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Implementation of and follow-up to major international United Nations conferences and summits: follow-up to the International Conference on Financing for Development



**Letter dated 10 October 2007 from the Permanent Representative
of El Salvador to the United Nations addressed to the
Secretary-General**

I have the honour to forward to you the official letter dated 4 October 2007 from the Minister for Foreign Affairs, Francisco E. Laínez, expressing his thanks for the valuable assistance provided by the Department of Economic and Social Affairs of the United Nations in the preparations for the Second International Conference on Development Cooperation with Middle-Income Countries held in El Salvador on 3 and 4 October 2007 (see annex).

In that regard, on the instructions of my Government, I have the honour to request that this letter and its annex be circulated as documents of the General Assembly and the Economic and Social Council and in connection with the themes of the High-level Dialogue on Financing for Development to be held on 23 and 24 October 2007 in New York.

(Signed) Carmen María **Gallardo Hernández**
Ambassador
Permanent Representative

Annex to the letter dated 10 October 2007 from the Permanent Representative of El Salvador to the United Nations addressed to the Secretary-General

4 October 2007

I have the honour to thank you for the valuable assistance provided by the Department of Economic and Social Affairs of the United Nations in the preparations for the Second International Conference on Development Cooperation with Middle-Income Countries, which was held with great success in our country on 3 and 4 October 2007 and at which the United Nations was ably represented by Mr. Oscar de Rojas, Mr. Ricardo Espina and Mr. Cristian Ossa.

The Conference was attended by more than 67 delegations, including 40 delegations from countries either donors or recipients of cooperation in the middle-income category and more than 17 international organizations and financial institutions, who participated actively during two days of lively debate conducted in four round tables on the themes of financial cooperation, strengthening South-South cooperation for institutional development and public social development policy, technological development cooperation and fostering middle-income countries' competitive advantages.

We believe that the Conference yielded very positive results. The participants unanimously adopted a consensus document intended to heighten the international community's awareness of the importance of continued support for middle-income countries in their efforts to overcome poverty and achieve the Millennium Development Goals in a timely fashion. In addition, the international community was urged to consider new criteria for granting assistance to middle-income countries and to develop new and innovative mechanisms to provide the kind of targeted cooperation required in order to consolidate the progress achieved by middle-income countries on the road to development.

A point strongly endorsed by all participants was the decision to place this important issue on the agendas of international organizations and institution so that it can be seriously addressed and measures offering an effective response to this call can be put into effect as rapidly as possible.

In the light of the foregoing, and in view of the importance of the work being done at the United Nations, we believe that now, as preparations are under way for the follow-up to the International Conference on Financing for Development, it is an opportune moment for the Secretary-General of the United Nations to have a legislative mandate to provide the necessary support for the development of this topic and for the item to be included on the agenda.

For that purpose, and to bring it to the attention of all States Members of the United Nations, I have the honour to transmit a copy of the Consensus of El Salvador and the executive summary setting forth in general terms our analysis of the issue of international development cooperation with middle-income countries (see enclosures I and II). We will also be sending a report in due course summarizing the content of the debates.

I should be grateful if you could arrange to have these documents circulated as documents of the General Assembly and the Economic and Social Council and in

connection with the themes of the High-level Dialogue on Financing for Development to be held on 23 and 24 October 2007 in New York.

In the case of the General Assembly, I should be grateful if these documents could be included among the documents for the sixty-second session under agenda items 50, 54 (a), (b) and (c), 55, 58 (a), 60, 64 (a) and 119 of the agenda.

In the case of the Economic and Social Council, I should be grateful if these documents could be circulated during its substantive session of 2008 under agenda item 6 (a) and also for the special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development to be held in 2008.

(Signed) Francisco E. **Laínez**
Minister for Foreign Affairs

Enclosure I

[Original: English, French and Spanish]

Consensus of El Salvador on Development Cooperation with Middle-Income Countries

On 3 and 4 October, 2007 the Second International Conference on Development Cooperation with Middle-Income Countries was held in El Salvador. The conference represented a follow-up to a meeting on the same topic held in Madrid on 1 and 2 March 2007.

The conference sought to specify the characteristics and development needs of middle-income countries and to move forward in developing an appropriate and specialized response to these countries on behalf of the international community, with respect to the rationale, the focus, the contents and the cooperation instruments to be used. The conference also considered the role of the various players involved in cooperation with middle-income countries: donors, international agencies and recipient countries.

The conference devoted its primary attention to the operational aspects and instruments of development cooperation with middle-income countries, and their implications for the international cooperation system. It sought to increase awareness among the international donor community of the importance of continued support for middle-income countries in their efforts to achieve sustained development, by placing cooperation with these countries squarely on the international agenda.

This document, adopted with a view to achieving these objectives, reflects the consensus reached by all participants in the conference.

We, the Heads of Delegation gathered in El Salvador on the occasion of the Second International Conference on Development Cooperation with Middle-Income Countries, consider:

- 1. That the international community's commitment to achieve the Millennium Development Goals in a timely fashion includes a basic premise of development cooperation: the eradication of poverty.*
- 2. That in order to achieve internationally agreed development goals, support for middle-income countries must be strengthened and new and innovative cooperation mechanisms must be developed to bolster the efforts of these countries.*
- 3. That the development of middle-income countries is hindered by disparities existing within them; redressing such disparities is the primary responsibility of their governments with the support of bilateral and multilateral cooperation donors, which represents an important component of their development.*
- 4. That particular importance is attached to the agreements contained in the Paris Declaration on Aid Effectiveness, which set forth five basic principles: ownership, alignment, harmonization, managing for results, and mutual accountability.*

- 5. That if there is to be a coherent and effective international cooperation system, it must provide support for middle-income countries in their development efforts, to consolidate their achievements as they move forward and to avoid reversals, recognizing not only the intrinsic importance of the countries included in this category but also the positive impact that their development can have on the international system as a whole.*
- 6. That the diversity of conditions, characteristics and needs of developing countries makes it advisable to consider necessary additional criteria, besides per capita income, for a more appropriate and targeted allocation of international cooperation resources, within the framework of the alignment and harmonization of international cooperation.*
- 7. That the particular characteristics of the middle-income countries imply the need to revise the forms and instruments of international cooperation and finance and to redefine the role of players in the current cooperation system in accordance with each country's public policies.*
- 8. That one additional route for international cooperation is to promote South-South cooperation, with more active support for horizontal and triangular forms of cooperation; and also to bolster regional cooperation in the realm of social and macroeconomic dialogue, of financial cooperation and technical assistance.*
- 9. That there should be greater scope for public-private partnerships, promoting and ensuring a stronger commitment for the continuity of means of corporate social responsibility, accountability and transparency, supplementary funding programmes, and new and innovative financial mechanisms.*
- 10. That the importance of migration and its impact on growth and international equality is such that countries should commit themselves to responsible management of migration flows in ways that will maximize their benefits for both origin and host countries.*
- 11. That the existence of global public goods and their implications on the development of international cooperation donor and recipient countries require an appropriate implementation of international cooperation to face this challenge.*
- 12. That cooperation with middle-income countries requires a cooperative effort at an international level, with bilateral and multilateral cooperation organizations and a productive dialogue in which middle-income countries have a greater voice and a more effective participation in multilateral institutions' decision-making processes, so that their concerns are more adequately addressed, particularly within the United Nations system and in international financial organizations. Likewise, a greater effort is necessary so that the interests and concerns of middle-income countries are properly addressed in multilateral institutions that take international economic decisions.*

On the basis of the above considerations, *we urge the international community to:*

- 1. Continue its cooperation with middle-income countries in furthering the fundamental aspects of their development.*
- 2. Support national development efforts of middle-income countries to achieve the Millennium Development Goals, emphasizing poverty eradication and the combat against inequality.*

- 3. Consider additional criteria, other than per capita income, in order to allocate international cooperation resources in accordance with the specific characteristics of middle-income countries and to define effective responses consistent with the conditions and needs of each country.*
- 4. Promote the adoption of new and innovative forms and instruments of international cooperation and financing for middle-income countries that include new assistance programmes in addition to current bilateral and multilateral flows that assist them effectively in their efforts to reduce poverty and inequalities, as well as encourage their sustainable development and consolidate their progress achieved.*
- 5. Support more actively those horizontal and triangular cooperation initiatives as well as regional cooperation processes among middle-income countries.*
- 6. Pay special attention to the issue of international development cooperation with middle-income countries and to include it in the agendas of international fora and organizations, multilateral development institutions, and the international financial system, in order to develop comprehensive cooperation policies with middle-income countries and to implement them jointly and effectively.*
- 7. Continue analysis and discussion efforts in the pursuit of cooperation that has an effective and efficient incidence in the development process of middle-income countries in a framework of international solidarity.*
- 8. Promote policies for the creation of employment and decent work for all, and the improvement of opportunities so that men and women can have productive work under the conditions of liberty, equality, security and human dignity.*

We would like to extend our gratitude to the People and the Government of El Salvador for their warm welcoming reception and for the initiative and organization of this Conference.

Enclosure II

[Original: English, French and Spanish]

International Conference on Development Cooperation with Middle-Income Countries

El Salvador, 3 and 4 October 2007

Executive summary

To ensure coherent and effective progress along the path to development, the international cooperation system will have to provide, through flexible mechanisms, support for the efforts that all countries are making on behalf of their economic and social development. Nevertheless, the needs and requirements of middle-income countries (MICs) are different from those of poorer countries, and consequently the objectives and strategies of international cooperation with MICs must be different as well. This demands a new creative effort to define the most appropriate set of cooperation policies and instruments for this group of countries.

The MICs represent 47% of the world's population, and 41% of people living in poverty on less than two dollars a day. In many of these countries the economic growth path has been marked by instability. That instability often translates into high economic and social costs, and can even set back their levels of development. Moreover, these countries are frequently subject to great environmental vulnerability and recurring natural disasters, which make it even more difficult to stay on the path to progress.

There are several reasons for providing more decisive international support to MICs. In the first place, the progress of this group of countries helps bring stability and boost growth in the world economy. Second, a more active international cooperation policy with MICs would seem necessary in order to achieve a swifter reduction in world poverty levels. Third, such support is needed to prevent backsliding in the social and economic achievements of MICs. Fourth, it can consolidate poles of development in various regions of the developing world. Fifth, it will facilitate the provision of international public goods such as preventing contagious diseases, and maintaining peace, financial stability and environmental sustainability. Finally, it is essential for avoiding the perverse incentives and the moral hazard inherent in excluding from the cooperation system those countries that through their efforts have achieved significant economic and social improvements.

In fact, the situations of MICs differ greatly, and each case deserves detailed study. Nevertheless, there are four issues that can be identified as crucial for the individual and collective progress of MICs: (i) consolidating effective institutions that can foster appropriate collective action; (ii) reducing their external financial vulnerability in tandem with the strengthening of their internal financial systems; (iii) improving their competitive capacity by promoting economic transformation and technological development; and (iv) seizing more effectively the development

opportunities offered by migration. These four issues featured prominently in discussion during the first conference on MICs, held in Madrid on 1 and 2 March 2007.

Just as there is solid justification for maintaining cooperation with MICs, it is important to enlist these countries more actively in international assistance. As they achieve greater development expertise, MICs should play a more intense role in South-South cooperation, both with low-income countries and with other MICs.

This growing involvement of MICs will entail some reforms to the international cooperation system, with the effective participation of all stakeholders. Recent years have seen progress in reforming aid in ways that defend the basic principles, such as ownership, alignment, harmonization, managing for results, and mutual accountability, that make assistance more effective. Nevertheless, cooperation is still burdened by the asymmetries that have characterized the relationship between donors and recipients. Moreover, it must be recognized that the developing world has become more varied and more complex, which suggests that the responses of international cooperation should be modulated in accordance with recipient countries' specific conditions and needs. This calls not for a rigid policy of abrupt graduation, but rather for a gradualist strategy in dealing with these countries. That strategy could include aid guidelines for relatively homogeneous groups of developing countries that would take account of factors that go beyond Gross Domestic Product alone.

Because outside assistance carries limited weight in the GDP of most MICs, it is unlikely to be a key factor in their development strategies. Nevertheless, it can play a significant role in facilitating reforms, or as a mechanism for relaxing a country's financial constraints.

A major part of cooperation with MICs consists of advisory services and technical assistance, and support in designing policies and strengthening institutions. Experience in this regard shows the need to avoid the errors of the past, such as (i) the mechanical transfer of experience from donors without taking into account the recipient's circumstances and conditions; (ii) excessive reliance on expatriate personnel; (iii) the insistence on immediate results in processes that require progressive consolidation to reach maturity; and (iv) a limited understanding of the keys to successful institutional change.

International cooperation with MICs needs to move into new areas such as (i) supporting scientific and technological development; (ii) agreements to promote international investment; (iii) better conditions of market access; (iv) policies and measures to create a more stable international environment; (v) adjusting the regulatory frameworks that govern international economic relations; and (vi) support for South-South cooperation and triangular cooperation.

One way to encourage a greater role for MICs in the cooperation system is to promote South-South cooperation. Cooperation of this kind has many advantages, including (i) the greater economic, geographic and cultural proximity of the countries involved; (ii) the stronger sense of ownership that horizontal relations can foster; (iii) lower intervention costs vis-à-vis conventional North-South cooperation; (iv) increasing the volume of resources available for cooperation, to the

extent the new cooperation is supplementary; and (v) the dual dividend that will accrue from bolstering the technical and institutional capacities both of the donor (in preparing itself to provide assistance) and of the beneficiary. All of this argues for additional support in terms of triangular cooperation that will assure an adequate level of resources for this purpose. There is also room for analysis and evaluation of this kind of cooperation and its modalities in order to derive systematic information on progress and good practices in the various examples of South-South cooperation and triangular cooperation.

Beyond bilateral South-South cooperation and the encouragement of triangular cooperation, there is also a need to reinforce the efforts that MICs are making in the context of regional cooperation schemes. This form of cooperation has traditionally been pursued in the areas of peacebuilding, humanitarian action and reconstruction, technical cooperation, macroeconomic dialogue and management, and development financing. In short, these approaches all reflect the variety of dimensions and innovation in the South-South cooperation process.

When it comes to implementing international support, it is important for MICs to programme their policy objectives, i.e. the national development strategy that will guide external cooperation, in advance. This will serve to reinforce the sense of ownership over the programmes supported, provide a more appropriate working framework for donors' activities, and encourage donors to accept the discipline of coordinating their efforts.

Whatever the form that bilateral and multilateral cooperation takes with MICs, it would be useful to have a study to define instruments, assess experience, and identify good practices and recommendations. This is a task that the OECD Development Assistance Committee (DAC) could undertake in collaboration with MIC representatives.

On the MIC development agenda, the promotion of social cohesion and democratic governance should be one of the priority topics. Institutional weaknesses and the lack of social cohesion make it difficult for governments to establish a solid fiscal base. This in turn impedes government efforts to bolster governance through social progress and the reduction of inequality. When it comes to this area of cooperation, it must be recognized that there are no universally optimum institutional recipes. Institutional responses must be specific to the context and they must enjoy sufficient social backing. In the midst of acute inequality it is difficult for institutions to achieve the necessary degree of credibility and legitimacy. Hence the importance of simultaneous efforts to promote social cohesion and institutional progress.

Given its influence in so many institutional spheres, a sound public administration is crucial. In this regard, the MICs should strengthen their development management capacities with a results-oriented approach and an efficient resource allocation, including a thoroughly professional civil service with appropriate recruitment and promotion criteria, and ensuring transparency in resource use in a way that minimizes the opportunities for corruption, limits discretionary powers, and reduces the volume of regulations.

Studies that have looked into the relationship between economic growth and social equity reveal a wide diversity of economic growth patterns and social protection options that have differing impacts on the degree of equity. They also show that greater equality has a positive impact for achieving and sustaining growth. The response to inequality implies action along two lines: (i) strengthening the universal elements of development and social protection, in particular through action in areas with the greatest potential impact on long-term economic growth, i.e. basic education and health services; and (ii) structural measures for poverty reduction and short-term income maintenance in the face of macroeconomic shocks. International experience suggests that social safety nets need to be created in advance of potential crises, and that it is very difficult to put them in place once a crisis has been triggered. Together with a reduction in economic inequities, decisive efforts are needed in many MICs to eradicate inequalities based on gender and ethnic considerations.

If countries are to make progress in reducing inequality and poverty, they need a taxation system that is efficient, flexible and fair and that can provide the government with sufficient funds. In many MICs this implies significant changes, and in others a substantial reform. In many cases the individual income tax must play a bigger role, and at the same time corporate income tax policy needs to consider problems relating to the tax base, such as excessive depreciation allowances and other overly generous tax incentives. In this process of reform or change, international cooperation can be helpful in at least three areas: (i) the design of reforms, where attention should be paid not only to experience in developed countries but also to that of MICs themselves; (ii) technical and institutional strengthening of tax administration, including better statistics, the training of officers, and the operational functioning of the institution; and (iii) international cooperation in areas such as double taxation and tax evasion or fraud.

The MICs need to develop their internal financial markets as an indispensable way to accelerate their economic growth, to expand access to financing for all their citizens, to gain further autonomy in the design of policies, and to achieve greater access to international capital markets. A properly functioning financial system requires efficient and competitive banks. Financing for small and medium-sized enterprises also seems necessary, as does access for the general public to the formal banking system. Another essential point is to develop local long-term credit instruments to finance increasing volumes of investment. Multilateral and bilateral cooperation can help in this goal of building an efficient and secure financial market, by supporting the design of an appropriate regulatory framework, together with an adequate structure of information, regulation and supervision.

For the MICs it is also crucial to ensure adequate functioning of the international financial system as a whole. There has already been some progress here, in the sense that many MICs have adopted better mechanisms for prudential regulation and supervision so as to improve the capacity of economic agents to internalize the risks of their decisions. Nevertheless, the approach to preparing international rules is still far from satisfactory: developing countries have little involvement in this task, the regulatory frameworks are not always suitable to the specific characteristics of developing countries, and insufficient attention is paid to the countercyclical role that prudential standards must play and to assuring banking access for small and medium-sized enterprises.

The recent financial crises have revealed the importance of having in place institutions that can inject liquidity into economies that, while not suffering from acute structural problems, are facing a liquidity crisis. Yet progress in this regard has been unsatisfactory. The IMF's Supplemental Reserves Facility is a timid and insufficient response, and the Reserve Augmentation Line, which would probably be very useful, is still at the discussion stage. It is also important to establish an adequate framework for dealing with sovereign debt.

The international financial institutions still lack an effective framework for addressing the new problems now appearing on world financial markets, such as the regulation of financial derivatives and the enormous global imbalances. There are also continuing questions about the legitimacy of these institutions because of their unrepresentative structure. This criticism is frequently targeted at the Bretton Woods institutions, although the problem is even more acute in other institutions such as the Bank for International Settlements and the Basel Committee on Banking Supervision.

A more open trading system can enhance efficiency, facilitate access to new technologies, promote competition on domestic markets, provide possibilities for economies of scale, and help overcome external constraints on economic growth. Yet the benefits of opening markets are neither automatic nor immediate. To achieve sustainable results, policies must be designed and implemented to shape international specialization and to promote technological change and competitiveness in the economy.

Over the last decade and a half the MICs have made significant efforts to open up their economies to the outside world. Yet, despite the sharp increase in their trade flows, these countries still account for only 19% of trade in manufactures, and their exports remain highly concentrated in terms both of markets and of products. All of this constitutes a setting of great vulnerability. What is needed, then, is a shift toward specialization in more dynamic sectors, with greater technological content and higher value-added. To facilitate progress along this path, the universal rules of the World Trade Organization need to be combined with the flexibility necessary to leave some room for domestic development policies. This would involve negotiating some exceptions to certain rules of the TRIMS (Trade-Related Investment Measures) and TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreements that would facilitate the transfer of technology and foster the development of domestic capacities. It would also mean setting more generous time limits and transitional conditions for MICs, without exempting them from the agreed rules.

For a significant number of MICs, the high level of protection that developed countries accord their agricultural markets, through trade barriers and through output and export subsidies, constitutes a major obstacle. The Doha Round must not only reduce tariff barriers, but must also eliminate export subsidies and cut back on the distorting assistance programmes for agricultural output. There are countries within the MICs group that lack the technical means to participate profitably in international trade negotiations, and international cooperation could provide effective help in this regard through technical assistance.

The development of technological capacities depends essentially on changes in production, on investment in research and development, and on the promotion of human and physical capital. The variety of MIC situations reveals differing levels of constraints in addressing these tasks. In many MICs, support for the international transfer of knowledge could do much to overcome these constraints. There is a very effective role to be played by scientific cooperation, both North-South and South-South, for example, through joint training and research programmes, the exchange of researchers, and networking between research teams and centres. In some MICs, foreign investment has played a significant role in high-tech manufacturing sectors. Attracting such investment is important, but it is only a first step: there must also be policies in place for integrating foreign investment into the local productive fabric.

An adequate infrastructure network is key for the development of production, for dynamic international trade, and for the delivery of basic public services. In addition to the challenge of maintaining existing infrastructure, many MICs are grappling with a considerable backlog in infrastructure investment. This can entail considerable efforts to obtain public financing (through tax revenues or borrowing) and to encourage greater private participation. To achieve the latter will require reforms in the structure and regulation of markets to make them attractive to private finance. In several MICs, private participation has required new forms of contracting and the allocation of ownership rights over infrastructure. If these mechanisms are to function effectively, there must be an appropriate regulatory framework in place. That framework must protect investors from arbitrary government intervention, while safeguarding users from private operators in a dominant or monopolistic position.

The building of infrastructure provides an opportunity to develop long-term capital markets and to broaden the portfolio of projects for domestic and foreign investors. At the same time, the multilateral development banks should commit themselves more actively in this sector, facilitating MIC access to finance by reducing conditionality and transaction costs and simplifying procedures.

The world is facing a new historical episode of migratory movements. A large portion of these migratory flows involves MICs as source or destination. In managing these flows it is important to bear in mind that emigration (i) if properly handled, can offer opportunity and progress for countries and people living in poverty with few options for a better life; (ii) can alleviate labour market pressures, in both the sending and the receiving country; and (iii) must be subject to regulation consistent with the ethical standards governing other aspects of international relations. Thus, host countries must be watchful against any attack on the human rights of migrants.

The fact that large groups of migrants find themselves in an irregular situation proves that there is not always consistency between labour needs and the routes available for legal entry into host countries. In this respect, host countries should establish a reasonable policy of residency and work permits that can accommodate the effective needs of their labour market. In turn, the countries of origin should cooperate through policies for the orderly management of emigration and the repatriation of their citizens. In the latter case, international cooperation should help the sending countries strengthen their institutions so that they can pursue a comprehensive and

responsible policy for managing emigration. The objective should be to take greater advantage of the opportunities that temporary emigration offers. In such situations the process should be accompanied by (i) the negotiation of arrangements for transferring social security benefits; (ii) seizing the opportunities offered by GATS Mode IV; (iii) streamlining admission and work permit procedures; (iv) better information and follow-up in the host country; and (v) lowering the cost of return.

Workers' remittances to developing countries have been rising steadily, and currently amount to more than \$200 million a year. They make an important contribution in many MICs to overcoming external constraints and allowing a greater volume of imports. In some cases they have sparked an appreciation of the national currency and the loss of competitiveness. From the recipients' viewpoint, there would seem to be some long-term benefits: besides housing development, a good portion of remittances is spent on education and health. They also reduce the vulnerability of recipients. Yet remittances could be used more efficiently while preserving families' freedom to decide: (i) remittances could be supplemented by government grants conditional upon social or infrastructure investment in the community of origin; (ii) technical assistance could be offered to families to help them make use of the funds in family or cooperative enterprises; (iii) emigrants and their families could be encouraged to use the banking system in both the host and the home country; (iv) fostering programmes and financial instruments specially designed to promote the investment of migrants in their countries of origin.
