FINANCING FOR DEVELOPMENT
FROM MONTERREY TO DOHA

A SOUTH CENTRE INPUT INTO THE PREPARATORY
PROCESS LEADING TO THE DOHA MEETING

SYNOPSIS

This Analytical Note evaluates how far the commitments contained in the 2002 Monterrey Consensus were fulfilled. It also examines the adequacy of the Monterrey Consensus as a framework for guiding international policy decisions and actions in current circumstances, and then outlines the significant changes and developments that have occurred since Monterrey that call for a fresh approach to addressing financing for development issues. Finally, the Analytical Note seeks to identify policy and institutional areas where the world community needs to be more ambitious in its approach, decisions, and actions at the UN International Review Conference on Financing for Development that will take place in Doha at the end of November 2008. It concludes with observations on the post-Doha agenda that developing countries might wish to consider.

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EXECUTIVE SUMMARY

The South Centre has undertaken a programme of activities to support the G-77 in New York in the preparations leading to the Doha Review Conference on Financing for Development in late November 2008. This note is a contribution into that preparatory process. It offers an evaluation of the implementation of Monterrey Consensus, outlines the significant changes and developments that have occurred since the Monterrey meeting in 2002, and identifies policy and institutional areas where new approaches, decisions, and actions would need to be considered at Doha. The note concludes with some observations on the post-Doha agenda for the South.

The world economy is currently passing through a particularly difficult time. International financial markets have remained turbulent over the past year, with slackening output growth in leading industrial countries and rising inflationary pressures. Measures taken in leading industrial countries – the source of financial troubles – have been ad hoc and fears persist that a global financial meltdown is in the offing. In the face of rising inflation, monetary policy can be expected to become restrictive and interest rates to rise, a development that would aggravate the unrest in the world’s currency markets and, possibly, bring about a deep recession in the industrial countries with serious implications for developing countries.

Since the Monterrey meeting, the economic power balance has shifted in favour of the developing world, thanks basically to high-performing China and India. Besides these two countries, a number of other developing countries have also emerged as key actors in the world financial and commodity markets. The Asian developing economies now account for roughly one-fifth of the world output and South-South trade amounts close to $2 trillion, or about 15 per cent of the world total. This is accompanied by a sharp increase in South-South private foreign investments. What these developments suggest is that the stakes of developing countries in the outcome of the Doha meeting are even higher than at the time of the Monterrey meeting.

The implementation of the Monterrey commitments has been by and large mediocre. Commitments to increase official foreign aid were made, but the actual delivery has been disappointing. As of now, it seems unlikely that aid would reach the target of $150 billion a year needed for reaching the internationally agreed millennium development goals by 2015. The Paris Declaration on aid effectiveness of March 2005 set out to remedy weaknesses in aid delivery and architecture, but progress towards giving aid recipients greater control over aid-use, harmonizing programmes among donors, and generally reducing “transaction costs” has been limited.

On trade, the so-called Doha Development Round is deadlocked, with developed countries continuing to press for greater opening up on the part of developing countries while offering modest reductions in their own agricultural protection. HIPC and MDRI, the two multilateral debt initiatives, have helped to reduce official external debts of the poorest countries, but many remain mired in debt. No progress has been made in reducing the debt of the middle-income
countries or the non-official debt. Private capital flows have continued to increase rapidly, but they remain concentrated in a handful of rapidly growing economies, bypassing the vast majority of poor countries. With respect to global economic and financial governance, too, little has changed. Developing countries were granted a very small increase in voting shares at the IMF after a prolonged period of negotiations, which will make little difference to the institution's policy orientation. The establishment of the Development Cooperation Forum (DCF) under the ECOSOC is a positive step, but it remains to be seen whether it would be able to carry out its mandate.

The global economy at present faces a number of uncertainties. They relate to the impact of the current financial turmoil on economic growth and general wellbeing and the political and economic tensions arising out of rising food prices and increasing scarcity of oil and other essential raw materials. Even more serious is the problem of climate change, which poses risks for all, but particularly – and disproportionately – those least able to adapt to it. The poorest countries and communities suffer the earliest and most from climate-related natural disasters because of their geographical location, low incomes, and low institutional capacity, as well as their greater dependence on agriculture.

The chances are that over the coming years economic growth will slacken and income disparities and poverty levels would rise. To deal with the current challenges, a coordinated approach at international level is needed, but there is an institutional vacuum. The IMF, the World Bank, and WTO – the triumvirate of international bodies in charge of global macroeconomic, financial and trade issues – are faced with a crisis of effectiveness, relevance, and even legitimacy. But the current crisis transcends financial or economic issues; it concerns a struggle over the distribution of earth’s limited resources among nations, whether it is clean air or access to critical raw materials. It calls for a candid, holistic debate within a multilateral framework with adequate representation of all countries. The Doha meeting provides an opportunity for such a discussion.

In approaching this meeting, the South should, while insisting on the fulfilment of past commitments, be more ambitious in its aims and objectives in the light of current challenges of finance, resources, and climate change. Specifically, it must seek:

- Assurances from the developed countries that their own economic and financial problems would not be allowed to jeopardize developing countries’ domestic resource mobilization efforts for sustained and adequate economic growth. The South should not be bound by policy templates cast at the international financial institutions, but rather design its own policies, programmes, and institutions that suit its needs.

- A commitment that, while a serious effort would be made by donors to reach aid levels needed for realizing the MDGs by 2015, aid programmes would be aligned with recipients’ national development priorities, aid delivery mechanisms would be harmonized, and aid would be made more predictable. Also, discussions would start on designing an “aid exit
strategy” appropriate for individual countries, which should be held as the true test of aid effectiveness.

- A commitment from the North to mobilize financial resources, as grants or grant-like instruments, to cope with the challenge of climate change. It would be critically important that the mandate of the United Nations Framework Convention for Climate Change is respected and is not compromised by parallel arrangements, involving other institutions and actors.

- A strategy that would result in private foreign capital flows reaching a wider set of developing countries, instead of being concentrated among only a few, and supporting economic development, rather than engaging in speculative activities.

- To reinstall the discussion of ways to resolve developing countries’ perennial external debt problem within the FfD framework. In this connection, the usefulness of the IMF/World Bank debt sustainability framework may be questioned. At any rate, the mechanisms for debt relief within the South-South context must not be brought into the current North-South debt relief forums.

- While calling for a successful conclusion of the Doha Development Round of trade negotiations, to open up discussion of neglected international trade issues of special interest to developing countries, i.e., the commodity problem, high market concentration in trading of developing country exports, and the replacement of trade policy by extra-market corporate strategies (as reflected in the high volume of intra-firm international trade). Concern also needs to be expressed over the proliferation of bilateral trading arrangements, which undermine developing countries’ efforts to industrialize while violating WTO’s core principle of most-favoured-nation treatment. And,

- To initiate discussion of a complete rethink of the international financial system, taking into account not only the evolution of the world capital markets and exchange rate systems but also recognizing that the world economic and political balance today is fundamentally different from the time when the existing multilateral financial institutions were established. This discussion must take place – as the original Bretton Woods conference – under the aegis of the United Nations, which is the most representative body.

The outcome of Doha, however, depends basically on the willingness of developed countries to engage in a serious dialogue on issues that threaten global prosperity and the ability of poor countries to achieve decent living standards. They are so far reluctant to open substantive discussions on underlying systemic problems afflicting the existing international financial system. There is thus a serious risk that the results of the Doha meeting would be modest.
If that is the case, developing countries should give serious consideration to defining a post-Doha agenda and explore ways to enhance South-South cooperation in matters of trade and finance. In particular, support should be given to developing country or regional initiatives on financial management and reserve pooling mechanisms, such as, the Chiang Mai initiative and the Bank of the South. Ways should be found to promote South-South investment flows to promote development, with special reference to sovereign wealth funds. New trade opportunities could materialize through regional free trade areas and giving substance to the General System of Trade Preferences. Developing countries on their own could also begin to develop ideas on defining a strategy to exit from aid.

Finally, there is the need to give Voice to the developing country concerns, and for this they need to have timely access to information, rigorous analysis of topics of concern, and cogent arguments in support of their positions. Towards this end, support needs to be given to developing country institutions that are engaged in collection and dissemination of information as well as research and analysis of topical development issues from a Southern perspective.
I. INTRODUCTION

1. The Doha Review Conference on Financing for Development will take place in a world economic and financial environment quite different from the time of the Monterrey meeting in March 2002. The concerns today are also rather different even as the basic goals of achieving growth, development, and financial stability remain unchanged. The world financial markets are turbulent because of the large global macroeconomic imbalances and the evident profligacy and undervaluation of risk on the part of financial institutions in the leading industrial countries.

2. Policies to combat the current financial crisis are being fashioned on an ad hoc basis at the national level, with little international coordination. The industrial countries with unsustainable fiscal and trade deficits ignore the International Monetary Fund, the principal multilateral financial institution in charge of macroeconomic surveillance. An institutional vacuum exists where multilateral economic policy institutions have lost their capability, effectiveness and legitimacy to tackle current and emerging challenges to development. At the same time, some developing countries and erstwhile “economies in transition” – notably, Brazil, China, India, Russia and South Africa – have emerged as key actors in the world financial and commodity markets. Developing country dependency on the industrial economies has diminished as South-South flows of trade and capital have increased rapidly and their collective share in the global economy has increased. There is a widespread belief – though not firmly grounded – that the growth in the developing world has become “decoupled” from that of industrial economies.

3. These developments suggest that the stakes of developing countries in the outcome of the Doha meeting are even higher than at the time of the Monterrey meeting, and that these stakes are shaped and moulded by a confluence of global systemic and domestic factors. For many developing countries, continued economic growth and development – arising in part from the current cycle of high commodity prices and easier access to international capital – may be placed at grave risk if the current economic, financial and other crises (such as on food, energy and climate) are not effectively tackled.

4. The poorest countries, which have just begun to see a revival of economic

* The South Centre acknowledges the contributions of Mr. Irfan ul Haque, Special Advisor to the South Centre Executive Director on Financing for Development, to the contents of this Analytical Note.
growth and poverty reduction, are most at risk apart from the hardship caused by the high energy and food prices. These countries will need significant increases in development financing in all of its forms – foreign aid, generation and retention of domestic capital, improving fiscal self-reliance – to help them effectively weather the crisis, sustain progress towards the millennium development goals, and adapt to current and future impacts of climate change.

5. Addressing these issues will require a comprehensive approach to the underlying systemic issues relating to financing for development. These would include looking at the issue of power imbalances (both economic and political) and how such imbalances might be redressed and enhancing the participation and voice of developing countries in shaping and influencing the global economic architecture. Hence, the Doha meeting gives the developing world an important opportunity to make its concerns heard and to wrest a bigger role in the design of measures to address the finance for development challenge. This requires that developing countries gain clear understanding of the causes for the present situation and reach a common position on how best to deal with it.

6. The South Centre has undertaken a programme of activities designed to provide support to the G-77 in forging a shared developing country perspective on the main FfD issues and in effectively contributing to the debate on what the Doha Conference should strive to achieve. As part of this effort, the Centre – in collaboration with the G-77 in New York, G-24, and UNCTAD – organized a meeting of experts on FfD issues on 23 – 24 May in Geneva. This paper, which is our contribution to the preparatory process, benefited from and draws on the discussions that took place during the meeting.

7. In revisiting the Monterrey Consensus (MC), two approaches are needed. First, there is a need to evaluate how far the commitments contained in the MC document were fulfilled. This is attempted in Part I of this paper. However, it is also necessary to examine MC’s adequacy as a framework for guiding international policy decisions and actions in current circumstances. Part II of the paper outlines the significant changes and developments that have occurred since the Monterrey meeting that call for a fresh approach to addressing the FfD issue. Part III, on the other hand, is prospective: it takes MC as a point of departure and seeks to identify policy and institutional areas where the world community needs to be more ambitious in its approach, decisions, and actions at the Doha meeting. FfD is a long-term issue and will need multilateral discussion beyond Doha. The paper, in Part IV, concludes with observations on the post-Doha agenda that developing countries might wish to consider.
II. IMPLEMENTATION OF THE MONTERREY CONSENSUS

8. In preparation for the Doha meeting, it is necessary to assess how far specific commitments UN Member States made at Monterrey have been fulfilled. Since few commitments contained quantitative targets, the evaluation offered here, though factual, is largely qualitative. The Consensus document contained also a number of aspirations, but their fulfilment is harder to measure.

9. The Monterrey commitments\(^1\) can be grouped under the following five broad headings:
   - Creating an enabling international and national environment for development;
   - Ensuring that international trade supports development and growth of developing economies;
   - Providing adequate official development assistance to achieve the Millennium Development Goals and sustain development in developing countries;
   - Mobilizing other sources of financing for development; and
   - Undertaking reform of the global financial and economic governance.

A. Commitments to Create an Enabling Environment for Development

10. Commitments under this heading are contained in paragraphs 4, 9, 12, and 24 of the Monterrey Consensus document. Appendix to this paper contains the actual text of these paragraphs as well as others referred to below.

11. Since the turn of the millennium, the world economy has grown at a good pace with generally moderate inflation. The US economy maintained its growth momentum while the performance of the Japanese and European economies improved, providing expanding markets for developing country exports. There was also revival of economic growth in a number of African economies that had remained stagnant during the better part of the 1980s and 1990s. Overall, however, growth across regions remained uneven, with East Asian economies keeping their lead while Latin American economies showing little improvement in growth, which hovered around 3 per cent a year. Thanks basically to high-performing China and India – both very sizeable economies – the Asian developing economies now account for roughly one-fifth of the world output. These countries have come to be seen

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\(^1\) The identification of specific commitments benefited from the “Review/Implementation Matrix for Monterrey Consensus” developed by the Pakistan Mission to the United Nations in New York.
as “engines of growth” for the world economy, with South-South trade assuming increasing importance in world trade. UNCTAD has called it the “second generation” of globalization, characterized by the emerging economic multi-polarity. This has created unprecedented trade opportunities for developed and developing countries alike, while highlighting the need for policy diversity.

12. All the same, the income gap between the developed and developing countries continues to widen. While income levels have risen steadily in developed countries over the past half-century, they have not done so in most developing countries especially over the past twenty-five years. According to UNDP, given growth trends during 2000-05, “it will still take India until 2106 to catch up with high-income countries. For other countries and regions convergence prospects are even more limited. Were high-income countries to stop growing today and Latin America and Sub-Saharan Africa to continue on their current growth trajectories, it would take Latin America until 2177 and Africa until 2236 to catch up.”

13. In short, notwithstanding the impressive overall economic progress in the developing world, systemic global economic inequality is likely to persist indefinitely. The large majority of developing countries face the prospect of languishing at low levels of economic development unless the global economic environment and availability of resources for development improve significantly. This is a challenge that is addressed in Part II of this paper.

B. Commitments on Trade and Development

14. At Doha in 2001 and at Monterrey in 2002, the global community committed itself to negotiating new trade rules and urged the WTO to place “the needs and interests of developing countries at the heart of its work programme” and to the implementation of the outcomes thereof. Specific commitments on this subject in the Monterrey Consensus are contained in paragraphs 26, 30, 31, 32, and 34.

15. The development agenda that was supposed to underpin the WTO negotiations remains for the large part at the level of political rhetoric, as developed countries continue to focus almost exclusively on obtaining increased market access in developing countries. The elimination of and increased disciplines on agricultural subsidies and the provision of market access to agricultural products of export interest to developing countries continue to be resisted by developed countries. Nor is the concept of “less than full reciprocity” – embedded in the non-agricultural market access

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(NAMA) negotiations – being made operational, with developed countries asking developing countries to undertake deeper tariff cuts as compared to developed countries.

16. Other negotiating areas such as services and trade facilitation continue to fall short in terms of delivering on their development component, i.e. with respect to Mode 4 commitments, increased flexibilities and emergency safeguards in the services negotiations, and the issues of special and differential treatment, technical assistance and capacity-building in the trade facilitation negotiations. Genuine negotiations on issues relating to the implementation of the Uruguay Round agreement (“implementation issues”) and on the incorporation of new special and differential treatment provisions in various Uruguay Round agreements have fallen off the negotiating table due to the lack of interest of developed countries to genuinely engage.

17. On the positive side, however, the 2005 Hong Kong Ministerial Conference took decisions on extending special and differential treatment to least-developed countries (LDCs), and developed countries agreed to provide duty-free and quota-free market access for all products originating from LDCs. LDCs were also allowed to maintain TRIMS-inconsistent measures up to the year 2020. However, it remains to be seen whether these commitments will be lived up to.

18. Between 1995 and 2005, world trade doubled to over US$11 trillion, and with “the emergence of a group of dynamic developing countries as significant drivers”⁴, international trade and investment patterns are changing rapidly. South-South trade rose from US$577 billion in 1995 billion to US$1.7 trillion in 2005, a three-fold increase.⁵ However, global trade continues to be heavily tilted towards developed countries despite the emergence of Asian developing economies as major traders.

19. Generally, exports of developing countries (especially those outside of rapidly growing Asia) continue to lag, as they remain concentrated on a limited range of natural-resource-based products (energy and raw materials) and manufactured products (such as textile and clothing) of low value-addition and thus low (and often diminishing) returns. These countries have experienced long-term declines in their terms of trade and share of world trade, especially the least-developed countries in Africa and elsewhere. The sharp recent increase in food and energy prices has impacted on developing countries differentially; net exporters of those commodities have gained while net importers lost. Another area of concern is the consequences of past import liberalization (undertaken unilaterally or pushed by multilateral or bilateral aid donors), which caused the collapse of individual industries and thwarted countries’ efforts at diversification. All these developments in conjunction

⁴ UN Secretary General, Report of the Secretary-General: Follow-up and implementation of the outcome of the International Conference on Financing for Development, UN Doc. No. A/62/217, 10 August 2007), para. 63.
⁵ Id., para. 64.
with industrial country protectionism and the stalled trade negotiations cast a shadow on the future growth of international trade.

C. Commitments on Development Assistance

1. Official Development Assistance

20. The contribution of official development assistance (ODA) or foreign aid to meeting the MDGs and to the development of developing countries was among the major issues addressed in the Monterrey Consensus. Commitments with respect to ODA and its effectiveness are contained in paragraphs 41, 42, and 47 of MC.

21. The Monterrey Consensus adopted the 0.7 per cent target of Gross National Income (GNI) for ODA and called on developed countries to meet this target, while urging recipient and donor countries and multilateral institutions to “strive to make ODA more effective.” The fact, however, is that developed countries have persistently fallen short of the targeted level of aid. Even as developed countries became richer, they earmarked a smaller percentage of their income as ODA. To date, only Denmark, the Netherlands, Luxembourg, Sweden, and Norway, have managed to meet the 0.7 per cent target. However, during and after the Monterrey meeting, many member countries of the OECD/DAC raised their aid contributions, and many pledged (for example, at the G8 Summit in Gleneagles in 2005) to meet fixed target dates for reaching the 0.7 per cent goal.

22. However, projections of ODA disbursements from developed countries indicate that they will as a group fall short of meeting the ODA targets. The last UN report on the implementation of MC noted: “… the current and projected levels of ODA for the period 2006-2010 still fall far short of targets. It is estimated that $150 billion are needed to reach the Millennium Development Goals by 2015 and, at an estimated 0.36 per cent of GNI by 2010, ODA would remain well below the 0.5 per cent achieved in the early years of initiatives under the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and just over one half of the 0.7 per cent target.” The temporary bump in ODA flows in 2005 was basically the result of the cancellation of the debt of Iraq and Nigeria rather than actual new ODA flows.

23. Apart from its overall inadequacy, aid is concentrated in a relatively small number of countries; many countries get little or nothing. More than half of net bilateral ODA goes to the top 20 recipients and less than half of the recipients receive 90 per cent of all ODA from DAC members. This is because

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6 UN Secretary General, Report of the Secretary-General: Follow-up and implementation of the outcome of the International Conference on Financing for Development, UN Doc. No. A/62/217, 10 August 2007), para. 76.
recipient countries are chosen mainly according to a donor government’s priorities and interests and the demands of its domestic political constituencies.

24. ODA comes through a variety of channels – bilateral ODA provided on a government-to-government basis (more than two-thirds of the total) and aid provided through concessional finance facilities of multilateral and regional institutions, such as the World Bank and regional development banks. The role of international private charity and civil society in aid disbursement has also increased enormously, which has added to the complexity of the aid architecture. With the number of aid providers rising, the problem of duplication and lack of coordination among donors has worsened.

25. Certain kinds of ODA have tended to be reactive to specific situations, such as addressing emergency humanitarian appeals. Donors have traditionally been involved in a multitude of projects driven by their own priorities and economic and political interests, which are often at odds with the recipients’ national development objectives. Aid comes with donor-imposed conditionalities involving, among other things, political and economic reforms. As a result of tying of aid with procurement of goods and services (such as consultancies), a good proportion flows back to the aid provider. There is also the perennial problem of leakages and corruption, which result in only a small fraction of aid funds actually reaching the target beneficiary.

26. The Paris Declaration on Aid Effectiveness (PD), however, has failed to address these issues. It was basically a donor-led initiative. Some from the recipient community and civil society also participated without making any discernible impact on a document crafted primarily by the OECD and the World Bank. It contained commitments on the part of traditional ODA donors and recipients to provide and use aid more effectively. Mutual accountability and an emphasis on results were adopted as the guiding principles. As a consequence, the PD includes some 50 commitments to improve aid quality, with progress to be monitored against 12 indicators. All but one of the indicators have quantified targets; only untying of aid was left as requiring “continued progress over time”. However, the practical application of the PD at the country-level, especially in terms of the link between monitoring compliance with the commitments by recipient countries and continued ODA flows, has meant that the PD in itself has become a conditionality for ODA.

27. OECD-DAC’s own evaluations show that progress with respect to PD’s stated goals has been slow. The relatively minor gains in efficiency and reduction of some transaction costs in the aid process are overridden by the asymmetrical conditions under which negotiations between donors and recipients take place. The stress on “co-responsibility” and “mutual accountability” has in fact enhanced donor control and leverage over recipients’ policy and programmes through monitoring and evaluation of recipient compliance with the conditionalities. As a result, there is little indication that the aid system has become more responsive to recipients’ needs and requirements.
Under current arrangements, recipients’ dependence on donors will continue indefinitely, with little prospect of their exiting from aid altogether.

2. Official Debt

28. Since the Monterrey meeting, there have been two multilateral initiatives on debt cancellation, i.e., the Heavily Indebted Poor Countries Debt Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI). It is estimated that the two initiatives will together help to reduce the debt stock by 90 per cent on average in the case of 31 countries that have qualified for debt relief.

29. Although generally helpful to the debt-distressed poorest countries, the above-mentioned initiatives fall short of providing the borrowers with the policy flexibility needed for restoring lasting economic growth and reduced dependence on foreign borrowing. One reason why the problem of the official debt has continued is that much of past lending was for geopolitical reasons, with large proportions of the proceeds going to corrupt dictatorships in developing countries. More seriously, however, the debt problem has persisted because of the staple policy prescriptions – imposed by the Bretton Woods institutions and other lenders – that required borrowing countries to liberalize trade and push exports in order to generate export earnings that could then be used to pay off the debt. These measures, in actual fact, greatly increased imports without significantly adding to export earnings (because of falling export prices), widened trade deficits, and increased recourse to foreign borrowing.

30. The situation is not helped by the fact that there is no institutional basis for future resolution of debt problems. The Paris Club of Industrial Country Creditors – an ad hoc institution with no formal structure – takes up individual countries with debt problem, but its procedures are slow and complex. In any case, its importance has now considerably diminished because of the rise of significant new official and non-official aid-givers and lenders. Given this situation, there remains the need for an internationally accepted debt exit mechanism that embraces all donors and provides a “fresh start” to indebted countries and includes provisions for cancelling odious debt, eliminating policy-based debt conditionalities, and opening a route to exiting from debt. For middle-income countries, whose debt stock is dominated by private debt and which are not covered by current approaches to debt restructuring deserve special attention. This group of countries is liable to face serious debt distress if the global financial system remains turbulent, interest rates rise, and the world economy takes a downward turn.
D. Commitments on Other Sources of External Financing

31. Commitments were also made at Monterrey to enhance the flow of external financing to developing countries, including through FDI as well as “innovative” sources. (Paragraph 44)

32. Global foreign direct investment (FDI) increased to a record level of over US$1.5 trillion in 2007, with significant increases in all major country groupings. However, much of the FDI was directed to financing cross-border corporate mergers and acquisitions, mostly in developed countries, and investments in private equity and hedge funds, rather than greenfield or new projects. These kinds of investment flows might not be sustainable in the long run and do not necessarily contribute to developing economies’ productive capacity and growth.

33. FDI into developing countries rose to US$438 billion in 2007 (compared to US$1,002 billion of FDI flows into developed countries), with countries in East and Southeast Asia remaining major recipients. A relatively recent phenomenon has been the rise of a few developing countries as important sources of FDI for other developing countries. Outward FDI flows from developing countries rose from 5.5 per cent of total world FDI outflows in 1990 to 14.7 per cent in 2006. There are some indications that the development impact of such South-South investment may have a greater developmental impact since technology transfer is more effective where technologies used by transnational corporations are closer to host countries’ skill and technology levels.

34. To gain a complete picture of capital movements, it is important to recognize that capital outflows from developing to developed countries have also increased and reached a level of close to US$800 billion in 2007. At the back of these capital outflows is the massive accumulation of reserves by developing countries generated by their current account surpluses (in particular China, but also a number of other developing countries). These reserves are used by developing countries to purchase and invest in developed country currency and debt instruments. This has resulted in a somewhat paradoxical situation of developing countries capitalizing the economies of developed countries, overturning the long-held conventional wisdom of capital scarcity in developing countries.

35. The ability of developing economies – especially those that are rapidly growing – to attract, generate, and retain both domestic and foreign capital is also fast growing. The rise, for example, of developing country sovereign wealth funds (SWFs), with more than US$3 trillion in combined assets on the back of more than US$6 trillion in total foreign currency reserves, has turned them into key actors in world financial markets.
E. Commitments on the Global Financial and Economic Governance Architecture

36. The commitments relating to the reform of the international financial architecture are contained in paragraph 53 of MC, while commitments on enhancing and improving the participation of developing countries in global economic governance can be found in paragraphs 62 and 63. The issue of strengthening the UN’s role in global economic governance is discussed in paragraphs 65 and 67 through 70. The UN Member States also undertook to sustain reforms in the international financial architecture, including the development of sound domestic finance sectors.

37. To talk of “architecture” implies that there is a certain level of coherence in the institutional financial system, when there actually is not. There have been a series of ad hoc reforms and innovations, but they have neither helped to create a reasonable order in the international financial markets nor brought about a significant shift in the governance structure, which remains dominated by the North. Inequities in economic terms often reflect political inequities, and vice versa. UNDP in its 2003 report noted that the current trading system exemplified “some historical and structural inequities” in which the rules are “less advantageous for developing countries.”7 Changing the rules of the trading game to make them more equitable and capable of supporting developing countries’ development interests will require addressing the flaws in the institutional architecture. This means looking at how the institutions that form part of this architecture operate in terms of their ability to put in place rules that reflect and promote, in a pro-active manner, the needs of the disadvantaged.

38. In view of the difficulties and imbalances that developing countries face in participating effectively and fully in various global economic institutions, developing countries have consistently called for governance reforms that would allow for their increased participation and representation in such institutions. Parallel to these initiatives, developing countries have also been active in establishing mechanisms designed to improve both their ability to cooperate and coordinate with each other in international institutions and to bolster their substantive capacity to participate. They have, as a group, stressed that development should be the main priority and focus for international cooperation and global action.

39. Because of the emergence of some developing countries as major players in the global economy, there has been a boost in confidence, self-reliance, and optimism with respect to prospects for national development as well as enhanced South-South cooperation and solidarity and the utility of working together in different institutions, such as the WTO. The problem of unequal participation in the IMF and the World Bank is actually rooted in the very architecture of those institutions, which continues to reflect the power balance

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existing at the time of their creation. Although their official mandates called for protecting the interests of the weaker members, the policy orientation, agenda, and organizational bias of the institutions have tended to be more cognizant of the interests of the more powerful members.

40. How far the Monterrey commitments have been met is examined in the context of reforms in the Bretton Woods institutions, the South’s participation in other forums and institutions, governance at the WTO, and the UN’s role in the global economic governance.

1. Reforms in the Bretton Woods Institutions

41. At the end of March 2008, the IMF Board approved changes to the voting rights formula that governs the number of votes each IMF member country has. The total increase for developing countries came only to 1.6 percentage points. Developed countries, representing about 15 per cent of the IMF membership, retain nearly 60 per cent of the voting rights. These changes, which came after a great deal of debate and negotiation, hardly remedy the governance imbalance in the IMF. It is not even clear that the meager reforms would actually be adopted, as the required change in the IMF’s Articles of Agreement must be ratified in national legislatures of some member states, notably, the United States.

42. Genuine IMF governance reform will not occur simply through marginal increases of voting rights. The real issue is how developing countries can have a stronger “voice” in the governance and actually help to shape how the institution is run. This means that other aspects of IMF governance must also be dealt with, for example enhancing developing country collective action and voice in the IMF by making the constituency system more representative and strengthening the multilateral and developing country institutions that support them.

43. Increasing the voting rights of developing countries in the IMF is only one aspect of IMF governance reform. Another key aspect of reform is making the IMF Board actually representative of its membership, which necessitates changing the way Board members are selected. Board members are currently appointed rather than elected, with a preponderance of European Board members sitting on the Board, representing not only European countries but also, in many cases, developing countries (as a result of the constituency system in which a European country may be grouped together with developing counties for purposes of appointing and being represented by a chair on the Board). Such reforms in the IMF Board are not yet on the agenda.

44. Finally, the removal of the “tradition” of having a European to serve as the IMF Managing Director and an American to serve as the World Bank President remains a priority area among the governance reforms needed at the two institutions. Europe as a group has yet to show any inclination to give
up this post-colonial arrangement with the United States in sharing the leadership of the two Bretton Woods institutions.

45. World Bank governance reforms, in terms of voting rights, Board membership and representation, and leadership, continue to lag even further behind. It was only at its April 2007 meeting, the World Bank’s Development Committee welcomed a Bank staff report that outlined a range of options for enhancing developing country participation in the Bank’s decision-making structures, and called for more consultations on Bank governance issues with a view towards reaching a political consensus. These options “include selective capital increases, the allocation of 50 per cent of the Bank’s capital to developing and transition countries, increases in basic votes, and special and double majorities.” However, beyond these initial steps, there has not been much movement in terms of Bank governance reform since Monterrey.

2. South’s Participation in Other Institutions

46. There are other international institutions that also play important roles in the international financial architecture in which developing country participation is either limited or virtually non-existent. These include the Bank for International Settlements (BIS), along with its Basel II Committee, and the Financial Stability Forum (FSF).

47. The G8 Summits, as an “ad hoc grouping that makes policy recommendations with global implications,” continues to be an exclusive club of developed countries (except for Russia). Developing countries on a highly selective basis are invited to participate, but only in marginal discussions on topics of special interest to the G8 summit host.

3. Governance Issues at the WTO

48. Governance reforms in the WTO also leave much to be desired, although significant changes have taken place since the time of the Monterrey meeting. Issues relating to internal WTO institutional governance processes have long been recognized by, and been placed on the agenda of, the WTO. This is primarily due to the fact that the existing institutional governance mechanisms and processes have given rise to questions of transparency, inclusiveness, participation, and efficiency in decision-making in the organization.

49. The difficulties faced by developing countries in the context of the WTO’s decision-making processes are basically an institutional problem. In addition to the process issue, which affects the qualitative nature of individual country participation in WTO decision-making, there is the participation capacity question, which is a function of the size and expertise of the Member’s
delegation in Geneva and the extent to which it gets adequate and effective technical and policy support from the capital.

50. Developing countries have sought to overcome these constraints by increasing their reliance on informal groupings or coalitions, especially since the launch of the Doha round of trade negotiations. They participate in the Doha negotiations both directly - i.e., as individual Members - and indirectly, as members of various groups or coalitions. It is particularly so with respect to the major negotiating issues of agriculture, NAMA, and trade facilitation. Developing countries have learned to work together in cohesive groups or coalitions based on their self-identified interests in a much better and more coordinated way as compared to, for example, the way in which they interacted prior to the Seattle Ministerial Conference in 1999. The result has been a marked improvement in the extent of overall developing country participation in the WTO negotiations, albeit indirectly and informally.

4. The United Nations’ Role

51. The United Nations continues to be marginalized as a global economic policy-setting institution, although there have been some positive changes. These include the creation of the Committee of Experts on International Cooperation in Tax Matters that could conceivably allow the UN to play a greater role in expanding tax cooperation activities at the international level.

52. The annual meetings of the ECOSOC, World Bank, IMF, WTO, and UNCTAD were intended to help improve the level of coordination among these UN bodies and other institutions. However, rather than coordination, the general trend of the meetings has been the conduct of roundtables and discussions that do not result in any actual policy decisions. As a result, there is little evidence that institutional coordination in terms of accountability and reporting on the part of IMF, World Bank, or WTO has improved. Nor are there any formal procedures that ensure that the activities of those institutions support ECOSOC-endorsed development objectives and goals.

53. With respect to development cooperation, the establishment of the Development Cooperation Forum (DCF) under the ECOSOC is a positive step. However, it remains to be seen whether the DCF can live up to its mandate and gets to serve as a multilateral mechanism for ensuring development cooperation in all its forms (not just ODA) and supporting and promoting growth and development in developing economies.

III. FINANCE AND DEVELOPMENT: NEW CHALLENGES

54. The current economic environment can be summed up in terms of its diverse country economic performance, increased income inequalities, uncertainties from the turmoil in financial markets and high commodity prices, and
increasing worries over climate change. With the existing international financial and trading system virtually ineffectual, there is no sufficiently representative multilateral framework where these concerns could be addressed in a coordinated manner.

55. Poverty alleviation has come to be recognized as a major challenge for the world community. The UN’s Millennium Development Goals (MDG) include the target of reducing the share of the extremely poor (living on less than $1 a day) in the population to 10 per cent by 2015. In global terms, there is evidence that, over the last decade or so, the proportion of population in extreme poverty declined significantly. However, the reason for this evident improvement is essentially the extraordinary performance of China and India, the two economies with the world’s largest populations of the poor. The sad fact remains that in the world’s other parts – in Latin America and Africa – poverty indicators have shown little improvement. The situation is actually worsening due to the steep rise in energy and food prices, causing hardship to not only the very poor but also middle-classes in developing countries. It is estimated that more than 100 million people have been pushed into poverty on account of higher food prices over the last two years.

56. Apart from regional difference in income and absolute poverty levels, income inequalities between individuals have risen universally, but particularly in Latin America and Africa, where the income share of the richest 20 per cent of the population is almost 20 times that of the poorest 20 per cent, compared to Asia and Europe and Central Asia where the ratio is below 7. However, the increase in inequality was more pronounced in economies growing rapidly while it remained relatively stable in economies with low growth.

57. There are differing views on why there has been an increase in income inequality. The World Bank – the champion of failed structural adjustment policies – attributes it basically to technological progress, which reduced the demand for low-skill activities, thereby reducing the earnings of low-skilled workers in both developed and developing countries. On the other hand, according to the recent report of the Growth Commission, much of the increase in income inequality could be attributed to globalization, which resulted in large movement of economic activities from one location to another, though labour-saving technologies, particularly in information processing, were also identified as a contributing factor. The fact, however, is that it is basically the neoliberal policies – targeted at improving “efficiency” and removing “labour-market rigidities” – that brought about a fundamental shift in the power relations between capital and labour virtually everywhere, and hence caused income inequality to rise. The countries that were particularly aggressive in following such policies also witnessed the sharpest increases in income inequality.

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8 World Bank, Global Monitoring Report, p. 35.
58. The global economy at present faces a number of uncertainties. What will be the impact of the current financial turmoil on the general wellbeing? Can the growth momentum observed in recent years be sustained on environmental grounds? Can the industrial economies willingly adapt themselves to the rise of some developing countries as major economic and political powers? Will the world be able to avoid the tensions arising out of increased scarcity of essential raw materials, notably, oil and metals? And, not least, can the existing international financial and trade architecture cope with these challenges?

59. It is far from clear whether financial difficulties in the United States and other industrial countries have been brought under control, but one thing seems reasonably certain: developed countries face a period of stagnant or slow growth combined with mounting inflationary pressures. This will necessarily slow down the growth in the developing world, despite the reduced dependence on industrial-country markets. This situation is likely to get prolonged because of the combined effect of reduced financial flows to developing countries and higher prices for the critical materials for development, notably, oil, metals, and minerals.

60. There is a significant, though indeterminate, element of speculation in the price spike, with traders taking long positions that are financed by the rather low cost of current borrowing, itself a result of efforts to combat the financial turmoil that started with the sub-prime crisis. There has been an increased activity in commodity futures and some 50 new commodity-linked funds have been launched in the US alone. According to one estimate, some $260 billion is now invested in commodity-linked funds – much of it purely speculative – compared to barely $13 billion five years ago.\(^\text{10}\) In the oil market, the daily volume of futures contracts has averaged in recent months at eight times the daily crude oil production.

61. This situation cannot obviously last; at some point the speculators will cash in their options and commodity availabilities should increase. But there are also longer-term concerns that the increase in prices of essential raw materials may be durable if developing countries continue to grow at the recent pace. The world just does not have, it is argued, sufficient resources to meet the increased demand from the developing world. Already the largest developing economies are competing for resources with the traditional industrial countries, and much of the foreign direct investment is driven into extractive industries. This does not augur well particularly for the less advanced, economically weak countries, even as countries endowed with scarce resources will enjoy for a while the benefits of increased rents.

62. Climate change poses risks for all, but it is likely to affect disproportionately those least able to adapt to environmental changes. It could seriously undermine economic development through increased frequency and severity of natural disasters, decline in agricultural productivity and food security, and so on.

\(^{10}\) Desai, Meghnad, “Act now to prick the oil price bubble”, *Financial Times*, 5 June 2008.
further spread of water-related diseases, population displacement and conflicts over scarce resources. With increased climate variability and risks, the poorest countries and communities are likely to suffer the earliest and most because of their geographical location, low incomes, and low institutional capacity, as well as their greater dependency on agriculture, which is particularly sensitive to weather conditions.

63. The leading industrial countries have now at least moved away from denial to recognition that there is a problem, though its seriousness is still debated. It is also the case that despite ongoing efforts at mitigation, global greenhouse gas emissions will continue to grow. This may discourage policymakers, but inaction is likely to be very costly. Estimates vary widely, but according to the Stern Review, which made a careful attempt at analyzing the problem, the overall costs of climate change without any remedial action could be equivalent to a yearly loss of at least 5 per cent of global GDP over an indefinite period. The cost of adaptation to climate change – needed most of all in the most vulnerable poor economies – is even higher. In short, dealing properly with the climate change issue will require channelling enormous resources (both financial and technological) from developed countries to support adaptation in developing countries and to enable them to embark on a low-carbon development path.

64. Climate change and rising commodity prices are symptomatic of the shrinking of earth’s resource base in relation to demand. A sense of resource scarcity – real or perceived – is liable to generate global tensions and insecurity among competing nations. The question turns on whether countries with already high living standards will allow “space” to countries aspiring to reach those standards. This is probably the most serious challenge that confronts the world community. The closed club of advanced industrial countries is under pressure to open up to new entrants; the question is whether the required adjustment would be smooth and harmonious or brusque and painful.

65. Given the challenges of accelerating growth in lagging countries, removing poverty and acute income inequality, and dealing with the turbulent financial markets, a coordinated approach is conspicuous by its absence. The IMF, the World Bank, and the GATT, now WTO, were created to play a pivotal role in the emerging post-war international financial and trading system. Each of the three institutions is facing what amounts to an “existential crisis”, i.e., their mandates, structure, and viability are under a question mark.

66. Since the breakdown of the system of fixed exchange rates in 1972, which was the cornerstone of the post-war financial system, IMF has struggled with its role through a patchwork of innovations and amendments. It continued to provide critical assessments of country performance, but it had no leverage save on countries that needed to borrow from it. Typically it had no influence on macroeconomic policy of the leading industrial countries. It played a prominent role in the debt crisis of the 1980s as well as during the various
financial crises of the 1990s, but its involvement was hesitant, ponderous, and characterized by adhocracy.

67. It is, however, the IMF’s policy advice during the Asian financial crisis in 1997 that dealt a severe blow to its credibility, with the consequence that it was effectively sidelined during the Russian and Argentinean financial crises of the late 1990s and the early part of this decade (leaving aside its possible contribution to making a bad situation worse). There is now a widespread disinclination to seek its advice or resources in times of balance of payments difficulties. A large number of developing countries have built up foreign exchange reserves as a self-insurance against financial difficulties. A direct consequence of the reduced IMF lending is that the institution’s income has declined sharply and staff have to be laid off to keep its administrative expenses manageable.

68. The World Bank is a bank as well as a development institution although it struggled some years ago with the notion of turning into a “knowledge bank”, i.e., if it could not lend money, it could proffer good policy advice. Its rationale lies in its ability to transfer resources to the developing world, but in order to continue to do so, its lending must grow at a certain minimum threshold rate, driven by the terms of its lending. This, the institution has not been able to do for a variety of reasons. Its borrowers have complained of slow loan-processing procedures, demanding conditionality, and the rise of commercial banks and private investors as purveyors of capital. The Bank’s major shareholders are little interested in raising its capital base, which would be necessary if lending is to continue increasing. In short, with its net resource transfers to developing countries negative now for a number of years, one may reasonably ask whether such an institution, with an administrative budget of over $1 billion, need continue.

69. The problems for the WTO started from its inception. One, there were a number of unresolved issues, as a legacy of the Uruguay Round, which proved difficult to settle. Two, it started on a new round of trade negotiations – the so-called Doha Development Round – against strong reservations on the part of developing countries. These negotiations proved to be difficult and time-consuming, and, as of now, seem unlikely to conclude in the near future. One reason is that developing countries are today much better organized and cohesive in their negotiating positions vis-à-vis the industrial countries. But a serious threat to the international trading system comes from the proliferation of bilateral and regional trade agreements, itself symptomatic of the failures of the multilateral system. In the process, the

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11 The Wall Street Journal recently reported, “What if there was a global financial crisis and no one called the IMF? Even better, what if no one even noticed the International Monetary Fund wasn’t there. We’d call it progress, and further evidence that the one-time financial ambulance service has outlived its usefulness.” June 7, 2008.

12 This idea did not go very far, because the Bank’s knowledge generation and creation in fact depend critically on its lending operations, which give it the income to finance research as well as the experience to share. It is also probably the case that countries heed its advice largely because of its lending.
cornerstone of the post-war trading system – the “most-favoured-nation” treatment – has been rendered ineffectual.

70. The Doha meeting provides a multilateral setting where today’s economic and financial concerns could be addressed and a roadmap for a coordinated action and overcoming the institutional weaknesses could be forged.

IV. THE DOHA MEETING: BUILDING ON MONTERREY CONSENSUS

71. The rapid economic growth in the developing world raises two distinct questions: (i) Will there be adequate real and financial resources that would make that possible for all developing countries in future; and (ii) Will the developed countries be sufficiently resilient and accommodating to the principles of equity and fairness in the sharing of global public goods and in the global economic governance. These two questions could very well provide the underpinnings for the discussions at Doha. Developing countries would participate in this meeting, not as supplicants, but as a group that has an equal if not greater stake in establishing a responsive, efficient, equitable international financial and trading system.

72. The six thematic chapters of the Monterrey Consensus provide a convenient framework for discussion of the key FfD issues, but there is the risk that the inherent inter-linkages between the subjects would be obscured. The six “review sessions” that were organized at the UN, as part of the FfD preparatory process, are a case in point.

73. Conceptually, financing for development contains three basic components:

(i) Resources for development, which include both domestic resources and external resource inflows, i.e., from official sources (ODA and concessional finance from IFI) and private sources (commercial bank lending, FDI and portfolio capital flows) but taking account of the outflows, i.e., reverse capital flows and the servicing of external debt and obligations.

(ii) Trade-finance-development linkages, specifically ensuring that the interaction between international trade and financial flows supports, rather than thwarts, economic development. And,

(iii) The governance of the international financial and trading system, ensuring coherence in policies, on the one hand, and adequate representation of all players in its design and management.

74. The discussion that follows is structured around these components, though the links with the Monterrey thematic chapters would be readily apparent.
A. Resources for Development

1. Domestic Resources

75. A number of factors helped in the overall improvement in the recent economic performance of developing countries, including a generally favourable international trading environment and improved economic management at the country level. One thing that stands out globally – in Asia as well as in Africa – is that the past few years witnessed much higher rates of investment and domestic savings. In actual fact, developing countries’ performance with respect to domestic resource mobilization was much better than foreseen at the time of the Monterrey meeting. This contrasts sharply with the excessive consumption in some of the major developed economies. Instead of relying on external resources, as in the past, developing countries are increasingly financing their infrastructure and other critical investments from domestic sources.

76. If that was all there was to say on the subject, the Doha meeting could move on to other topics. However, it is important to reexamine – and challenge – the conceptual underpinnings of the chapter in the Monterrey Consensus document. The MC chapter reflected basically the prevailing notion that developing countries were characterized by a savings gap that needed to be filled first through measures to raise domestic savings and then through external finance. However, the reality is that the two are intimately linked in several respects. For one thing, the difference between the two financing sources is essentially one of timing: contracted debt has to be repaid and income on FDI has to be repatriated, which is only possible with sufficient domestic savings. It is also the case that FDI and bank lending follows, rather than causes, domestic investment and growth.

77. The view that savings lead to investment, which in turn causes higher growth, puts in a way the cart before the horse. Policies designed to mobilize savings and cut consumption tend to retard growth without curbing inflationary pressures, as has often been the case under the IMF’s stabilization programmes in developing countries. MC rightly underscored the importance of investment climate for attracting foreign investment, but it confined itself to governance issues (transparency, proper regulation, property rights, etc.) and assigned little weight to the role of proactive fiscal and trade policies targeted at promoting growth. Under the Washington Consensus, the fundamental Keynesian message that investment creates its own savings was lost even though it is commonly observed that savings rates rise as government’s revenues rise and the private sector exploits investment opportunities when economies grow rapidly.

78. There is little dispute that for policies to succeed the institutional context does matter and governance problems need to be overcome. However, care is needed in pressing on this point because governance improvements are difficult to impose from the outside, they are difficult to replicate (“best practice” is highly contextual), and improvements are slow and closely
dependent on the results themselves (success feeds on success). Certain institutional weaknesses (especially in the financial sector) do impinge on domestic resource mobilization, and these need to be carefully identified and targeted for remedy. But sweeping generalizations on “best practice”, which are a favourite of BWI and other financial institutions, are of little help and should be resisted. There is obviously a great deal to learn from the experience of the successful economies, but care, ingenuity, and grasp of local conditions is necessary for its application in other locations.

79. The impact of international environment on domestic resource mobilization is usually given little attention. Terms of trade changes can make huge difference to savings and consumption in developing countries. In the current climate of fear about inflation reverting – originating as it does from the spike in oil and food prices – pressures are mounting in developed countries to raise interest rates and adopt a restrictive monetary policy. This would obviously have serious implications for developing economies, especially those with already faltering growth. It is also likely that countries in distress will return to the IMF and be obliged to adopt its standard stabilization programmes, along with belt-tightening and falling consumption and investment. Here, as in other respects, the issue of policy space is central, i.e., whether countries would be allowed “heterodox” approaches to dealing with their problems. Major developed countries have been applauded for not following the IMF textbook but rather adopting pragmatic policies. Could the South be allowed similar latitude in policymaking?

80. A serious loss of domestic resources in developing countries occurs through money laundering and other illegal money transfers. Strengthening of tax cooperation with the North and countries with tax havens can be expected to go a long way in capturing this source of finance. The UN Committee of Experts on International Cooperation in Tax Matters was established in 2004 towards this end. The committee has met regularly and has made advances in clarifying issues related to tax cooperation. Developing countries and civil society have urged that the status of this body be elevated to a UN commission, a step that the Doha meeting might seriously consider.

2. External Resources: ODA

81. Official development assistance was one of the more contentious subjects during the negotiations leading to the Monterrey meeting. At issue was not only the aid magnitude and fulfilment of donors' prior commitments, but also aid effectiveness and conditionality.

82. Inadequate progress with respect to the Monterrey commitments on aid has been noted, and developing countries can be expected to seek reaffirmation of these commitments at the Doha review meeting. However, current circumstances dictate that developing countries aim to go beyond that. For one thing, MC itself was a compromise, made at a time when the developing world was as it were on “its back foot”.

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83. The issue of aid conditionality and architecture also requires better articulation of developing country interests at the Doha meeting. The limitations of the Paris Declaration on Aid Effectiveness have already been noted. It has not succeeded in its principal goals of aligning aid to domestic programmes, arresting fragmentation of aid delivery mechanisms, and making aid more predictable. Instead of reduced conditionality, conditions are being bunched into fewer headings and there has been a discernible shift to conditionalities for reforms relating to domestic “good governance” (e.g. public procurement). There is little evidence of harmonization in aid programmes across donors or with respect to recipients’ plans.

84. The progress with respect to the PD will be reviewed at the forthcoming meeting in Accra (September 2008). It is therefore necessary for developing countries to ensure that the Accra meeting does not “trump” the Doha meeting, i.e., its outcome is not allowed to preclude further discussion of the issue. This is all the more necessary because there are now increasingly influential developing country actors in the provision of development assistance (not simply ODA as defined by the OECD-DAC) who are not members of DAC and are not subject to the Paris Declaration. China, for example, has a development partnership programme that exceeds $2 billion and is already providing more support for infrastructure development in Africa than the World Bank and regional development banks put together. India and oil-producing Arab countries are other large sources of development support to other developing countries. To reflect the changing landscape of international development cooperation, the current OECD-DAC/World Bank-dominated international aid architecture must be fundamentally reformed.

85. Discussions also need to start on developing, in the context of the international aid system, a strategy to exit from aid, which would be the true test of aid effectiveness. The ultimate goal of all aid should be to enable recipients to become aid independent within a reasonable time frame, and this should be the context for evaluating aid effectiveness. The South Centre has launched a major initiative to generate ideas on how aid exit strategy might be developed and implemented as a key component of the aid architecture.

86. The Development Cooperation Forum, established under the UN ECOSOC, could conceivably be made to provide an avenue where difficult and sensitive issues on aid effectiveness are discussed without raising anxieties or fears on the part of donors or recipients. It could provide a parallel forum to the OECD-DAC framework, facilitating discourse on governance aspects of international development cooperation that is at present skewed in favour of the traditional donors. This might also encourage the new donors to become more active in conversation on aid in its normative (i.e., issues of governance, human rights and rule of law) as well as its operational dimensions (i.e., harmonization, accountability, etc.).
3. Financing for Climate Change

87. As noted in Part II, the issue of climate change has far-reaching implications for both development and finance. The question of sharing of costs of mitigation and adaptation between the developed and the developing world requires an open and honest discussion, guided by the following considerations:

a. The source of today’s climatic and environmental degradation is principally the more advanced, industrial countries, and the situation has assumed the crisis proportions mainly because there was no accord among those countries on the extent or nature of the problem;

b. The right to develop and to improve their wellbeing in the South cannot be denied, and, while everything should be done that their development is “clean”, there is no question that their contribution to pollution would increase over time. Its corollary is that if the environment is to be stabilized at some level, it will have to be largely on account of mitigation efforts on the part of developed countries.

c. Both because of their past contribution to the problem and because of their higher incomes, the cost of mitigation/adaptation etc. will have to be borne largely by those countries.

d. While schemes like carbon trading could work within individual countries, or even geographic regions, their adoption internationally is both impractical and unwise. The basic assumption behind such schemes is that those who can afford to pay could continue to pollute while the poor are “bribed” into accepting the status quo.

88. The United Nations Framework Convention on Climate Change provides the institutional setting where all these issues can be debated and discussed. It should be recognized that climate financing is not foreign aid as conventionally understood, but rather it is – under the UNFCCC – a legal obligation on the part of developed countries. It is critically important that the treaty’s mandate is not diluted or compromised by parallel arrangements, involving other institutions or actors. There is a legitimate concern that some donors intend to rely on the World Bank for disbursement of environment funds, which could seriously undermine the UN process. Developing countries would suffer directly since World Bank financing is likely to be in the form of loans rather than grants.

4. External Resources: Private Capital Flows

89. Private capital flows take basically the form of commercial bank lending, FDI or portfolio investment, i.e., investment in the recipient’s stock market. This section discusses FDI and portfolio investment (the two are not always sharply distinct); the issue of commercial bank lending is taken up under the heading of the external debt issue.
90. Given that the supply of ODA is severely constrained, private capital flows could in principle provide an important supplement to the resources for development. However, in practice, it is not always so. For one thing, this source of financing seems to follow the Biblical dictum, “He that hath shall be given”. The increase of private flows to developing countries in recent years has been impressive. These flows rose by more than tenfold between 1990 and 2006 and the developing-country share in the global total stands now at about one-third. However, the principal beneficiaries are the emerging market economies; more than 80 per cent of the inflows go to just 10 countries. Low-income countries receive only a tenth of the developing country total, with African countries receiving barely one per cent. There is some evidence that private flows are correlated with GDP in developing countries.

91. How to make foreign private capital flow to the vast majority of the bypassed developing countries is therefore a core finance-for-development issue. MC’s position in this regard mirrored more or less the established viewpoint of the international financial community and Northern governments, i.e., it urged developing countries to improve the “investment climate”, curb corruption, make laws and regulations transparent, adopt internationally established codes and standards governing financial institutions, and not discriminate against foreign investors. It is difficult to take issue with this advice, except that it is not particularly helpful as much of governance improvement is usually the result of development itself. The fact is that while the listed measures might help, foreign investment is driven by a host of other considerations. Private foreign capital has shown remarkable tolerance for corruption and other governance weaknesses in economies where it sees investment opportunities, typically those with exploitable natural resources and rapidly growing industrial or service sectors.

92. A closely related issue is the actual development impact of foreign investment. Portfolio investors generally have a short-term horizon and their investments tend to be pro-cyclical, i.e., they accentuate the business cycle. Countries with no or light regulation of capital movements have been subject to speculative activity. Their currencies appreciated over the past few years on account of inward capital movements, making their exports uncompetitive and causing asset price bubbles. A certain portion of this capital has been in the nature of “carry trade”, whereby highly leveraged investors seek to take advantage of higher interest rates. Monetary policy in such situations is ineffectual, if not perverse, when an increase in interest rates further attracts foreign capital.

93. Greenfield FDI remains relatively small and investment in local infrastructure modest. In a number of countries, it is basically the privatized industry that has attracted foreign investment. In order to enhance the contribution of foreign capital to national development, it is necessary to bridge the apparent gap between private and social returns as well as to price risk appropriately in the cost of capital. Both require targeted state intervention and devising ways to risk sharing between public and private institutions.
94. Private capital flows are also highly sensitive to the state of the global economy and the major developed countries' monetary policy, which affects the supply of liquidity as well as the pricing of risk. With the liberalization of capital markets – a process started basically in the 1980s – there have been a succession of episodes of “irrational exuberance” in international capital movements, resulting in consumption binges and asset price bubbles, including real estate, in developed as well as developing countries. When corrective action is taken, it has been the developing world that has mostly borne the brunt of adjustment.

95. Although the pressure from the IMF and other external agencies on developing countries to open up their capital accounts is weaker today than it was some years ago, a number of them have already done so. These countries face serious risks in the current environment of increased economic and financial instability. As a result of the sharp depreciation of the US dollar, developing countries with large reserves in US dollars – the principal reserve currency – have experienced an erosion of value in terms of currencies of their other trading partners apart from their own national currencies. Particularly vulnerable are the countries that combined the build-up of dollar reserves with foreign borrowing, especially those with high proportion of external debt denominated in appreciating currencies, such as euros or Japanese yens. They are also losing resources to the extent that the cost of their external borrowing is greater than the return on investment of their foreign exchange reserves.

96. Until now, the main beneficiary of the reserve build-up in developing countries has been the United States, whose current account deficit now stands at 7 per cent of GDP. Their investment in US treasuries has helped to finance the US budget deficit, while keeping the cost of public sector borrowing low. The rise in sovereign wealth funds (SWF) is a response to the need for diversification of the countries’ foreign exchange holdings and investment. But instead of welcoming SWF, many in the developed countries view them as threatening even though they have made huge capital infusions (estimated at $55 billion) to failing American and European financial institutions in order to strengthen their balance sheets. Developing countries might explore whether these funds could become a significant source of financing for development.

97. The Doha meeting does not provide an ideal venue for discussion of what are essentially technical financial issues, but it should provide broad guiding principles in the regulation of the world financial markets. In particular, it could underscore the necessity of controls on capital movements, along with regulations, codes and standards that are supportive of economic development and which are implementable by developing countries. This is unlikely to occur unless developing countries have better representation in norm-setting bodies, such as the Bank for International Settlement. Equally, there is a need for greater regulation of the rating agencies, as European countries have come to demand.
5. External Debt

98. Unlike the Monterrey meeting, external debt is not a pressing issue for developing countries at Doha. Six years ago, some of the world’s poorest countries were deeply mired in debt and faced economic and financial difficulties with no end in sight. Argentina was in a deep financial crisis and Asia was still recovering from the aftermath of the 1997 financial crisis.

99. HIPC and MDRI have done much to relieve the burden of official bilateral and multilateral debt on some of the poorest countries. The access to debt relief under these initiatives, however, required fulfilment of stringent conditionality, and the HIPC was very slow in getting off the ground. All the same, a number of developing countries have indeed seen a substantial reduction in their official external debt. Another reason why external debt has receded in public discussion is that, following the traumas of the earlier debt and financial crises, developing countries have become generally more reticent in contracting new debt.

100. There remains, however, a strong case for designing debt resolution initiatives for the middle-income countries as well so that their growth and development programmes are not frustrated during a time of general economic and financial uncertainty. It would be necessary to ensure that the international financial institutions are adequately funded for this purpose. The resources for the past write-offs of multilateral debt actually came primarily from the institutions’ reserves, accumulated over the years from the income earned on their lending to the developing countries.

101. Generally, past handling of the debt problem was fundamentally inefficient; it helped neither creditors nor borrowers. The Brady Plan was introduced some six years after the Latin American debt crisis broke in the early 1980s, while the HIPC initiative was fashioned only after conditions in the poorest countries had become truly dire, with collapsing living standards and dramatic falls in nutrition and health among the poorest segments of society. Recognition of a situation of insolvency at an early stage is fundamental to minimizing the damage, as protracted negotiations and ad hoc handling of arrears simply feed uncertainty and damage the prospects for economic recovery in a debt-distressed country.

102. Following the Monterrey meeting, the IMF initiated a discussion on a proposed mechanism to restructure sovereign debt – the so-called SDRM – which was aborted following the reported pressure from a combination of developed country governments and private financial institutions. This mechanism would have involved debt restructuring through adjustment in interest rate, principal, and repayment period. Although the need for some mechanism for orderly resolution of the debt problem still remains, the issue has lost salience in policy discussions. The Doha meeting provides an opportunity to bring this issue back into focus.
103. Some novel ways have been used to keep the debt burden manageable in the context of South-South borrowing. One example is the repayment of debt in kind, in terms of specified amounts of exports. This is helpful when the foreign exchange availability is constrained and exchange rates and commodity prices fluctuate widely. The so-called GDP-indexed bonds are a variation of the same approach, i.e., linking debt repayment to the borrower’s capacity.

104. There is a common perception that the developed countries have not been really serious in finding a lasting solution to the chronic external debt problem in developing countries. Under the Washington Consensus, integration with the global economy was the principal goal of economic reforms and the international financial institutions viewed the notion of resolving the debt problem as basically one of creating conditions for a country to return to the world capital market for more borrowing. This simply perpetuated the debt burden though temporarily relieving its extreme form. It is also the case that for the external debt to be repaid and reduced over time, the indebted countries must run trade surpluses (reminiscent of the classic “transfer problem” of the inter-war period), which the creditor countries may not be too eager to permit.

105. The World Bank and IMF have jointly developed a framework for debt sustainability for low-income countries, which is aimed at helping policymakers to avoid future debt crises. Under this framework, external debt projections are analyzed, an assessment is made of the risk of “debt distress”, and recommendations are made with regard to a country’s appropriate external debt strategy that avoids getting into trouble. It could be a useful tool but one that must not be employed mechanically. Prediction of debt distress as such is usually not the real problem, for future servicing of the debt is fairly reliably known several years in advance. It is mostly the imponderables— a sudden sharp rise in interest rates or terms-of-trade and currency shocks— that trigger financial crises. The World Bank/IMF framework for debt sustainability in effect requires that developing countries get everything absolutely right to stay out of trouble, which is of course quite unrealistic.

106. There is therefore a need to reinstall the discussion of debt issues and debt exit back into the FfD framework. In this regard, the conceptualization of debt sustainability should be questioned as it simply amounts to allowing existing debtors to borrow more in order to service debt, rather than to get out of debt. Caution is also needed in bringing South-South debt relief into existing North-South debt relief forums. In particular, attempts to have Paris Club terms apply to South-South bilateral arrangements on debt relief should be opposed.
6. South-South Development Financing

107. FFD Doha must also ensure that South-South cooperation with respect to development financing is encouraged but not, however, be brought within the existing North-South framework of development financing and ODA. At the same time, thought should be given to designing optimal modalities for South-South financial cooperation for development. The developing country SWFs could facilitate South-South development financing through the creation, expansion, and support of regional development banks to fund infrastructure, environment, etc. In other words, the Doha meeting could seek to strengthen South-South and development financing institutions rather than subscribe to Northern frameworks.

B. Trade for Development

108. International trade and integration into the global economy can be a force for the good, but not necessarily so. The growth in developing country exports – whether through the rise of labour-intensive products or through improved commodity prices – has been a major contributor to the improved country performance in the recent past. It is a legitimate developing-country concern that such gains from international trade have some permanence and that economic growth can be sustained over the coming years.

109. The Monterrey Consensus underscores the importance of “international trade as an engine of development” but it does not quite do justice to the subject. In fact, this is perhaps its weakest chapter, with a focus essentially on the need for trade liberalization and making the Doha round of trade negotiations a success. There are passing references to the commodity problem and some other topical trade issues, but the MC text more or less ignores some of the other pressing developing country concerns over international trade and integration into the global economy.

110. MC’s preoccupation with openness and trade liberalization reflect essentially the dominant view of the time. In fact, this has been a policy area where economists in BWI and other financial institutions have been most insistent. The issue for developing countries, however, is not openness vs. autarchy, but rather one of managing their integration into the global economy. The so-called miracle economies of East Asia, which were never paragons of economic liberalism, had adopted all manner of interventions to promote their nascent industries. Today’s successful stories – China and India – also do not provide testimony to the great benefits from free markets and an unbridled free-enterprise system.

111. It is also the case that the countries that were forced to liberalize against their national priorities – as part of conditionality imposed by the international financial institutions – often found themselves with serious budgetary strains (because of the loss of import duties), rising trade deficits
(which increased the dependency on foreign capital), and collapsed nascent industry. In a number of developing countries, IMF insisted on tariff rates lower than their WTO-agreed “bound” rates. In fact, the current food crisis in developing countries can be seen to have its roots in the liberalization measures that discouraged food production in favour of cash crops for export. In short, instead of pushing countries towards efficiency, which was the principal goal, trade liberalization pushed countries into bankruptcy.

112. The first task for developing countries is therefore to debunk the mantra of free trade: few countries have followed it, least of all the industrial countries. This does not imply complete closure of economies but rather integration into the global economy driven by the imperatives of national economic development and protection of the vulnerable.

113. The blurring of the linkage between finance and trade was MC’s major weakness. Balance of payments shocks – no matter what their source – first impinge on trade, as the meeting of external financial obligations takes precedence over other aspects of macroeconomic management in developing countries. This has inevitable consequences for a country’s economic growth and development. However, at the global level too, trade and financial flows can turn perverse and combine to make a bad situation worse, a real threat in the present financial environment.

114. The developing countries’ most pressing concern right now is the hike in energy and food prices, which is being fuelled by speculation and the depreciation of the US dollar. The fundamentals of supply and demand can be expected eventually to begin asserting their force, but this could take time. In the meanwhile, action is needed at the international level to curb speculation. Some countries have attempted on their own to deal with this problem by putting curbs on speculative activity but have found themselves powerless in the face of their global linkages and obligations.

115. The commodity problem was another area that was neglected under the sway of the neoliberal ideology, which viewed it basically as one requiring removal of market distortions and counterproductive government interference. There is a renewal of interest in commodities on the part of industrial economies and international development agencies, at least partly stimulated by the high commodity prices. During the time of low prices, which lasted well over two decades, there was as it were a “conspiracy of silence”.

116. Although prices are currently high, commodity producers remain vulnerable to the vicissitudes of the global market. Particularly in the case of agricultural products, producers have faced, on top of low and fluctuating prices, a diminution of their share of income in the global supply chains and the emergence of widening spreads between the retail price in consuming countries and the farm-gate price. While developing country producers face only a handful of buyers (usually large international trading companies) that determine the price they receive, final consumers face markets characterized
by monopolistic competition. The result is that commodity producers lose both ways: first, because they do not enjoy the full benefit of a price increase, and, two, when prices fall, there is little increase in sales volume because retail prices in consuming countries are sticky. This disconnection between producer and retail markets makes the market signals weak or perverse.

117. The declining position of developing country producers in the supply chain is not, however, confined to traditional agricultural commodities. It is also evident in such new exports as cut-flowers and traditional labour-intensive exports, i.e., garments and simple assembly operations. This phenomenon has complex causes, but three developments are noteworthy, viz., the increased influence of large corporations on national policies in industrial countries, a high proportion of world trade consisting of intra-firm transactions (roughly one-third in the case of the United States and Japan), and increased concentration in some key export markets of interest to developing countries.

118. The damage to the world trading system resulting from the proliferation of bilateral and regional trade agreements has been noted. These arrangements pose serious threat to the development and survival of nascent industry in developing countries. Apart from lowering or even eliminating trade barriers, the trade agreements often contain provisions concerning rules relating to FDI, capital account liberalization, intellectual property protection as well as clauses on labour and environment standards. Developing countries have been remarkably accommodating of industrial country demands under bilateral agreements, even as they collectively opposed those measures in the WTO. This evidently contradictory position on the part of developing countries is likely to have done more harm to the fight for “policy space” than the tightening up of WTO rules.

119. The above range of trade-related issues – the commodity problem, the increased market concentration, the replacement of trade policy by extra-market corporate strategies – are in the nature of “orphans”, i.e., there is little systematic discussion in international forums and no institution is engaged with them on a regular basis. They should in principle be UNCTAD’s domain, but over the years its resources and mandate have been clipped, largely because of the developed country pressure.

120. Developing countries could afford to be more ambitious at the Doha Review meeting with regard to international trade. The development round of trade negotiations should have a bearing on the FfD meeting and vice versa. Market liberalization in the industrial countries must obviously be sought, but no less important would be the grant of flexibility in the design of trade policy in the South. Imbalances in the world trading system – notably, the agricultural subsidies in developed countries – also need to be redressed. Finally, environmental concerns must not be allowed to turn into a means for increasing protection against developing country exports.
121. Beyond these basically traditional concerns, consideration should be
given to starting a discussion on rules governing international competition at
the Doha meeting. Developed countries have institutions that carefully vet
each major merger or acquisition (especially if it concerns a foreign investor
taking over a national company) to protect national interest and domestic
competition. Developing countries have no such institutions and are
generally hesitant to undertake close scrutiny in fear of losing foreign
investment altogether. It is for this reason the idea of developing countries
having appropriate competition policy at national and regional level to guard
domestic enterprises from foreign takeovers is worth exploring and
“financing for development” provides the appropriate context.

C. Global Economic Governance

122. The current situation is that the international financial system is really
no system at all. There are no mechanisms in place that allow systematic
multilateral oversight of cross-border capital flows or universally accepted
rules governing the functioning of international financial markets and foreign
exchanges. Nor is there a known, reliable institutional basis for avoiding or
managing incipient financial or debt crises. Until now, the US dollar has
served as the principal reserve currency, a role that is under threat because of
its sharp depreciation against other major currencies. However, the shift to
another currency (or currencies) is unlikely to be either smooth or without
perils. As a minimum, the new reserve currency would need to maintain its
value while being sufficiently liquid to facilitate the conduct of world
commerce. In other words, the new reserve currency should be scarce but not
too scarce.\textsuperscript{13} The euro, the likely candidate, is not quite there yet.

123. In an earlier part of this paper, the sad – if not dysfunctional – state of
the present international financial architecture has been noted. Since the time
of the Monterrey meeting, IMF has become a relatively minor player in the
management of global financial problems and its advice as the overseer of
good macroeconomic housekeeping goes unheeded in the major world
economies. IMF was given the task of economic surveillance but was never
formally assigned a role in the regulation and management of the global
macro economy. Its leading shareholders balked at the idea of its turning into
the “lender of last resort” in dealing with financial crises. The institution has
leverage only over countries that turn to it for help, and then too its policy
prescriptions have been found to be unhelpful to economic growth or
development.

124. The World Bank has its own problems and seeks new ways to stay
relevant as a development institution. IDA, its soft-loan or grant-giving
window, is dependent for its survival on major donors, who are asked to
replenish its funding every three years, and has therefore always been
vulnerable to political coercion. As far as the World Bank’s own lending is

\textsuperscript{13} In the early post-war years, there was the systemic problem of “dollar shortage”, i.e., there were not
enough dollars available to meet the world’s liquidity needs.
concerned, it faces different constraints. First, given its neoliberal message of reliance on free markets and private capital, it has ceased to have a robust rationale for its own lending. Some conservative observers argue that it should cease lending altogether and be limited to providing only grant money. Secondly, in order to remain relevant as a development finance institution, the World Bank must ensure that its net resource transfers to the developing world remain substantial. This it has not been able to do primarily because of the competition from the private capital, not a bad thing per se.

125. The fact is that the original concept of the post-war international financial and trade architecture – covering finance, development, and trade – was never really put in place. Trade remained subject to GATT disciplines until 1996 when WTO was born, but its status as part of the global economic governance was always ambiguous. Somewhat paradoxically though, while international trade came to be governed by certain universally accepted principles, capital movements are not subject to any multilateral discipline. Individual countries, however, do have their own policies and rules governing inflows and outflows of capital.

126. The coordination failure with respect to the prevalent macroeconomic imbalances could have disastrous consequences for developing countries because of their vulnerability to sudden stoppages of credit and economic downturns. Vigorous attempts have been made in the United States and other industrial countries to manage the international banking crisis, but at the expense of neglecting to devise a concerted approach to correcting the fundamental weaknesses in the global economy. It is clear that at some point domestic savings in countries with persisting trade deficits (notably, the United States) would have to be raised while savings in surplus countries lowered. Unless this adjustment is carefully coordinated, the world economy faces the prospect of a global financial meltdown and a severe economic slowdown, if not deep recession. In particular, if policymakers in the industrial countries are overwhelmed by fears of inflation, interest rates are bound to go up with unpredictable consequences for key exchange rates but almost certain adverse consequences for the growth in the developing world.

127. The question for the South is whether this situation should be allowed to continue, with the two BWI institutions becoming less and less relevant over time, or should it discharge its responsibility as the key stakeholder and promote an approach to their complete overhaul. Both institutions are struggling for new mandates: the World Bank through seeking a bigger role in the financing for climate change (and in the process marginalizing the UN) and the IMF hoping for new clients needing its help in the face of growing difficulties created by high energy and food prices and unstable exchange rates.

128. The South could “decouple” itself from the process of reform of the international financial system and come to rely on regional monetary arrangements, such as Chiang Mai initiative and the South American
currency arrangement. Perhaps, the optimal route for developing countries would be to allow the regional monetary arrangements to mature, while initiating on their own the process that would lead to the emergence of a new international financial system. Although this could be done within the BWI framework through gradual, sequential institutional reforms, it is hard to be optimistic about results, given the niggardly progress with respect to the redistribution of IMF’s voting rights.

129. In short, a serious effort needs to be made to initiate discussion on a complete rethink of the international financial system, taking into account not only the evolution of the world capital markets and exchange rate systems but also recognizing the fact that the world economic and political power balance is fundamentally different today from the situation at the end of the second World War. The first Bretton Woods conference was held under the UN aegis for sound reasons, which still remain relevant. Today’s world order demands that if there is to be an overhaul of the international financial system, its broad requirements and parameters be first discussed in a forum that is more democratic and more representative of the people, which is the United Nations.

130. More specifically, developing countries could press for progress on the following issues bearing on global economic governance:

   a. The need for a UN agency assigned with the mandate for global norm-setting on trade, finance, and development, and providing a parallel perspective on global economic and financial issues;

   b. The desirability of developing new indicators that serve as the basis for the subsequent FfD reviews, e.g. having measurable indicators and benchmarks for the achievement of MDG8; and, above all,

   c. Undertaking a holistic reexamination of the international financial system and the respective roles, mandates, and governance structures of its key components.

131. Such demands can be expected to meet strong resistance from the developed countries as they enjoy currently both power and influence in the international bodies, including the UN. But a significant segment of civil society and academic community in the North has started to voice concern over the failure of the international financial system. For the South, the present conjuncture of circumstances provides a precious opportunity to raise its voice, even though it may not be immediately heard. The Doha Review Conference on Financing for Development is an obvious venue to initiate the

14 The recent Growth Report notes: “It is clear to most observers that the global economy has outrun our capacity to manage it … As the number of influential countries grows, it becomes all the more important to establish a mechanism for coordinating their policies. These economies, which now include the larger developing countries, share a joint responsibility for the stability of the global financial system. But there is no international institution that allows them to discharge this responsibility properly.” (p. 103, emphasis added)
discussion on the systemic reforms needed for a robust financial system supportive of the development of developing countries.

V. POST-DOHAGENA AGENDA FOR THE SOUTH

132. This paper has argued that developing countries should set more ambitious goals for the Doha meeting than those realized at Monterrey six years ago, while insisting on the fulfilment of commitments made earlier. The outcome of Doha, however, depends basically on the willingness of developed countries to engage in a serious dialogue on issues that threaten global prosperity and the ability of poor countries to achieve decent living standards. They have been so far reluctant to open substantive discussions on underlying systemic problems afflicting the existing international financial system, preferring the Doha process to be limited to a “review” of Monterrey commitments under the six thematic chapters. If this continues, the results at Doha are likely to be modest and critical issues would be left unaddressed or just given pro forma attention. This outcome would not be acceptable to the South.

133. The South may then consider developing its own approach to dealing with the FfD issues, and define and promote its agenda. This should contain strategies to engage with the global economy but managing this engagement and promoting greater self-reliance within the South. This should not undermine multilateral discussions on finance, trade and development, but rather it could give the South greater leverage in those discussions.

134. The issue of “policy space” is fundamental as it concerns countries’ independence and flexibility in designing their economic and financial policies and institutions in the light of their circumstances while respecting internationally agreed obligations on trade and finance. It is also one that the North vehemently resists. Policy space became an issue only because developing countries were made to adopt policies - in the name of sound economic management and efficiency - that were driven by Northern interests and nostrums, and which had some disastrous consequences. Insistence on such policies, on the part of the international financial institutions, was the direct consequence of developing countries’ economic dependency and vulnerability: larger, economically strong developing countries were not made to swallow the neo-liberal medicine as were the poorer, less developed economies in dire financial straights.

135. South-South cooperation in matters of trade and finance could help in giving the developing world policy independence it needs and seeks. This could happen through the following channels:

   a. Promoting and strengthening developing-country or regional initiatives on financial management, such as Chiang Mai initiative, the Bank of the South, and other reserve pooling mechanisms.
b. Developing an approach towards South-South investment flows in support of development, including the sovereign wealth funds' role towards that end.

c. Promoting and strengthening South-South trading arrangements. Apart from regional free-trade areas, the General System of Trade Preferences (GSTP) could be given greater substance and oriented to promoting development. And, not least,

d. Seeking ways to reduce aid dependency and, ultimately, exit from aid. Aid is a channel that is most actively and openly used to push industrial-country interests, and is often decisive in constraining the recipients' independence in policies and programmes. The proposal for an aid exit strategy, which the South Centre is putting forward, deserves serious consideration.

Finally, there is the issue of Voice. Developing countries have sought improvement in their representation in multilateral bodies, but so far with only limited success. These efforts must obviously continue. However, rather less attention has been given to improving South’s voice in multilateral forums. It is evident from the institutions where developing countries are better represented (e.g., African Development Bank and Inter-American Development Bank) that voting power on its own does little to change institutional orientation. On the other hand, the activism of civil society has demonstrated that directional changes in policies and institutions can be brought about through informed debate and discussion.

Voice is dependent on a number of factors, but timely access to information, rigorous analysis, and cogent argument is crucial. There are a few South institutions (like the South Centre) engaged in collection and dissemination of information as well as research and analysis of topical development issues from developing country perspective. They have already played an important role in enhancing developing country voice in multilateral forums concerned with issues of trade, finance, and development. Further support and strengthening of these institutions should be a key element in the South’s strategy.

One just needs to look at the success of Al Jazeera TV channel in transforming the terms of political debate to appreciate the potential of South policy and research institutions in redefining the idiom and content of discussion on finance and development issues.
ANNEX: COMMITMENTS IN THE MONTERREY CONSENSUS

1. Commitments related to providing an “enabling environment for development”

4. Achieving the internationally agreed development goals, including those contained in the Millennium Declaration, demands a new partnership between developed and developing countries. We commit ourselves to sound policies, good governance at all levels and the rule of law. We also commit ourselves to mobilizing domestic resources, attracting international flows, promoting international trade as an engine for development, increasing international financial and technical cooperation for development, sustainable debt financing and external debt relief, and enhancing the coherence and consistency of the international monetary, financial and trading systems.

9. Recognizing that peace and development are mutually reinforcing, we are determined to pursue our shared vision for a better future, through our individual efforts combined with vigorous multilateral action. Upholding the Charter of the United Nations and building upon the values of the Millennium Declaration, we commit ourselves to promoting national and global economic systems based on the principles of justice, equity, democracy, participation, transparency, accountability and inclusion.

12. We will pursue appropriate policy and regulatory frameworks at our respective national levels and in a manner consistent with national laws to encourage public and private initiatives, including at the local level, and foster a dynamic and well functioning business sector, while improving income growth and distribution, raising productivity, empowering women and protecting labour rights and the environment. We recognize that the appropriate role of government in market-oriented economies will vary from country to country.

24. We will support new public/private sector financing mechanisms, both debt and equity, for developing countries and countries with economies in transition, to benefit in particular small entrepreneurs and small and medium-size enterprises and infrastructure. Those public/private initiatives could include the development of consultation mechanisms between international and regional financial organizations and national Governments with the private sector in both source and recipient countries as a means of creating business-enabling environments.

2. Commitments with respect to trade and development

26. A universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can substantially stimulate development worldwide, benefiting countries at all stages of development. In that regard, we reaffirm our commitment to trade
liberalization and to ensure that trade plays its full part in promoting economic growth, employment and development for all. We thus welcome the decisions of the World Trade Organization to place the needs and interests of developing countries at the heart of its work programme, and commit ourselves to their implementation.

30. We also undertake to facilitate the accession of all developing countries, particularly the least developed countries, as well as countries with economies in transition, that apply for membership in the World Trade Organization.

31. We will implement the commitments made in Doha to address the marginalization of the least developed countries in international trade as well as the work programme adopted to examine issues related to the trade of small economies.

32. We also commit ourselves to enhancing the role of regional and subregional agreements and free trade areas, consistent with the multilateral trading system, in the construction of a better world trading system. We urge international financial institutions, including the regional development banks, to continue to support projects that promote subregional and regional integration among developing countries and countries with economies in transition.

34. We call on developed countries that have not already done so to work towards the objective of duty-free and quota-free access for all least developed countries’ exports, as envisaged in the Programme of Action for the Least Developed Countries adopted in Brussels. Consideration of proposals for developing countries to contribute to improved market access for least developed countries would also be helpful.

3. Commitments with respect to ODA

41. We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration. To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness.

42. In that context, we urge developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries, as reconfirmed at the Third United Nations Conference on Least Developed Countries, and we encourage developing countries to build on progress achieved in ensuring that ODA is used effectively to help achieve development goals and targets. We acknowledge the efforts of all donors, commend those donors whose ODA contributions exceed, reach or are increasing towards the targets, and underline the importance of undertaking to examine the means and time frames for achieving the targets and goals.

46. We will ensure that the long-term resources at the disposal of the
international financial system, including regional and subregional institutions and funds, allow them to adequately support sustained economic and social development, technical assistance for capacity-building, and social and environmental protection schemes. We will also continue to enhance their overall lending effectiveness through increased country ownership, operations that raise productivity and yield measurable results in reducing poverty, and closer coordination with donors and the private sector.

47. … Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations. …

4. Commitments with respect to other sources of financing

44. We recognize the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries. In that regard, we agree to study, in the appropriate forums, the results of the analysis requested from the Secretary-General on possible innovative sources of finance, noting the proposal to use special drawing rights allocations for development purposes. We consider that any assessment of special drawing rights allocations must respect the International Monetary Fund’s Articles of Agreement and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level.

5. Commitments with respect to Reforming the Global Financial and Economic Governance

53. Important international efforts are under way to reform the international financial architecture. Those efforts need to be sustained with greater transparency and the effective participation of developing countries and countries with economies in transition. One major objective of the reform is to enhance financing for development and poverty eradication. We also underscore our commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development.

Enhancing and improving the participation of developing countries in the international financial architecture, especially in norm- and policy-setting and implementation, have long been key issues of concern as can be seen in the following paragraphs of the Monterrey Consensus:

62. We stress the need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting. To those ends, we also welcome further actions to help developing countries and countries with economies in transition to build their capacity to participate effectively in
63. A first priority is to find pragmatic and innovative ways to further enhance the effective participation of developing countries and countries with economies in transition in international dialogues and decision-making processes. Within the mandates and means of the respective institutions and forums, we encourage the following actions:

- International Monetary Fund and World Bank: to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making, and thereby to strengthen the international dialogue and the work of those institutions as they address the development needs and concerns of these countries;

- World Trade Organization: to ensure that any consultation is representative of its full membership and that participation is based on clear, simple and objective criteria;

- Bank for International Settlements, Basel Committees and Financial Stability Forum: to continue enhancing their outreach and consultation efforts with developing countries and countries with economies in transition at the regional level, and to review their membership, as appropriate, to allow for adequate participation;

- Ad hoc groupings that make policy recommendations with global implications: to continue to improve their outreach to non-member countries, and to enhance collaboration with the multilateral institutions with clearly defined and broad-based intergovernmental mandates.

Additionally, at Monterrey, States committed themselves to strengthening the United Nation’s role in global economic governance. The relevant commitments are contained in the following paragraphs.

65. We commit ourselves to negotiating and finalizing as soon as possible a United Nations convention against corruption in all its aspects, including the question of repatriation of funds illicitly acquired to countries of origin, and also to promoting stronger cooperation to eliminate money laundering. We encourage States that have not yet done so to consider signature and ratification of the United Nations Convention against Transnational Organized Crime.

67. We attach priority to reinvigorating the United Nations system as fundamental to the promotion of international cooperation for development and to a global economic system that works for all. We reaffirm our commitment to enabling the General Assembly to play effectively its central role as the chief deliberative, policy-making and representative organ of the United Nations, and to further strengthening the Economic and Social Council to enable it to fulfil the role ascribed to it in the Charter of the United Nations.

68. To build a global alliance for development will require an unremitting effort. We thus commit ourselves to keeping fully engaged, nationally, regionally and internationally, to ensuring proper follow-up to the implementation of agreements and commitments reached at the present Conference, and to continuing to build bridges between development,
69. Building on the successful experience of the Conference and the process leading up to it, we shall strengthen and make fuller use of the General Assembly and the Economic and Social Council, as well as the relevant intergovernmental/governing bodies of other institutional stakeholders, for the purposes of conference follow-up and coordination, by substantively connecting, in ascending series, the following elements:

(a) Interactions between representatives of the Economic and Social Council and the directors of the executive boards of the World Bank and the International Monetary Fund can serve as preliminary exchanges on matters related to follow-up to the Conference and preparations for the annual spring meeting between those institutions. Similar interactions can also be initiated with representatives of the appropriate intergovernmental body of the World Trade Organization;

(b) We encourage the United Nations, the World Bank and the International Monetary Fund, with the World Trade Organization, to address issues of coherence, coordination and cooperation, as a follow-up to the Conference, at the spring meeting between the Economic and Social Council and the Bretton Woods institutions. The meeting should include an intergovernmental segment to address an agenda agreed to by the participating organizations, as well as a dialogue with civil society and the private sector;

(c) The current high-level dialogue on strengthening international cooperation for development through partnership, held every two years in the General Assembly, would consider the financing for development-related reports coming from the Economic and Social Council and other bodies, as well as other financing for development-related issues. It would be reconstituted to enable it to become the intergovernmental focal point for the general follow-up to the Conference and related issues. The high-level dialogue would include a policy dialogue, with the participation of the relevant stakeholders, on the implementation of the results of the Conference, including the theme of coherence and consistency of the international monetary, financial and trading systems in support of development;

(d) Appropriate modalities to enable participation in the reconstituted high-level dialogue by all relevant stakeholders, as necessary, will be considered.

70. To support the above elements at the national, regional and international levels, we resolve:

• To continue to improve our domestic policy coherence through the continued engagement of our ministries of development, finance, trade and foreign affairs, as well as our central banks;

• To harness the active support of the regional commissions and the regional development banks;

• To keep the financing for development process on the agenda of the intergovernmental bodies of all main stakeholders, including all United Nations funds, programmes and agencies, including the United Nations Conference on Trade and Development.
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South Centre Analytical Note

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FROM MONTERREY TO DOHA
A SOUTH CENTRE INPUT INTO THE PREPARATORY
PROCESS LEADING TO THE DOHA MEETING

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