Statement by Mr. José Antonio Ocampo,
Under-Secretary-General for Economic and Social Affairs,
At the High-Level Dialogue on Financing for Development
New York, June 28, 2005

Mr. President,
Excellencies,
Ladies and gentlemen:

Interventions in the High Level Dialogue over the last two days, and at the hearings last week, show that the "spirit of Monterrey" is very much alive. The Monterrey Consensus was a landmark in elaborating a new approach to development cooperation. Its comprehensive agenda, and its new vision of cooperation as a partnership between developing and developed countries, are its fundamental strengths.

The Monterrey Consensus has thus rightfully won its place as the essential framework for international cooperation for development.

Our own studies—particularly the 2005 *World Economic and Social Survey* released yesterday, to coincide with this Dialogue—suggest that much has been achieved since 2002. But the Monterrey Consensus identified a broader and comprehensive agenda. The international community has not yet tackled that agenda adequately. We also need to address new challenges that have emerged since 2002.

Between now and September, we must make headway on the promises of Monterrey. This is crucial. It would help set the agenda for a successful World Summit. And it would help realize the MDGs and the broader United Nations Development Agenda.

I will highlight seven areas where we need to make advances—drawing from your discussions, last week's hearings with civil society, and our own analysis.

First, to enhance the mobilization of domestic resources

We have long known that mobilizing domestic savings and investment, and having deep domestic financial sectors, are of primary importance for development. But only slowly have we acknowledged the equal importance of equitable access to financial services. Therefore, designing inclusive financial sectors should be at the center of development efforts.

Mobilizing human resources is a prior requirement. Human resources are commonly the most underutilized domestic resources. Consequently, policies to encourage investment in human capital, and to ensure adequate employment opportunities, should be at the center of any investment strategy. High levels of employment are essential for rising domestic savings and for expanding opportunities for domestic investment, from which private sector firms can profit.

Second, to approach trade as an essential ingredient of financing for development

The Monterrey Consensus envisions trade, development, and finance as mutually supporting. An equitable, developmentally oriented and prompt conclusion of the Doha Round is of particular importance to achieving international development goals. This requires that the round conclude no later than 2006, as the Secretary-General has urged.

But we must remember to act also on trade issues not included in the Doha agenda. I am thinking particularly of the special concerns of commodity-dependent developing countries. These countries need support to diversify their exports—and thus to enhance their productive capacities—in manufacturing and services. Adequate official compensatory financing must be provided to mitigate the adverse impacts of cyclical falls in the prices of their exports.

<u>Third, to achieve increased and more effective official development assistance</u>

Several countries, and the European Union as a Group, have already announced timetables for reaching the target of 0.7% ODA. It is also essential to reach the ODA target for LDCs. Moreover, the quality of aid should improve, through speedy and effective implementation of the Paris Declaration on Aid Effectiveness. Three basic criteria should guide advancement in this area: full respect for ownership of development strategies; alignment of donor support with those strategies; and increasing use of the budgetary processes of recipient countries.

Multilateral development banks have a key role to play in scaling up official assistance. They will continue to play a central role in channeling funds to poor countries. Regarding middle-income countries, these banks play a critical counter-cyclical role. Because crises hit the poor so badly, this role accords well with their work in poverty reduction. Of course, during crises, the counter-cyclical effect lies at the root of IMF lending. Although much has advanced in this area since the Asian crisis, still more remains to be done to design appropriate compensatory and contingency credit lines.

Innovative sources have a role to play as sources of additional financing. These include: the International Finance Facility: different voluntary contributions and taxes: Special Drawing Rights; and the better use of remittances for development purposes. It is time to move from debate to political agreement on the specific mechanisms to pursue.

<u>Fourth, to encourage more stable sources of private external financing</u>

With the exception of Foreign Direct Investment, private capital flows to developing countries have tended to follow a boom-bust pattern. A major challenge in development financing is thus to help smooth private flows. This can be done partly by designing market instruments that protect developing countries from such volatility and reversibility.

For example, commodity-linked bonds and GDP linked bonds can reduce the likelihood of debt crises and defaults. Similarly, developing deep markets for local currency bonds can help reduce currency mismatches. As our *Survey* points out, multilateral development banks should seek to become "market makers" for all these new forms of financing. Foreign investment funds can also become a major instrument of development of local currency debt.

Capital account regulations can also play a useful counter-cyclical role and support counter-cyclical macro-economic policies—even though they cannot substitute for those policies.

<u>Fifth, to achieve debt sustainability</u>

The recent G8 agreement to provide resources for full relief of the debt of HIPC countries to the IMF, the World Bank, IDA, and the African Development Bank is a most welcome development. It is essential that this agreement be speedily and fully implemented.

Nonetheless, the issue of over-indebtedness also affects some non-HIPC poor and middle income countries. New mechanisms, such as the Paris Club "Evian approach," should be put to productive use. This is needed particularly to overcome the sequential debt restructuring that has characterized Paris Club negotiations. Explorations of debt workout mechanisms—including voluntary codes and international mediation or arbitration mechanisms—should continue, with the full support of all stakeholders.

In assessing debt sustainability in all of these cases, consideration should be given to the level of debt that allows a country to achieve its national development goals, including the MDGs, and to reach 2015 *without* an unsustainable debt ratio. Proposed in the Secretary-General's report *In Larger Freedom*, this definition of debt sustainability should be fully adopted by the international community.

<u>Sixth, to bring South-South cooperation to new levels</u>

South-South cooperation is ready for a quantum leap. Technical cooperation among developing countries may be appropriate to the particular conditions of these nations. We welcome the recent Special Development Fund for developing countries created by the South Summit, as a clear sign of solidarity among developing countries.

Trade integration mechanisms can also play an essential role for developing countries. And trade among developing country regions can be enhanced by completing a new round of negotiations of the Global System of Trade Preferences among Developing Countries (GSTP).

Several financial arrangements—including the Arab financial institutions and the Andean Development Corporation—show that effective multilateral development banks can work with capital that comes exclusively from developing countries. The Latin American Reserve Fund and the Chiang Mai Initiative show the promise of more active cooperation among developing countries in facing balance of payments crises. These and other institutions can also provide mechanisms for macroeconomic consultations and peer reviews.

<u>Last, to strengthen the voice and participation of developing countries in international decision-making and norm-setting</u>

Developing countries have significantly increased their share in the world economy. But this is not reflected in the voice and participation that they have in international decision-making. Therefore, Monterrey had a clear mandate to improve the participation of developing countries in global economic governance. This issue is already on the table at the Bretton Woods institutions—and it is important that it leads to political decisions. In contrast, little progress has been made in other bodies. The principle of voice and participation of developing countries should get priority attention—particularly in other policy making and standard setting bodies where developing countries have no representation, such as the Basle Committee on banking supervision and the Financial Stability Forum.

Mr. President:

At this High-Level Dialogue, and at the World Summit in September, we must go beyond merely taking stock of our progress in implementing the Monterrey Consensus. We must renew our commitment to the global partnership for development.

Above all, there remains an imperative need for all to "stay engaged." Your presence here these two days gives good, positive proof of that engagement.