TRADE – FINANCE LINKAGES AS A CROSS-CUTTING ISSUE IN THE DOHA FFD REVIEW¹

This document builds on the premise of the Monterrey Consensus, which was conceived as a process that has a unique position as a multi-stakeholder and multi-sectoral approach to development. The promise of the Monterrey Consensus to deliver a holistic consideration of all sources of finance remains unattained. While the Monterrey Consensus referred to all sources of finance, throughout the follow-up, including the structure of the recently held Review Sessions, they have been typically addressed as separate, compartmentalized tracks, thereby giving an incentive to reproduce the compartmentalized nature of deliberations followed in other institutions. With this, it has reduced the UN’s capacity to make meaningful contributions that add value to such other processes.

The purpose of this document is, thus, to identify suggestions that emerge in the context of reviewing the Monterrey Consensus from a holistic perspective, within the scope and framework that GA Resolution A/RES/62/187 set for the Doha FFD Review Conference Outcome document.² In this spirit, it focuses on integrating strategic and relevant trade-finance linkages that we believe should be part and parcel of such Outcome Document.

However, recognizing that developing a holistic approach to the different sources of development cannot be done on a static basis, but requires a commitment to continued and regular dialogue across a large range of development actors, we recommend that better use be made of the Monterrey mandate and follow-up process for this purpose. The follow-up process, in addition to the traditional chapter-by-chapter dimension, should be given an explicit goal of enabling a structured discussion that integrates different sources of finance and deliberately explores their interrelations. One practical recommendation to achieve this is to ensure

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¹ This document has been prepared by a drafting committee of members of the International Working Group on Trade-Finance Linkages who have kindly volunteered their time to perform this task, including the incorporation of the large number of comments received from all members of the Working Group on previous drafts. They are, in no particular order, Ms. Philo Morris, Medical Mission Sisters/NGO Committee on FFD, Ms. Gigi Francisco, Development Alternatives with Women for a New Era (DAWN)/ Gender and Trade Asia, Mr. Chukwuma Agu, African Institute for Applied Economics (Nigeria), Mr. Uche Ameze, University of Nigeria, Mr. Oscar Ugarteche, Universidad Nacional de Mexico, Mr. Carlos Bedoya, LATINDADD, Mr. Albert Gyan, Anglican Consultative Council, Ms. Hellen Wangusa, Anglican Consultative Council, Ms. May Sengendo, Makerere University (Uganda) and East African Energy Technology Development Network (EAETDN), Ms. Nicole Richards, ZENAB (Sudan), Mr. James Amemasor, Scholar at Rutgers University (Ghana), Mr. Eugene Ngalim, Cameroon Youths and Students Forum for Peace, Mr. Chandra Patel, Southern and Eastern Africa Trade Information and Negotiation Initiative, Ms. Cecilia Alemany, Association of Women in International Development Mr. Juan Luis Espada, CEDLA (Bolivia), Ms. Celine Tan, Third World Network, Ms. Athena Peralta, World Council of Churches, Mr. Aldo Caliari, Center of Concern. Please address any questions and comments to Aldo Caliari at acaliari@ccc.org

² According to OP. 2 of such resolution, the conference should “assess progress made, reaffirm goals and commitments, share best practices and lessons learned and identify obstacles and constraints encountered, actions and initiatives to overcome them and important measures for further implementation, as well as new challenges and emerging issues;”
that in whichever periodic strengthened form that is agreed for the follow-up mechanism, there should be a section devoted to exploring interlinkages between two—or even three—selected chapters, and draw policy recommendations for each specialized policy field.

CHAPTER I - MOBILIZATION OF DOMESTIC RESOURCES

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<td>10. In our common pursuit of growth, poverty eradication and sustainable development, a critical challenge is to ensure the necessary internal conditions for mobilizing domestic savings, both public and private, sustaining adequate levels of productive investment and increasing human capacity. A crucial task is to enhance the efficacy, coherence and consistency of macroeconomic policies. An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance. Efforts to create such an environment should be supported by the international community.</td>
<td>The enhancement of macroeconomic policies for this purpose requires action not only at the national, but also the regional and global levels. The efforts to support the enabling environment call for ensuring the availability of resources from trade-related taxes, support to efforts to tax foreign investment and corporations and controls on capital outflows. International tax cooperation is essential to end transfer mispricing and mis invoicing in trade which, according to some studies, are the largest items in capital outflows. Governments should implement appropriate mechanisms to manage the natural resources in the interest of building a domestic capital base, including through public management, when deemed necessary. Mechanisms for the accountable and efficient investment of resources should be encouraged.</td>
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<td>11. Good governance is essential for sustainable development.</td>
<td>More than “good governance”, sustainable development requires,</td>
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Sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for sustained economic growth, poverty eradication and employment creation. Freedom, peace and security, domestic stability, respect for human rights, including the right to development, and the rule of law, gender equality, market-oriented policies, and an overall commitment to just and democratic societies are also essential and mutually reinforcing.

| 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. |
| 13. | Fighting corruption at all levels is a priority. Corruption is a serious barrier to effective resource mobilization and allocation, and diverts resources away from activities that are vital for poverty eradication and economic and sustainable development. |
| 14. | We recognize the need to pursue sound macroeconomic policies aimed at sustaining high rates of economic growth, full employment, poverty eradication, price stability and sustainable development. |

|  | in many cases, “state-building”, which begins by strengthening public finances. The expected returns on trade-related infrastructure should be realistically assessed, with a view to addressing its consequences for the mobilization and taxation of resources. |
|  | There is a need to scrutinize the fiscal impacts of guarantees by the public sector and international public institutions in support of private investment in infrastructure, as well as public-private partnerships. The privatization of infrastructure provision has not necessarily brought positive impacts for investment, deficit reductions and access to affordable services. The role of government is undermined when the access to external loans and grants is made contingent upon the fulfillment of specific modes of government operation such as contracting out, output-based aid and outright privatization. |
|  | Appropriate mechanisms for preventing corruption in the operations of Export Credit Agencies, and other donor-country guarantees to private sector projects, should be established. Fighting corruption at all levels means also addressing private sector corruption – such as in instances of mispricing, misinvoicing and abusive transfer pricing. |
|  | One of the measures that negatively affects income distribution and resource allocations are distorting tax holidays for manufacturing, extractive industries or the attraction of FDI. |
fiscal and external balances to ensure that the benefits of growth reach all people, especially the poor. Governments should attach priority to avoiding inflationary distortions and abrupt economic fluctuations that negatively affect income distribution and resource allocation.

Along with prudent fiscal and monetary policies, an appropriate exchange rate regime is required.

The IMF surveillance policies and advice, as well as the clauses attached to free trade and investment agreements that prevent management of the capital account, may pre-empt the implementation of an appropriate exchange rate regime.

15. An effective, efficient, transparent and accountable system for mobilizing public resources and managing their use by Governments is essential. We recognize the need to secure fiscal sustainability, along with equitable and efficient tax systems and administration, as well as improvements in public spending that do not crowd out productive private investment. We also recognize the contribution that medium-term fiscal frameworks can make in that respect.

It is important that public investment encourages only productive private investment. Efficient criteria for this determination, with public participation by civil society and the population, should be developed. Strong public finances are an important factor that reinforces, rather than deters, private investment.

16. Investments in basic economic and social infrastructure, social services and social protection, including education, health, nutrition, shelter and social security programmes, which take special care of children and older persons and are gender sensitive and fully inclusive of the rural sector and all disadvantaged communities, are vital for enabling people, especially people living in poverty, to better adapt to and benefit from changing economic conditions and opportunities.

Infrastructure investment should not be geared to subsidize foreign private investors, especially when this happens at the expense of fiscal resources for health, nutrition, or other priorities. Gender-responsive budgeting ensures that relevant commitments to gender equality, poverty eradication and social welfare and protection are resourced. To be efficient effective and accountable, Public Finance Management systems and practices need to be supportive rather than undermining of participatory and gender responsive budgeting.
Active labour market policies, including worker training, can help to increase employment and improve working conditions. The coverage and scope of social protection needs to be further strengthened. Economic crises also underscore the importance of effective social safety nets.

Policies to create decent work should fully account for rapid changes in labor markets and opportunities as governments begin to put in place the necessary adjustments toward a properly sequenced and managed trade liberalization that enhances rather than weakens domestic productive capacity. Efforts are needed to immediately reach the large numbers of women in Export Processing Zones and in informal work.

But active labor market policies fail to reach the intended outcomes of boosting employment rates and social protection unless accompanied by measures that discourage privatization-related unemployment and cuts in fiscal expenditures devoted to social protection.

17. We recognize the need to strengthen and develop the domestic financial sector, by encouraging the orderly development of capital markets through sound banking systems and other institutional arrangements aimed at addressing development financing needs, including the insurance sector and debt and equity markets, that encourage and channel savings and foster productive investments. That requires a sound system of financial intermediation, transparent regulatory frameworks and effective supervisory mechanisms, supported by a solid central bank. Guarantee schemes and business development services should be developed for easing the access of small and medium-sized enterprises to local financing.

The effective mobilization of the domestic financial sector calls for avoiding disciplines on the state’s supervision and regulatory capacity. Restrictions of the sort of those inherent to liberalization of the financial sector fall in this category. Experience shows that market mechanisms alone do not guarantee effective access to financial resources for both small and medium-sized enterprises. Among the tools that are needed to guarantee such access, urgent attention should be given to strengthening partial credit guarantee schemes. Transparent regulatory frameworks for financial intermediation should include transparent financial reporting that eliminates accounting fraud.

18. Microfinance and credit for micro-, small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector.
Development banks, commercial and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises, as well as an adequate supply of medium- and long-term credit. In addition, the promotion of private-sector financial innovations and public-private partnerships can also deepen domestic financial markets and further develop the domestic financial sector.

The prime objective of pension schemes is social protection, but when those schemes are funded they can also be a source of savings. Bearing in mind economic and social considerations, efforts should be made to incorporate the informal sector into the formal economy, wherever feasible.

It is also important to reduce the transfer costs of migrant workers’ remittances and create opportunities for development-oriented investments, including housing.

19. It is critical to reinforce national efforts in capacity-building in developing countries and countries with economies in transition in such areas as institutional infrastructure, human resource development, public finance, mortgage finance, financial regulation and supervision, basic education in particular, public administration, social and gender budget policies, early warning and crisis prevention, and debt management. In that regard,

National development banks can play an important role in providing the long term financing needed for the sustained development of export capacity. It is crucial that the provision of export capacity is oriented and guided by a vision that builds domestic capital and ensures its equitable distribution, rather than by the mere goal of increasing exports. Particularly helpful to reach this goal is that export-led policies are not prioritized at the cost of weakening the domestic markets.

Local regulations and local regulatory space should aim at preserving the savings-oriented and social protection objectives of pension schemes. This includes preservation in the face of liberalization of financial services rules that open them to compromise.

Migrant remittances have increasingly gained importance in the balance of payments of developing countries. While remittances represent a source of revenue, they should also be acknowledged as an unintended result produced by the failure of the export-led model in developing countries. The migration to which they are associated has a series of negative social consequences in the country of origin as well as making migrants vulnerable to abuse in countries of destination.
particular attention is required to address the special needs of Africa, the least developed countries, small island developing States and landlocked developing countries. We reaffirm our commitment to the Programme of Action for the Least Developed Countries for the Decade 2001-2010, adopted by the Third United Nations Conference on the Least Developed Countries, held in Brussels from 14 to 20 May 2001, and the Global Programme of Action for the Sustainable Development of Small Island Developing States. International support for those efforts, including technical assistance and through United Nations operational activities for development, is indispensable.

We encourage South-South cooperation, including through triangular cooperation, to facilitate exchange of views on successful strategies, practices and experience and replication of projects.

South-South cooperation and peer-review mechanisms should be especially encouraged on best practices regarding public sector management and investment of natural resource revenue, fiscal policy for industrialization and value-added, exchange rate management and national tax administrations.
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<td>20. Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts. Foreign direct investment contributes toward financing sustained economic growth over the long term. It is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development. A central challenge, therefore, is to create the necessary domestic and international conditions to facilitate direct investment flows, conducive to achieving national development priorities, to developing countries, particularly Africa, least developed countries, small island developing States, and landlocked developing countries, and also to countries with economies in transition.</td>
<td>The negative consequences of private international capital flows should also be assessed, such as through profit remittances, royalties, transfer pricing and the increased import content of production. These consequences should be managed, and investment agreements aimed at attracting FDI should ensure the policy tools to manage them are available to the government parties. FDI can also end up draining, via investment returns, domestic capital, including labor and natural resources.</td>
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<td>21. To attract and enhance inflows of productive capital, countries need to continue their efforts to achieve a transparent, stable and predictable investment climate, with proper contract enforcement and respect for property rights, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact.</td>
<td>Appropriate taxation and regulation of export-oriented FDI is crucial to extract the benefits of the export-led strategies in countries that choose to follow them. The respect of environmental and social regulations should be part of the national investment climate. Domestic monetary policies that promote the real productive economy are the best way, in the long term, to attract FDI. (As opposed to anti-inflationary policy that attracts short-term, volatile FDI flows seeking high interest rates).</td>
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Special efforts are required in such priority areas as economic policy and regulatory frameworks for promoting and protecting investments, including the areas of human resource development, avoidance of double taxation, corporate governance, accounting standards, and the promotion of a competitive environment. Other mechanisms, such as public/private partnerships and investment agreements, can be important. We emphasize the need for strengthened, adequately resourced technical assistance and productive capacity-building programmes, as requested by recipients.

22. To complement national efforts, there is the need for the relevant international and regional institutions as well as appropriate institutions in source countries to increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide, in developing countries and countries with economies in transition. To this end, it is important to provide export credits, co-financing, venture capital and other lending instruments, risk guarantees, leveraging aid resources, information on investment opportunities, business development services, forums to facilitate business contacts and cooperation between enterprises of developed and developing countries, as well as funding for feasibility studies.

Inter-enterprise partnership is a powerful means for transfer and dissemination of technology. In this regard, strengthening of the multilateral and regional financial and development institutions is desirable. Additional source country measures should also be devised to encourage and facilitate investment flows to

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23. While Governments provide the framework for their operation, businesses, for their part, are expected to engage as reliable and consistent partners in the development process. We urge businesses to take into account not only the economic and financial but also the developmental, social, gender and environmental implications of their undertakings.

In that spirit, we invite banks and other financial institutions, in developing countries as well as developed countries, to foster innovative developmental financing approaches. We welcome all efforts to encourage good corporate citizenship and note the initiative undertaken in the United Nations to promote global partnerships.

Developing countries have available a wide range of measures to promote innovative developmental financing approaches by the banking sector.

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.

National governments should be encouraged to create business environments supportive of local entrepreneurs, and adapted to the local realities. Standardized, global-wide business environment blueprints are not useful to this effort.

25. We underscore the need to sustain sufficient and stable private financial flows to developing countries and countries with economies in transition. It is important to promote measures in source and destination countries to improve transparency and the information about financial flows.

As demonstrated by latest financial crises, measures in destination countries are key to ensure capital developments do not destabilize developing economies. Measures in destination countries could include restrictions aimed at affecting the quality and profile of capital flows. The said measures, by avoiding
Measures that mitigate the impact of excessive volatility of short-term capital flows are important and must be considered. Given each country’s varying degree of national capacity, managing national external debt profiles, paying careful attention to currency and liquidity risk, strengthening prudential regulations and supervision of all financial institutions, including highly leveraged institutions, liberalizing capital flows in an orderly and well sequenced process consistent with development objectives, and implementation, on a progressive and voluntary basis, of codes and standards agreed internationally, are also important. We encourage public/private initiatives that enhance the ease of access, accuracy, timeliness and coverage of information on countries and financial markets, which strengthen capacities for risk assessment.

Multilateral financial institutions could provide further assistance for all those purposes.

Financial crises, are critical to prevent their employment and earning effects, as well as indirect effects on welfare and poverty reduction that ultimately reach women and men differentially, with women who are care providers often taking on the burden of risk sharing and adjustment in the household.

Negotiations on trade in financial services should be respectful of the measures highlighted as important in this paragraph.

Taxes on financial transactions, for instance, can raise significant financial resources in local markets—as shown by the example of Brazil between 1993-2007.

There is a need to convene within the United Nations and at the soonest possible time, an inter-governmental meeting addressed to how international cooperation can respond to the need of governments to efficiently and effectively manage their competition for FDI and other capital flows.
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<td>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.</td>
<td>In the holistic spirit of the Monterey Consensus, trade measures alone cannot guarantee that trade plays its full part in promoting growth, employment and development for all. Monetary and financial policies, at national, regional and global levels, are necessary complements. This is especially reinforced by the finding that trade liberalization does not have systematic effects on growth (Rodrik 2007). After more than six years, the Doha Round of trade talks remains deadlocked, although recent signs point to renewed momentum towards a possible conclusion of the Round. It is, however, time to take a step back and recognize that crucial conditions for a successful engagement of developing countries in the world trading system lie outside the realm of what can be negotiated in a body concerned with market access negotiations such as the WTO. This is regardless of how many times the word “development” is mentioned in those negotiations. In the last six years it has become clear that developed countries have not shown enough commitment to trade liberalization, as they failed to reduce farm subsidies and set new non-tariff barriers that undermine the chances for developing countries to profit from exports. The FFD Review Conference, building on the overarching agenda of Monterrey, should call for an integrated assessment and negotiations, in the context of its follow-up process, to address the trade, financial and monetary pre-conditions for developing</td>
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countries to utilize trade as a tool for development, the promotion of gender equity and full employment. It should, furthermore, recognize that such conditions are not present in the multilateral system today.

Many developing countries had deregulated national trade and investment regimes in the last three decades in line with International Monetary Fund (IMF) and World Bank (WB) policy conditionalities as well as World Trade Organization (WTO) agreements. These reforms have severely undermined governments’ capacities to respond to various development challenges amidst the uncertainties and risks posed by heightened globalization. Hence, there is an urgent need to preserve – if not reclaim – national policy space to ensure that trade policy contributes to the goals of sustainable development, poverty eradication and gender equality.

In the context of structural inequalities in the ownership and distribution of resources (especially capital) between and within countries, there is now increasing evidence of the failure of trade liberalization policies to promote growth, let alone reduce poverty, in the developing world (see, for instance, Milanovic (2002)).

The indiscriminate elimination of government regulations on the movement of goods and services (as well as capital) has been shown to be detrimental to developing countries with young industries that are faced with high production costs and are unable to compete with long established subsidised industries from the North and Far East. This has resulted in the phenomenon of de-industrialisation, especially in the Latin
American and African regions.

Trade liberalization has also had adverse impacts on factory workers, peasants, fisher folk and other vulnerable groups via increasing job precariousness, declining real wages and price volatility.

It is now fairly well-known that trade policy affects women and men differently via (paid and unpaid) employment, income and price channels. The impacts on women in developing countries have been uneven. While in some cases trade liberalization has expanded employment and income prospects particularly for skilled, young women in export-oriented manufacturing industries, these reforms have simultaneously caused widespread job losses and eroded the wages of workers in public, import-competing and labour-intensive industries where women predominate.

The dumping of agricultural imports and heightened corporate control over food production in developing countries have severely threatened people’s – especially women’s – livelihoods and right to food.

The lowering of import tariffs – which are basically trade taxes – has also had a negative impact on public finances, imperilling the poor and women’s access to social services.

Analysis coming out of the Commodity Supply Management Working Group of the Agribusiness Accountability Initiative (AAI) reveals that the recent upward surge in the prices of food staples (e.g. rice, wheat and corn) was triggered by the sudden shift of speculative investments from the housing sector to commodity
| futures trading, practices of hoarding and speculation by multinational corporations (MNCs), the use of food to produce biofuels, underinvestment in rural infrastructure and unfair agricultural trade practices. The food crisis has a direct impact on human security, with women being the worse off because it is they who are responsible for the social reproductive tasks in the household and community spheres. |
To benefit fully from trade, which in many cases is the single most important external source of development financing, the establishment or enhancement of appropriate institutions and policies in developing countries, as well as in countries with economies in transition, is needed.

For developing countries to benefit fully from trade, the building of appropriate institutions in developed countries is an important requirement. For instance, a major concern is the lack of institutions to manage exchange rates through coordination among countries that control the major trading currencies. Developing countries are particularly vulnerable to exchange rate fluctuations and movements that affect the competitiveness of their exports.

There is also a need to preserve the role of state institutions in financing productive activities.

Some of the policies that could ensure that revenue for development is raised through trade are those oriented towards:

- Value-addition, skills and technology content and creation;
- Technology transfer commitments and programs,
- Accompanying welfare-enhancing policies, including productive employment and decent work,
- The creation of backward and forward linkages in the domestic economy;
- Adequate implementation of performance requirements (e.g. export quotas on companies benefiting from incentives);
- Restrictions on profit repatriation;
- The exaction? of trade-related tariff revenue,
- Balanced rules on investment, with rights and obligations for investors, and
- Credit mechanisms that allow small and medium producers and companies to compete fairly with large companies that do have access to soft loans.

Since Monterrey, these institutions and policies have not been
Meaningful trade liberalization is an important element in the sustainable development strategy of a country. Increased trade and foreign direct investment could boost economic growth and could be a significant source of employment.

Foreign direct investment (FDI) often supports export production especially of multinational corporations which currently accounts for around two-thirds of world trade (with intra-firm trade on the uptrend) (UNDP 1999).

While FDI has the potential for expanding country exports and raising revenues for development, Akyuz (2006) points out: “The impact of FDI on capital accumulation and growth is highly contentious. Its contribution to the Balance of Payments appears to be generally negative over the long-term...This is so not only where FDI is concentrated in non-traded sectors, but also in export-oriented sectors linked to international production networks because of high import content and profit margins”.

Reliance on FDI should take into account the findings that associate the reliance on foreign finance with lower rates of growth (see Prasad, Rajan and Subramaniam, 2007).

Lessons from successful Asian economies (e.g. Japan, Korea, China)
Taiwan, and, more recently, China, Vietnam and Thailand) suggest that FDI has to be managed to ensure technology transfer, develop domestic production linkages, “crowd in” domestic investments and restrict repatriation of profits. In turn, the effective repatriation of profits in today’s global environment can only work if supported by strong country-by-country reporting standards which demonstrate where profits are made.

Full and productive employment policies with decent work guarantees should be part and parcel of trade and investment policy. In some cases this may merit the establishment of trade and investment restrictions.

However, developing countries are increasingly unable to implement the abovementioned measures due to commitments made under the WTO's agreement on Trade-related Investment Measures and the General Agreement on Trade in Services, which operate on the "national treatment principle", as well as provisions contained in free trade agreements (FTAs) and bilateral investment treaties (BITs).

FTAs and BITs include Investor to State Dispute Settlement Mechanisms that prevent governments from enforcing social and environmental priorities and laws. These rules (also national treatment, prohibition of performance requirements, liberalization of capital movements, etc.) under investment chapters and BITs should be eliminated to provide governments, especially in developing countries, the policy space to implement their own development policies.
28. We acknowledge the issues of particular concern to developing countries and countries with economies in transition in international trade to enhance their capacity to finance their development, including trade barriers, trade-distorting subsidies and other trade-distorting measures, particularly in sectors of special export interest to developing countries, including agriculture; the abuse of anti-dumping measures; technical barriers and sanitary and phytosanitary measures; trade liberalization in labour intensive manufactures; trade liberalization in agricultural products; trade in services; tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers; the movement of natural persons; the lack of recognition of intellectual property rights for the protection of traditional knowledge and folklore; the transfer of knowledge and technology; the implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights3 in a manner supportive of public health; and the need for special and differential treatment provisions for developing countries in trade agreements to be made more precise, effective and operational.

By making technology more expensive and therefore impeding technology-transfer and reverse-engineering, the WTO agreement on Trade-related Aspects of Intellectual Property Rights adversely affects trade capacities of technology-poor developing countries.

There are also important financial consequences from trade liberalization reforms that continue to receive inadequate consideration in the WTO. Trade liberalization, through the lowering of import tariffs and export taxes, reduces government revenues especially for developing countries which generally rely much more on trade-related taxes for revenue generation. This, in turn, may result in expenditure cuts in social services (e.g., education, health) and public infrastructure (e.g., ports, irrigation facilities, electricity). These cuts not only place harsh adjustment burdens on the poor and women in particular, they also divert public funds from much needed investments in human resources and infrastructure, which play an important role in building trade capacities. (In the same way (i.e. by draining public investment funds), debt overhangs restrict the ability of developing countries to benefit from market access opportunities.) Not only does trade liberalization hamper domestic resource mobilization, it also undermines efforts for promoting official development and debt relief.

Trade implementation issues must be addressed more resolutely in the WTO.

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 Accession has been used to impose more stringent trade policies beyond what the WTO members are willing to commit within the multilateral trade system.

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3 The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts (Geneva, GATT secretariat, 1994), annex 1C.
| 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. | The Aid for Trade agenda does not include alternative sets of policies to the ‘one size fits all’ progressive liberalization package. A key concern is the lack of support to strengthen the supply side capacities (e.g. technology, infrastructure) of developing countries, especially least developed countries. |
| 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. | Regional and sub-regional South-South financial arrangements could play an important role in encouraging regional and sub-regional trade. Such financial arrangements merit closer study in order to gain insights into alternative policies and practices. It should be pointed out that powerful players such as the United States (US) and the European Union (EU) have been pursuing regional agreements without observing consistency with the multilateral trading system. They incorporate the Singapore Issues (e.g. investment rules of the failed Multilateral Agreement on Investment, opening up of government procurement to the international market, facilitation of trade and competition policies that restrict the role of public enterprises) and go further than the multilateral system in terms of liberalizing trade in agriculture, and non-agricultural market access and implementing intellectual property rules. |
| 33. | We recognize the importance of enhanced and predictable access to all markets for the exports of developing countries, including small island developing States, landlocked and transit developing countries and countries in Africa, as well as countries with economies in transition. | It is important to recognize the limitations of market access. First, a model that relies on access by developing countries to the same Northern markets is doomed to reinforce and lock-in existing comparative advantages, rather than promote upgrading. This is what is triggering the crisis of preference-dependent economies. Second, non-tariff barriers increasingly erode the value of market access concessions achieved in traditional trade negotiations. While the Monterrey Consensus recognises the problem of |
developing countries’ restricted access to developed countries’ heavily protected and subsidised agricultural markets, very little attention has been paid to underlying structures that relegate poor economies to positions of exporters of low-value, natural resource- and labour-intensive commodities and importers of high-value technology-intensive products and services. The commodity boom of the last few years, which accounts for the apparently successful trade performance of developing countries, only reinforces the vulnerability of their trade structure and makes the move to longer term building of industries more difficult. There is a concern that the existing conditions for investment in commodity sectors are not favourable to support longer term industrialization and higher value added.

As Durano (2006) and others have pointed out, opportunities for market access may also be restricted by inequitable gender relations that affect the extent to which developing countries, the poor and women are able to take advantage of increased opportunities for trade.

| 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. | The fact that developing countries are not making full use of the market access they already enjoy shows that taking advantage of market access requires creation of competencies and building of capabilities. This is behind the uneven performance of countries part of the African Growth and Opportunity Act (AGOA), for instance. Duty-free access and quotas can only be beneficial when economies have a strong manufacturing base. |
| 35. We further recognize the importance for developing countries as well as countries with economies in transition of considering reducing trade barriers among themselves. | As pointed out elsewhere in this document, South-South and intra-regional trade agreements among developing countries merit support, including further study as an alternative model. |
| 36. In cooperation with the interested Governments and | [See also issues to be raised under Chapter IV “ODA”] |
their financial institutions and to further support national efforts to benefit from trade opportunities and effectively integrate into the multilateral trading system, we invite multilateral and bilateral financial and development institutions to expand and coordinate their efforts, with increased resources, for gradually removing supply-side constraints; improve trade infrastructure; diversify export capacity and support an increase in the technological content of exports; strengthen institutional development and enhance overall productivity and competitiveness.

To that end, we further invite bilateral donors and the international and regional financial institutions, together with the relevant United Nations agencies, funds and programmes, to reinforce the support for trade-related training, capacity and institution building and trade-supporting services. Special consideration should be given to least developed countries, landlocked developing countries, small island developing States, African development, transit developing countries and countries with economies in transition, including through the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries and its follow-up, the Joint Integrated Technical Assistance Programme, the World Trade Organization Doha Development Agenda Global Trust Fund, as well as the activities of the International Trade Centre.

37. Multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on commodity exports. Thus, we recognize the recent review of the International Monetary Fund Compensatory Financing Facility and will continue to assess its effectiveness. It is also important to empower developing

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<th>Concessional financing terms to compensate for commodity trade shocks continues to be under-addressed by the current system. The IMF’s Compensatory Financing Facility and Exogenous Shocks Facility are too expensive and cumbersome to access: no country has used these facilities for years. Even countries that meet the stringent requirements of the IMF’s</th>
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country commodity producers to insure themselves against risk, including against natural disasters. We further invite bilateral donors and multilateral aid agencies to strengthen their support to export diversification programmes in those countries.

Policy Support Instrument have had difficulties in accessing the latter (and they are the ones least likely to need it).

Overall, commodity trade shocks are best addressed through preventive measures, e.g. the establishment of international commodity agreements that set stable base prices for products. It is necessary to address the role of speculation on increasing food prices.

At the very minimum, there is a need to tackle the issue of compensation for adjustment costs related to trade reforms. As indicated elsewhere, trade liberalization has posed threats to livelihoods and food security especially in the developing world; and women in particular are likely to shoulder the burden of adjustment, either in terms of job and income losses or increased pressures on time. Trade liberalization must not be implemented at the expense of exposing the poor to have to make up for lost public finances with higher value-added taxes and other regressive taxes and levies.

Compensation for adjustment costs related to trade reforms may be discussed in more democratic fora within the United Nations such as the United Nations Conference on Trade and Development, Development Cooperation Forum, or other new institutional structures that the FfD process may propose to establish.

38. In support of the process launched in Doha, immediate attention should go to strengthening and ensuring the meaningful and full participation of developing countries, especially the least developed countries, in multilateral trade negotiations.

While the WTO was set up to sustain and enhance multilateral trade relationships and to carry out common actions, the institution and agreements negotiated under its auspices have been dominated by the interests of powerful economies such as the US and leading EU countries. Not coincidentally, the latter
In particular, developing countries need assistance in order to participate effectively in the World Trade Organization work programme and negotiating process through the enhanced cooperation of all relevant stakeholders, including the United Nations Conference on Trade and Development, the World Trade Organization and the World Bank. To those ends, we underscore the importance of effective, secure and predictable financing of trade-related technical assistance and capacity-building.

Countries are also the key players (i.e. possessing the huge majority of voting shares and enjoying veto powers) at the IMF and World Bank. Meaningful participation of developing countries in multilateral trade negotiations continues to be hindered by their lack of resources - which, in turn, influences negotiating capacities - and sometimes by outright pressure from more powerful players.

Trade-related assistance should be oriented towards addressing key supply-side constraints identified by developing countries such as technology transfer, education and infrastructure. It should also emphasize the enhancement of readiness to assess costs and benefits of trade liberalization, and the cooperation between tax authorities for ever more complicated trade regimes to fall fully under the tax net.

In practice, however, the extension of trade-related technical assistance and capacity-building to developing countries involves conflicts in interest since donor countries also sit at trade negotiation tables. Not surprisingly, such assistance tends to come after an agreement has taken place and focuses on a very narrow policy agenda.

For instance, the Aid Effectiveness (AE) agenda of the Organization for Economic Cooperation and Development utilizes the WB's Country Policy and Institutional Assessment as an evaluative measure for lending worthiness that emphasizes trade openness as a criterion of good policies and good governance. The AE agenda is therefore a donor-driven framework that is linked to the trade liberalization interests of a set of traditional donors. [See also issues raised under Chapter IV “ODA”]
### Monterey Consensus Language

39. Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced.

ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth.

ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security.

### Trade-finance linkage issues to be raised regarding implementation review

ODA should be seen as a complement to other sources of finance. In general, as currently provided, ODA tends to maintain leverage of donors over the design of national policy and reinforce aid-dependence. ODA provision needs to be fundamentally reformed with a view to change this dynamic. ODA must not be used to exercise power over recipient countries through the use, for instance, of conditionalities. Neither should ODA be linked to trade negotiations.

But it is likely that only the consistent elaboration of exit strategies from ODA, on the part of developing countries, based on exploring, developing, and nurturing domestic financing sources, will reach the desired outcomes. FFD should especially reclaim the role of ODA as a tool for development, and not for trade expansion.

Thinking along the lines of exit strategies, it is important that the type of private sector activity and growth ODA seeks to support are those that contribute to build domestic capital so, over time, ODA reliance can be lessened, rather than increased.

Aid for Trade should not come at the expense of programs that support such imperative human development needs. There is a risk that Aid for Trade may be merely oriented to subsidize export production and drain the human and natural capital of the exporting country without an adequate evaluation of the gains such exports are likely to generate for the country, its productive structure and the reduction of poverty.
For many countries in Africa, least developed countries, small island developing States and landlocked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals and targets of the Millennium Declaration and other internationally agreed development targets.

Policy conditionalities which link disbursement to changes in partners’ policies interfere with democratic ownership, and must be phased out. Partner countries should not have to meet a burdensome array of requirements before aid funds are disbursed. Developed countries should:

- Rapidly diminish the number and inflexibility of policy conditionalities, so that they no longer form a part of aid relationships by 2010.
- Negotiate aid terms fairly and transparently, with participation and accountability to partner country citizens.
- Improve the design of aid programmes to respect democratic ownership and partner country leadership.

The fact that least developed countries continue to require high levels of ODA to support basic developments goals should be seen as a symptom of continuing injustices in international trade and financial systems. That is: realising just (i.e. pro-poor) trade reforms (refer to Chapter III “trade”), significant debt cancellation (refer to Chapter V “debt”) would render ODA unnecessary in most cases.

40. Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are necessary to ensure ODA effectiveness.

Crucial to ODA effectiveness is that the international policy environment does not cancel out its effects via, for example, negative terms of trade trends, excessive profit repatriation and tax evasion by foreign investors operating in the country, high levels of external debt service, etc. The long-run objective is that poor countries be enabled, as soon as possible, to develop without aid by providing them with drastic debt relief, just trade and genuine transfer of technology. Aid effectiveness will only happen when wealth stops flowing from poor to rich countries. According to UNCTAD, around USD 200 billion is transferred every year from poor to rich countries in the form of capital.
A major priority is to build those development partnerships, particularly in support of the neediest, and to maximize the poverty reduction impact of ODA. The goals, targets and commitments of the Millennium Declaration and other internationally agreed development targets can help countries to set short- and medium-term national priorities as the foundation for building partnerships for external support. In that context, we underline the importance of the United Nations funds, programmes and specialized agencies, and we will strongly support them.

ODA effectiveness is currently measured under the OECD DAC criteria and tools, but the principles of national leadership and ownership defined in para 40 and integrated by the OECD under the Paris Declaration are not always respected. Developed and developing countries must agree under the UN the best way to respect and promote national leadership and ownership as key elements to define aid contracts or partnerships. ‘Ownership’ should be understood as democratic ownership, which means that citizens’ voices and concerns must be central to national, regional and local development plans and processes, through flight, debt and interest payments and profit repatriation of multinational corporations. A new Christian Aid report looks at mispricing by MNCs and other businesses, examining one aspect of tax evasion that was not accounted for in the UNCTAD study, and estimates its toll at USD 160 billion. Aid effectiveness should be viewed within the framework of self-reliance and sustainability which requires coherence in trade, financial and monetary policies. Therefore the discussion on aid effectiveness should add the critical element of how rich countries can be urged to increase ODA on the one hand, and how to enhance coherence in development policies and curb capital flight from poor to rich countries on the other hand. Aid effectiveness should also be considered from the standpoint of supply policies: aid tying, onerous policy conditions, low grant-equivalent and long delays in translating commitments into disbursements play a major role in reducing the effectiveness of aid. These issues must be part of any decisions designed to enhance the effectiveness of the supply and provision of aid.
legitimate and open mechanisms involving parliaments and civil society, including women’s organizations.

Specifically, the democratic ownership of ODA-funded projects need to be ensured through support for capacity building among parliamentarians, revenue services, civil society organizations including women’s organizations, and small producers so that these could be effective participants and watchdogs in ODA agreement and monitoring and implementation. At the same time, there is a need to build national ownership of aid policies and programmes especially through broad and open consultations with civil society, faith-based, women’s and other marginalised groups in formulating, implementing and monitoring programmes. Mechanisms that channel significant amounts of ODA to social development (e.g. health and education) and gender-equality projects identified by countries must be developed. It should be pointed out that in the long-run, investments in social development will impact positively on countries’ trade capacity.

ODA must be used to develop the capacity of the recipient country’s economy to generate and mobilize its own resources, to promote development while reducing structural inequalities including gender inequality. In short, ODA should be a contribution that truly supports national economic and social development within a framework of a vibrant and robust democratic society and transparent and accountable governments propelled by their own empowered political actors.

In support of mutual responsibility and accountability for gender equality on the part of both donors and recipients, monitoring
and evaluative tools and methodologies need to be developed to assess the extent to which aid allocations address or do not address the achievement of redistributive, social and gender goals. The categorization of gender, along with human rights and environmental sustainability, as cross cutting issues have led to difficulty in tracking outcomes within basket funds and sector-wide programming. The development of gender-informed tools and methodologies must be carried out in a participatory process and should involve both traditional and emerging donors and across several aid modalities. Moreover such exercise should take place across all levels, with resources being allocated to enable women’s rights advocates meaningfully participate in national, regional and international processes. The United Nations system in particular its various agencies and entities charged with the promotion of women’s rights and gender equality must be the location of this process at the multilateral sphere.

| 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. |
|     | Developed countries have to agree an action plan to achieve the promises of para 42, with concrete targets for 2010 and 2015. Moreover, they should commit to reach 10% of ODA for gender equality and women’s empowerment by 2010 and 20% by 2015. The quality of aid must be considered just as important as its quantity. In order not to contribute to the debt trap, ODA should |
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.

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<th>43. Recipient and donor countries, as well as international institutions, should strive to make ODA more effective. In particular, there is a need for the multilateral and bilateral financial and development institutions to intensify efforts to:</th>
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<td>• Harmonize their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country;</td>
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|  | ideally be in the form of grants rather than loans. It should be allocated on the basis of transparent and predictable criteria emphasizing poverty eradication rather than political (e.g. national security) considerations. Aid should be offered without macroeconomic policy (e.g. trade and financial liberalisation), procurement and other conditions that constrain development, deepen poverty and gender inequalities, as well as raise the cost of goods, services and works. |
|  | Harmonization in order to reduce transaction costs should not become harmonization of policy paradigms. Aid for Trade programs should enable recipients to tap more independent, objective sources of advice and support, rather than just those employed or endorsed by donor agencies. The availability of a larger number of different paradigms underpinning assistance will guarantee the benefits of healthy competition among them and that programs are demand-driven. In this regard, calls for increased coordination should not be understood as supporting their “cartelization”, thus crowding out competition and diversity in approaches, and further reducing demand-driven choice. Harmonize aid policies and practices respecting international commitments to human rights frameworks, gender equality, decent work and environmental sustainability. |
|  | At times, donor nations have used Aid for Trade as a bargaining chip in relation to seeking desired outcomes in particular trade agreements. This is a particularly problematic form of tied aid. Aid for Trade should be de-linked from trade negotiations, and |

• Support and enhance recent efforts and initiatives, such as untying aid, including the implementation of the Organisation for Economic Cooperation and Development/Development Assistance Committee recommendation on untying aid to the least developed countries, as agreed by the Organisation for
Economic Cooperation and Development in May 2001. Further efforts should be made to address burdensome restrictions;

- Enhance the absorptive capacity and financial management of the recipient countries to utilize aid in order to promote the use of the most suitable aid delivery instruments that are responsive to the needs of developing countries and to the need for resource predictability, including budget support mechanisms, where appropriate, and in a fully consultative manner;
- Use development frameworks that are owned and driven by developing countries and that embody poverty reduction strategies, including poverty reduction strategy papers, as vehicles for aid delivery, upon request;
- Enhance recipient countries’ input into and ownership of the design, including procurement, of technical assistance programmes; and increase the effective use of local technical assistance resources;

made an ongoing part of foreign assistance such that it is a more predictable, long-term support for development. Developed countries should commit to extending the current DAC agreement on untying to include all aid, including food aid and technical assistance, with a target of reaching 100% untied aid in policy and practice by 2010, to be independently monitored. Developing countries’ preferences for locally procured goods and services should be respected and supported.

Technical cooperation efforts remain largely unaligned to partner country priorities and supply-driven; the focus and results achieved are seldom clear; and well-documented lessons learned need to be much better integrated. Donors should commit to making sure that 100% of technical cooperation is demand-driven and aligned to national strategies, with recipients monitoring the extent to which this is achieved. This will require donors changing their policies, guidance and incentives, and setting out clear implementation plans that partners can monitor and supporting recipients’ monitoring
• Promote the use of ODA to leverage additional financing for development, such as foreign investment, trade and domestic resources;
• Strengthen triangular cooperation, including countries efforts.

Developing countries should commit to exert stronger leadership in determining priorities and strategies for capacity development.

Recipient nations should have a central role in the Aid for Trade decision process. Aid for Trade should be country-driven, involving local civil society and local small and medium businesses in determining priorities. This means: a) Aid for Trade programs should be structured from the premise of local ownership, knowledge and participation so that trade strategies flow out of locally-designed national development strategies; b) the structures for diagnostic, delivery and monitoring should ensure developing countries are free to use funds to enhance their capacities to advance their interests, regardless of what the donors’ interests might be; c) Aid for Trade must not distort domestic spending priorities, and the recipient country should be able to define how much Aid for Trade as a share of its total aid it should receive, especially if there will be no additional funds over existing Official Development Assistance (ODA) pledges and d) “local –democratic- ownership” also means that public oversight of national plans and priorities for Aid for Trade is ultimately assured through taking such plans to the national Parliament or Congress for final formulation and approval. When social and gender budgets where women’s organizations participate in are used, Aid for Trade should not bypass the identification of national spending priorities made via those mechanisms.

Aid for Trade programs should not demand that recipient nations implement economic policy changes which are harmful to people living in poverty or the environment, including rankings and
with economies in transition, and South-South cooperation, as delivery tools for assistance;

• Improve ODA targeting to the poor, coordination of aid and measurement of results.

other policy assessments underpinned by biased views on the causal relationship between trade and investment liberalization and poverty. Regardless of their growth implications, it is inappropriate that Aid for Trade programs are tied to any type of condition to unilaterally implement policies that are potentially a matter of negotiation in multilateral, regional or bilateral trade negotiations.

In keeping with the promise of para. 41, donors should not shift resources away from traditional, long-standing commitments to meeting basic needs, on-going development projects, or general budgetary support. Rather, financial assistance for enhancing trade should be over and above existing levels of aid. This also means acknowledging that only on the basis of a clear definition of what Aid for Trade does or does not entail can additionality be monitored.

It is preferable that ongoing efforts to define the scope of Aid for Trade do so narrowly, rather than run the risk of it repackaging aid that was committed or would have been provided anyways as Aid for Trade in order to appear to meet Aid for Trade pledges.

In this regard, criteria should be developed to discern when ODA is either adding to or subsidizing foreign investment; either generating trade or merely subsidizing low-cost exports of little impact in income generation and either promoting the type of foreign investment or trade that builds, or that drains domestic resources away, including labor resources. Gender equality should be a concern in different aspects of Aid for Trade including ‘trade related adjustment’ and ‘other trade related needs’, but, especially, those programs and projects aimed at building the ‘supply side capacity’ and the ‘human resource
We invite donors to take steps to apply the above measures in support of all developing countries, including immediately in support of the comprehensive strategy that is embodied in the New Partnership for Africa’s Development and similar efforts in other regions, as well as in support of least developed countries, small island developing States and landlocked developing countries. We acknowledge and appreciate the discussions taking place in other forums on proposals to increase the concessionality of development financing, including greater use of grants.

It is a matter of concern that Aid for Trade is being offered, in some cases, in debt-creating forms. In the past, wrong projections on the likely gains from trade led to misguided financial support for large infrastructure and trade-related projects. Financial support likely to generate liabilities should be solidly backed up by an ex-ante evaluation of returns—especially in the case of trade-related infrastructure projects. The use of financial instruments that allow for risk-sharing, should be preferred.

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.

The potential role of regional banks that embody South-South cooperation in the provision of Aid for Trade more tailored to the recipient needs should be acknowledged and encouraged. It will be important to involve actively the UN and its agencies in a leading role in the Aid for Trade implementation strategy.

45. Multilateral and regional development banks continue to play a vital role in serving the development needs of developing countries and countries with economies in transition. They should contribute to providing an adequate supply of finance to countries that are challenged by poverty, follow sound economic policies and may lack adequate access to capital markets. They should also mitigate the impact of excessive volatility of financial markets.

The contribution of rules in investment chapters of FTAs and BITS that promote liberalization of capital movements to the
Strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency. They also serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries.

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<th>46.</th>
<th>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.</th>
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excessive volatility of capital markets should, however, be recognized and stemmed.

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<th>Recent evaluations of the quality of research in the World Bank have brought to attention to highly politicized nature of its research products. There is a need to provide for accountability and scrutiny mechanisms for impartial review by outside researchers. At the same time, Aid for Trade should rely as much as possible on research and analytical frameworks produced in ways that are likely to respond to the strategic interests of developing countries, and not compromise them. In this regard, the provision of knowledge by country- and region-based independent institutions is more likely to rise to the challenge.</th>
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### CHAPTER V – DEBT

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| 47. Sustainable debt financing is an important element for mobilizing resources for public and private investment. National comprehensive strategies to monitor and manage external liabilities, embedded in the domestic preconditions for debt sustainability, including sound macroeconomic policies and public resource management, are a key element in reducing national vulnerabilities. | Past efforts to reduce debt and maintain it at sustainable levels have suffered from narrow approaches that targeted measures taken in isolation from relevant trade and investment dynamics. One lesson learned is that no lasting solution to the debt overhang can succeed in the absence of enabling trade and investment measures. An example of this is the HIPC initiative, whose debt relief gains were quickly eroded by commodity price dynamics that the initiative failed to address, although they were well-known at the time of its design and implementation. In this regard, debt sustainability efforts at the global and local level should take into account:  
  1. The relation between the export structure of borrowing countries and their collective debt profile.  
  2. The debt sustainability situation can also help, when seen at the aggregate level, appreciate the need to rethink trade dynamics. For example, if the export gains by some countries are made at the expense of the erosion of preferential trade for other countries, the debt problem will only change location, but not be solved in any lasting way. |  
  Debt sustainability indicators should put greater emphasis on |
measuring the fiscal revenue from export and investment activities. In this regard, the privatization of the exploitation of natural resources should be assessed from the perspective of its contribution to sound public debt management.

The export growth-debt repayment link must also be reconsidered, especially taking into account the need to match sovereign liabilities—which are increasingly in domestic currency for developing countries—with sovereign assets—in foreign exchange currency, under the export-led model paradigm.

48. External debt relief can play a key role in liberating resources that can then be directed towards activities consistent with attaining sustainable growth and development, and therefore, debt relief measures should, where appropriate, be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant forums.

The mobilization of resources for investment, some of them freed by debt relief, in context of trade and investment liberalization, may simply lead to subsidization of production for exports, with limited revenue staying at home. So it is crucial to identify the type of activities towards which investment is being mobilized and implement the complementary measures that will help build a domestic capital base. Trade policy should not harm public revenues and fiscal policy should not subsidize foreign investors at the expense of crucial state functions or the need for protection of vulnerable sectors of society.

For countries that, as one of the activities consistent with sustainable growth, choose to pursue an export-oriented strategy, debt relief should be enough to ensure debt service does not break a virtuous export-investment nexus. However, these specific needs are typically absent in the determination of debt relief allocations.

Conditionalities on trade and investment have hindered adoption of sound development strategies and are inconsistent with locally owned economic policy choices. Thereby they have

| 48. External debt relief can play a key role in liberating resources that can then be directed towards activities consistent with attaining sustainable growth and development, and therefore, debt relief measures should, where appropriate, be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant forums. | The mobilization of resources for investment, some of them freed by debt relief, in context of trade and investment liberalization, may simply lead to subsidization of production for exports, with limited revenue staying at home. So it is crucial to identify the type of activities towards which investment is being mobilized and implement the complementary measures that will help build a domestic capital base. Trade policy should not harm public revenues and fiscal policy should not subsidize foreign investors at the expense of crucial state functions or the need for protection of vulnerable sectors of society. For countries that, as one of the activities consistent with sustainable growth, choose to pursue an export-oriented strategy, debt relief should be enough to ensure debt service does not break a virtuous export-investment nexus. However, these specific needs are typically absent in the determination of debt relief allocations. Conditionalities on trade and investment have hindered adoption of sound development strategies and are inconsistent with locally owned economic policy choices. Thereby they have |
neutralized the potential of the HIPC initiative. It is crucial to remove them.

49. The enhanced Heavily Indebted Poor Countries Initiative provides an opportunity to strengthen the economic prospects and poverty reduction efforts of its beneficiary countries. Speedy, effective and full implementation of the enhanced Initiative, which should be fully financed through additional resources, is critical. Heavily indebted poor countries should take the policy measures necessary to become eligible for the Initiative.

Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration. We stress the importance of continued flexibility with regard to the eligibility criteria.

| Countries should not be required to adopt specific policies on trade and investment as part of the policy measures to become eligible for debt relief. |
| Assessing the Debt Sustainability Framework from a combined trade-finance perspective should be a priority, in order to achieve a holistic outcome. The assessment should include a thorough review of the indicators, especially . the relevance of the debt to exports ratio in the light of growing shares of domestic debt, and the potential to understate pitfalls in public sector recovery of revenue from export activities; . the use of Country Policy and Institutional Assessments (CPIAs) that represents a questionable blueprint for trade and investment policies; . the consideration and provisions for reliable, fast and non-conditional financing in case of trade shocks. |
| Recognizing that debt sustainability cannot be achieved with financial measures alone, an examination of the trade measures |
Continued efforts are needed to reduce the debt burden of heavily indebted poor countries to sustainable levels. The computational procedures and assumptions underlying debt sustainability analysis need to be kept under review. Debt sustainability analysis at the completion point needs to take into account any worsening global growth prospects and declining terms of trade.

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<th>50.</th>
<th>We stress the need for the International Monetary Fund and the World Bank to consider any fundamental changes in countries’ debt sustainability caused by natural catastrophes, severe terms of trade shocks or conflict, when making policy recommendations, including for debt relief, as appropriate.</th>
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<td>and their impact on debt sustainability is in order. Debt sustainability indicators should examine what are the impacts of agriculture, NAMA, services rules, TRIPS, and other trade agreements on debt sustainability. The review should include realistic projections for the likelihood that such policies may help the country move into higher-skill and technology content production.</td>
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<td>Finally, debt sustainability should include vulnerabilities stemming from the liberalization of financial services (e.g., foreign bank practices) and the generation of liabilities by foreign investment via profit repatriation (or via foreign borrowing).</td>
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<td>Mechanisms to address terms of trade shocks have proved cumbersome and insufficient, and have not received enough attention on the part of the donor community. In particular, there is a need to implement, on a broader-scale, debt contracts that foresee, ex ante, adjustments based on export shocks.</td>
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51. While recognizing that a flexible mix of instruments is needed to respond appropriately to countries’ different economic circumstances and capacities, we emphasize the importance of putting in place a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between public and private sectors and between debtors, creditors and investors.

We encourage donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries. We also encourage exploring innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income countries and countries with economies in transition.

Trade and investment agreements should refrain from adopting rules that may place the adoption of clear principles for fair burden-sharing at risk.
### CHAPTER VI - SYSTEMIC ISSUES

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<th>Trade-finance linkage issues to be raised regarding implementation review</th>
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<td>52. In order to complement national development efforts, we recognize the urgent need to enhance coherence, governance, and consistency of the international monetary, financial and trading systems. To contribute to that end, we underline the importance of continuing to improve global economic governance and to strengthen the United Nations leadership role in promoting development. With the same purpose, efforts should be strengthened at the national level to enhance coordination among all relevant ministries and institutions....</td>
<td>The need for coherence and consistency should not be used as a way to dodge arguments in favor of reviewing the failures of such systems.</td>
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<td>53. 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.</td>
<td>The existence of an adequate financial sector is highly determinant of the capacity of developing country firms to trade. The asymmetries in affordable credit supply to small-scale entrepreneurs, farmers and women-run businesses continue to disable their capacity to take advantage of trading opportunities. Given increasingly intra-regional patterns of trade growth, regional financial institutions are required to enhance availability of credit for development. Progress on regional financial arrangements should be supported as the best way to enhance access to trade finance in affordable terms, especially for South-South intra-regional trade.</td>
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54. Strong coordination of macroeconomic policies among the leading industrial countries is critical to greater global stability and reduced exchange rate volatility, which are essential to economic growth as well as for enhanced and predictable financial flows to developing countries and countries with economies in transition.

The lack of macroeconomic policy coordination among leading industrial countries continues to generate substantial exchange rate fluctuations and volatility. The trade performance of developing countries is affected via fluctuations of export revenues, domestic investment, and access to capital. In fact, the least resilient and poorest economies are the ones that suffer the most from these dynamics that are, at the same time, exogenous.

The following multilateral solutions should be considered:

Moving out of domestic currency of one country as trading currency, maybe through the utilization of SDRs, or other neutral currencies.

The IMF has failed to fulfill a coordination function, a code of conduct, alongside new institutional mechanisms for the coordination of exchange rates, is urgently needed and should be considered.

Absent a fundamental reform of governance, and until such institutional framework is in place that allows for evenhandedness in surveillance of exchange rates of advanced countries, the IMF should refrain from surveillance over attempts of middle- and low-income countries to actively manage their exchange rates.

At the regional level, greater reliance on regional institutions for monetary coordination is required. Institutions for the macroeconomic policy coordination in all regions of the world are critical. The Chiang Mai initiative, the Quito Declaration, the Bahrain concept and the Southern Africa region efforts are
examples of the way forward. Coordination among all these regional financial arrangements is essential and will, in the long term, provide a more development-friendly framework for exchange rate stability that supports beneficial trade.

Speculative capital movements can be very destabilizing, especially for least-diversified economies. While making efforts towards diversification, it is urgent to make progress in measures to regulate commodity speculation.

The difficulties created by these exchange rate fluctuations in developing country economies should be acknowledged in trade and investment agreements, including through safeguards and opt-out arrangements.

Developing countries should consider more frequent appeal to the GATT clauses that allow the establishment of balance of payments safeguards (Art. XVIII). Likewise, commitments in trade and investment agreements should encourage use of such safeguards.

55. The multilateral financial institutions, in particular the International Monetary Fund, need to continue to give high priority to the identification and prevention of potential crises and to strengthening the underpinnings of international financial stability. In that regard, we stress the need for the Fund to further strengthen its surveillance activities of all economies, with particular attention to short-term capital flows and their impact. ...

It is important to acknowledge the deep inability of the Fund to provide for the stability of the world economy that a proper functioning of the trade system requires. This inability has been in evidence in a number of financial crises. In addition, the emergence of strong regional financial institutions calls for reshaping the role of global ones, which includes the Fund. The achievement of global financial stability will be better served by strengthening these regional institutions.

Trade and investment agreements should not ban the implementation of measures required to protect and prevent the
negative impacts of short term capital flows, as well as of foreign investment, in the balance of payments.

| 56.  | We stress the need for multilateral financial institutions, in providing policy advice and financial support, to work on the basis of sound, nationally owned paths of reform that take into account the needs of the poor and efforts to reduce poverty, and to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition, aiming at economic growth and sustainable development. The advice should take into account social costs of adjustment programmes, which should be designed to minimize negative impact on the vulnerable segments of society. |
| 57.  | It is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes. It is also essential to ensure implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion. |
| 59.  | Financial standards and codes of expected universal application should not be conceived as a replacement for the autonomy to impose capital management techniques. Nor should they prejudge the desirability of liberalization of financial services. |
|      | SDRs may offer an alternative to the use of existing reserve currencies. There is a need to seriously consider the establishment of a single global currency for use in international trade and finance. This could be built around the concept of the SDR and assigned in the same manner. The SDR should be made up of new regional monetary units that give larger weight to regional and developing country currencies. |
We also underline the need to enhance the stabilising role of regional and subregional reserve funds, swap arrangements and similar mechanisms that complement the efforts of international financial institutions (without viewing them as a cause to impose conditions in the use or extension of national reserve funds).

60. To promote fair burden-sharing and minimize moral hazard, we would welcome consideration by all relevant stakeholders of an international debt workout mechanism, in the appropriate forums, that will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner. Adoption of such a mechanism should not preclude emergency financing in times of crisis.

The growing adoption of clauses applying foreign investment principles to sovereign debt in BITs/FTAs represents retrogression in this regard. They could actually toughen the conditions faced by sovereign debtors in restructuring their debts, and hamper efforts for transparent, fast, predictable and orderly processes.

61. Good governance at all levels is also essential for sustained economic growth, poverty eradication and sustainable development worldwide. To better reflect the growth of interdependence and enhance legitimacy, economic governance needs to develop in two areas: broadening the base for decision-making on issues of development concern and filling organizational gaps. To complement and consolidate advances in those two areas, we must strengthen the United Nations system and other multilateral institutions. We encourage all international organizations to seek to continually improve their operations and interactions.

There is a continued gap insofar as linkages between the different sources of financing for development tend to be considered in isolation from each other. The FFD follow up has a unique vantage point to make a holistic assessment of these linkages from a development perspective and draw policy guidelines to specialized institutions. Yet, it should be adapted to ensure linkages are deliberately addressed. For instance, in addition to the current practice of reviewing chapters of the Monterrey Consensus in isolation, there should be deliberate efforts to assess pairs, or trios of chapters, and look at their interrelationships. The agencies with specialized expertise and focus on each will benefit greatly from the specific recommendations that could be drawn from this holistic perspective.
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 multilateral forums.

The intervention of the international financial institutions in trade matters means a distortion to the trade system that has significantly reduced the capacity for developing countries to participate in the latter. While in the multilateral trade system each country has one vote, in the BWIs around 40% of the vote is controlled by 5 countries, and effectively 75% by all developed countries at the Board. Distortions get worse when looking into regional trade agreements. This is a constraint that obviously countries not in need of such assistance are spared. This inherent asymmetry should be recognized and factored in trade negotiations and the respective agencies should refrain from intruding into areas covered by such negotiations. The fact that a number of issues are negotiated in trade/investment forums, should be reason enough for international financial institutions to downsize or entirely drop them from their programs.

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.

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<th>64.</th>
<th>To strengthen the effectiveness of the global economic system’s support for development, we encourage the following actions:</th>
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<td>• Improve the relationship between the United Nations and the World Trade Organization for development, and strengthen their capacity to provide technical assistance to all countries in need of such assistance;</td>
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<td>• Support the International Labour Organization and encourage its ongoing work on the social dimension of globalization;</td>
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<td>• Strengthen the coordination of the United Nations system and all other multilateral financial, trade and development institutions to support economic growth, poverty eradication and sustainable development worldwide;</td>
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<td>It is important to ensure accountability of the BWIs, World Trade Organization and other multilateral financial, trade and development institutions to the international community as well as to the citizens of countries affected by their policies, in relation to their obligation and responsibility to support states capacity in realizing country-driven implementation of UN conventions, agreements, declarations, treaties and commitments on human rights, gender equality, labour standards and environmental protection.</td>
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- Mainstream the gender perspective into development policies at all levels and in all sectors;
- Strengthen international tax cooperation, through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and relevant regional organizations, giving special attention to the needs of developing countries and countries with economies in transition;
- Promote the role of the regional commissions and the regional development banks in supporting policy dialogue among countries at the regional level on macroeconomic, financial, trade and development issues.

The role of measures to manage trade in financial services and trade-related investment measures (TRIMs) should be assessed in the light of their potential contribution to facilitate the goals of strengthened international tax cooperation.

**SIGNATORY ORGANIZATIONS (in alphabetical order)**

African Development Interchange Network (ADIN-Cameroon)
African Forum and Network for Debt and Development (AFRODAD)
Anglican Consultative Council
Arab NGO Network for Development
Asociacion Latinoamericana de Micro, Pequeñas y Medianas Empresas (ALAMPYME- Mexico)
Association for Women’s Rights in Development (AWID)
Bretton Woods Project (UK)
Building Eastern Africa Community Network (BEACON)
Campagna per la Riforma della Banca Mondiale (Italy)
Cameroon Youths and Students Forum for Peace
Caribbean Policy Development Center
Center of Concern (USA)
Centro de Economia Politica (Brazil)
Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA- Bolivia)
Centro de los Derechos del Campesino (Nicaragua)
Christian Aid
Congregation Justice Committee, Sisters of the Holy Cross (USA)
Development Alternatives with Women for a New Era (DAWN)
Eastern Africa Coalition on Economic, Social and Cultural Rights (EACOR)
Economic Justice Coalition (Mozambique)
Elizabeth Seton Federation
Encuentro Popular/ Alianza Social Continental (Costa Rica)
Fastenopfer (Switzerland)
Franciscans International
Foro Ciudadano de Participacion por la Justicia y los Derechos Humanos (FOCO-Argentina)
IBON Foundation, Inc. (Philippines)
Institute for Agriculture and Trade Policy (USA)
Institute of Law and Economics (Jamaica)
Instituto Latinoamericano de Servicios Legales Alternativos (ILSA-Colombia)
Instituto del Tercer Mundo (ITEM- Uruguay)
International Cooperation for Development and Solidarity (CIDSE)
International Gender and Trade Network (IGTN)
Jubilee South Asia Pacific Movement on Debt and Development
Jubilee USA Network
Kenya Debt Relief Network (KENDREN)
KULU-Women and Development (Denmark)
Latin American Network on Debt, Development and Rights (LATINDADD)
Malawi Economic Justice Network
Medical Mission Sisters
Medical Mission Sisters' Alliance for Justice
New Rules for Global Finance Coalition
NGO Committee on Financing for Development
People's Movement for Human Rights Learning (PDHRE)
Public Interest Research Centre (India)
Red Mexicana de Acción frente al Libre Comercio (RMALC- Mexico)
Salesian Missions
Social Development Network (Kenya)
Southeast Asian Council for Food security and Fair Trade (SEACON- Malaysia)
Southern and Eastern Africa Trade Information and Negotiation Initiative (SEATINI)
Tax Justice Network
Trade Collective (South Africa)
World Council of Churches
ZENAB for Women in Development (Sudan)