On the Road to Doha, General Assembly takes up external debt and systemic issues


Review session on Chapter V of the Monterrey Consensus, "External debt"

This Review Session focused on progress and setbacks in the implementation of Chapter V of the Monterrey Consensus, including lessons learned and the role of external debt sustainability frameworks. (continued on p. 3)

Review session on Chapter VI, "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development"

At the opening of the meeting, Mr. Sha Zukang, Under-Secretary-General for Economic and Social Affairs, made an introductory statement. (continued on p. 4)

Special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Secretary-General’s note discusses substantive topics of Special high-level meeting

The Secretary-General’s note provides background information and appends a number of points for reflection to inform the discussion at the Special high-level meeting of 2008. The note focuses on new challenges and emerging issues in financing for development. (continued on p. 5)

Special high-level meeting focuses on new challenges and emerging issues in financing for development

On Monday, 14 April 2008, the Economic and Social Council held its Special High-level Meeting with the BWIs, WTO and UNCTAD. The overall theme of the meeting was “Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus, including new challenges and emerging issues”. (continued on p. 6)
Can the Doha Review Conference make trade an engine for development?
By Aldo Caliari*

The Doha Review Conference comes at a very crucial moment in the history of the multilateral trade system. In the years since Monterrey, the Doha Trade Round, first launched in 2001, has successively been held, on and off, several times. Experts are rather pessimistic about the prospects, with some predicting that the Round will not be completed, if at all, before 2010.

And while some claim that long delays and even suspension phases are not new in the history of trade rounds, they forget that there is a dramatic difference between this round and previous ones. This is the first trade round since the establishment of the WTO. Since the WTO entered in motion, it has given rise to growing complaints from the developing world that have never been resolved, leading to fundamental disquiet about the direction and scope of this institution. The consent by members to a new round did not represent an ambition to go further in that direction, but rather a desire by developing countries to have the chance to correct and reverse the fundamental imbalances. Thus the name of “Development” round represents a promise, without which these countries would probably never have agreed to it.

Against this backdrop, unlike in other trade rounds, persistent disagreements cannot be interpreted as mere disparity on how much further to liberalize. They represent a deep crisis of the fundamental legitimacy and soundness of the WTO, a questioning of its basic tenets.

In light of this, the FFD Review Conference should be seen as a crucial opportunity. Indeed, the UN framework, with its universal membership, may provide the forum in which an agreement that sets trade negotiations on a dramatically different and truly developmental footing may be achieved. FFD, with its endeavor to place all sources of finance in the context of a development vision, certainly provides the right starting point for examining trade negotiations through a developmental lens.

This is not to say that FFD should take over trade negotiations. But it should be acknowledged that the WTO, with a specialized mandate geared towards the progressive liberalization of trade, is incapable, single-handedly, of incorporating a development vision. Therefore, the input and the political guidelines that may be agreed upon in a developmental forum such as the FFD Review Conference become essential.

The Monterrey Consensus also recognized that the question of making trade work for development was not one that could be solved by trade measures alone. So its overarching mandate was to achieve coherence and consistency among the trade, financial and monetary systems—an approach that trade fora are not equipped to take. The comprehensive agenda of the conference, which paves the way for addressing the linkages among different sources of finance and its multi-stakeholder composition hold the greatest promise that trade issues can be addressed in a holistic manner.

In assessing implementation of the trade chapter, the FFD Review should give central attention to those linkages. It is there where the policy insights it can provide to multilateral (but also regional and bilateral) negotiations on trade and investment, can make a substantial difference. Some of these are:

- Trade negotiations are oftentimes merely seen as a way to increase exports, but developing countries have been actually exporting more and earning less. Therefore, to maximize trade’s contribution to long term domestic capital it is crucial to inquire into the quality of exports (value added, technology and skills content) that can generate revenue for development. What is the combination of trade and financial policies needed to enable such exports?
- High levels of exchange rate volatility in the world economy continue to affect the trade performance of developing countries. Preventing the negative impacts of such volatility on domestic investment processes is a precondition for countries to build trade capacity.
- Foreign direct investment is highly sought by developing countries which see it as a way to overcome debt problems and chronic balance of payments deficits. But foreign direct investment also generates liabilities that, over time, will increase the pressure on the balance of payments. What mechanisms need to be encouraged in investment agreements so as to manage such outflows and ensure FDI supports, rather than undermines, the balance of payments?
- Multilateral and bilateral financing agencies continue to exert enormous influence on the trade and investment negotiating space of countries that receive their financing, a constraint that obviously countries which do not need such assistance are spared. How could this inherent asymmetry be recognized and factored in trade negotiations? What are their implications for trade-related activities of institutions such as the World Bank and the IMF, or the conditionality frameworks guiding aid harmonization processes? Should creditor-controlled institutions such as these be allowed to interfere in the domestic policy space of areas that are under negotiation as trade?

The FFD Review Conference is in a privileged position to make recommendations to ensure that, as stated in the Monterrey Consensus, “trade plays its full part in promoting economic growth, employment and development for all.” For the sake of the multilateral trading system, it is imperative that it does just that. But this will only happen if the Conference chooses to tackle the right issues.

* External contributions are the responsibility of the author(s) and do not necessarily reflect the views of the United Nations Secretariat.

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Review session on Chapter V of the Monterrey Consensus, "External debt"

Presentations by five panelists—Thomas Courbe of the Paris Club, Deepak Nayyar of Jawaharlal Nehru University, Martine Guerguil of the IMF, Hitoshi Shoji of the Japan Bank for International Cooperation and Léonce Ndikumana of ECA—were followed by an interactive dialogue with the participation of all relevant stakeholders.

Many participants stressed that, overall, the debt indicators of developing countries had improved markedly since 2002. Most developing countries had debt management programmes in place and had built reserves, reducing vulnerability. The implementation of the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative had led to a significant reduction of the debt burden of many developing countries. With regard to those countries that were not part of the HIPC initiative, it was noted that the Evian Approach of the Paris Club had also contributed to reduced debt burdens. Middle-income countries (MICs) had seen their credit ratings improve and the interest spread on their borrowing had declined markedly since 2002. For MICs and some low-income countries (LICs) that were not part of the HIPC Initiative, alternative options to reduce debt, including debt swaps and bilateral debt relief agreements, should be used more extensively.

Many speakers pointed out that there had been a considerable transfer of resources from the South to the North, partly because of debt servicing. It was noted that a large number of countries still faced very high or unsustainable debt servicing burdens. Fifty percent of HIPCs that had reached completion point, later slipped back into unsustainability and some of them were facing lawsuits or litigations from commercial creditors and “vulture funds”. Some participants called for total debt cancellation, particularly for LDCs and post-conflict countries.

Many speakers underscored the importance of policy space. For HIPCs, policy conditionalities had often resulted in compressed public spending to balance the budget, squeezing much-needed infrastructure investment and social sector spending. In the case of MICs, the need to maintain high interest rates to increase returns to investors and a strong exchange rate had often undermined competitiveness and stifled economic growth.

Some speakers warned that the switch from official to commercial borrowing and from external to domestic public debt was creating new vulnerabilities and risks. Several participants mentioned that the issue of “free riders” in the HIPC Initiative and Paris Club processes should be taken up. Furthermore, it was noted that the international financial system would remain insecure and incomplete without a sovereign debt workout mechanism. It was also suggested that creditor nations and international financial institutions should pay more attention to exchange rate volatility and develop a new mechanism for loans in domestic currencies.

There was a call for further consideration of the proposal to establish an independent debt arbitration mechanism to assess, adjudicate and pass judgment on debt reduction options. It was suggested that a debt resolution mechanism, aimed at guaranteeing fair burden sharing among debtors and creditors, whether they were dealing with official or commercial debts, should be also considered.

Many speakers referred to the need to build national capacities for debt management and debt sustainability analysis and called for bilateral and multilateral support for the implementation of debt management programmes. It was proposed that UNCTAD, the World Bank and the IMF should step up efforts in this area.

Concern was expressed about emerging donors providing loans that might not be sustainable to countries that were benefiting or had benefited from debt relief. Domestic debt was increasing and becoming substantial in several countries. Such debt should be included in the debt sustainability analysis and debt management enhancement. Some participants pointed out that debt incurred for infrastructure and productive investments was likely to be more sustainable than debt used to finance current expenditures. Therefore, debt sustainability analysis should focus on both liabilities and assets. There was a converging view that debt sustainability frameworks should have development as an objective, with particular focus on the achievement of the MDGs.
Review session on Chapter VI, "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development"

His remarks were followed by five panel presentations by Gerald Anderson of the USA, Eduardo Gálvez of Chile, Masood Ahmed of the IMF, Mojmir Mrak of Slovenia and Jiayi Zou of China. Then an interactive dialogue among all stakeholders ensued.

The Review Session focused on new trends in international finance, including the increased role of emerging economies, growing global current account imbalances, the emergence of a new generation of financial crises, excessive global liquidity and the continued marginalization of international financial institutions, especially the Bretton Woods institutions (BWIs). It was noted that, the large current account deficit of the US had been accompanied by surpluses in Asia, Japan and several emerging energy and commodity exporting countries.

In the view of many participants, global imbalances were largely the result of the globalization process and were exacerbated by the use of national currencies as international reserve currencies. In this scenario, monetary policy could lead to inflationary pressure since policy was determined by the issuer of the reserve currency and not by the needs of those countries that used it as reserve currency. Some participants proposed measures to reduce global imbalances. In the long run, economies with large trade surpluses should lower the savings rate by stimulating domestic demand. In turn, countries with large trade deficits should lower consumption and increase the savings rate. International financial institutions could play a supporting role.

While in the 1980s and 1990s, financial crises originated in emerging economies, the epicenter of the current financial turmoil was found in developed countries. Financial flows had become increasingly globalized, while their regulation mostly fell under national jurisdiction. A major challenge would be to ensure integrity and transparency of financial markets. Improved cooperation among regulators could be crucial in this regard.

Several discussants noted that international financial institutions had governance, financial and credibility problems. It was acknowledged that there was an urgent need for strengthening the voice and representation of developing countries in the BWIs. The next quota reform should enhance the overall voting power of developing countries and significantly increase the voting share of low-income countries (LICs). Moreover, the governance reform should not be limited to the BWIs. It should also include other international financial, regulatory and standard setting bodies, including the WTO. The Monterrey Consensus had called for the strengthening of the United Nations’ leadership role in achieving a more coherent monetary, financial and trading system in support of development.

It was also noted that many IMF members had prepaid their obligations and new commitments in MICs had declined. To enhance its role, the IMF should go beyond financing by also providing a forum for policy coordination. Moreover, it should carry on with improvements to its facilities that serve as liquidity sources during crises.

There were calls to further explore innovative sources of financing, including proposals regarding special drawing rights allocations for development purposes, fighting tax evasion and stemming illicit capital flows, taxing currency transactions and digital solidarity levies.

In the view of some participants, IMF programs in LICs were evolving, in order to help those countries maintain debt sustainability and learn from the positive experience of MICs in accessing capital markets. It was also supporting commodity exporting LICs to ensure that their export revenues would be managed and used effectively.

The potential role of the World Bank in designing a mechanism to recycle global surpluses to productive investment was highlighted. In particular, the Bank had introduced schemes to help channel liquidity from MICs to LICs and to reinvest reserves in other developing countries.

Participants noted that there had been some progress in cooperation on tax matters. Several speakers welcomed the proposal that ECOSOC consider converting the Committee of Experts on International Cooperation in Tax Matters into an intergovernmental subsidiary body.

There was a call for a strengthened post-Doha follow-up mechanism that would take the form of an integrated multi-stakeholder Forum made up of representatives from the UN intergovernmental bodies, the BWIs, the WTO, other specialized agencies, as well as civil society and the private sector.

The programmes of the Review Sessions, panel presentations and inputs from Member States and all relevant stakeholders are available on the FfD website at http://www.un.org/esa/ffd/doha/roadmap.htm.

Informal summaries by the President of the General Assembly of both Review Sessions are posted on the FfD website at http://www.un.org/esa/ffd.
Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus, including new challenges and emerging issues

Note by the Secretary General

The note observes a new spirit of partnership between developed and developing countries, in which various groupings explored innovative ways of raising financing for development together. Such a partnership “modality” could increasingly become the distinguishing feature of exploring and implementing new initiatives for financing development. However, the amounts raised and disbursed under such new initiatives have so far been small compared to traditional ODA and other sources of development finance. An important challenge would thus continue to be to identify the best projects, build consensus around them and relate implementation issues. Further exploration of new initiatives on financing for development and building up momentum could be a part of the forthcoming review of the financing for development process in Doha at the end of 2008. In relation to this, the Secretary-General appointed M. Philippe Douste-Blazy, former Foreign Minister of France and Chair of the Executive Board of UNITAID, as his Special Adviser on Innovative Financing for Development.

Regarding middle-income countries, there is increased recognition that their specific developmental issues comprise challenges and opportunities that are different from those that face the world’s poorest countries, prompting a discussion on how the international community could refine its objectives, strategies and instruments in order to support the development efforts of these countries. The note recalls that middle-income countries are home to almost half of the world’s population and about 41 per cent of the world’s poor. They share several basic challenges, including reducing the levels of poverty and inequality, maintaining social cohesion, building efficient and credible social institutions to bring coherence to development efforts, reducing vulnerabilities associated with their integration into international financial markets and improving their competitive capacity through productive transformation and technological progress.

Turning to the development efforts of least developed countries (LDCs), the note observes that in the period since the Consensus, characterized by elevated rates of growth in the global economy, LDCs have achieved higher rates of growth and notably higher rates of growth of exports and inflows of foreign direct investments. However, these developments have not translated sufficiently into poverty reduction. LDCs should build their capacity through the promotion of productive resources, entrepreneurial capabilities and production linkages. The recent record confirms that trade could be an engine of growth for LDCs, especially when trade expansion is associated with improved domestic productive capacity. To maximize the benefits of trade, LDC trade policy should be tailored to specific starting conditions and oriented toward building diversified and sustainable improvements in economic capability.

On the issue of building and sustaining solid financial markets, the note underscores that financial sector crashes have enormous capacity to cause the collapse of the real economy, even a healthy one, in terms of employment, growth, trade and investment. An important aspect of the current crisis is that, in this era of globalization, the financial and real sector causes and consequences are global. Therefore, the necessary responses should be global, i.e., internationally cooperative and concerted. The key obstacle would be that international processes are inadequately designed to facilitate macroeconomic coordination and cooperation. The Special high-level meeting would be an important occasion to discuss the role ECOSOC and the major institutional stakeholders could play in enhancing macroeconomic and financial policy coordination.

The note emphasizes that the challenge of financing climate change adaptation and mitigation would need to be tackled in the two-year period culminating in the Conference of the Parties of the UN Framework Convention on Climate Change (UNFCCC) to be held in Copenhagen by the end-2009. Climate change adaptation must be factored explicitly into development plans, including investment programmes, in all countries but especially in those most exposed to its adverse effects. Climate change mitigation would require, in the first instance, the reduction of greenhouse gas emissions from energy and industrial processes and from land use, land use changes and forest activities, such as deforestation and forest degradation. It would be important to deal with the issue of whether existing financing mechanisms – and most importantly their governance arrangements – could be expected to provide financing on the scale and in the form required; and, if not, how they could be enhanced and what other financing mechanisms would be needed to fill financing gaps?

The full text of the Secretary-General’s note (E/2008/7) is available on the FfD website at http://www.un.org/esa/ffd.
Special high-level meeting of ECOSOC with BWIs, WTO and UNCTAD

Following opening remarks by the President of ECOSOC, United Nations Secretary-General Ban Ki-moon addressed the meeting. Statements and presentations were also made by the heads of relevant intergovernmental bodies and other senior officials.

The morning statements presented a rather worrisome outlook for the global economy. Developed countries face risks of major growth deceleration, which would impact adversely on all countries. Many developing countries face a considerable degree of uncertainty regarding their exports and financial flows. These difficulties are compounded by substantial increases in international food and energy prices. If deceleration in developed countries is severe and long, and the prices of food and energy remain high, the development gains of the last half dozen years may be reversed. Every effort should be made to avoid this possibility.

The Secretary-General and many participants emphasized the negative impact of the current food crisis on the economic and social situation and prospects of developing countries. Many countries have been deeply affected, with over 30 countries having seen food riots in recent days. In response, the President of ECOSOC and the Secretary-General are both personally committed to taking urgent action. Following consultations among members of the ECOSOC Bureau, a special meeting of ECOSOC will be convened in May to discuss a global response to this crisis.

After the opening plenary, the meeting split into three simultaneous round tables. Each one was co-chaired by two high-level officials from developing and developed countries and included a lead-discussant from major institutional stakeholders in the FfD process.

Round table 1 addressed the topic of new initiatives on financing for development. The participants recognized that a substantial number of new initiatives have been undertaken since the Monterrey Conference and some of them have already contributed to the mobilization of new resources for development, especially in health-related areas. This demonstrates the importance of political will in moving the development agenda forward. At the same time, the discussion pointed out a need for better focus and coordination of the new initiatives going forward, in order to maximize their impact on development.

Round table 2 focused on supporting development efforts and enhancing the role of middle-income countries, including in the area of trade. There was wide agreement between participants that international support should be maintained for the development efforts of middle-income countries (MICs), in order to help them consolidate their development gains and prevent reversals of these gains. Many members of this large and heterogeneous group of countries continue to face high levels of poverty and inequality, as well as a large degree of vulnerability due to their integration into international financial markets. Many participants agreed that for MICs, the conclusion of the Doha round of trade negotiations is very important.

Round table 3 dealt with supporting development efforts of the least developed countries, including through trade capacity-building. In the course of the discussion, it became clear that the challenges faced by LDCs are becoming more complex due to their integration into the international economy. In this context, increased international assistance to these countries, including through enhanced synergies with the private sector remains critical. In particular, many participants mentioned the increased support through “aid for trade” as a necessary requirement to allow LDCs to benefit from the successful Doha round.

In the afternoon, two consecutive events were held: the thematic debate on Building and sustaining solid financial markets: challenges for international cooperation and a special event on Financing of climate change mitigation and adaptation. Each of the debates began with keynote presentations followed by an informal interactive dialogue among all participants.

Against the backdrop of the current financial market turmoil, the first thematic debate focused on the role of multilateral institutions as well as innovative financial instruments and mechanisms to ensure macroeconomic stability and growth. Attention was also paid to the critical role of well-functioning domestic financial markets in the North and the South for the stability and growth of the world economy.

The discussion during the special event on financing of climate change mitigation and adaptation demonstrated clearly that the task of dealing with climate change mitigation and adaptation requires involvement of all countries and development actors. The focus of the international community should be on supporting developing countries that lack the financial and technical resources necessary to respond appropriately to climate change and whose populations could be severely affected by climate change.

In the near future, the President of ECOSOC will issue an official summary of the Meeting, which will serve as an input to the draft outcome document of the Doha Conference to be prepared and negotiated later this summer.

For further information on the meeting, including presentations and statements, visit the FfD website at http://www.un.org/esa/fdd/ecosoc/springmeetings/2008/index.htm.
Registration for Doha Review Sessions

Non-governmental organizations (NGOs) that wish to attend future Review Sessions should register online. Registration will be open to all NGOs that are in consultative status with the Economic and Social Council and to all NGOs accredited to the International Conference on Financing for Development or to its follow-up process.

Registration for Civil Society Hearings

FfDO and NGLS have opened the registration process for the Hearings of Civil Society on Financing for Development (18 June 2008). Registrants also have the option of nominating a representative of civil society to serve as a panelist at the event. The registration form can be retrieved online at http://www.un-ngls.org/ffd.

NGO Facilitators in the Financing for Development process

There are various NGO networks that serve as facilitators in the FfD process. The current group includes:

- NGO Committee on Financing for Development
- New Rules for Global Finance Coalition
- Cooperation Internationale pour le Developpement et la Solidarite
- EURODAD
- AFRODAD
- LATINDADD
- Third World Institute
- Third World Network
- Women's Working Group on Financing for Development
- Ubuntu
- International Trade Union Confederation
- AWEPEON

NGOs that are not familiar with the FfD process and want to engage in the Doha Review Conference and its preparatory process are encouraged to contact one of these networks. NGOs that are in consultative status with ECOSOC or accredited to the FfD process and wish to serve as a facilitating group on FfD should contact NGLS or the FfD Office.

UNCTAD XII

Next week UNCTAD XII will convene in Accra, Ghana. The conference is UNCTAD’s highest decision-making body. It meets every four years to set priorities and guidelines for the organization, and provides an opportunity to debate key economic and development issues. The 12th Ministerial conference (20-25 April 2008) will revolve around the following theme: “Addressing the opportunities and challenges of globalization for development.”

UNCTAD XII will also address four sub-themes:
- Enhancing coherence at all levels for sustainable economic development and poverty reduction in global policy making, including the contribution of regional approaches;
- Key trade and development issues and the new realities in the geography of the world economy;
- Enhancing the enabling environment at all levels to strengthen productive capacity, trade and investment: mobilizing resources and harnessing knowledge for development;
- Strengthening UNCTAD—enhancing its development role, impact, and institutional effectiveness.

The programme for UNCTAD XII has been released as well as the Pre-Conference negotiating text.

NGLS maintains an ‘online focus page’ on the Conference where you can find more information about the Conference and the Civil Society preparatory events. The official website for the conference is http://www.unctadxi.org/en/ and includes a section focused on civil society input and participation.

International Forum on Civil Society and Aid Effectiveness

The final report of the Advisory Group's International Forum on Civil Society and Aid Effectiveness, which took place in Ottawa from 3 to 6 February, 2008 has recently been issued and is available online. The International Forum was part of the roadmap leading to the Third High-level Forum on Aid Effectiveness, to be held in Accra, Ghana, in September 2008. Participants in the Forum contributed advice on civil society and the international aid effectiveness agenda, and stressed the need to take on the larger challenge of development effectiveness beyond the focus of the Paris Declaration on managing aid flows between donors and Southern governments. They argued that there is a larger development agenda of human rights, gender equality, and environmental sustainability. Key background papers, interventions and roundtable reports are available on the website of the Canadian Council for International Co-operation (http://www.ccic.ca/e/002/aid.shtml).

NGLS has prepared a webpage intended to give an overview of the issue of aid effectiveness, how it is being discussed and how that process relates to discussions on FfD. It also links to resources emanating from the United Nations System and civil society (http://www.un-ngls.org/site/article.php3?id_article=451).

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