

General Assembly
**Ad Hoc Open-ended Working Group to follow up on the issues contained in the Outcome of the
Conference on the World Financial and Economic Crisis and Its Impact on Development**

Third meeting on
"Mobilization of additional resources to mitigate the impact of the crisis on the most vulnerable"
(New York, 23 April 2010)

Informal summary by the Secretariat

Overview. The meeting was co-chaired by H.E. Mr. Morten Wetland (Norway) and H.E. Mr. Lazarous Kapambwe (Zambia). Mr. Wetland introduced the theme of the meeting, emphasizing stocktaking on paragraphs 19-31 of the Outcome Document of the Conference. He gave an overview of resource mobilization since the financial crisis, noting that the concerns about the decline in resource flows to the developing countries during the crisis did not fully materialize. In 2009, ODA from the OECD DAC countries increased in real terms, which was better than expected. Also, after a fall, FDI was rebounding. He underscored that one of the important issues was how to ensure meeting ODA commitments as well as improve its effectiveness. Another was how countries could mobilize other sources of financing for their development, from multilateral as well as private sources. The presentations by the panelists focused on seeking solutions to mitigating the impact of the crisis, particularly in Africa, and on what was needed to reach the MDGs. The discussion covered the issues in resource needs as well as exchange of ideas and proposals on a range of efforts to move forward in mobilizing the requisite resources.

Summary of the presentations by the panelists

Mr. Abdoulie Janneh, Under-Secretary-General and Executive Secretary of United Nations Economic Commission for Africa, underlined that the Conference on the World Financial and Economic Crisis stressed the universal importance of the crisis and the stake that all countries and citizens had in articulating responses and viable solutions to mitigate the effect of the crisis.

He noted that a key element in seeking common solutions to the crisis was the mobilization of resources for developing countries, particularly in Africa, to mitigate the consequences of the crisis. These countries had suffered from a substantial loss of export earnings, reduced financial inflows including foreign direct investment, private capital flows and remittances, with visible impact on the real economy and social sectors in terms of increased poverty and unemployment. Policy response to the crisis in developed economies and some resource rich economies included the adoption of stimulus packages, but this option was not available to countries that lacked the resources and the fiscal space to undertake counter-cyclical measures. The impact of the crisis had been particularly severe for countries with a high number of vulnerable people which were already facing resource gaps with regard to achieving the Millennium Development Goals (MDGs) and adapting to the challenge of climate change.

Mobilization of additional resources was also essential for restoring growth, yet many of the countries affected by the crisis were resource constrained. He proposed identifying ways and means of providing additional resources and to ensure speedier and less cumbersome access to such resources. He added that it would be important to ensure that stimulus packages in countries

that could afford them should work for all and that demand generated by domestic stimulus packages should not be constrained by protectionist measures.

With respect to restoring growth, an essential ingredient was to improve prospects for private capital inflows into African and other developing countries. Private capital flows would also need to be supplemented by official development assistance (ODA), which continued to play a significant role in funding socio-economic development in Africa. Another option for raising resources was domestic resource mobilization, including through increasing the domestic savings rate. The challenge here, of course, was how to use fiscal policy effectively to raise additional domestic resources without choking-off production or worsening social conditions.

Regarding opportunities provided by globalization, there were also drawbacks including rapid financial contagion. However; it also provided scope for mobilizing additional resources through increased trade opportunities, greater ease of tourism and increased remittances.

A key means by which additional resources could be mobilized for African development was to reverse capital outflows, including debt repayments, illicit capital outflows and capital flight.

Finally, he stressed the need for a coordinated regional and international action to provide additional resources for African countries. The challenge was to ensure that commitments made by the G20 to provide an additional \$1.1 trillion in funding to revitalize the global economy translate into meaningful additional resources for developing countries. The London G20 communiqué spoke to the need to provide more capital for multilateral development banks which in the case of Africa meant the African Development Bank. A key source of additional financing was in the area of climate change, with up to \$30 billion promised at the Copenhagen Conference to developing countries by 2012 and \$100 billion annually thereafter. The sincerity of global partnership in these areas depended on the timeliness and transparency in meeting these commitments.

Mr. Chang-Tai Hsieh, Professor, Booth School of Business, University of Chicago, presented his views on what policies developing countries should pursue to achieve the MDGs. Mr. Hsieh highlighted that, over the past decades, the gap between infant mortality and fertility rates had narrowed substantially between developed and developing countries. However, the difference in income per worker had actually increased between rich and poor countries. The speaker underscored that income per worker depended on physical capital, human capital, as well as efficiency and technology.

Global data suggested that the capital-output ratio was strongly correlated with the country income level, i.e. richer countries were characterized by higher levels of capital in relation to their overall output. Mr. Hsieh argued that, if the low capital-output ratio in developing countries was caused by a lack of resources, the level of investment spending relative to GDP in developing countries should turn out to be low. This was not borne out by the data. Investment/GDP ratios for developing countries were the same and in some cases even greater than those for developed countries. Hence, low capital was not due to resource constraints, but rather to relatively expensive capital goods, cheap consumption goods and low productivity in the tradable goods sector. Therefore, resource transfers from rich to poor countries would not address the source of the problem.

Moving on to the role of human capital, the speaker compared the education sector in Mexico and China. Whereas government expenditures in this sector had increased in Mexico, they had

decreased in China. Yet, enrollment rates increased in both countries. This reflected the success of public measures in Mexico in increasing education, while economic prosperity had enabled more families in China to fund tuition fees. For China, however, increased public support could have helped move towards a more equitable outcome since poorer households were less likely to be able to afford tuition fees. Nevertheless, the evidence illustrated the importance of increased economic growth and job creation for the development of human capital. The speaker further highlighted that in developing countries, inefficient companies received too many resources and remained in the market for too long. In contrast, in more dynamic markets, unprofitable companies would disappear and profitable ones would prosper and grow. This dynamism was a key factor in economic development.

Summary of the discussion

The representative of Yemen (on behalf of G77 and China) recalled that the Outcome Document called for an examination of financing mechanisms to ensure adequacy of short-term liquidity and long-term development financing for developing countries, especially the LDCs. The Outcome Document recognized that the majority of developing countries lacked the fiscal space to implement counter-cyclical policies to mitigate the effects of the crisis and accelerate recovery. Additional resources for counter-cyclical policies, particularly of social protection, food security and human development would also be needed to scale up investment in these areas to mitigate the effects of the crisis and accelerate progress towards achieving the MDGs. Many developing countries also faced severe foreign exchange constraints because of an external financing gap which was projected to remain large for the next few years. Therefore, it should be a priority to make available to them adequate resources at an appropriate degree of concessionality. The speaker invited the Secretary-General to review existing mechanisms in order to present concrete proposals on how to improve their functioning, no later than the 65th session of the General Assembly.

The representative found the prospect of ODA falling short of Gleneagles ODA commitment targets for 2010 troubling. He reiterated G77 and China's call on donor countries to establish clear and transparent time tables within their national budget processes to reach ODA levels of at least 0.5 per cent of GNP and 0.7 per cent of GNP by 2010 and 2015, respectively. He also reiterated the call for debt relief resources to be additional to ODA. In addition, he proposed that all donor and recipient countries, in conjunction with civil society, undertake a comprehensive review of the ODA framework with a view to improving aid effectiveness, ensuring predictable aid flows and allocating adequate flows to countries most in need.

The speaker noted that the crisis had highlighted the positive contribution of innovative sources of finance to mobilizing additional resources for development on a stable, predictable and voluntary basis. It was important to both explore scaling up existing initiatives and develop new mechanisms with a focus on complementing traditional development financing.

The representative called for concluding the Doha Round as soon as possible to achieve a development-oriented outcome. He stressed the importance of an agreement in contributing to development and achievement of the MDGs by providing a stimulus to international markets and much-needed structural reform of the international trading system.

The speaker went on to stress the importance of private international capital flow, particularly foreign direct investment (FDI), as a complement to national resources and international development cooperation finance. He called for additional efforts to channel private capital flows to developing countries on a stable basis as well as to maximize the positive development impact of these flows, with linkages to production, research and development and technology transfer.

The speaker recalled that the Outcome Document underscored that member states should explore ways to strengthen international cooperation in international migration and development in light of the important contribution of migrant workers to both countries of origin and of destination. He proposed that the Secretary-General, in cooperation with the International Organization on Migration, develop a mechanism to follow up with concrete measures on the achievement of objectives in paragraph 27 of the Outcome Document.

The representative of Nepal (on behalf of the least developed countries) underscored that LDCs had been hit hardest by the financial crisis. To mitigate this impact and to address emerging challenges in these countries, enhanced and strengthened global partnership was needed, entailing an increase in resources and more supportive international decision-making. With regard to development cooperation finance, international financial institutions, including multilateral development banks, would need adequate funding, including for crisis financing and trade finance. At the same time, eligibility criteria should be more flexible with reduced conditionality, increased concessional terms and reduced conditionality. Also, ODA commitments should be honoured.

The speaker stressed the need for a fair and rule-based multilateral trading system and hence, the expeditious conclusion of the Doha Round that integrated the interests of LDCs in gaining market access and including substantial and sustained funding for Aid for Trade. The speaker also called for increased FDI flows to LDCs and maximization of their development impact, especially by facilitating investment in infrastructure and building productive capacity.

The representative of Nepal posed two questions to the panelists: 1) whether globalization was a cause of the lack of closing of the gap in income per worker between developed and developing countries and 2) for countries in a low income equilibrium trap, whether resource transfers would be necessary to ensure needed investment in education and health and infrastructure to contribute to productivity growth.

The representative of Cape Verde (on behalf of the African Group) highlighted the financing gap of many developing countries, especially LDCs, in the aftermath of the financial crisis, resulting in rising budget deficits and cancellation of development projects and threatening the achievement of the MDGs. Pointing to the decline in financial flows from international investment and the collapse in export revenues, he called for immediate fulfillment of ODA commitments to Africa, specifically in making up the shortfall of what was agreed at the Gleneagles Summit. In this connection, he welcomed practical steps to scale up financial development assistance efforts.

The representative of Chile (on behalf of the Rio Group) reaffirmed that each country was responsible for its own development and that the mobilization of domestic resources was vital for achieving national development goals of combating hunger and poverty and achieving full employment based on decent work. He noted that in view of the deterioration of social conditions of most of its member countries, the Rio Group's opinion was that the strength of the Global Partnership for Development, at the heart of MDG 8, should play a leading role in the recovery of the social sector. In this connection, the speaker reiterated the appeal for improved coordination and coherence in international cooperation among recipient countries and all developing partners.

The speaker concurred with previous speakers on the need for drawing up a time table to monitor donors' progress in meeting ODA targets. He reiterated the Rio Group's support of innovative sources of finance for development and its willingness to cooperate in organizing an event on the issue in the lead-up to the 2010 Summit on the MDGs. Furthermore, the speaker reaffirmed support for South-South and triangular cooperation as a complement to North-South cooperation and called on the international community to increase its support for these initiatives.

He reaffirmed the Rio Group's conviction on the importance of international trade and investment in mobilizing resources for development. Therefore he stressed the urgency of a satisfactory conclusion of the Doha Round that would end distorting pricing practices in agriculture and ensure increased market access for developing countries.

The representative reiterated the Rio Group's support of international cooperation in resisting unfair and discriminatory treatment of migrants. He also reaffirmed the need to develop measures to reduce transaction costs of worker remittances.

The representative of the European Union noted that the EU had reacted quickly to the crisis with its response having been framed into the global response. The EU actively supported recovery programmes in developing countries including through the Vulnerability FLEX mechanism. It would provide about €500 million in grant assistance to the most vulnerable countries in 2009 and 2010 to help them maintain priority public expenditure, including in the social sectors. The implementation of the €1 billion Food Facility was also of particular relevance. In addition, the EU had advanced the Mid-term review of country programmes to adapt them to the new situation.

On 21 April 2010, the European Commission proposed to the member states a 12-point Action Plan on the MDGs. It showed that EU ODA had continued to increase as a percentage of GNI from 0.4 per cent in 2008 to 0.42 per cent in 2009. The EU was on track to reach 0.56 per cent of GNI by 2010 and it committed to reaching the 0.7 per cent target by 2015. Also, the EU was strongly in favor of exploring innovative financing mechanisms to finance global public goods. ODA should complement other sources of financing for development, first of all domestic resources. In this regard, the EU had proposed measures to assist developing countries in building efficient, fair and sustainable tax systems and administrations.

According to the speaker, the crisis had further demonstrated the importance of aid effectiveness. To this end, the EU was taking initiatives aimed at harmonizing EU aid at country level; launching a process for EU cross-country division of labor; and increasing transparency and accountability on EU aid. At the same time it was important to make non-aid policies more supportive to development objectives. This issue needed greater attention at the UN.

The EU expressed concern about the social impact of the economic crisis in developing countries. Donors and partner countries should act to prevent social sector spending from shrinking. Particular attention should be given to employment creation, rights at work and social protection.

The EU priority for its trade policy in response to the crisis had been to keep markets open and global trade flowing in all areas. The speaker underlined the importance of an early conclusion of the Doha Round. He also stressed that the EU had met its commitment of €2 billion annually for Trade-Related Assistance.

The representative of Switzerland stressed the importance of quality of policies in developing countries along with the volume of resources received. He also noted that ODA should become more predictable and transparent. There was a need for mutual accountability to close the gap between actual disbursements and promises.

The speaker reiterated the need for developing countries to strengthen their policies in order to enhance domestic resources including broadening tax base, increasing savings and fostering financial development. He also emphasized the importance of fiscal decentralization and more active involvement of local and regional governments.

The representative of South Africa pointed out that actual aid to Africa had been lower than commitments made. In 2010, Africa would need \$20 billion more aid to meet MDGs. There was also a need to recapitalize MDBs and promote intra-African trade. The speaker also stressed the importance of job creation, policy space and national ownership.

The representative of Venezuela noted that developed countries did not develop on the basis of free trade. The free market approach advocated by the IMF for developing countries had destroyed Latin American economies, especially their agriculture. According to the speaker, in Latin America, Venezuela was the most equitable country with declining poverty. The speaker also stressed that, unlike developed countries that introduced counter-cyclical policies in the form of state intervention, developing countries, due to the lack of resources, had to follow the cycle.

The representative of Mexico emphasized the need for having broader regional perspectives in the discussions related to resource mobilization. He also stressed the importance of the issue of aid effectiveness. In addition, the speaker noted that more work was required to formulate domestic policies capable to protect developing countries from unfavorable external shocks.

The representative of the United States of America noted some positive signs of economic recovery. The speaker also drew attention to the lessons in terms of resource flows: why countries of the same level of development had different patterns of flows.

The representative of the Netherlands discussed the effects of the crisis on developing countries. According to the speaker, these effects in general had been manageable and varied from country to country. Also, developing countries appeared to be more integrated financially than previously thought. However, openness did not necessarily increase vulnerability. In this regard, economic diversification proved to be of utmost importance. The crisis had also highlighted the importance of good macroeconomic management and flexible institutions. Besides, the links between emerging and low-income countries were becoming much more prominent. The crisis had not resulted in major policy reversals including in trade. At the same time, trade finance, or lack of it, and not protectionism was the major obstacle to trade during the recession.

The speaker also highlighted the importance of better tax policies and administration for domestic resource mobilization. In addition, creating a positive investment climate was seen as an important policy challenge.

The representative of Brazil noted that the same issues were being discussed in several intergovernmental forums in the UN, which was duplicative and not productive. According to the speaker, participants in the follow-up on the issues contained in the Outcome of the Conference on the World Financial and Economic Crisis and its Impact on Development should not discuss the MDGs or aid effectiveness. Instead, they should concentrate on macroeconomic analysis of the crisis and on how to prevent future crises, in order to add value. Also, the crisis demonstrated that the Washington Consensus did not work and a new consensus was needed. The speaker concluded that a clear picture of the end game or result of this follow-up process was needed.

Concluding remarks by the panelists

Professor Hsieh reemphasized that although financial resources were important in economic growth and development, innovation was even more important. His view was that the emphasis on resources was excessively narrow.

Mr. Janneh highlighted that the crisis had a real impact in Africa. The rate of growth had been around 6 per cent annually in the years before the crisis and was projected to reach 8 or 9 per cent. But the reality was that African countries were growing at around 2.5 per cent last year. Therefore, it was important to get additional resources, keep the promises made in terms of ODA, search for new types of resources and stop illicit flows out of Africa. He further called for increased regional perspectives in these proceedings.