Suarez (2004).
- 11** See World Bank (1998), chap. 2 and appendix 2; and also Gilbert, Powell and Vines (1999), Stiglitz (1999) and Gilbert and Vines (2000).
- 12** Kapur (2003a) has argued that the increasingly stringent safeguards that have the objective of protecting the World Bank from risk are imposing high financial and opportunity costs on the Bank's borrowers, pointing out that "(it) is trivially easy for the major shareholders to insist on standards whose costs they do not bear".
- 13** See "Cape Town Ministerial Communiqué, India-Brazil-South Africa (IBSA) Dialogue Forum", press release, 13 March 2005, Republic of South Africa Department of Foreign Affairs, available from [www.dfa.gov.za/docs/2005/ibsa0311.htm](http://www.dfa.gov.za/docs/2005/ibsa0311.htm).
- 14** See "Let us build on our past achievements and promote China-Africa friendly relations", address by Wen Jiabao, Premier of the State Council of the People's Republic of China, at the opening ceremony of the Second Ministerial Conference of the China-Africa Cooperation Forum, Addis Ababa, 15 December 2003, available from <http://chinaembassy.ru/eng/wjdt/zyjh/t56252.htm>.
- 15** See report of the Secretary-General (A/58/319) entitled "State of South-South cooperation", para. 42.
- 16** See statement by Minister Xiang Huaicheng, Head of the Delegation of the People's Republic of China at the International Conference on Financing for Development, 21 March 2002, Monterrey, Mexico, available from <http://www.un.org/ffd/statements/chinaE.htm>.
- 17** The September 2004 report, entitled "Action against Hunger and Poverty", was derived from the January 2004 Geneva Declaration signed by the leaders of Brazil, Chile and France, backed by the Secretary-General and endorsed later by Spain, Germany and Algeria.
- 18** See Development Committee, 25 April 2004 communiqué, para. 7.; 2 October 2004 communiqué, para. 9., and background paper DC2004-0012/Add.1 of 29 September 2004 entitled "Aid effectiveness and financing modalities"; and the paper prepared by the Staff of the World Bank and the International Monetary Fund for the 17 April 2005 Spring Meeting, entitled "Moving forward: financing modalities toward the Millennium Development Goals" (SM/05/104, 3/17/05).
- 19** Report of the Working Group on New International Contributions to Finance Development (Paris, La documentation française, September 2004).
- 20** United Nations, Treaty Series, vol. 1771, No. 3 08 22.
- 21** FCCC/CP/1997/7/Add.1, decision 1/CP.3, annex.
- 22** Report of the Secretary-General entitled "In larger freedom: towards development, security and human rights for all" (A/59/2005) of 21 March 2005, para. 51.

