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EDITORIAL: Assessing Accra Action Agenda

By Yash Tandon

South Bulletin: *Reflections and Foresights* takes stock of ongoing debates on major global policy challenges and delivers regular flow of analysis and commentary to policymakers in the South.

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The OECD-inspired and promoted Accra Action Agenda (AAA) on “aid effectiveness” was concluded on 4 September 2008 as a “consensus” document by almost 1,200 delegates from about 100-odd countries and intergovernmental organisations (IGOs). There was also a side event of the Civil Society Organisations (CSOs) attended by some 600 delegates from 325 CSOs from 88 countries. What did Accra achieve?

What the Accra conference achieved was to draw attention to the unwieldiness of aid as an instrument of development. According to the OECD (Organisation of Economic Cooperation and Development), donors sent 15,000 missions to 54 recipient countries in 2007. In Tanzania alone the local aid bureaucracy produced 2,400 quarterly reports to donors. The Paris Declaration that formed the basis of the negotiations in Accra was aimed at bringing some order to the aid industry. **However, the irony of the situation is that the present chaotic situation of the aid industry is the second best option for the poor countries than the anticipated order of the AAA.** (The best option is to get out of aid dependence).

Why is the AAA a worse option than the present chaotic situation? Because if the AAA does get implemented, it might reduce the 15,000 missions to 5,000 and Tanzania’s 2,400 quarterly reports to 400, but the process, monitoring, evaluation, and sanctions would now be centralized and controlled by western aid industry bureaucrats located in the World Bank and the Development Assistance Committee (DAC) of the OECD, and development or foreign (even defense) ministries of donor countries. Why should that be so? This is so for three reasons: one, because it is in



Yash Tandon appearing on TV3 (Ghana) Breakfast Show on « Moving Aid Dependence » on the final day of the High Level Forum on Aid Effectiveness, 2-4 Sept. 2008, Accra Sept 2008, Accra.

these places where the “aid industry elite” are located – employing literally thousands of “aid experts”, “country report evaluators”, and “aid dispensers”. Secondly, because the aid receiving countries are fragmented and divided, and are made to believe, erroneously, that without infusions of aid from the North they will not get out of poverty. And thirdly and most importantly, because the AAA, if it succeeds in getting off the ground, will make the really poor countries (i.e. excluding such large countries as Brazil, China, India and South Africa) even more subject to the collective discipline and control of the northern donors and the agencies they control (such as the IMF and the World Bank) than in the present chaotic situation. Indeed, if the AAA succeeds, then through bringing in say 10 or 40 per cent in the form of “budget support”, the donors could effectively control the entire budget of the recipient countries. The situation could be worse than it looks at first sight.

The Accra meeting was the biggest ever gathering on aid in history, but it failed to address or properly discuss three important questions. One, why are poor countries poor? Second, what is the ideological underpinning

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of the aid industry? And three, what is the agency that would implement the AAA “consensus”?

There was no discussion on the first issue. There was no acknowledgement of the fact that poverty is not a natural but a man-made phenomenon. It is common knowledge that poverty is created. It is created by the present system of global production, consumption and trade, which engenders the spirit of competition, selfishness, and greed between nations, corporations and individuals. Two examples may suffice to illustrate the point. One is the structure of the global cotton industry. The US subsidises its cotton farmers thus lowering down the price of cotton in the global market, depriving African (among other) peasant farmers from getting proper prices for their export of cotton. In order that a few hundred cotton farmers in the US may continue with their subsidised affluence, a million peasants in Africa must be impoverished. The second example is that of what is called “sensitive products” – products that are sensitive to the survival of millions of peasant farmers in the developing countries. In the Doha Round of trade negotiations the rich countries have demanded that in order that their producers may have access to the markets of the poor in agricultural and industrial products, the poor countries must put a limit to how many products they might classify as sensitive products, and therefore lower down their tariffs on “non-sensitive” products. If the rich countries have their way, it would intensify poverty in the poorest countries of the world. The Doha negotiations collapsed in July this year precisely on the issues of agricultural import surges and the need for countries to protect their producers, and cotton. For the rich it was a question of markets, and for the poor a question of survival. Oddly, for countries that preach democracy and transparency the poor were not even consulted. The negotiations basically shut out the poor and their countries. Under the circumstances, it was good for the poor of the world that the negotiations collapsed.

There was no discussion in Accra on the second issue: what is the ideological content of aid? There was much talk about “untying aid”. But this was limited to untying aid to procurement of goods and services paid out of aid. There was no discussion of *untying aid from its ideological content*, what a South Centre publication on “Ending Aid Dependence” classifies as “Red Aid” – aid that is given on condition that the recipients conform to the policies of the IMF and the World Bank, the so-called “Washington Consensus”. What the Accra conference failed to acknowledge

is that over the last 20-25 years, neoliberal globalization has deindustrialised and now de-agriculturised the most trade-vulnerable countries of the world. Africa, a food self-sufficient continent, is now importing food, even as food prices are sky-rocketing. The argument that the best way for African countries (among others) to enter the global value chain on a competitive basis is through free trade is a self-serving ideology of those who control governance and markets of the rich nations and their intellectual ideologues in universities and “think tanks”. This ideology is relentlessly pursued through the IMF, the World Bank and the World Trade Organisation. Aid or ODA (official development assistance) is part of the instruments of the enforcement of this ideology on the countries of the South that allow themselves to be aid dependent.

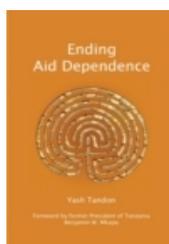
The third issue – what is the agency that would implement the AAA “consensus”? – was not discussed. The AAA refers to “Ministers of developing and donor countries and Heads of multilateral and bilateral development institutions”, but it appears that when it comes to monitoring and implementing the AAA it is the OECD created “Working Party on Aid Effectiveness” (WPAE) that will be the implementing agency of the AAA. At a minimum, the WPAE’s composition, credentials, legitimacy, and mandate should have been debated.

It was argued earlier that the present chaotic situation in the aid industry is a second best option to the AAA, and that the best option for the countries of the South is to get out of aid dependence. To this end, the South Centre brought out its publication on “Ending Aid Dependence” to coincide with the Accra conference. The publication suggests a seven step aid exit strategy for discussion and consideration by those who are seriously contemplating ending aid dependence. It is heartening to note that some African ministers are already talking about ending aid dependence. Thus, for example, the South African Finance Minister Trevor Manuel in addressing the launch of the informal consultations on the Review of the Finance for Development process in New York on 8 September is reported to have said: “We should seek a world where no country is dependent on aid”.

Against this objective of ending aid dependence, the AAA is moving aid discussions in the wrong direction.

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Enhanced Financial Mechanism for UNFCCC: The G77 Proposal

By Matthew Stilwell

A major highlight of the Accra climate talks that concluded on 27 August was the tabling of a paper by the G77 and China proposing an “enhanced financial mechanism” to ensure the effective implementation of the Climate Change Convention. The proposal calls for enhanced financial resources and investment to support action on mitigation and adaptation as well as the development and transfer of technology, as required by the Bali Action Plan.

The proposal was put forward at the contact group on “delivering on technology and financing, including consideration of institutional arrangements”. It was one of three contact groups in Accra under the Ad-hoc Working Group on Long-term Cooperative Action (AWG-LCA) of the UN Framework Convention on Climate Change (UNFCCC). The proposal builds on the experience of other relevant funds such as the Multilateral Fund established under the Montreal Protocol, which deals with the phase-out of ozone depleting substances. Other proposals on finance were also presented in Accra by Mexico, Norway, South Korea and Switzerland.

Introducing the proposal, Bernarditas Muller of the Philippines (and Special Adviser on Climate Change to the South Centre), on behalf of the G77 and China, stated that it would operationalise an effective financial mechanism under the Conference of Parties with the goal of ensuring the full, effective and sustained implementation of the Convention’s obligations relating to financial resources. The proposal aims to bring about coherence in the global financial architecture for financing under the authority and governance of the Conference of Parties.

The proposal identifies five principles to guide an enhanced financial mechanism under the Convention. It must: (1) be underpinned by the principle of equity and common but differentiated responsibilities; (2) operate under the authority and guidance of, and be fully accountable to, the Conference of Parties; (3) have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance; (4) enable direct access to funding by recipient countries; and (5) ensure recipient country involvement during all stages of identification, definition and implementation, rendering it truly demand driven.

The main aims of an enhanced financial mechanism would include recognizing, promoting and strengthening engage-

ment at the country level, to ensure a country-driven approach and direct access to funding. It would enable a shift from a project-based approach to a programmatic approach to help optimize and scale up implementation. It would facilitate linkages between various funding sources and funds to promote access to a variety of available sources and reduce fragmentation. It would ensure that activities relevant to climate change undertaken outside the framework of the financial mechanism (including those related to funding) are consistent with the Convention and relevant Conference of Parties decisions.

The main source of funding will be the public sector through implementation by developed countries of their commitments under Article 4.3 of the Convention. Funding will be “new and additional” and over and above overseas development assistance. According to the proposal, any funding pledged outside of the Convention shall not be regarded as fulfilment by developed countries of commitments under Article 4.3 of the Convention, or commitments to provide measurable, reportable and verifiable finance, technology and capacity-building as required by the Bali Action Plan.

The proposal calls for predictability, stability and timeliness of funding. Resources shall be essentially grant-based (particularly for adaptation), without prejudice to concessional loan arrangements. The level of the new funding is proposed at 0.5% to 1% of the gross national product (GNP) of Annex I Parties. The mechanism would address quantified commitments by developed countries to adequate and predictable funding for mitigation and adaptation. According to the proposal, a Board will decide and

periodically review funding allocated to adaptation or mitigation, taking into account historical imbalances and the urgency of funding for adaptation.

The proposal sets out a range of activities to be funded. It would fund the agreed full incremental costs for the implementation of developing countries’ commitments under Article 4.1 of the Convention, including: (1) mitigation; (2) deployment and diffusion of low-carbon technologies; (3) research and development for technologies; (4) capacity-building; (5) preparations of national action plans and their implementation; (6) patents; and (7) adaptation in accordance with Articles 4.4 and 4.9. The mechanism will also fund the agreed full costs for the preparations of national communications.

The proposal states that in accordance with Article 4.3, developing countries would receive new and additional financial resources, including for the transfer of technology.

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Funding can be used for: (1) adaptation and its means of implementation; and (2) mitigation and its means of implementation. Meeting these two objectives may include technology development, deployment and transfer, capacity building and risk management, including insurance, and so on. The mechanism will also finance action programmes developed under the Convention, such as the national adaptation plans of action (NAPA) and technology needs assessments (TNA).

The proposal sets out the design and structure of the enhanced financial mechanism's institutional arrangements. The mechanism will operate under the authority and guidance of the Conference of Parties, which will decide on policies, programme priorities and eligibility criteria for funding. The Conference of Parties will appoint a Board, which shall reflect an equitable and balanced representation of all Parties within a transparent and efficient system of governance. The Board, in turn, shall be assisted by a Secretariat of professional staff contracted by the Board.

The Conference of Parties and Board shall establish specialized funds and funding windows as well as a mechanism to link various funds. The funds would be administered by a Trustee or Trustees selected through a process of open bidding. Each of the separate funds may be advised by an expert group or committee, which could also be supported by a technical panel or panels addressing specific issues addressed by the fund. To ensure transparent and efficient governance, other possible components of the structure include a consultative/advisory group of all relevant stakeholders, and an independent assessment panel. Modalities for determining the role of existing funds and entity or entities for the operation of the financial mechanism will have to be worked out. At the contact group, a number of other delegations also put forward proposals designed to deliver on technology and financing. Norway suggested that financing for adaptation is primarily an issue of funding and that financing for mitigation is primarily an issue of incentives, such as carbon trading, other market approaches and direct regulations.

As a means to raise funds, Norway proposed auctioning a share of assigned amounts. Its approach would be reliable and sustainable, as income would be sourced from the international (not national) level. Funding would draw on a large base including the amounts assigned to all countries participating in emissions reductions as agreed in Copenhagen.

Mexico proposed a new fund to which all countries contribute in accordance with the common but differentiated re-

sponsibilities principle. The contribution would be based on indicators such as greenhouse gas emissions, population and gross domestic product (GDP). According to the proposal, "developing countries that choose not to join the Fund would be excluded from its benefits, without any penalty".

Mexico suggested that all countries including developed and developing countries could benefit from the fund. It said that developing countries would have extra access to resources of financial instrument, and that the instruments could have an important link with other financial instruments.

Australia, in response to the G77 and China, agreed on the need for direct access to funding, on adopting a demand driven, on the need for coherence in any financial architecture, on funding to be new and additional (provided it is considered as ODA), on a transparent governance, and on independent assessment. It said, however, that the proposal should recognize that Article 11.5 of the Convention

provides for implementation through bilateral, regional and multilateral channels.

Switzerland spoke on its proposal, which is based on the "polluter pays principle" which is underpinned by a global CO2 tax designed to raise revenues. A "global solidarity principle", based on common but differentiated responsibility, would ensure that funding derives mainly from developed countries and mainly goes to developing countries.

It said that revenues from the global CO2 tax would go mainly to adaptation in two main areas: to fund a pillar relating to prevention of disasters; and to fund a pillar relating to insurance and responses to adverse events. In response to the proposal by the G77 and China, Switzerland agreed that we should do everything possible to reduce the fragmentation of resources, and should try to work with existing institutions.

"The mechanism will operate under the authority and guidance of the Conference of Parties, which will decide on policies, programme priorities and eligibility criteria for funding."

Japan said that adaptation and mitigation requires significant financial resources. Unfortunately, the financial sources available are not sufficient to respond to the needs that have been expressed by Parties. It noted that the Japanese funding scheme, known as the "Cool Earth Partnership", had pledged \$10 billion for the next 5 years (most of which will be in loans rather than grants).

The European Union welcomed proposals by others and regretted that it could not offer its own concrete proposal at this stage. It said it was committed to scale up finance and investment flows and optimize the existing ones as part of a

Financing for Development from Monterrey to Doha By Vice Yu with inputs from Irfan ul Haque

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

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

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

The implementation of the Monterrey commitments has been by and large mediocre. Commitments to increase official foreign aid were made, but the actual delivery has been disappointing. As of now, it seems unlikely that aid would reach the target of \$150 billion a year needed for reaching the internationally agreed millennium development goals by 2015. The Paris Declaration of March 2005 on aid effectiveness (which was followed by the Third High Level Forum on Aid Effectiveness at Accra from 2-4 September 2008) set out to remedy weaknesses in aid delivery and architecture. However, progress towards giving aid recipients

greater control over aid-use, harmonizing programmes among donors and generally reducing “transaction costs” has been limited.

On trade, the so-called Doha Development Round is deadlocked, if not fully collapsed, with developed countries continuing to press for greater opening up on the part of developing countries while offering modest reductions in their own agricultural protection. The Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI), have helped to reduce official external debts of the poorest countries, but many remain mired in debt. No progress has been made in reducing the debt of the middle-income countries or the non-official debt. Private capital flows have continued to increase rapidly but remain concentrated in a handful of rapidly growing economies, bypassing the vast majority of poor countries. With respect to global economic and financial governance, too, little has changed. Developing countries were granted only a very small increase in voting shares at the IMF after a prolonged period of negotiations. This will make little difference to the institution's policy orientation. The establishment of the Development Cooperation Forum (DCF) under the ECOSOC is a positive step, but it remains to be seen whether it would be able to carry out its mandate.

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

The chances are that over the coming years economic growth will slacken and income disparities and poverty levels would rise. To deal with the current challenges, a coordinated approach at international level is needed, but there is an institutional vacuum. The IMF, the World Bank, and WTO – the triumvirate of international bodies in charge of global macroeconomic, financial and trade issues – are faced with a crisis of effectiveness, relevance, and even legitimacy. However, the current crisis transcends financial or economic issues; it concerns a struggle over the distribution of

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Financing for Development from Monterrey to Doha

the earth's limited resources amongst nations, whether it is clean air or access to critical raw materials. It calls for a candid, holistic debate within a multilateral framework with adequate representation of all countries. The Doha meeting provides an opportunity for such a discussion.

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

- Assurances from the developed countries that their own economic and financial problems would not be allowed to jeopardize the developing countries' domestic resource mobilization efforts for sustained and adequate economic growth. The South should not be bound by policy templates cast at the international financial institutions, but rather design its own policies, programmes and institutions that suit its needs.
- A commitment that, while a serious effort would be made by donors to reach aid levels needed for realizing the MDGs by 2015, aid programmes would be aligned with recipients' national development priorities, aid delivery mechanisms would be harmonized, and aid would be made more predictable. Also, discussions would start on designing an "aid exit strategy", appropriate for individual countries, which should be held as the true test of aid effectiveness.
- A strategy that would result in private foreign capital flows reaching a wider set of developing countries, instead of being concentrated among only a few, and supporting economic development, rather than engaging in speculative activities.
- To restart the discussion on ways to resolve developing countries' perennial external debt problem within the FfD framework. In this connection, the usefulness of the IMF/World Bank debt sustainability framework may be questioned. At any rate, the mechanisms for debt relief within the South-South context must not be brought into the current North-South debt relief forums.
- While calling for a successful conclusion of the Doha Development Round of trade negotiations, to open up discussion of neglected international trade issues of special interest to developing countries, i.e., the commodity problem, high market concentration in trading of developing country exports, and the replacement of trade policy by extra-market corporate strategies (as reflected in the high volume of intra-firm international trade). Concern also needs to be expressed over the proliferation of bilateral trading arrangements, which undermine developing countries' efforts to industrialize

while violating WTO's core principle of most-favoured-nation treatment, and

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

The outcome of Doha, however, depends basically on the willingness of developed countries to engage in a serious dialogue on issues that threaten global prosperity and the ability of poor countries to achieve decent living standards. They are so far reluctant to open substantive discussions on underlying systemic problems afflicting the existing international financial system. There is thus a serious risk that the results of the Doha meeting would be modest.

If that be the case, developing countries should give serious consideration to defining a post-Doha agenda and explore ways to enhance South-South cooperation in matters of trade and finance. In particular, support should be given to developing countries or regional initiatives on financial management and reserve pooling mechanisms, such as, the Chiang Mai initiative and the Bank of the South. Ways should be found to promote South-South investment flows to promote development, with special reference to sovereign wealth funds. New trade opportunities could materialize through regional free trade areas and giving substance to the General System of Trade Preferences. Developing countries on their own could also begin to develop ideas on defining a strategy to exit from aid.

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

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Keeping Developing Countries Hooked on the Aid Drug

By Kath Noble

Millions of dollars in aid money is sent to developing nations each year, but poverty remains a major issue. This is the alleged dilemma being studied at an international conference that got underway yesterday in Ghana. Ministers from over a hundred countries are meeting with the heads of bilateral and multilateral agencies and representatives from a handful of non-governmental organisations to debate how best to channel funds intended to pay for development work. The High Level Forum on Aid Effectiveness is a significant event for the aid industry, but it looks as though it will deliver very little in the way of positive change.

Aid is a decidedly suspicious word. It implies that whatever comes under such a name is inherently helpful, and that problems can only arise in situations in which there is not enough of it to go around.

Rich countries have long encouraged this kind of assumption. Discussions about how much they should give to their less fortunate counterparts are incredibly popular, and hardly a summit goes by without promises of more aid. But it is largely bluster. Forty years ago, the Organisation for Economic Cooperation and Development and its member states undertook to earmark at least 0.7% of their Gross National Income. They haven't done it yet, and an awful lot of time and energy is wasted in reminding them of their pledge and working out how far they still have to go. People are thereby distracted from questioning both the choice of this arbitrary figure and the content of what is supposed to be development assistance.

Excuses abound for this seeming inability to deliver. Questions are often met by expressions of concern over the ability of developing countries to use any extra finance, worries about corruption, fears that additional money will place too great a strain on bureaucracies, and talk of developing countries having institutions plagued by inefficiency and wastage.

The Accra High Level Forum on Aid Effectiveness is designed to address such hesitations. Donors and recipients are now contemplating ways of ensuring that funds set aside for development actually end up reducing poverty. Buzzwords are everywhere. Ownership, alignment, results-oriented management, mutual accountability and harmonisation are the key principles said to be the answer. They have been subject to discussion before, and still more assurances of progress were elicited at the time. Ghana is hosting the third of a series, following a similar assembly in

Italy in February 2003 and another gathering in France in March 2005. Participants will once again evaluate how little they have managed to achieve since their last discussion and solemnly vow to improve matters within another couple of years.

An interesting book to be launched this week suggests that the whole process is merely a tactic to assist in maintaining the supremacy of rich nations. The South Centre, an inter-governmental organisation of developing countries, puts forward this idea in a volume by its Executive Director, Yash Tandon, entitled 'Ending aid dependence'. It argues that what is really needed is a strategy for giving up on aid.

Mindset is apparently the principal barrier. Governments and public opinion in their respective constituencies often believe that they simply cannot manage without development assistance.

“Aid is a decidedly suspicious word. It implies that whatever comes under such a name is inherently helpful, and that problems can only arise in situations in which sssthere is not enough of it to go around.”

The South Centre proposes a fresh approach that starts from a new definition of what constitutes aid. The Organisation for Economic Cooperation and Development and its member states currently decide for themselves what is meant by the term. Aid therefore now encompasses any money from official sources given on a concessional or even slightly less than market basis to developing nations.

It is important to be clear about what is on offer. Rich countries provide a good deal of funds that have to be used on products and services from their own corporations, which often ends up being more expensive for recipients than commercial borrowing. Donors also count money spent on refugees and funds given to non-

governmental organisations for educational work on relevant topics at home as part of their development assistance. Administration costs are included too. Debt relief on loans made to illegitimate regimes is another example of aid that isn't really useful. Rich nations also direct considerable amounts of money to trying to persuade recipients to change their policies on everything from governance of the financial sector to university curricula and staffing policies, and ideology doesn't often transfer into results in eradicating poverty. Technical assistance makes up almost half of all flows from donors, and payments to expensive consultants for advice of dubious quality on subjects of questionable utility are rife in the aid industry.

The South Centre wisely discounts all of this out of hand. It is the first stage in understanding that there are other ways

Keeping Developing Countries Hooked on the Aid Drug

of moving forward.

Developing countries must then accept that there is still work to be done on their national projects. Political independence from colonial powers was only the initial step, and further struggle is also needed to get out of the resulting asymmetrical economic, power and knowledge relationships.

The South Centre points out that there are other ways of closing the resource gap between income and expenditure. Aid is not the most important financing stream to developing countries. Remittances play a big role in many places. It is also well known that considerably greater sums of money flow back the other way in illegal private transfers, in profits from multinational companies and in legal theft of various other kinds. Leaks should be plugged before turning to aid. Budgets are often drawn up while craving plenty of things other than what is necessary for development. Plans have to focus on creating decent employment and promoting the domestic market before anything else. The South Centre elaborates on these issues to set out a number of actions to be taken in a process of weaning a country off aid.

Rich nations will undoubtedly be worried by this prospect. Brazil has recently escaped from the aid system, having adopted strongly nationally-oriented policies in the trade, investment and monetary areas. India and China never became addicted in the first place, and they made sure that their agricultural and manufacturing sectors were in a position to compete before exposing them to the international market. Look at where these states are now.

It obviously isn't that easy. India, China and Brazil all have large populations to depend upon, so their use of specific policy measures cannot necessarily be replicated elsewhere. But other countries who are taking slightly different

routes are on the verge of success too.

The High Level Forum on Aid Effectiveness is about finding a way of keeping developing countries hooked on the aid drug and therefore also under the spell of rich nations for as long as possible. Imperial projects haven't been forgotten yet either.

Buzzwords might sound hollow, but they do have meanings as well. Harmonisation is about donors coming together to jointly support budgets rather than each funding a selection of individual projects, which only increases their collective power. Mutual accountability is a cunning way of adding to demands on recipients, for sanctions never affect the other side. Results-oriented management sounds like an administrative detail, and indeed it is hard to know what might ensue. Alignment is supposed to imply using the existing systems of organisation, procurement and so on, but it can just as easily give donors an excuse to insist that these are changed to meet their particular standards. Ownership is the gloss that is applied to make everything seem alright, as donors pretend that none of it was their idea.

Poverty doesn't seem to come into the equation. The answer to the riddle being discussed this week starts to look a bit clearer when one remembers that all of the money spent on the conference is likely to come from budgets for development assistance. Maybe it will help in convincing a few people that their nation had better start planning a future without aid.

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Enhanced Financial Mechanism for UNFCCC (continued from page 4)

comprehensive Copenhagen agreement. The EU proposed that the AWG-LCA develop a toolbox of measures to finance mitigation and adaptation. In this session and the next one, we could concentrate on the "how" of financing, it said.

On adaptation, the EU said that public resources remain important but it is clear that this is not enough and we will need to identify how to generate private resources as well. Funding should be reserved for the poorest countries and those with the least resources. On mitigation, the EU said that the carbon market has potential and should become a key vehicle. Innovate financing mechanisms are equally important. The EU is considering allocating 15% of the EU aviation allowances to be auctioned to provide financing for climate efforts.

In response to the G77 and China, the EU asked how the mechanism would catalyze private investment and link to other instruments including the carbon market, national policies, and innovative financing instruments? How does the G77 and China envisage the linkages to the existing mechanism such as those currently administered by the Global Environment Facility? How would finance be scaled up when overseas development assistance amounts to a fragment of overall financial flows? What would the funds concretely deliver?

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Food Crisis in India

By Badar Alam Iqbal and Farha Naz Ghuri

India is experiencing a food crisis. The crisis has been building up for some time. Indian farmers seem to have hit a dead end as their food grain yields are no longer going up. Grain production has been almost stagnant for more than 10 years and now there is a growing gap between supply and demand of food grains. According to the Member of Planning Commission, 'we have a problem and it can be starkly put in this way: around 2004-05, India's per capita food grains production was back to the 1970s level'.¹

Mixed Indian Scenario

India has a mixed scenario of food crisis. The following are its major emerging trends:²

- Decline in investment in agriculture and slow agricultural growth.
- Farming provides livelihood to nearly 60 per cent of India's 1.1 billion people even though farm produce comprises only 18 per cent of India's current GDP.
- India is largely insulated from food prices owing to huge stocks, but faces challenges like inefficient distribution system and poor storage facilities.
- 70-80 per cent of the net agricultural land is rain fed, thus dependent on monsoon.
- Future food production is uncertain.
- Bumper wheat and rice crops are expected.
- Record procurement of wheat by Food Corporation of India and other agencies.
- Curb on wheat and rice exports.

Production Trends

The emerging trends in India's total food grains output can be judged from Chart 1. It is evident that India's total food production has been witnessing an erratic trend. Output has been fluctuating sharply keeping pressure on the supply side.

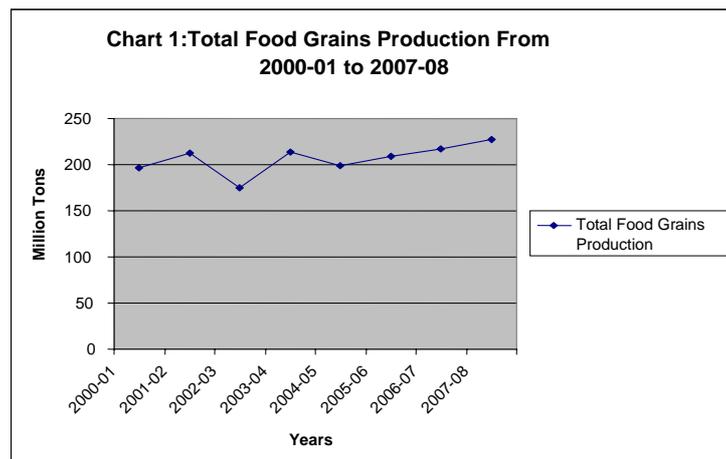
India stands at a tipping point, particularly as food grains output is stagnant. Wheat production stood at 72.8 million tonnes in 2002. In the year 2007-08, the figure was 74.0

million tonnes. Rice production was 93.3 million tonnes during 2002 and in 2007-08 it was 90 million tonnes. Meanwhile, population has increased by nearly 88 million during the said period. So there is a need for imports. This in turn would lead to increase in global prices. As soon as India bought 795,000 tonnes of wheat in August 2008, at a record price of US \$ 389.5 per tonne, wheat futures in Europe went up by 70 per cent on expectations of more orders.³

State-wise Procurement

State-wise procurement of wheat is also showing the same trends. In the year 2005-06 the total procurement was 147.9 lakh tonnes and by the end of 2007-08 the figure went down considerably and touched a level of 113 lakh tonnes.

In case of rice the trends are witnessing a decline. In the year 2005-6 the total figure for rice procurement was 276.6 lakh tonnes and the same declined to 250.8 lakh tonnes during 2007-08.



(Source: Prepared by the authors from the data given in *Agricultural Situation in India; March 2008.*)

Per capita Availability

In 1979, at the height of the Green Revolution euphoria, per capita availability of cereals and pulses had gone up to 476.5 grams per day. In 2006 it was lower at 444.5 grams. The reason for this fall in the availability of food is that Indian farm output is just not growing. Since the mid 1990s the output has hovered nearly 415 million tonnes. In the eight years between 1996 and 2004, when agriculture

was growing at a low rate of 2 per cent, there was in fact zero growth in food.⁴

The stagnation is hitting the agriculture situation in the country. For one, food prices are rising and the rise is likely to continue. For another, despite nudging up wheat output in the last two years, the Government of India still needs to import wheat. The problem is it is not easy to import. Last year India wanted to import nearly 5 million tonnes of wheat, but could get only 3 million tonnes. This was due to the fact that there is no surplus wheat going around in the global market.⁵

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Price Rise

According to the data released by the Consumer Affairs Ministry, Government of India, between May 24, 2004 and June 4, 2008 wheat prices have gone up by more than 62 per cent to Rs. 13 a kg in Delhi, 47 per cent to Rs. 15.50 kg in Mumbai and 42 per cent to Rs. 17 in Chennai.

The Government has also raised the minimum support price (MSP) of wheat to Rs. 1000 a quintal from Rs. 630 level, up by 59 per cent during this period. Prices of wheat flour have increased in the range of 42 and 69 per cent, ie Rs. 14 from Rs 9 a kg in Delhi, Rs 17 from Rs. 12 in Mumbai, Rs 15 from Rs 9.50 in Kolkata and Rs 22 from Rs 13 per kg in Chennai.

Another staple diet, rice has also become more expensive. Its rates have moved up in the range of 25 to 45 per cent to Rs. 18 a kg from Rs. 12.50 per kg in Delhi, Rs. 16 from Rs. 11 in Mumbai, Rs. 14 from Rs. 10 in Kolkata and Rs. 15 from Rs. 12 a kg in Chennai.

The gram (chana) prices saw the maximum rise of 73 per cent in Mumbai, while it was up by 56 per cent in Delhi. In Kolkata it rose by 50 per cent and in Chennai it went up by 48 per cent.⁶

Genesis of the Crisis

It is true that India has not yet witnessed food riots, as have taken place in African and Latin American countries. Agricultural economists have a worry that the present rise in inflation is because of the increase in prices of agricultural commodities. The rise in food prices has far reaching impact and consequence on major population of the country and accordingly this is hurting the poor. Nearly one out of four Indians lives on less than US \$ 1 a day and three out of four earn US \$ 2 or less a day.⁷

Rise in food prices is a global phenomenon. There is a food shortage world over. Wheat prices in India went up by 77 per cent over the last year and also rice prices are increasing by a greater margin than wheat prices. The World Bank is of the view that India has contributed to the global food crisis by putting restrictions on export of rice. There is another major contributory factor. Rice producers, namely, China, India and Vietnam have initiated export restrictions to keep stocks for internal consumption and also to prevent sharp internal price rise.

India's food crisis is slightly different from the food crisis in other countries of the world that are facing shortage of supply of food grains. In case of India it is not a supply

pushed crisis, but it is a case of the poor people being unable to get access to food. This is because of the ineffective and inefficient marketing strategies, lack of adequate storage facilities and hoarding.

India is the one of the biggest exporters of basmati rice in the world and between 2.5 and 3 million tonnes of it is annually exported. In internal markets, prices of basmati rice have witnessed a steep rise. In October 2007, India imposed a complete ban on the export of all non-basmati rice. Later, under pressure from traders' associations and farmers, the Government lifted the ban on the premise that this measure would result in a sharp decline in rice prices in the open market. However, this lifting of ban did not last long and again in April 2008, the Government of India reimposed a complete ban on the export of all non-basmati rice as the same became inevitable owing to sharp increase in the price of rice in the open market. Keeping in mind the magnitude of the problem, Indian Government for the first time fixed a minimum export price on basmati at US \$ 1,000 per ton. This has allowed the export of only high-priced non-basmati rice. Simultaneously, it reduced import duties to zero. Notwithstanding, one thing is true and sure that 'the era of cheap food is over'.⁸

Current Trends

The Indian Government has fixed a target of 15 million tonnes for the current year for meeting the demand of creating buffer stock and Public Distribution System (PDS). Against this backdrop, the Food Corporation of India (FCI) has already procured 22 million tonnes of wheat. This procurement figure is double of the procurement of 11 million tonnes of wheat last year. While many agricultural economists anticipate a decrease in the prices of wheat, the lack of a strong marketing network and inadequate storage facilities continue to add to volatility in prices.

The Economic Survey for 2007-08 has already pointed out that there has been less dynamism in the agriculture and allied sectors. Also there is a gradual degradation of natural resources through overuse and inappropriate utilization of chemical fertilizers that has affected the soil quality, resulting in stagnation of yields.

Another trend that has come up is that public investment in agriculture has declined and hence, this sector has not been able to attract private investment which has become sine-quo-non for attracting private investment. This is be-

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Food Crisis in India (continued)

cause of the lower or unattractive returns. Add to this, the collapse of agricultural extension services provided by the Government in the Xth Five Year Plan. Accordingly, the extension system generally did not succeed in reducing the gap between crop yields that could have been achieved through improved practices.

Indian Worries

It is a matter of great surprise and concern that while India is expecting to harvest record production of wheat and rice, prices of commodities continue to be volatile in nature and character. There is a historical correlation between price stability and procurement of food grains by Food Corporation of India (FCI) in terms of stock. However, this notion has failed in the context of the current food crisis.

Rise in food prices is completely a domestic issue.⁹ Increase in prices of essential agricultural commodities is also linked to poor marketing and infrastructure. Hence, India must build a strong marketing network for its agricultural produce.

There is a little hope of availability of cheap rice in India as other major producing countries, namely Thailand and Vietnam too are putting barriers on their rice exports. As the current situation and trends indicate, there is no alternative to self-sufficiency in agriculture so that every person in the country gets access to food.¹⁰

Disastrous Economic Impact

Food crisis has hit India enormously in economic terms. The rising global goods prices is adversely impacting on Government finances, and hence, may result in bloating of its deficit by more than 5.9 per cent of the GDP.¹¹ India would be hardest hit by the rise of food costs for 2008. With revenue at less than 20 per cent of the GDP, India is facing a large deficit and narrow underlying revenue base.

Other developing economies, namely Pakistan and Egypt are also facing such type of economic impact. Their Government deficits stood at 6.5 per cent and 6.9 per cent, respectively. Even developed economies are vulnerable to food price inflation and political instability if there is a mismatch between high revenues from food exports and domestic supply. According to a Report, "Although global food price rise in itself is unlikely to be direct cause of adverse rating action, for many sovereigns it will significantly increase overall susceptibility to negative rating movements by exacerbating already weak external and fiscal positions or through potential for political and social unrest".¹² The other main pressure points would be on fiscal balances, which would likely be from both the expenditure and revenue side.

The Governments of both developed and developing economies all over the world would need to bring about significant investments in agriculture and infrastructure to deal with the chronic problem in the long-term, which for low-income sovereigns could mean more recourse to borrowing or increase in aid. Steps like increase in subsidies and export bans come at a cost of additional fiscal and external pressures, which in many cases would be unsustainable.¹³

Conclusion

There is no doubt that India is facing food crisis. It is more man created phenomenon in terms of marketing network, storage and infrastructure. India must believe in the notion 'prevention is better than cure'. India has to meet its needs itself and the current market prices make imports unviable. The future looks uncertain if India and other countries continue to neglect agriculture, as has been the case for decades.

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(This is an abridged version of the article submitted by the authors. Please contact Dr. Iqbal at cmt04bai@amu.ac.in for the fuller version.)

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Let us not Build the EPA in the Graveyard of Regionalism

By Norman Girvan

The Cariforum Economic Partnership Agreement (EPA) was initialled last December under extreme pressure of time and the threat of imposition of punitive tariffs on Caribbean exports in European Union (EU) markets. In the past nine months this 1,000 plus-page agreement has been examined closely, and found wanting in several respects. Every effort needs to be made to fix the problematic features before the agreement is legally cast in stone. There is an enormous pressure to sign. The argument is that further delay will jeopardise access to European money and European markets. But it would be a grave error to sign a disadvantageous agreement, legally binding and of indefinite duration, because of promises and threats.

Funding from the European Development Fund (EDF) is part of the Cotonou Partnership Agreement, which remains in force. The European Commission is on record as affirming that the EDF is not tied to signing an EPA. Neither is 'Aid for Trade'. And the latter so far remains an elusive promise, not a binding commitment that is part of the EPA. As for markets, recent statements by EU officials about an October 31 'deadline' for signing, after which tariffs will be imposed, should be seen as another transparent attempt to coerce Cariforum into signing on unfavourable terms. They are obviously aimed at influencing the outcome of the upcoming meeting of Caricom Heads on the EPA. The other 20 ACP countries that have initialled Interim EPAs have until the end of 2008, and possibly into 2009, to conclude negotiations. On what basis, therefore, could the EU deny market access to the Caribbean if it seeks the same?

Hope over Experience

Another argument employed is that we should sign now and change the contentious features afterwards. Reference is made to the EPA's 'review' and 'exit' clauses; suggesting that these offer a way out. This reminds me of the old joke about 'the triumph of hope over experience'. The track record of the European Commission Trade Directorate in the EPA negotiations gives every indication that, once there is Ministerial signature, their intention is to hold us to the letter of the agreement. The review clauses in the EPA text relate to matters of detail, not to fundamental architecture. The exit clause simply entitles any Party to denounce the agreement in its entirety. The general provision requiring the Joint EC-Cariforum Council to "examine proposals and recommendations" involves no commitment beyond what it says. To make any changes to the agreement, Caricom will be beholden to the Europeans and the Dominican Republic; and will be bound by the procedures established by the agreement itself. Caricom's bargaining position is likely to be stronger before signing than after. If the EPA needs fixing, we should do it now; rather than sign in haste and repent at leisure. Caricom leaders are to meet on Wednes-

day to reconcile their positions. There are two possible scenarios for the meeting. One is that the "the signers" (mostly Caricom's MDCs) will pressure the "doubters" (Guyana and some of the OECS countries); telling them in effect: "either you come along with us, or we leave you behind, and you face the consequences".

This tactic might succeed. But it would be a Pyrrhic victory for the defenders of the EPA. It would launch the agreement in an atmosphere of dissent, disunity and distrust. The other scenario is that the opportunity will be taken to address the serious concerns that have been raised about the EPA by several governments and by a broad swath of non-state actors. Academics, CSOs, trade unions, business organisations and church groups regionally and in Antigua and Barbuda, The Bahamas, Barbados, Dominica, Guyana, Haiti, Jamaica, St Lucia and Trinidad and Tobago have called for delay and/or renegotiation. Opposition parties in Antigua and Barbuda, Jamaica, St Lucia and Trinidad and Tobago have taken the same position.

They are supported by several members of the European Parliament (including Glenys Kinnock, the British Labour MEP who is the EU's co-president of the ACP-EU Joint Parliamentary Assembly), international NGOs, respected international think tanks, the Taubira report prepared for French President Nicolas Sarkozy, civil society organisations from several African countries engaged in similar EPA negotiations; and at least one Nobel Prize-winning economist. Even if signed, can the EPA be successfully implemented in the face of such conspicuous lack of consensus? There is, however, an alternative scenario for the Caricom meeting. The proposals from last Friday's stakeholder's consultation in Guyana could form the basis for a solution to the current deadlock. All Caricom countries and the Dominican Republic can surely agree on a commitment to sign an EPA that satisfies the rules of the WTO, as called for by the stakeholders. This will remove whatever legal justification there may be for imposition of tariffs on Cariforum exports in the EU market.

The proposal to defer consideration of services and investment, competition and government procurement - the 'Singapore Issues' not yet addressed in the WTO - eliminates several contentious features of the EPA: features that restrict the policy space of governments to foster local businesses, that involve onerous and costly implementation obligations, that undermine completion of the Caricom Single Market and Economy (CSME), and that constitute sources of divisiveness with the rest of the ACP group and with other developing countries.

Solidarity

The proposals, therefore, provide a basis for rebuilding

Let us not Build the EPA in the Graveyard of Regionalism (continued)

Caricom unity and recommitment to the CSME; and for restoring Caricom solidarity with the remainder of the ACP. And unity of the region and of the ACP group in its relations with Europe is a sine qua non for resisting the threat of sanctions, neutralising 'divide and rule' tactics, and negotiating an EPA that is truly supportive of development.

Wednesday's meeting would be a major coup if it concludes with agreement on a strong and principled position to be taken to the upcoming ACP Summit in October; and if it sends a strong message to the EU that the region will not be cowed. Following on Beijing and Carifesta, such an outcome would do wonders for our collective self-confidence and sense of regio-

nal identity.

But if the meeting ends in disarray, the foundations of the EPA will have been laid in the graveyard of regionalism.

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UPCOMING: 63rd Session of the General Assembly, 16 Sept–1 Oct 2008, New York

The 63rd session of the General Assembly opens on 16 September 2008 at the UN Headquarters in New York and the general debate will take place from 23 September to 1st October 2008. The debate, which traditionally features statements by dozens of Heads of State and Government as well as Ministers, will be held under an overarching theme, "The impact of the global food crisis on poverty and hunger in the world as well as the need to democratize the United Nations", that was proposed by the President of the sixty-third session.

On 22 September, preceding the opening of the general debate, the Assembly will hold a high-level meeting on the theme "Africa's development needs: state of implementation of various commitments, challenges and the way forward". The meeting will conclude with the adoption of a Political Declaration.

On 25 September there will be a high-level event on the Millennium Development Goals, convened jointly by the Secretary-General and the President of the General Assembly. Three roundtables will be organized on theme of "poverty and hunger", "education and health", and "environmental sustainability".

In addition to the above, several partnership events will be held from 22 -26 September on agricultural value chain marketplace, the MDGs Equity Challenge, Climate Change and Development, Water and Sanitation and Education for All.

The Assembly's Second Committee – dealing with the economic and financial aspects of development – will convene starting 6 October with a focus on globalization and interdependence.

The Assembly's Third Committee – dealing with social, humanitarian and cultural matters – will also convene on 6 October to discuss items questions relating to advancement of women, youth, ageing, the disabled, humanitarian assistance and related issues.

UPDATE: Draft Outcome of Doha Review Conference on Financing for Development

A draft of the outcome document on review of implementation of the Monterrey Consensus was issued on 28 July leading to informal consultations on the agreement by General Assembly delegates from 8 to 10 September in New York. South Centre has already submitted its preliminary comments on the draft outcome documents (available from http://www.un.org/esa/ffd/doha/draftoutcome/SouthCentre_submission.pdf)

Additional consultations and drafting sessions will be held, as necessary, through November when the international review conference gets underway in Doha, Qatar, from 29 November to 2 December 2008. South Centre will be represented in Doha and will be organizing a side event to the review conference.

The review conference and the preparatory process leading up to it are meant to assess progress on the 2002 Monterrey Consensus, reaffirm goals and commitments, and share best practices and lessons learned. They are also expected to identify obstacles to implementation of the Consensus, initiatives to overcome them, and other emerging issues. United Nations Department of Economic and Social Affairs (UN DESA) Financing for Development Office serves as the focal point in the UN Secretariat for overall follow-up at the national, regional and global levels.

For information on South Centre activities related to Financing for Development, contact: Vice Yu at yu@southcentre.org



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**INSouth.org : The Intellectual Network for the South Launched
By Vikas Nath, South Centre, Geneva**



The sheer number of challenges and agenda thrust upon the developing countries and the asymmetrical North-South distribution of power and control of global governance institutions should not dissuade the South from becoming an agenda setter in the international arena. The South needs to rise to the challenge of becoming a force commensurate to the size of the economy and population it represents. If this requires reshaping or altering the rules at the global level in order to gain more policy space and independence to form its own opinion and take decisions, then so be it. Sustained and coordinated efforts need to be made to achieve this.

INSouth, the Intellectual Network for the South, launched by the South Centre as a part of its ongoing South Intellectual Platform project, occupies this niche of developing strengths and capacities within the South to play a more active role in global discourses, sometimes in the leadership position, but certainly not always as an agenda taker.

The Network is inspired by the seminal work of the South Commission. The 1990 Report of the South Commission "The Challenge to the South"-- emphasized that the South is not well organized at the global level and has thus not been effective in mobilizing its considerable combined expertise and experience, nor its bargaining power.

INSouth embodies an understanding, from a South perspective, of the new and emerging issues in the international arena, and the challenges and opportunities they pose for the South. It aims to serve as a reference point for the South for:

- Analysis of existing development paradigms, imbalances in the current global system, and the limits they pose to the development and policy space of the South.
- Alternative solutions that address the development needs and priorities of the South.
- Promoting new forms of South-South and South-North cooperation.

The Network which was launched at the last meeting of the South Intellectual Platform on 8 August 2008 on the outskirts of Geneva, chaired by H.E Mr. Benjamin W. Mkapa, President of Tanzania (1995 - 2005) and attended by Board Members and delegates from Member Countries of the South Centre, is now accessible to everyone. Several activities are currently ongoing at the INSouth network.

The two main pillars of the INSouth are "South Intellectuals" and "South-South Institutions". The *South Intellectuals* brings together eminent intellectuals and emerging researchers from the global South amongst policymakers, research and academia, the media, the private sector and civil society. The *South-South Institutions* lists intergovernmental agreements and milestones, organizations and thinktanks which are voicing and furthering the interests of the South in global discourses. A comprehensive timeline of the South-South cooperation has also been created and listed on the INSouth.

In addition, the INSouth offers several interactive and multimedia services to its users in the South, including registering as INSouth members and partners, discussion forums, platform for book launches, and searching for research partners and co-authors. INSouth is now actively looking for partners in the global South to take forward its activities.

For more information and to register yourself, go to <http://www.insouth.org>

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